Proximagen Neuroscience plc

Annual Report & Accounts 2008

5333020

Discoveries for life

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Discoveries for life

Contents

The medical need

Neurodegenerative disease

- Major diseases of the central nervous system include Alzheimer's disease, Parkinson's disease, motor neurone disease, multiple sclerosis, Huntington's chorea and cerebellar ataxias
- Affect all parts of the peripheral and central nervous system
- Many are age-related in incidence
- With the exception of Parkinson's disease, they are largely untreatable
- There are no therapies to stop or slow disease progression

Parkinson's disease

- Disorder of movement – slowness, stiffness and tremor
- Onset usually in 60's
- Due to loss of dopamine-producing nerve cells in brain
- Current treatment largely uses dopamine replacement therapy
- Benefit of treatment lost over time
- Major side-effects limit therapy
- Underlying disease progresses

Alzheimer's disease

- Dementia – memory loss and behavioural disturbance
- Age-related, affecting 1 in 10 people over 70
- Major loss of acetylcholine-producing cells in brain but also changes in many other neurotransmitters
- Current treatment uses cholinesterase inhibitors to boost acetylcholine levels but effects are limited
- Disease progresses
- Huge unmet need

Proximagen Neuroscience plc is focused on developing novel drugs for the treatment of age-related neurodegenerative disorders, including Parkinson's disease and Alzheimer's disease.

Operational Highlights

> $232 million licensing agreement signed with Upsher-Smith Laboratories to develop the PRX1 programme, following pre-clinical studies which revealed a significant improvement over the Gold Standard treatment for Parkinson's disease.

> $6 million equity investment received from Upsher-Smith following earlier than anticipated positive pre-clinical results.

> Strategic Partnership Agreement signed with Boehringer Ingelheim to jointly develop a variety of novel central nervous system treatments.

Net equity raised at time of AIM listing in March 2005

£12.7m

R&D and other operating costs since 2005

£11.0m

Cash reserves at 30 November 2008

£10.2m

Chairman's statement

It gives me great pleasure to present my first annual report as Chairman of Proximagen Neuroscience plc.

2008 has been a year of good progress for the Group. Its approach to risk management has enabled the Group to end the year with a strong balance sheet and partnerships in place on key programmes. The biotechnology sector in general has struggled over the past 12-18 months with a number of companies reporting difficulties with raising development capital. Against this backdrop, Proximagen's performance has been impressive, strengthened by the value in the Group's programmes and its approach to partnering with companies such as Upsher-Smith and Boehringer Ingelheim who are well placed to share the risk associated with drug development.

The Group has also recognised the need to keep growing and to build its long-term sustainability. To deliver on this objective, the Group is aiming to further expand its pipeline so that it has a number of clinical stage programmes that are closer to delivering later stage milestone payments and royalty income. To this end, the Group has stepped up its search for acquisition and in-licensing opportunities in the sector, and believes that there will be some valuable assets available for integration into Proximagen's portfolio in the near future.

Although I have only recently joined the Group, I have met the staff at Proximagen and I have been impressed by their expertise, dedication and professionalism. On behalf of the whole Board I would like to thank them for their unstinting efforts as we search collectively for treatments that will improve patients' quality of life.

I would like to take this opportunity to thank Bruce Campbell who stepped down as Chairman of the Board in February 2009. Bruce has made a significant contribution to the Company's direction and success since the Company joined AIM in 2005, both as Chairman and as Proximagen's Director of Drug Development. We are very pleased that he will continue as the Group's Director of Drug Development and will continue to serve on the Board as a non-executive director.

I would also like to thank Nigel Whittle who stepped down from Proximagen's Board in February 2009 for his valuable contribution and services to Proximagen over the past four years. During that time, Nigel has helped the Company through its Admission to AIM and contributed to its significant corporate progress.

With Proximagen on a strong and stable footing and a number of opportunities open to us in 2009 and beyond, I look forward, with the rest of the Board, to reporting on our progress to shareholders.

Peter Allen
Chairman
23 March 2009

Investment in Proximagen by Upsher-Smith

$6m

Net increase in cash position over the year

20%

The Group has stepped up its search for acquisition and in-licensing opportunities in the sector, and believes that there will be some valuable assets available for integration.

There have been many times where my day is ruined because I am feeling very low or nauseous, or my legs are sore and very red and I don't want to go out. I currently take three different types of drugs and I do try to take them all at the same time. It would make me feel better if I needed to take just one reliable pill without so many side effects.

Jean Heron, Parkinson's disease patient

We were pleased with our performance in 2008, which was a year of progress and further validation of our research and development programmes. The Company announced the signing of a Strategic Partnership Agreement with Boehringer Ingelheim, one of the world's leading global pharmaceutical companies. Under the agreement, Boehringer Ingelheim and Proximagen will jointly apply their development resource and expertise to a selection of Proximagen's novel central nervous system (CNS) drug candidates. The Company also announced the signing of a licensing agreement with Upsher-Smith, a US-based company which develops, manufactures and markets pharmaceuticals in a number of therapeutic areas. The agreement, worth up to $232 million, covers the development and commercialisation of Proximagen's proprietary PRX1 programme for the symptomatic treatment of Parkinson's disease ("PD"). Under the terms of the agreement, Proximagen is also entitled to up to double-digit royalties on global product sales on an escalating royalty basis. The Group reached its first PRX1 programme milestone, triggering an equity investment in Proximagen of $6 million at £2.50 per share, which represented a significant premium to the share price at the time that the investment was confirmed. Upsher-Smith now holds 7.1% of the enlarged issued share capital of Proximagen. We believe that both of these agreements serve as a strong endorsement of the scientific excellence on which our programmes are based. These agreements also demonstrate a calculated approach to drug development and deal structuring which mitigates risk to the Company and strengthens its balance sheet whilst maintaining significant upside for shareholders.

Headline value of milestone payments from licensing agreement with Upsher-Smith

$232m

Estimated value of drug market for Parkinson's disease by 2013

$2.9bn

Pipeline advances

In support of the Company's corporate objectives, considerable progress has been made in our pipeline. Our most advanced programme, PRX1, a platform of levodopa (L-DOPA) generators for symptomatic treatment of PD, addresses a market estimated by Datamonitor in 2008 to become a $2.9 billion annual market by 2013. There is the potential for a longer acting L-DOPA drug with a reliable absorption profile to make significant headway into this market. Results generated to date have been very encouraging, showing a pre-clinical profile with reliable onset of activity, a significantly increased duration of action, and an overall improved efficacy compared to the best selling drug combination of L-DOPA plus entacapone. Importantly, these benefits occur with a reduction in the unwanted side effect of dyskinesia, an improvement which could prove to be a major breakthrough for patients suffering from PD. We look forward to PRX1 entering clinical trials before the end of 2009.

These agreements also demonstrate a calculated approach to drug development and deal structuring which mitigates risk to the Company and strengthens its balance sheet whilst maintaining significant upside for shareholders.

For the first ten years, my mother's Parkinson's disease was well controlled then suddenly, when her medications changed, she started having bad side effects, with depression and swollen ankles being the main ones. It got to the point where I moved houses to be closer to her. She is able to look after herself but I am always worried and often feel helpless. I would like there to be a cure, or at the very least a better treatment for the symptoms of the disease.

Victoria Stanford, Carer

Our scientific efforts within our other programmes continue to translate into research and development progress. Within the PRX2 programme, previous studies indicated that our drug candidates are effective in significantly reducing involuntary movements associated with PD, without interfering with the beneficial effects of anti-Parkinsonian medication, and have been shown to be safe and well tolerated in experimental models. Other studies undertaken also show that compounds of this class show efficacy for the treatment of neuropathic pain, a market estimated by Datamonitor in 2006 to become worth $5.5 billion by 2015.

A major area of unmet need in age-related neurodegenerative disease is a treatment proven to stop or slow disease progression. The Company's PRX4 gene therapy programme, supported by Elan Pharmaceuticals and the Michael J. Fox Foundation, is aimed at preventing the progression of cell loss in neurodegenerative disorders. Studies by Proximagen show that delivery of the gene product to the brain reduces degeneration of these neurons, indicating that this treatment may prevent further degeneration in diseases such as PD. Long-term studies undertaken in our laboratories show that our gene product's expression is maintained and neuronal protection persists. Furthermore, data suggests that treatment may restore normal brain function to patients, reversing the difficulties associated with the ageing brain.

The PRX5 programme is aimed at the symptomatic treatment of Parkinson's disease and separately in the control of cognitive decline. Compounds from this proprietary programme are novel D-1 dopamine agonists and have been shown to be orally active, selective, highly potent and effective in models of improving cognition and in treating PD. Data suggests that decreased dopaminergic function in parts of the brain in PD patients, and to a lesser extent as part of the normal ageing process, leads to impaired working memory and cognitive awareness which can be alleviated by the administration of D-1 receptor agonists. This is a very exciting programme with significant market potential. It is our intention to develop these compounds through to Phase II proof-of-concept in human patient studies prior to licensing this programme.

Research and development (R&D) at Proximagen is a merit-based process with those programmes showing more visible commercialisation opportunities receiving more resources. We are pleased with the continued strong commercial interest shown by pharmaceutical companies in our programmes which have been designed to be effective over the entire duration of the illnesses and to avoid side-effects associated with existing therapies. Only those programmes that represent true scientific innovations and unmet need are granted a "PRX" programme designation number. Using this standard as a development benchmark makes things more challenging, but demonstrates our commitment to pursuing only those opportunities that present the best chance of generating significant commercial value, thus moving our research and development forward.

This year we added one new proprietary PRX numbered programme to our pipeline. PRX6 is a neuroprotectant programme which blocks an important pathway leading to cell death in the brain and offers the opportunity for a preventative treatment.

Operational review

We continue to be located in offices and laboratories on Guy's Campus, part of King's College London, one of the largest biomedical campuses in the United Kingdom. We are pleased to report that in 2008, the National Parkinson Foundation again designated our academic facility as a Parkinson's disease Centre of Excellence.

During the period, Proximagen continued to pursue its aggressive intellectual property strategy. To date, the Group has rights to patent applications pending in ten distinct patent families that encompass all aspects of our discovery programmes, ranging from specific composition of matter patents to use patents claiming novel mechanisms of actions associated with those programmes.

Summary

The period under review has been significant for Proximagen and we move into 2009 with a stronger cash position and a more advanced and diverse pipeline of drug candidates than in 2008. We look forward to building on the progress made over the past year as we move towards becoming a clinical stage biotechnology company.

Whilst we are extremely proud of the calibre of our internal research and development capabilities and the ability that Proximagen has already demonstrated to generate outstanding science, we recognise that exciting science and commercial prospects also lie outside of the Group within the healthcare sector and therefore we are looking forward to M&A activity playing an important role in our corporate and pipeline development in 2009 and beyond.

As always, I would like to thank our employees, who are crucial to the success of Proximagen, for their continued commitment, hard work and enthusiasm. Also, I would especially like to thank our shareholders for their continued support. We will certainly be working hard over the next year to enhance the value of their company.

Kenneth Mulvany
Chief Executive Officer
23 March 2009

We look forward to building on the progress made over the past year as we move towards becoming a clinical stage biotechnology company.

Tom was diagnosed with Parkinson's disease at the age of 27 and is unable to walk without the aid of medication. "I rattle with pills. I'm on the standard medicine for Parkinson's and I also take lots of add-on drugs which help to prolong its effect. It is constantly trying to keep a balance because the side effects range from being very rigid to bad dyskinesia – it's pretty unpleasant. It is very frustrating because although your mind works perfectly fine and you have total control over what's in your head, you have no control over what your body is doing."

Tom Isaacs, Young-Onset Parkinson's sufferer

The PRX1 (L-DOPA generator) programme aims to provide patients with the efficacy benefits of L-DOPA, considered the best symptomatic treatment available, with significant additional advantages over L-DOPA's side effect profile. The use of L-DOPA as therapy is limited by factors such as a short duration of effect, variability in response, dyskinesia and motor complications. Our 'L-DOPA generator' prolongs the plasma concentration of L-DOPA, leading to increased duration of action, improved consistency of response and reduced dyskinesia in models of Parkinson's disease. Therefore, this drug candidate has the potential to become the first choice in the treatment of Parkinson's disease, offering patients meaningful benefits over existing therapies.

The PRX2 (nNOS inhibitor) programme is focused on reducing dyskinesia, a major debilitating side effect which affects approximately 40% of the patient population. The emergence of dyskinesia is generally controlled by reducing the dose of anti-Parkinsonian medication which often leads to increased disability. Currently, there are no well-tolerated drugs that effectively treat dyskinesia in Parkinson's disease. Therefore, the objective of our PRX2 programme is to control dyskinesia and allow patients to continue on anti-Parkinsonian medication at doses appropriate for the treatment of disability symptoms.

There are currently no treatments that slow or stop the progressive degeneration found in Parkinson's disease. Our PRX4 (osteopontin) gene therapy programme delivers a naturally occurring neuroprotective protein into the brain that prevents neuronal cell death, which may slow or stop the progression of Parkinson's disease. Furthermore, this programme also has the potential for use in other neurodegenerative diseases such as Alzheimer's and multiple sclerosis.

Our PRX5 programme, which targets the D-1 dopamine receptor, aims to provide patients with a superior option over currently available dopamine receptor agonists. Our D-1 selective agonists are expected to provide effective symptomatic treatment for Parkinson's disease, without the side effects associated with D-2 agonists currently in clinical use. By selectively targeting D-1 and avoiding D-2 receptors, our compounds have the potential to reduce the vomiting, bladder function changes, hormonal changes and psychosis observed with other dopamine receptor agonists. Furthermore, D-1 agonists are effective cognitive enhancers, providing an additional benefit to Parkinson's patients and potentially to patients suffering with other forms of cognitive decline.

PRX6 is focused on our latest novel discovery of a naturally occurring gene product that protects dopaminergic neurons from cell death. The PRX6 gene product blocks a known inflammatory pathway leading to apoptosis (mediated by members of the TNF superfamily) and results in an anti-Parkinsonian effect by means of protecting dopaminergic neurons from cell death. The objective of this programme is therefore to slow or stop the progression of Parkinson's disease. This novel neuroprotective effect may be of wider application to other neurodegenerative processes.

Professor Peter Jenner
Chief Scientific Officer
23 March 2009

Our PRX4 (osteopontin) gene therapy programme delivers a naturally occurring neuroprotective protein into the brain that prevents neuronal cell death, which may slow or stop the progression of Parkinson's disease.

As a Professor of Neurology looking after people with Parkinson's I am always astonished by the strength of our patients in coping with their problems. They increasingly want a holistic treatment package, including improved symptomatic treatments, that covers not just motor but a range of non motor symptoms. I am increasingly confident that we will be able to provide this as our knowledge base expands.

Professor K Ray Chaudhuri, Neurologist

Financial Review

The financial highlights of the year included the $6 million investment at £2.50 per share in Proximagen by Upsher-Smith Laboratories, our partner on the PRX1 programme. As well as being an endorsement of the quality of our research & development (R&D) programmes, their investment has strengthened our balance sheet at a time that is challenging for raising new capital.

Cashflow

Our cash balances at the year end stood at £10.2 million, an increase of £1.7 million since November 2007 (2007 balance: £8.5 million), largely owing to the Upsher-Smith investment. We sold down some of the US dollars received from this investment but have retained $2.25 million to provide some protection against weakening sterling. Interest receivable from funds invested generated income of £0.43 million (2007: £0.55 million) with the reduction compared with 2007 arising from lower interest rates and lower average cash balances. During the period, the Group reclaimed R&D tax credits for both 2006 and 2007, totalling £0.39 million.

The income statement

R&D expenditure in the year totalled £2.3 million (2007: £2.6 million). The year-on-year reduction reflected the stages of development that our programmes have reached and the signing of the licensing agreement for our PRX1 programme. Revenue totalled £0.27 million (2007: £0.32 million) of which our service business accounted for £0.11 million (2007: £0.28 million). The reduction reflects the limited capacity we have had available for our clients, whilst we place more emphasis on advancing our internal programmes.

IFRS

This set of accounts is the Group's first produced under International Financial Reporting Standards (IFRS). The comparative figures have also been restated to reflect this although there has been no significant impact on either the 2008 accounts or the restated 2007 accounts. An explanation, including the impact of transition to IFRS, is included in the notes to the Group financial statements.

James Hunter
Finance Director
23 March 2009

As well as being an endorsement of the quality of our R&D programmes, their investment has strengthened our balance sheet at a time that is challenging for raising new capital.

I was diagnosed with Parkinson's disease at the age of 34. Over the past six years, Parkinson's has impacted every aspect of my life – from work to personal relationships. Even sitting still is a challenge. As the world's leading scientists race to find a cure, new hopes and opportunities are constantly presenting themselves which will give me and other PD sufferers the opportunity to cast this wretched disease aside.

Eros Bresolin, Young-Onset Parkinson's sufferer

Board of directors

Peter Allen
Non-executive Chairman
Peter joined Proximagen as Chairman in February 2009 and brings a wealth of experience to the role. Peter has held a number of senior roles in the biotechnology industry having been chief financial officer of Celltech Group plc between 1992 and 2004. He currently serves as non-executive chairman on the boards of ProStrakan Group plc and Chroma Therapeutics Limited. Peter is a chartered accountant and his early career included financial controller roles at Associated British Ports and L'Oreal (UK). Most recently, he has been for four years chief financial officer of Abacus Group plc, a UK-listed company recently acquired by a US competitor in a recommended cash offer.

Kenneth Mulvany
Chief Executive Officer
Kenneth joined Proximagen in April 2004 as Chief Executive where, under his leadership, Proximagen has grown from a privately held company with five employees to a publicly traded, leading biotechnology company with an exciting pipeline of drug candidates. Kenneth began his career at Scripps Research Institute and gained pharmaceutical industry experience at Merck. Prior to Proximagen, Kenneth played a key role in developing several successful tech start-ups. He brings 15 years of biotechnology and business expertise to the Group.

Professor Peter Jenner
Chief Scientific Officer
As co-founder and Chief Scientific Officer, Peter is responsible for scientific leadership and management of Proximagen's pre-clinical research and discovery initiatives. Peter has published more than 1,000 papers in peer reviewed journals, is a frequent speaker at international congresses and to lay groups of patients and caregivers, and is widely considered an opinion leader in Parkinson's disease.

James Hunter
Finance Director
James joined the Group in January 2005 as Financial Controller and was subsequently appointed to the Board in February 2006. James joined Proximagen after spending six years in the corporate finance team at Ernst & Young where he worked in mergers and acquisitions and corporate restructuring. James has an MBA from the Cranfield School of Management.

Bruce Campbell
Director of Drug Development
Bruce joined Proximagen in September 2004 as non-executive Chairman. Bruce has more than 30 years' drug development experience which has culminated in advancing sixteen novel drugs into the market. Bruce has specific expertise in the practical and regulatory aspects of clinical pharmacology, pharmacokinetics, metabolism and toxicology in new drug development. Bruce is also a non-executive director of Synairgen plc and IQur Limited.

Michael Ashton
Non-executive Director
Michael joined the Board in December 2005. He has more than 30 years' experience in the pharmaceutical industry having worked for Merck Inc., Pfizer Inc., Purepac Inc., Faulding Inc. and, most recently, SkyePharma plc as CEO. Michael is also a non-executive director of Hikma Pharmaceuticals plc, Transition Therapeutics Inc. and Phosphagenics Limited.

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Directors' report

Financial statements
The directors present their report and financial statements for the Company and Group for the year ended 30 November 2008.

Principal activities
The principal activity of Proximagen Neuroscience plc and its subsidiary is the discovery and development of therapeutic treatments for neurodegenerative disease.

Business review
A detailed review of the business, its results and future direction is included in the Chairman's statement, the Chief Executive's review and the Financial review.

Principal risks and uncertainties
The principal risks and uncertainties that could have an adverse impact on the performance of the Group are detailed below.

Clinical and regulatory risk
Whilst the Group's drug development programmes are progressing to plan, the drugs in development remain subject to further clinical testing to demonstrate efficacy and safety to the satisfaction of the relevant regulatory bodies such as the Food and Drug Administration and the European Medicines Agency.

Competition and intellectual property risk
Whilst the Group monitors the progress of competitive drug programmes, there can be no certainty that other companies' drugs will not limit or render obsolete the commercial value of the Group's drugs. Furthermore, the Group's intellectual property rights may expire or become invalid before any commercial value is derived from them.

Financial risk
With the Group's operations currently based entirely in the UK and with no debt financing currently in place, the directors consider the Group to be exposed to limited financial risks. The Group principally relies on its cash deposits to fund its operations but the contribution from its service business and the returns on its invested cash deposits also contribute positively to its ongoing funding. Details relating to exposure to financial instrument risks are provided in note 17.

Key performance indicators
The Board employs a number of key performance indicators to monitor performance of the business. The key financial performance indicators include the gross margin achieved from the service business and the levels of research and development expenditure compared with the progress of the programmes. The operational performance indicators include reaching development milestones, retaining those employees who are rated highly in Proximagen's performance management process and the utilisation levels of scientific staff.

Research and development
Details of the Group's research and development programmes can be found in the Chief Scientific Officer's report on page 8.

Charitable and political donations
The Group made no charitable or political donations in the year under review (2007: £nil).

Dividends
The directors do not recommend the payment of a dividend (2007: £nil).

Directors
The following directors held office during the year:
Bruce Campbell
Kenneth Mulvany
Peter Jenner
Nigel Whittle
Michael Ashton
James Hunter

On 2 February 2009 Nigel Whittle resigned as a director. On the same day Bruce Campbell stepped down as Chairman of the Group and Peter Allen was appointed as the Group's non-executive Chairman. Bruce Campbell remains as a non-executive director.

Kenneth Mulvany and Michael Ashton retire by rotation and, being eligible, offer themselves for re-election at the Annual General Meeting. Peter Allen also offers himself for re-election at the Annual General Meeting.

External directorships
It is the Group's policy that its directors may take up other directorships provided that such appointments do not conflict with their employment with the Group. Individuals may retain any remuneration received from such services.

Peter Allen is the non-executive chairman of ProStrakan Group plc and Chroma Therapeutics Limited.

Bruce Campbell is a director and controlling shareholder of Iceblack Limited, a company that provides consultancy services to the Group. He is also a non-executive director of Synairgen plc and IQur Limited. Details of amounts paid to Iceblack are disclosed in note 8 to the financial statements.

Peter Jenner is a director and controlling shareholder of Primagen Limited, a company that provides consultancy services to the Group. Details of amounts paid to Primagen are disclosed in note 8 to the financial statements.

Michael Ashton is a non-executive director of Transition Therapeutics Inc., Hikma Pharmaceuticals plc and Phosphagenics Limited.

Nigel Whittle is a director and controlling shareholder of NRW Consulting Limited.

Directors' interests (other than options) in the Company's share capital

The following directors held interests in the Company's Ordinary 1p shares during the year:	30 November 2008	30 November 2007
Peter Jenner	**1,800,000**	1,800,000
Kenneth Mulvany	**781,568**	781,568
Bruce Campbell	**67,567**	67,567
Michael Ashton	**22,384**	20,384
Nigel Whittle	**–**	–
James Hunter	**–**	–

Since the year end, the following share purchases have been made by directors. There have been no share disposals by directors since the year end.

	Number of ordinary shares before purchase	Number of ordinary shares purchased	Number of ordinary shares after purchase	Percentage of total issued share capital
Peter Jenner	1,800,000	2,000	1,802,000	8.35
Kenneth Mulvany	781,568	2,000	783,568	3.63
Bruce Campbell	67,567	2,000	69,567	0.32
Michael Ashton	22,384	4,000	26,384	0.12
James Hunter	–	5,000	5,000	0.02

Details of directors' interests in share options are disclosed in the Directors' remuneration report.

Share capital

As at 30 November 2008, the authorised and issued share capital of the Company was:	Number of Ordinary 1p shares	Amount £
Authorised	500,000,000	5,000,000
Issued and fully paid up	21,581,715	215,817

The average market price of the Company's ordinary shares at close of business on 28 November 2008 was 130p.

The maximum share price during the period was 139p (23 October 2008) and the minimum price was 87p per share (5 December 2007).

Substantial share interests

At 25 February 2009, the Company had been advised or is aware of the following interests of 3% or more in the Company's issued share capital, excluding those shareholdings of Peter Jenner and Kenneth Mulvany which are disclosed above:

	Number of shares	Percentage of issued share capital
IP Group plc	4,704,000	21.8
Lansdowne Partners	3,156,723	14.6
King's College London	2,204,324	10.2
Upsher-Smith Laboratories	1,522,843	7.1
Goldman Sachs	1,072,518	4.9
Gartmore Investment Management	1,064,528	4.9
Invesco	1,016,756	4.7
BlackRock Investment Management Limited	952,405	4.4
Henderson Global Investors	893,137	4.1

Employees

The Group is committed to providing equal opportunities in employment. All job applicants and employees receive equal treatment regardless of sex, race, colour, age, and nationality or ethnic origin.

The motivation of staff and the maintenance of an environment where innovation and team working is encouraged are seen as key objectives by the Board and all employees are given the opportunity to participate in the Company's share option scheme. We promote internal communication of the Group's progress by means of regular meetings held with staff where issues are discussed in an open manner.

The Board also recognises that a safe, secure and healthy working environment contributes to productivity and improved performance.

Environment

The Group is conscious of its responsibilities in respect of the environment and follows a Group-wide environmental policy. Proximagen disposes of its waste products through regulated channels using reputable agents.

Creditor payment policy

The Group's standard payment policy is to pay suppliers at the end of the month following the month of invoice, where no other agreement is in place. This equates to average payment terms of 45 days. Excluding amounts owed to King's College London, Group trade creditors as at 30 November 2008 represented 17 days of purchases (2007: 44 days). Suppliers are made aware of the terms of payment and it is the Group's policy to abide by the agreed terms, subject to the terms and conditions being fulfilled by the supplier.

Statement as to disclosure of information to the auditor

The directors who were in office on the date of approval of these financial statements have confirmed that, as far as they are aware, there is no relevant audit information of which the auditor is unaware. Each of the directors have confirmed that they have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that it has been communicated to the auditor.

Auditor

Baker Tilly UK Audit LLP has indicated its willingness to continue in office. A resolution to re-appoint Baker Tilly UK Audit LLP, Chartered Accountants, as auditor will be put to members at the Annual General Meeting.

Annual General Meeting

The 2009 Annual General Meeting will be held on 19 May 2009, the business of which is set out in the Notice of Meeting at the end of this report.

On behalf of the Board,

Kenneth Mulvany
Director
23 March 2009

Corporate governance

Proximagen Neuroscience plc fully supports the principles of the June 2006 Combined Code on Corporate Governance ("the Code"). As an AIM company, it is not required to comply with the Code and the directors have taken into account the size and nature of the Group when applying these principles to Proximagen Neuroscience plc. This report sets out how the principles in the Code have been applied by the Group during the year.

The Board

The Board of Proximagen Neuroscience plc is responsible for the Group's system of corporate governance and internal control and is accountable for its activities. The Board currently comprises two executive directors and four non-executive directors, one of whom is the Chairman. The roles of Chairman and Chief Executive are distinct and are held by different people to ensure a clear division of responsibility. The role of non-executive directors is to bring valuable judgement and insight to Board deliberations and decisions. The non-executive directors are all experienced and influential individuals whose blend of skills and business experience contributes to the proper functioning of the Board and its Committees, ensuring that matters are fully debated and that no individual or group dominates the Board's decision-making processes.

During 2008, a formal evaluation was undertaken of the executive directors' performance based on information provided by directors and senior staff. It is the Board's intention to review annually its performance and that of its Committees and individual directors.

All directors have access to the advice and services of the Company Secretary and are able in the course of their duties, if necessary, to take independent professional advice at the Company's expense. Committees have access to such resources as are required to fulfil their duties.

The Board receives reports covering finance, business development, operations and science, together with any other material deemed necessary for the Board to discharge its duties. The Chairman is primarily responsible for the effective operation and chairing of the Board and for ensuring that it receives appropriate information to make informed judgements.

The Board has a formal schedule of matters reserved to it for decision but otherwise delegates specific responsibilities to Committees, as described below. The terms of reference of the Committees are available on request from the Company Secretary. The Board is responsible for decisions, and the review and approval of key policies and decisions in respect of business strategy, board appointments, budgets, items of substantial investment and acquisitions.

Board Committees

The Board has established an Audit Committee, a Nomination Committee and a Remuneration Committee with written terms of delegated responsibilities for each. Details of these committees can be found on page 17.

Under the Articles of Association all directors must offer themselves for re-election at least once every three years. One third of the directors retires by rotation at every Annual General Meeting and is eligible for re-appointment.

Independent non-executive directors

The Board considers Michael Ashton and Peter Allen to be independent non-executive directors, both of whom are available to meet shareholders on request.

Internal control and risk management

The Board has ultimate responsibility for the system of internal control maintained by the Group and for reviewing its effectiveness.

The Board's approach is designed to manage rather than eliminate risk and can provide only reasonable and not absolute assurance against material misstatement or loss. It operates with principles and procedures designed to achieve the accountability and control appropriate to the business.

The principal features of the Group's internal control system are as follows:

- an organisational structure is in place with clearly drawn lines of accountability and delegation of authority;
- Group employees are required to adhere to specified codes of conduct, policies and procedures;
- financial results and key operational and financial performance indicators are reported regularly throughout the year and variances from plans and budgets are investigated and reported;
- financial control protocols are in place to safeguard the assets and maintain proper accounting records; and
- risk management is monitored on an ongoing basis to identify, quantify and manage risks facing the Group.

Shareholder relations

Proximagen aims to ensure a timely, open, comprehensive, and consistent flow of information to investors and the financial community. By this approach we aim to help investors understand the Group's strategic objectives, its activities and the progress it makes. The Company meets with its institutional shareholders and analysts as appropriate and uses the Annual General Meeting to further encourage communication with shareholders. In addition, the Company uses the Annual Report and Accounts, Interim Statement and website (www.proximagen.com) to provide further information to shareholders. The Company uses the services of Buchanan Communications to assist in the communication with shareholders.

Audit Committee

The Audit Committee currently comprises three non-executive directors: Michael Ashton (Chairman), Bruce Campbell and Peter Allen. The external auditors, Chief Executive Officer and Finance Director may be invited to attend Committee meetings and, following each meeting, the Committee and external auditors have the opportunity to meet with no executive directors present.

The Committee reviewed the half-year and full-year results and the Interim Statement and Annual Report and Accounts prior to their submission to the Board and considered any matters raised by the external auditors. All scheduled Committee meetings were quorate and the conclusions from those meetings were presented to the full Board. The Audit Committee reviews on an annual basis the need for an internal audit function. In 2008, in common with other companies of its size and complexity of operation, the Group did not operate an internal audit function.

It is the Group's policy to employ its auditor on assignments additional to its statutory audit duties where its expertise and its experience of the Group are important, such as providing tax advice. The auditor is awarded assignments on a competitive basis.

The Audit Committee pre-approves all permitted non-audit expenditure incurred and during the year reviewed the cost-effectiveness, independence and objectivity of the external auditor. The Committee recommended to the Board the re-appointment of the Company's external auditor. A formal Statement of Independence is received from the external auditor each year.

Nomination Committee

The Nomination Committee currently consists of Peter Allen, who chairs the Committee, Bruce Campbell and Michael Ashton. The Committee keeps under review the Board structure, size and composition, identifies and nominates candidates for the approval of the Board and ensures plans are put in place for succession of the executive directors.

Remuneration Committee

Bruce Campbell chairs this Committee with Michael Ashton and Peter Allen as members. The Committee is responsible for considering directors' remuneration packages and makes its recommendations to the Board. The Committee met twice during the year and the conclusions were presented to the full Board.

The Chief Executive Officer may be invited to attend Remuneration Committee meetings, other than when his own remuneration is discussed. No director is involved in deciding his own remuneration.

Further details of directors' remuneration are disclosed in the Directors' remuneration report

Going concern

Having made appropriate enquiries, the directors are satisfied that the Company and the Group have adequate resources to continue in operation for the foreseeable future. Accordingly, they consider it appropriate to adopt the going concern basis in preparing the financial statements.

Directors' remuneration report

This report sets out the remuneration policy operated by the Group in respect of the executive directors. Details of the members and meetings of the Remuneration Committee are disclosed in the Corporate governance report.

Remuneration policy overview
It is the aim of the Remuneration Committee to encourage and reward superior performance by executives with that performance being measured against achieving corporate goals, strong financial performance and the delivery of value to shareholders. The Remuneration Committee recommended a remuneration policy, subsequently adopted by the Board, which benchmarks main elements of the remuneration package against a sub-set of companies in the UK biotechnology sector ("Comparator Group"), as set out below.

Base salary	Lower to middle quartile
Performance-based bonus	Average upper quartile
Share incentives	Industry average
Total compensation	Between median and upper quartile

The Remuneration Committee believes that the current policy retains and motivates executives appropriately while enforcing a strong 'pay for performance' culture within the Group. The Remuneration Committee will continue to review the policy on an annual basis to ensure that it is in line with the Group's objectives and shareholders' interests.

Executive service agreements
Kenneth Mulvany has an executive service agreement with the Company dated 23 March 2005, which continues unless terminated by the Company on 30 days' written notice and six months' written notice by the executive. In the event of termination by the Company, salary and benefits will be payable for the period of six months. If the executive terminates for certain reasons set out in the service agreement, then the notice period that he is required to give is reduced to 30 days. In the event of termination under these conditions, salary and benefits will be payable for the period of six months.

James Hunter has an executive service agreement with the Company dated 27 February 2006, which continues unless terminated by either party on six months' written notice.

Non-executive directors
The non-executive directors have entered into letters of engagement with the Company, with the Board determining the fees paid to the non-executive directors. During 2008, the directors were all remunerated at the same rate. Non-executive directors do not participate in the Group's pension or bonus schemes in their capacity as non-executive directors. The appointments can be terminated upon three months' notice being given by either party.

Pensions
The Group operates a Group Personal Pension scheme. Under the scheme rules, the Group will either match employee contributions up to the equivalent of a maximum of 5% of salary or will make direct contributions under a 'salary sacrifice' arrangement. The scheme is open to executive directors and employees.

Directors' remuneration
At present, the executive directors, Kenneth Mulvany and James Hunter, are entitled to receive salary, medical insurance, pension contributions and a discretionary performance-related bonus.

Salary
Basic salaries are reviewed annually and revised salaries take effect from the start of the financial year. The review process is managed by the Remuneration Committee which each year is provided with a benchmarking study prepared by Hewitt New Bridge Street Consultants, an independent remuneration, performance evaluation, and share scheme consultancy. The 2008 benchmarking study provided remuneration data on senior executives of 17 listed companies within the Comparator Group and excludes participation by large multinational pharmaceutical companies.

The Committee assesses the market competitiveness of pay primarily in terms of total remuneration, with less emphasis on base salary.

In 2008, the base salary of Kenneth Mulvany was 32% below the average base salary of chief executive officers in the Comparator Group and his total remuneration was 9% below the average total remuneration of chief executive officers in the Comparator Group.

In 2008, the base salary of James Hunter was 35% below the average base salary of executive directors in the Comparator Group and his total remuneration was 4% above the average total remuneration of executive directors in the Comparator Group.

Bonuses
The timing and amount of bonuses are decided by the Remuneration Committee with reference to the individual's performance and contribution to the Group and benchmarked against those offered by the Comparator Group. The maximum bonus that can be earned by an executive director is targeted to be 50% of base salary, with exceptional performance being rewarded by a bonus payment above 50% of base salary.

Share options

The Company issues share options to directors and staff to reward loyalty and performance and to enable valued employees to share in the success of the Company.

In setting up the share option schemes, the Remuneration Committee took into account the recommendations of shareholder bodies on the number of options to issue, the criteria for vesting and the desirability of granting share options to executive and non-executive directors.

Following a review by the Remuneration Committee the Company has now adopted an annual option award policy for executive directors, whereby executives will be eligible to receive an annual award of options equal in number to up to 100% of salary. Share options granted under this policy are granted at the closing mid-market price of the Company's ordinary shares on the day prior to grant. Half of the options granted annually under this policy vest according to performance of the executive and the vested options become exercisable in equal instalments over three years beginning in the year in which they are granted.

In the year to 30 November 2008, the Remuneration Committee granted 116,000 share options to James Hunter of which 964 of the performance-based options had failed to vest at 30 November 2008. The Remuneration Committee also authorised the grant of 163,525 share options to Kenneth Mulvany who waived his entitlement for 2008.

All employees are generally offered share options under the Company's EMI share option scheme after three months' service. Option awards for employees are recommended by the executive directors and approved by the Remuneration Committee.

Pensions

As with all employees, the directors are entitled to a matched contribution from the Company of up to 5% of salary or to direct contributions under a 'salary sacrifice' arrangement.

Mr Mulvany has foregone his entitlement to the Company's contribution to his pension of £8,176 (2007: £7,750) for the period under review and all prior periods.

Full details of the directors' remuneration can be found in note 8 on page 34.

Directors' share options

	Options as at 30 November 2007	Number of options granted during the year	Options as at 30 November 2008	Date from which exercisable	Expiry date	Exercise price
Bruce Campbell	600,000	–	600,000	27 September 2004	26 September 2014	8.33p
Michael Ashton	45,455	–	45,455	28 June 2006	27 June 2016	136p
James Hunter	60,000	–	60,000	17 January 2005	16 January 2012	83.33p
James Hunter	39,999	–	39,999	25 October 2008	24 October 2010	130p
James Hunter	150,267	–	150,267	27 February 2006	26 February 2011	135p
James Hunter	–	116,000	115,036	30 November 2008	15 October 2018	127.5p

No directors exercised any options during the year.

Bruce Campbell
Chairman of the Remuneration Committee
23 March 2009

Statement of 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 Group and parent Company financial statements for each financial year. Under that law, the directors have prepared the Group financial statements in accordance with IFRS as adopted by the European Union (EU) and applicable law and have prepared the parent Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law).

The Group financial statements are required by law and IFRS adopted by the EU to present fairly the financial position and performance of the Group. The Companies Act 1985 provides in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation. The Company financial statements are required by law to give a true and fair view of the state of affairs of the Company. In preparing each of the Group and Company financial statements, the directors are required to:

(a) select suitable accounting policies and then apply them consistently;

(b) make judgements and estimates that are reasonable and prudent;

(c) for the Group financial statements, state whether they have been prepared in accordance with IFRS adopted by the EU and for the Company financial statements state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the Company financial statements; and

(d) prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and 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 to enable them to ensure that the financial statements comply with the requirements of the Companies Act 1985. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are also responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Report of the independent auditor

to the members of Proximagen Neuroscience plc

We have audited the Group and parent Company financial statements on pages 22-46. 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

The directors' responsibilities for preparing the Annual Report and the Group financial statements in accordance with applicable law and International Financial Reporting Standards (IFRS) as adopted by the EU and the directors' responsibilities for preparing the Parent Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (UK GAAP) 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 whether the financial statements have been 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. The information given in the Directors' report includes that specific information in the Chairman's statement and the Chief Executive's review that is cross referenced from the Business Review section of the Directors' report.

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 other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. The other information comprises only the Directors' report, Chairman's statement, Chief Executive's review, Chief Scientific Officer's report, Financial review, statement on corporate governance and the Directors' remuneration report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Our responsibilities do not extend to any other information.

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 Group's and 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.

Opinion

In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRS as adopted by the EU, of the state of the Group's affairs as at 30 November 2008 and of its loss for the year then ended;
- the parent Company financial statements give a true and fair view, in accordance with UK GAAP, of the state of the parent Company's affairs as at 30 November 2008;
- 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.

Baker Tilly UK Audit LLP

Baker Tilly UK Audit LLP
Registered Auditor
Chartered Accountants
2 Bloomsbury Street
London WC1B 3ST

23 March 2009

Consolidated income statement
For the year ended 30 November 2008

	Note	Year ended 30 November 2008 £'000	Year ended 30 November 2007 £'000
Revenue	5	**272**	324
Cost of sales		**(32)**	(117)
Operating costs			
Research and development		**(2,318)**	(2,604)
Administrative expenses		**(1,381)**	(1,092)
		(3,699)	(3,696)
Operating loss		**(3,459)**	(3,489)
Finance income	6	**491**	551
Finance costs	6	**-**	(1)
Loss before tax	7	**(2,968)**	(2,939)
Income tax credit/(expense)	9	**661**	(32)
Loss for the financial year attributable to equity shareholders of the parent		**(2,307)**	(2,971)
Loss per share			
Basic and diluted loss per share attributable to equity shareholders of the Company (pence)	10	(11.4)	(14.8)

All Group activities relate to continuing operations.

Consolidated balance sheet

At 30 November 2008

	Note	30 November 2008 £'000	30 November 2007 £'000
Non-current assets			
Property, plant and equipment	12	**262**	354
Current assets			
Trade and other receivables	13	**296**	636
Current tax receivable		**268**	–
Other financial assets	14	**1,200**	8,000
Cash and cash equivalents	15	**9,013**	507
Total current assets		**10,777**	9,143
Current liabilities			
Trade and other payables	16	**(2,738)**	(843)
Net current assets		**8,039**	8,300
Net assets		**8,301**	8,654
Equity			
Ordinary shares	18	**216**	201
Share premium	19	**14,527**	12,661
Merger reserve		**299**	299
Share-based payment reserve		**199**	126
Retained earnings		**(6,940)**	(4,633)
Total equity attributable to equity shareholders of the parent		**8,301**	8,654

Approved and authorised for issue by the Board on 23 March 2009 and signed on its behalf by:

Kenneth Mulvany
James Hunter
Directors

Consolidated statement of changes in equity
For the year ended 30 November 2008

Attributable to equity holders of the parent

	Ordinary shares £'000	Share premium £'000	Merger reserve £'000	Share-based payment reserve £'000	Retained earnings £'000	Total £'000
Balance at 1 December 2006	200	12,659	299	64	(1,662)	**11,560**
Loss for the year	–	–	–	–	(2,971)	**(2,971)**
Total recognised income and expense for the year	–	–	–	–	(2,971)	**(2,971)**
Share-based payments	–	–	–	62	–	**62**
Issue of share capital	1	2	–	–	–	**3**
Balance at 30 November 2007	201	12,661	299	126	(4,633)	**8,654**
Loss for the year	–	–	–	–	(2,307)	**(2,307)**
Total recognised income and expense for the year	–	–	–	–	(2,307)	**(2,307)**
Share-based payments	–	–	–	73	–	**73**
Issue of share capital (net of expenses)	15	1,866	–	–	–	**1,881**
Balance at 30 November 2008	**216**	**14,527**	**299**	**199**	**(6,940)**	**8,301**

Share capital
Share capital represents the nominal value of shares issued.

Share premium
Share premium represents amounts subscribed for share capital in excess of nominal value less the related costs of share issues.

Merger reserve
The merger reserve represents the reserve arising on the acquisition of Proximagen Limited on 9 March 2005 by way of a share-for-share exchange accounted for as a Group reconstruction.

Share-based payment
The share-based payment reserve arises as the expense of issuing share-based payments is recognised over time. The reserve will fall as share options vest and are exercised, and the impact of the subsequent dilution of earnings crystallise, but the reserve may equally rise or might see any reduction offset, as new potentially dilutive share options are issued.

Retained deficit
The retained deficit represents cumulative net gains and losses recognised in the consolidated income statement.

Consolidated cash flow statement

For the year ended 30 November 2008

	Year ended 30 November 2008 £'000	Year ended 30 November 2007 £'000
Cash flow from operating activities		
Loss before tax	**(2,968)**	(2,939)
Adjustments for:		
Depreciation	**90**	63
Net finance income	**(491)**	(550)
Share-based payment	**73**	62
Cash flow from operations before changes in working capital	**(3,296)**	(3,364)
Changes in working capital		
Decrease/(increase) in trade and other receivables	**160**	(151)
Increase in trade and other payables	**1,896**	159
Cash used in operations	**(1,240)**	(3,356)
Income taxes received	**393**	76
Net cash used in operating activities	**(847)**	(3,280)
Cash flow from investing activities		
Financial assets realised	**6,800**	3,000
Interest received	**604**	484
Purchase of property, plant and equipment	**(1)**	(186)
Proceeds from sale of property, plant and equipment	**3**	–
Net cash generated from investing activities	**7,406**	3,298
Cash flows from financing activities		
Net proceeds from the issue of ordinary shares	**1,881**	3
Net cash generated by financing activities	**1,881**	3
Exchange rate gains	**66**	–
Net increase in cash and cash equivalents	**8,506**	21
Cash and cash equivalents at the beginning of the year	**507**	486
Cash and cash equivalents at the end of the year	**9,013**	507

Notes to the consolidated financial statements

For the year ended 30 November 2008

1. General information

Proximagen Neuroscience plc ("the Company") and its subsidiary (together "the Group") develop therapies to address the needs of patients with neurodegenerative disease. The Company is a public limited company incorporated and domiciled in England with registered number 05333020 and its shares are listed on the London Stock Exchange's AIM market (ticker: PRX).

2. Accounting policies and basis of preparation

These financial statements have been prepared in accordance with the accounting policies set out below which are based on the recognition and measurement principles of International Financial Reporting Standards (IFRS) in issue and as adopted by the European Union (EU) that were effective at 30 November 2008.

The policies have changed from the previous year when the financial statements were prepared under applicable United Kingdom Generally Accepted Accounting Principles (UK GAAP). The comparative information has been restated in accordance with IFRS. The changes to accounting policies are explained in note 4 which shows the reconciliation of opening balances.

The accounting policies that have been applied in the opening balance sheet have also been applied throughout all years presented in these financial statements.

When preparing the Group's IFRS balance sheet at 1 December 2006, the date of transition, the Group took advantage of certain exemptions available under IFRS 1. The exemptions used are explained under the respective accounting policy.

The financial statements have been prepared under the historical cost convention. The principal accounting policies following adoption of IFRS are set out below:

a) Basis of consolidation

The consolidated financial statements incorporate the financial statements of Proximagen Neuroscience plc and its subsidiary drawn up to 30 November each year.

All intra-group transactions and balances are eliminated on consolidation.

Amounts reported in the financial statements of the subsidiary have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Group.

Subsequent to the date of transition to IFRS, acquisitions of subsidiaries will be dealt with by the purchase method. The purchase method involves the recognition of fair value of all identifiable assets and liabilities, including contingent liabilities of the subsidiary, at the acquisition date, regardless of whether or not they were recorded in the financial statements of the subsidiary prior to acquisition. On the initial recognition, the assets and liabilities of the subsidiary are included in the consolidated balance sheet at their fair value, which is also used as the basis for subsequent measurement in accordance with the Group accounting policies. Goodwill represents the excess of acquisition cost over the fair value of the Group's share of the identifiable net assets of the acquired subsidiary at the date of acquisition.

b) Business combinations completed prior to date of transition to IFRS

The Group has elected not to apply IFRS 3 "Business Combinations" retrospectively to business combinations prior to the date of transition at 1 December 2006. Accordingly the classification of the combination (acquisition) remains unchanged from that used under UK GAAP. Assets and liabilities are recognised at date of transition if they would be recognised under IFRS, and are measured using their UK GAAP carrying amount immediately post-acquisition as deemed cost under IFRS, unless IFRS requires fair value measurement. Deferred tax and minority interest are adjusted for the impact of any consequential adjustments after taking advantage of the transitional provisions.

c) Significant accounting judgements, estimates and assumptions

In preparing the financial statements and in conformity with generally accepted accounting principles, management is required to make 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. These estimates are based on management's best knowledge of the amount, event or actions, but actual results may ultimately differ from those estimates.

The areas that require management to exercise a higher degree of judgement or that involve particular complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are as follows:

i) Research and development

The criteria for development costs to be recognised as an asset, as set out in IAS 38 "Intangible Assets", are not met until a product has been submitted for regulatory approval and it is probable that future economic benefit will flow to the Group. With its research and development programmes all still at the pre-clinical stage, the Group currently has no such qualifying expenditure.

Expenditure on pure and applied research is charged to the income statement in the period in which it is incurred.

ii) Share-based payments

In accordance with IFRS 2 "Share-based payment", the Group measures the fair value of equity settled transactions with employees at the grant date of the equity instruments. The fair value is calculated using the Black-Scholes model and requires assumptions regarding dividend yields, risk-free interest rates, share price volatility and expected life of an employee share option, details of which can be found in note 19. The arising expense is charged to the income statement on a straight-line basis over the expected vesting period. At each balance sheet date, the Group revises its estimate of the number of options that are expected to become exercisable.

2. Accounting policies and basis of preparation continued

d) Revenue recognition

i) Services rendered

Revenue represents the value of services provided to third parties after deducting Value Added Tax. Revenue is derived from a range of services aimed at accelerating the drug discovery process in neurology. Services are generally provided through specific research agreements with distinct milestones, each with a typical study duration of three to six months.

Revenue from these services is recognised on a percentage to completion basis. Fixed price contracts are assessed on a contract-by-contract basis and reflected in the income statement by recording revenue and related costs as contract activity progresses. Revenue is recognised so as to reflect the right to consideration as contract activity progresses by reference to the value of work performed. The amount by which revenue exceeds payments on account is included in trade and other receivables; to the extent that payments on account exceed relevant revenue, the excess is included as deferred income. Provisions for estimated losses, if any, on uncompleted contracts are recognised in the period in which the likelihood of such losses is determined.

ii) Licence revenues

Product licence transactions typically have an initial upfront payment, and the potential for further payments conditional on achieving specific milestones, plus royalties on product sales. Where the initial fee paid is received in connection with product licensing agreements, even where such fees are non-refundable and not creditable against future royalty payments, such fees are deferred and recognised as income by reference to the development costs incurred in developing the programme towards the next milestone.

When the Group receives milestone payments for achieving pre-defined targets during pre-clinical and clinical development, these milestone payments are recognised when receivable (i.e. on achievement of the pre-defined target) except where the milestone payment or a proportion of the milestone payment is to be applied to the development of the programme which is the subject of the licensing agreement. In such circumstances, the income is deferred and recognised as income by reference to the development costs incurred in developing the programme towards the next milestone.

iii) Grant income

Grant income is recognised when there is reasonable assurance that the conditions attaching to the grant have been met and that the grant will be received.

e) Property, plant and equipment

All property, plant and equipment are stated at cost, less any accumulated depreciation and any accumulated impairment losses. Depreciation is provided on all property, plant and equipment at rates calculated to write off the cost of property, plant and equipment less its estimated residual value over its expected useful life, as follows:

Laboratory equipment over £500:	10%-25% straight line
Computer and office equipment over £500:	25% straight line

The need for any property, plant and equipment impairment write down is assessed by comparing the carrying value of property, plant and equipment against the higher of its realisable value and its value in use.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the income statement.

f) Financial instruments

Financial assets and financial liabilities are recognised on the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument.

i) Financial assets

Financial assets are divided into the following categories: trade and other receivables, other financial assets and cash and cash equivalents.

Trade and other receivables

Trade receivables are measured at fair value on initial recognition and then subsequently at amortised cost, less provision for impairment. Any change in their value through impairment or reversal of impairment is recognised in the income statement. Provision against trade receivables is made when there is objective evidence that the Group will not be able to collect all amounts due to it in accordance with the original terms of the receivable. The amount of the write-down is determined as the difference between the asset's carrying amount and the present value of estimated future cash flows.

Other financial assets

Other financial assets comprise short-term deposits not meeting the IAS 7 definition of a cash equivalent and are treated as loans and receivables and are measured at amortised cost.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, together with other short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to insignificant risk of changes in value.

ii) Financial liabilities

The Group classifies its financial liabilities as other financial liabilities. Other liabilities consist of trade and other payables, being balances arising in the course of normal business with suppliers, contractors and other service providers. Other liabilities are initially recorded at fair value, and thereafter at amortised cost, if the timing difference is deemed to impact the fair value of the liability.

2. Accounting policies and basis of preparation continued

g) Foreign currency

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 income statement.

h) Taxation

Income tax is recognised or 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. Research and development tax credits are recognised on an accruals basis once a claim is submitted to HM Revenue & Customs and are included as an income tax credit under current assets.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction which affects neither the tax profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled based upon tax rates that have been enacted or substantively enacted by the balance sheet date. Deferred tax is charged or credited in the income statement, except when it relates to items credited or charged directly to equity, in which case the deferred tax is also dealt with in equity.

i) Employee benefits

All employee benefit costs, notably holiday pay, bonuses and contributions to personal defined contribution pension schemes are charged to the consolidated income statement on an accruals basis.

j) Pension contributions

The Group contributes to the personal pension plans of certain employees. Contributions are charged to the income statement as they become payable in accordance with the rules of the scheme.

k) Operating loss

Operating loss is stated before finance income, finance costs and tax.

3. Future changes to accounting policies

The International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC) have issued the following standards and interpretations to be applied to financial statements with periods commencing after the date of these financial statements. They have not been adopted early by the Group and the directors do not expect these standards and interpretations to have a material impact on the financial statements.

International Financial Reporting Standards (IFRS/IAS)		Effective date
IFRS 2	Share-based payment (Amendment)	1 January 2009
IFRS 8	Operating segments	1 January 2009
IAS 1	Presentation of financial statements (Amendment)	1 January 2009
IAS 23	Borrowing costs (Amendment)	1 January 2009
IAS 32*	Financial instruments: Presentation (Amendment)	1 January 2009
IFRS 1/IAS 27*	Cost of an investment in a subsidiary, jointly-controlled entity or associate	1 January 2009
IFRS 3*	Business combinations (Amendment)	1 July 2009
IAS 27*	Consolidated and separate financial statements	1 July 2009
IAS 39*	Financial instruments: 'Recognition and measurement – Amendments for eligible hedged items'	1 July 2009

International Financial Reporting Interpretations (IFRIC)		Effective date
IFRIC 12*	Service concession arrangements	1 January 2008
IFRIC 13	Customer loyalty programmes	1 July 2008
IFRIC 16*	Hedges of a net investment in a foreign operation	1 October 2008
IFRIC 15*	Agreements for the construction of real estate	1 January 2009
IFRIC 14, IAS 19	The limit on a defined benefit asset, minimum funding requirements and their interaction	1 July 2009
IFRIC 17*	Distribution of non-cash assets to owners	1 July 2009
IFRIC 18*	Transfers of assets from customers	1 July 2009

* Still to be endorsed by the EU as at the date of approval of these financial statements.

4. Reconciliation of UK GAAP to IFRS

This is the first year that the Group has presented its full consolidated financial information under IFRS. The transition to IFRS has had no impact on the consolidated cash flow statement, other than the requirement within IFRS to classify bank deposits with a maturity of less than three months as cash equivalents. The tables on the following pages show the reconciliations of equity at 1 December 2006 and 30 November 2007 and the loss for the year ended 30 November 2007.

Reconciliation of equity as at transition date, 1 December 2006

The effect of the changes to the Group's accounting policies on the equity of the Group at the date of transition, 1 December 2006, was as follows:

	Note	UK GAAP £'000	Adjustment £'000	IFRS £'000
Non-current assets				
Property, plant and equipment		232	–	232
Current assets				
Trade and other receivables		527	–	527
Other financial assets	(a)	–	11,000	11,000
Cash and cash equivalents	(a)	11,486	(11,000)	486
Total current assets		12,013	–	12,013
Total assets		12,245	–	12,245
Current liabilities				
Trade and other payables				
Trade payables		(449)	–	(449)
Other taxation and social security		(24)	–	(24)
Accruals and deferred income	(b)	(201)	(11)	(212)
Total current liabilities		(674)	(11)	(685)
Net current assets		11,339	(11)	11,328
Net assets		**11,571**	**(11)**	**11,560**
Equity				
Ordinary shares		200	–	200
Share premium		12,659	–	12,659
Merger reserve		299	–	299
Share-based payment reserve		64	–	64
Retained earnings	(b)	(1,651)	(11)	(1,662)
Total equity		**11,571**	**(11)**	**11,560**

4. Reconciliation of UK GAAP to IFRS continued

Reconciliation of equity as at 30 November 2007

The effect of the changes to the Group's accounting policies on the equity of the Group at the date of the last financial statements presented under UK GAAP, 30 November 2007, was as follows:

	Note	UK GAAP £'000	Adjustment £'000	IFRS £'000
Non-current assets				
Property, plant and equipment		354	–	354
Current assets				
Trade and other receivables		636	–	636
Other financial assets	(a)	–	8,000	8,000
Cash and cash equivalents	(a)	8,507	(8,000)	507
Total current assets		9,143	–	9,143
Total assets		9,497	–	9,497
Current liabilities				
Trade and other payables				
Trade payables		(497)	–	(497)
Other taxation and social security		(34)	–	(34)
Accruals and deferred income	(b)	(296)	(16)	(312)
Total current liabilities		(827)	(16)	(843)
Net current assets		8,316	(16)	8,300
Net assets		**8,670**	**(16)**	**8,654**
Equity				
Ordinary shares		201	–	201
Share premium		12,661	–	12,661
Merger reserve		299	–	299
Share-based payment reserve		126	–	126
Retained earnings	(b)	(4,617)	(16)	(4,633)
Total equity		**8,670**	**(16)**	**8,654**

4. Reconciliation of UK GAAP to IFRS continued

Reconciliation of the consolidated income statement for the year ended 30 November 2007

The changes in accounting policies had the following effect on the loss reported for the year ended 30 November 2007:

	Note	UK GAAP £'000	Adjustment £'000	IFRS £'000
Revenue	(c)	282	42	324
Cost of sales	(b)	(118)	1	(117)
Research & development	(b)	(2,601)	(3)	(2,604)
Administrative expenses	(b)	(1,089)	(3)	(1,092)
		(3,526)	37	(3,489)
Other operating income	(c)	42	(42)	–
Operating loss		(3,484)	(5)	(3,489)
Finance income		551	–	551
Finance costs		(1)	–	(1)
Loss before income tax		**(2,934)**	**(5)**	**(2,939)**
Income tax expense		(32)	–	(32)
Loss for the year		**(2,966)**	**(5)**	**(2,971)**

Explanation of adjustments:

(a) With reference to IAS 7, cash held on deposit with a maturity of three months or more cannot be classified as 'Cash and cash equivalents' and such amounts are therefore classified as 'Other financial assets'. Their value is measured at amortised cost.

(b) IAS 19 requires the recording of holiday pay accrual. This has been included for each of the reporting periods. For the 12 months to 30 November 2006 the impact on the income statement was £11,000 (accrual included within accruals and deferred income: £11,000), and for the 12 months to 30 November 2007 the impact on the income statement was £5,000 (accrual included within accruals and deferred income: £16,000).

(c) Grant income had previously been recorded as 'Other operating income' but with the Group now receiving income from sources other than its service business, the Group has aggregated income from all sources and presents it as Revenue. Further details can be found in note 5.

5. Revenue

Further detail on the Group's revenue recognition policy can be found in note 2(d).

An analysis of the Group's revenue is as follows:	2008 £'000	2007 £'000
Services rendered	**109**	282
Licence revenues	**79**	–
Grant income	**84**	42
Total	**272**	324

Revenue by destination of customer is presented below:		
United Kingdom	–	–
Rest of Europe	**109**	222
Rest of the World	–	20
United States of America	**163**	82
Total	**272**	324

The Group's operations are all based in the United Kingdom and there is only one business segment. Consequently no segmental disclosures are provided.

6. Finance income and finance costs

	2008 £'000	2007 £'000
Finance income		
Bank interest receivable	10	11
Interest receivable from short-term deposits	415	540
Foreign exchange gains	66	–
	491	551
Finance costs		
Bank interest paid	–	(1)
Net finance income	491	550

Funds belonging to the Group not required for immediate working capital have been placed on deposit at a number of UK-based banks and building societies on fixed term contracts (see note 17).

7. Loss before tax

	2008 £'000	2007 £'000
Loss before tax is stated after charging/(crediting):		
Depreciation charged for the year on property, plant and equipment	90	63
Research and development costs	2,318	2,604
Auditor's remuneration for audit services	30	24
Grant income	(84)	(42)
Exchange gains	(66)	(14)
Share-based payments	73	62

The amounts payable to Baker Tilly UK Audit LLP and its related entities are set out below:

Fees payable to the auditor for the audit of parent Company and consolidated financial statements	15	12
Fees payable to the auditor and its related entities for other services:		
Audit of the Company's subsidiaries	15	12
Taxation services	8	8
Other services	2	2
	40	34

8. Employees

The average number of persons (including directors) employed by the Group during the period was:	2008 Number	2007 Number
Laboratory	21	19
Administrative	4	4
	25	23

Staff costs for above persons:	2008 £'000	2007 £'000
Wages and salaries	1,355	1,287
Social security costs	136	114
Pension costs	43	30
Total of cash-settled remuneration	1,534	1,431
Accrued holiday pay	10	5
Share-based payments	73	62
Total remuneration	1,617	1,498

Key management personnel remuneration	2008 £'000	2007 £'000
Salaries and short-term employee benefits	667	546
Employer's NI	61	46
Pension costs	23	23
Share-based payments	34	27
Total remuneration	785	642

The Group's key management personnel comprise the two executive directors, as well as Peter Jenner, the Chief Scientific Officer and Bruce Campbell, the Director of Drug Development.

8. Employees continued

Directors' remuneration 2008	Directors' emoluments £	Other remuneration £	Total salary and fees £	Bonus £	Benefits £	Total £	Pension contributions £	**Total £**
Executive directors								
Kenneth Mulvany	163,525	–	163,525	122,675	1,210	287,410	–	**287,410**
James Hunter	110,000	–	110,000	75,100	1,513	186,613	22,627	**209,240**
Non-executive directors								
Bruce Campbell (a)	20,000	73,833	93,833	–	–	93,833	–	**93,833**
Peter Jenner (b)	20,000	79,000	99,000	–	–	99,000	–	**99,000**
Michael Ashton	20,000	–	20,000	–	–	20,000	–	**20,000**
Nigel Whittle	20,000	–	20,000	–	–	20,000	–	**20,000**
Total	**353,525**	**152,833**	**506,358**	**197,775**	**2,723**	**706,856**	**22,627**	**729,483**

Directors' remuneration 2007	Directors' emoluments £	Other remuneration £	Total salary and fees £	Bonus £	Benefits £	Total £	Pension contributions £	**Total £**
Executive directors								
Kenneth Mulvany	155,000	–	155,000	63,938	1,134	220,072	–	**220,072**
James Hunter	104,500	–	104,500	35,375	1,417	141,292	22,984	**164,276**
Non-executive directors								
Bruce Campbell (a)	20,000	56,500	76,500	–	–	76,500	–	**76,500**
Peter Jenner (b)	20,000	88,500	108,500	–	–	108,500	–	**108,500**
Michael Ashton	20,000	–	20,000	–	–	20,000	–	**20,000**
Nigel Whittle	20,000	–	20,000	–	–	20,000	–	**20,000**
Total	**339,500**	**145,000**	**484,500**	**99,313**	**2,551**	**586,364**	**22,984**	**609,348**

(a) The Group was charged £74,692 in the year (2007: £56,500) by Iceblack Limited, a company controlled by Bruce Campbell for the provision of his consulting services on the Group's R&D programmes. Of these amounts £73,833 (2007: £56,500) related to consultancy and £859 (2007: £nil) to out of pocket expenses.

(b) The Group was charged £81,370 in the year (2007: £90,746) by Primagen Limited, a company owned by Peter Jenner for the provision of his consulting services on the Group's R&D programmes. Of these amounts £79,000 (2007: £88,500) related to consultancy and £2,370 (2007: £2,246) to out of pocket expenses.

9. Taxation

	2008 £'000	2007 £'000
Current tax		
United Kingdom corporation tax credit on loss for the year	**(268)**	–
Adjustments in respect of previous periods	**(393)**	32
Tax (credit)/charge for the year	**(661)**	32

Factors affecting tax credit for the year

The tax assessed for the period is higher than the standard rate of corporation tax in the United Kingdom.
The difference is explained below:

Loss before tax	**(2,968)**	(2,939)
Loss on ordinary activities multiplied by the standard rate of corporation tax in the United Kingdom of 28% (2007: 30%)	**(831)**	(882)
Effects of:		
Expenses not deductible for tax purposes	**26**	25
Surrendered for R&D tax credit	**(175)**	(353)
Potential deferred tax asset not recognised	**2,080**	2,187
Prior years' potential deferred tax asset not recognised	**(1,368)**	(977)
Adjustment to tax charge in respect of previous periods	**(393)**	32
Current tax (credit)/charge for the year	**(661)**	32

The adjustments in respect of prior periods for 2008 arose due to the Group claiming tax credits on enhanced research and development relief claimed in 2008 in respect of work undertaken during the years ended 30 November 2006 and 30 November 2007. The directors will claim tax credits on enhanced research and development tax relief in respect of work undertaken during the year ended 30 November 2008. A current tax asset of £268,000 has been recognised in the accounts in respect of this potential claim.

A deferred tax asset of £2,129,000 (2007: £2,217,000) arising from tax losses of £7,605,000 (2007: £7,391,000) has not been recognised due to the uncertainty of its recoverability.

10. Basic and diluted loss per ordinary share

The calculation of loss per share for the period ended 30 November 2008 is based upon the loss after tax for the period of £2,307,000 (2007: £2,971,000) divided by the weighted average number of 20,213,242 shares in issue during year to 30 November 2008 (2007: 20,044,396). The loss attributable to ordinary shareholders and weighted average number of ordinary shares for the purpose of calculating the diluted earnings per ordinary share are identical to those used for basic earnings per share. This is because the exercise of share options would have the effect of reducing the loss per ordinary share and is therefore not dilutive under the terms of IAS 33.

11. Investment in subsidiary undertaking

Proximagen Neuroscience plc has one subsidiary undertaking which is incorporated in England and Wales (registered number 04977050) and whose details are summarised below

Name of subsidiary	Class of holding	Proportion held directly	Nature of business
Proximagen Limited	Ordinary	100%	Neuroscience research

12. Property, plant and equipment

Group	Laboratory equipment £'000	Computer equipment £'000	Office equipment £'000	Total £'000
Cost				
At 1 December 2006	251	22	1	274
Additions	185	1	–	186
At 30 November 2007	436	23	1	460
Additions	1	–	–	1
Disposals	(3)	–	–	(3)
At 30 November 2008	**434**	**23**	**1**	**458**
Depreciation				
At 1 December 2006	37	6	–	43
Charged in the year	57	6	–	63
At 30 November 2007	94	12	–	106
Charged in the year	84	5	1	90
At 30 November 2008	**178**	**17**	**1**	**196**
Net book value				
At 30 November 2008	**256**	**6**	**–**	**262**
At 30 November 2007	342	11	1	354
At 30 November 2006	214	16	1	231

13. Trade and other receivables

	2008 £'000	2007 £'000
Due within one year:		
Trade receivables	–	66
Current tax receivable	**268**	–
Other receivables	**51**	97
Prepayments and accrued income	**245**	473
	564	636

The directors consider that the carrying amount of trade and other receivables approximates to their fair value.

14. Other financial assets

	2008 £'000	2007 £'000
Sterling fixed rate deposits of greater than three months' maturity	**1,200**	8,000

The directors consider that the carrying amount of other financial assets approximates to their fair value.

15. Cash and cash equivalents

	2008 £'000	2007 £'000
Cash at bank	**3,513**	507
Sterling fixed rate deposits of less than three months' maturity	**5,500**	–
	9,013	507

The directors consider that the carrying amount of cash and cash equivalents approximates to their fair value.

Cash at bank includes a proportion of a milestone payment received under a licensing agreement which is to be applied to the development of the programme subject to the licensing agreement.

16. Trade and other payables

	2008 £'000	2007 £'000
Amounts falling due within one year:		
Trade payables	**299**	497
Other taxation and social security costs	**31**	34
Accruals and deferred income	**2,408**	312
	2,738	843

Trade payables principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade payables is 17 days (2007: 44 days).

The accruals and deferred income balance principally comprises deferred income in relation to out-licensing agreements. When the Group receives milestone payments for achieving pre-defined targets during pre-clinical and clinical development, these milestone payments are recognised when receivable (i.e. on achievement of the pre-defined target) except where the milestone payment or a proportion of the milestone payment is to be applied to the development of the programme which is the subject of the licensing agreement. In such circumstances, the income is deferred and recognised as income by reference to the development costs incurred in developing the programme towards the next milestone.

The directors consider that the carrying amount of trade and other payables approximates to their fair value.

17. Financial instruments

The main risks arising from the Group's financial instruments are interest rate risk and liquidity risk. The policies for managing these risks are regularly reviewed and agreed by the Board. It is, and has been throughout the period under review, the Group's policy that no trading in financial instruments shall be undertaken.

We have compared fair value to book value for each class of financial asset and liability, and no difference was identified.

We summarise below the Group's financial assets and liabilities:	Note	30 November 2008 £'000	30 November 2007 £'000
Financial assets			
Loans and receivables			
Trade and other receivables	17(a)	**353**	376
Other financial assets (less than one year)	14	**1,200**	8,000
Cash and cash equivalents	15	**9,013**	507
Total financial assets		**10,566**	8,883
Financial liabilities			
Other financial liabilities			
Trade and other payables	17(b)	**2,707**	809
Total financial liabilities		**2,707**	809

(a) Trade and other receivables shown above excludes prepayments, which are not a contractual obligation to receive cash, amounting to £211,000 (2007: £260,000).

(b) Trade and other payables shown above excludes amounts due in respect of social security and other taxes, which are not a contractual obligation to pay cash, amounting to £31,000 (2007: £34,000).

17. Financial instruments continued

Interest rate risk

The Group's policy on managing its exposure to interest rate changes is agreed at Board level and reviewed on an ongoing basis.

The main principle governing the Group's investment criteria is the security and liquidity of its investments before yield, although the yield (or return) is also a consideration. The Group will also ensure:

(a) that it has sufficient liquidity in its investments. For this purpose it will use its cash flow forecasts for determining the maximum periods for which funds may prudently be committed; and

(b) that it maintains a policy covering both the categories of investment types in which it will invest, and the criteria for choosing investment counterparties.

The interest rate risk profile of the Group's financial assets, excluding other receivables, as at 30 November 2008 was:

	Fixed rate		Floating rate		Total	
	2008 £'000	2007 £'000	2008 £'000	2007 £'000	2008 £'000	2007 £'000
Sterling	**8,100**	8,000	**560**	213	**8,660**	8,213
US dollars	**1,466**	292	**87**	2	**1,553**	294
Euro	**-**	-	**-**	-	**-**	-
Total	**9,566**	8,292	**647**	215	**10,213**	8,507

Floating rate deposits in sterling earn interest at prevailing bank rates.

It is estimated that an increase or decrease of 1% in average interest rates would have resulted in the following differences to the Group's reported interest receivable during the year:

Year ended 30 November 2008	-1%	Actual	+1%
Interest rate	4.88%	5.88%	6.88%
Interest receivable (£'000)	353	425	497

Year ended 30 November 2007	-1%	Actual	+1%
Interest rate	4.47%	5.47%	6.47%
Interest receivable (£'000)	449	551	651

Liquidity risk

It is the Group's policy to finance its business by means of internally generated funds, supported by external share capital.

Currency risk

Foreign currency risk refers to the risk that the value of a financial commitment or recognised asset or liability will fluctuate due to changes in foreign currency rates. The Group's net income and financial position, as expressed in pounds sterling, are exposed to movements in foreign exchange rates against the US dollar and the Euro. The main trading currencies of the Group are pounds sterling, the US dollar, and the Euro. The Group is exposed to foreign currency risk as a result of trading transactions and the translation for foreign bank accounts.

The Group is exposed to Euro and US dollar currency exchange rate fluctuations as some of its costs are denominated in these currencies. The amounts involved are not significant and the Group does not routinely hedge against these currency exposures. At 30 November 2008, the amount of the Group's trade and other payables denominated in Euros totalled €13,000 (2007: €35,000) and there were no trade and other payables denominated in US dollars (2007: $192,000).

17. Financial instruments continued

Foreign exchange sensitivity analysis

The Group has estimated that if sterling had been 10% weaker than actual against the US dollar and the Euro throughout the year, the Group's loss would have increased by £50,000. Conversely if sterling had been 10% stronger than actual against the US dollar and the Euro throughout the year, the Group's loss would have decreased by £50,000.

Credit risk

The Group's customers are predominantly large pharmaceutical companies and with customers typically having significant cash resources, the risk of customers defaulting on debts with the Group is considered to be low. The Group also applies credit evaluation and control procedures. There were no trade receivables at 30 November 2008 (2007: £66,000).

Capital risk

The Group places its cash deposits with a number of reputable UK financial institutions.

Recent events in the banking industry have led the Group to use shorter term deposits and the weighted average period for which fixed rate sterling deposits were placed in 2008 was 47 days, compared with 105 days in 2007.

Capital risk management

The Group's principal objective when managing capital is to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders whilst maintaining an optimum capital structure to reduce the cost of capital.

Banking facility

The Group does not currently have an overdraft facility.

18. Called up share capital

	1p Ordinary share capital Number	£'000
Authorised		
At 1 December 2006	500,000,000	5,000
At 30 November 2007	500,000,000	5,000
At 30 November 2008	**500,000,000**	**5,000**
Allotted, issued and fully paid		
At 1 December 2006	20,035,622	200
Increase in the year	23,250	1
At 30 November 2007	20,058,872	201
At 1 December 2007	20,058,872	201
Increase in the year	1,522,843	15
At 30 November 2008	**21,581,715**	**216**

On 24 October 2008, the Company issued 1,522,843 new ordinary shares of 1p each, representing 7.1% of the Company's enlarged issued share capital. This issue of new equity was made to Upsher-Smith Laboratories Inc. for consideration of $6 million, equivalent to £2.50 per share. Of the £3,806,000 net proceeds received, £1,881,000 has been accounted for as equity, being the fair value of the shares issued, and £1,925,000 has been recognised as deferred income. The deferred income will be taken to revenue in future years based upon the costs incurred in developing the programme towards the next milestone.

In the year to 30 November 2007 a total of 23,250 new shares were issued for cash in respect of the exercise of options by certain members of staff.

19. Share premium

	£'000
At 1 December 2006	12,659
New share capital issued	2
At 30 November 2007	12,661
New share capital issued	1,866
At 30 November 2008	**14,527**

As detailed in note 18 above, £1,881,000 of the £3,806,000 net proceeds received from the issue of new shares to Upsher-Smith Laboratories Inc. in 2008 has been accounted for as equity, with £15,000 accounted for as Ordinary Shares and £1,866,000 as share premium.

20. Share-based payments

The Company has granted share options to subscribe for ordinary shares of 1p each, as follows:

Date of grant	At 30 November 2008	At 30 November 2007	Exercise price per 1p ordinary share	Date from which exercisable	Latest exercise date	Share price at date of grant
	Number of shares	Number of shares	Pence			Pence
Approved EMI scheme						
27 September 2004	600,000	600,000	8.33	31 March 2005	26 September 2014	8.33
18 October 2004	66,000	66,000	10.42	18 October 2007	17 October 2011	10.42
18 October 2004	15,000	15,000	10.42	18 October 2007	17 October 2009	10.42
17 January 2005	60,000	60,000	83.33	17 January 2008	16 January 2012	83.33
25 October 2005	105,398	112,770	130	25 October 2008	24 October 2010	125
10 May 2006	15,711	16,701	130	30 November 2008	9 May 2011	130
15 May 2006	–	12,186	130	30 November 2008	14 May 2011	125
1 August 2006	19,669	25,369	130	30 November 2008	31 July 2011	123
10 July 2007	20,805	26,136	100	30 November 2008	9 July 2012	87.5
7 December 2007	18,626	–	108	30 November 2009	6 December 2012	107.5
7 December 2007	33,750	–	108	1 February 2011	6 December 2012	107.5
7 December 2007	40,000	–	108	7 December 2010	6 December 2012	107.5
28 November 2008	513,792	–	130	27 November 2013	27 November 2015	130
Unapproved scheme						
18 October 2004	24,000	24,000	10.42	18 October 2007	17 October 2011	10.42
18 October 2004	6,000	6,000	10.42	18 October 2007	17 October 2009	10.42
20 October 2004	102,000	102,000	17.08	20 October 2007	19 October 2012	17.08
8 March 2005	12,000	12,000	100	8 March 2008	7 March 2010	100
27 February 2006	150,267	150,267	135	27 March 2006	26 February 2011	135
30 May 2006	14,382	14,382	130	30 November 2008	29 May 2011	122.5
28 June 2006	45,455	45,455	136	28 June 2006	27 June 2016	120
15 October 2008	115,036	–	127.5	1 December 2008	14 October 2018	127.5
28 November 2008	91,181	–	130	27 November 2013	27 November 2015	130
Total outstanding	**2,069,072**	**1,288,266**				

The weighted average fair value of options granted in the year is 47.1p (2007: 24.5p).

20. Share-based payments continued

The movement in the number of shares under option between 1 December 2007 and 30 November 2008 is set out below:

Outstanding at 1 December 2007	Granted	Forfeited	Exercised	Lapsed	Outstanding at 30 November 2008
Number of shares	Number of shares	Number of shares	Number of shares	Number of shares	Number of shares
1,288,266	813,922	(33,116)	–	–	2,069,072

Outstanding at 1 December 2006	Granted	Forfeited	Exercised	Lapsed	Outstanding at 30 November 2007
Number of shares	Number of shares	Number of shares	Number of shares	Number of shares	Number of shares
1,318,498	26,136	(33,118)	(23,250)	–	1,288,266

At 30 November 2008, the weighted average contractual life of options exercisable is 5.3 years (2007: 5.3 years).

The Group uses a number of share-based incentive schemes as illustrated on the previous page. The fair value per award granted and the assumptions used in the calculations for the 1,317,403 options which had not vested at 1 December 2006 are as follows:

Date of grant	Type of award	Number of shares	Exercise price per 1p ordinary share	Share price at date of grant	Fair value per option	Award life per option	Risk free rate	Performance conditions
			Pence	Pence	Pence	Years		
18 October 2004	EMI	16,500	10.42	10.42	4.7	2.9	4.6%	None
18 October 2004	EMI	8,250	10.42	10.42	4.2	0.9	4.6%	None
17 January 2005	EMI	20,000	83.33	83.33	34.0	3.2	4.5%	None
25 October 2005	EMI	142,103	130	125	43.0	4.9	4.3%	Non-market
10 May 2006	EMI	25,325	130	130	45.8	2.5	4.8%	Non-market
15 May 2006	EMI	12,840	130	125	42.2	3.5	4.8%	Non-market
1 August 2006	EMI	25,994	130	123	40.65	2.8	4.7%	Non-market
10 July 2007	EMI	26,136	100	87.5	24.3	3.6	5.8%	Non-market
7 December 2007	EMI	18,626	108	107.5	37.3	4.1	4.5%	Non-market
7 December 2007	EMI	33,750	108	107.5	40.6	4.1	4.6%	Non-market
7 December 2007	EMI	40,000	108	107.5	40.2	4.1	4.6%	Non-market
28 November 2008	EMI	513,792	130	130	49.1	6.1	4.9%	Non-market
18 October 2004	Unapproved	6,000	10.42	10.42	4.7	2.9	4.6%	None
18 October 2004	Unapproved	1,500	10.42	10.42	4.2	0.9	4.6%	None
20 October 2004	Unapproved	25,500	17.08	17.08	5.8	3.9	4.5%	None
8 March 2005	Unapproved	6,333	100	100	36.3	1.3	4.8%	None
27 February 2006	Unapproved	127,727	135	135	49.7	2.2	4.3%	None
30 May 2006	Unapproved	28,980	130	122.5	40.3	2.5	4.7%	Non-market
28 June 2006	Unapproved	31,829	136	120	50.8	7.5	4.9%	None
15 October 2008	Unapproved	115,036	127.5	127.5	43.6	9.9	4.9%	Non-market
28 November 2008	Unapproved	91,181	130	130	49.1	6.1	4.9%	Non-market
		1,317,403						

A share-based payment charge has been calculated using the Black-Scholes model to calculate the fair value of the share options.

The inputs into the Black-Scholes model are as follows:	2008	2007
Weighted average share price (pence)	**126.8**	87.5
Weighted average exercise price (pence)	**126.8**	100.0
Expected volatility	**40%**	40%
Expected life (years)	**5.7**	3.00
Risk free rate	**4.86%**	5.70%
Expected dividends	**0%**	0%

(a) The risk free rate is based on the UK Gilt rate as at the grant date with a period to maturity commensurate with the expected term of the relevant option tranche.

(b) The fair value charge is spread evenly over the expected vesting period.

21. Leasing commitments

The Group's total commitments under non-cancellable operating leases are as follows:

	Land and buildings 2008 £'000	2007 £'000
Within one year	–	–
In two to five years	217	–
	217	–

22. Related party transactions

Transactions between the Company and its subsidiary, which are related parties, have been eliminated on consolidation and are not disclosed in this note.

The Group entered into an agreement on 22 March 2005 with King's College London, a shareholder of the Company. The agreement is an amendment to the previous agreement dated 2 March 2004 and the agreement that is currently in place covers the provision and costs of supply of property and office and laboratory services by King's College London to Proximagen Limited. The agreement can be terminated by either party by 12 months' written notice.

On 28 April 2008 the Group also entered into a lease agreement with King's College London until 31 August 2012 in relation to the provision of office and laboratory space on the Guy's Campus. As part of the agreement, the Group pre-paid rent until 31 August 2011 but the agreement can be terminated by either party by 12 months' written notice.

£565,795 (2007: £670,176) was charged in the year under these agreements. The Group owed £192,434 (inclusive of VAT) to King's College London at the year-end in respect of these agreements (2007: £192,525 inclusive of VAT).

Parent Company balance sheet
At 30 November 2008

	Note	30 November 2008 £'000	30 November 2007 £'000
Fixed assets			
Investments	5	**9,681**	180
Current assets			
Debtors			
Amounts due within one year	6	**59**	230
Amounts due after one year	6	**–**	6,147
Cash at bank and in hand		**7,169**	8,103
		7,228	14,480
Creditors: amounts falling due within one year	7	**(95)**	(215)
Net current assets		**7,133**	14,265
Net assets		**16,814**	14,445
Capital and reserves			
Called up share capital	8	**216**	201
Share premium account	9	**14,527**	12,661
Share-based payment reserve	9	**199**	126
Profit and loss account	9	**1,872**	1,457
Equity shareholders' funds	10	**16,814**	14,445

Approved and authorised for issue by the Board on 23 March 2009 and signed on its behalf by:

Kenneth Mulvany
James Hunter
Directors

Notes to the parent Company financial statements

For the year ended 30 November 2008

1. Basis of preparation

Proximagen Neuroscience plc's parent Company balance sheet has been prepared under the historical cost convention and in accordance with the Companies Act 1985 and UK GAAP.

As permitted by s230(4) of the Companies Act 1985, the profit and loss account of the Company is not presented in this Annual Report. As permitted by FRS 1 "Cash Flow Statements", no cash flow statement for the Company has been included on the grounds that the Group includes the Company in its own published consolidated financial statements. The Company has taken advantage of the exemption in FRS 8 "Related Party Disclosures" not to disclose related party transactions with other members of the Group.

2. Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material to the Company's financial statements.

(a) Investment in subsidiary undertakings

Investments in subsidiary undertakings where the Company has control are stated at cost less any provision for impairment. Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

(b) Share-based payments

In accordance with UITF 44, when the Company grants options over equity instruments directly to the employees of a subsidiary undertaking, the effect of the share-based payment, as calculated in accordance with FRS 20, is capitalised as part of the investment in the subsidiary as a capital contribution, with a corresponding increase in equity.

(c) Taxation

Corporation taxes are recorded on taxable profits at the current rate. Deferred tax is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19 "Deferred Tax". In accordance with FRS 19, deferred tax assets are recognised to the extent that it is regarded as more likely than not that there will be suitable taxable profits from which the future reversal of underlying timing differences can be deducted.

(d) Foreign currency

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 income statement.

(e) Pension contributions

The Company contributes to the personal pension plans of those directors who are members of the Company's Group personal pension scheme. Contributions are charged to the income statement as they become payable in accordance with the rules of the scheme.

(f) Fixed asset (investment) impairment policy

Investments in subsidiary undertakings held as fixed assets are stated at cost less any provisions for impairment. Investments are reviewed for impairment if events or changes in circumstances indicate that the carrying amount may not be recoverable. Impairments are calculated such that the carrying value of the fixed asset investment is the lower of its cost or recoverable amount. Recoverable amount is the higher of its net realisable value and its value in use.

During the year the Company reviewed its policy on accounting for the loan made to its subsidiary and concluded that since settlement of the receivable is neither planned nor likely to occur in the foreseeable future such loans, previously reported as 'Debtors – amounts due after one year' would now be classified as Investments.

3. Profit attributable to members of the parent company

As permitted by s230(4) of the Companies Act 1985, the Company's profit and loss account has not been included in these financial statements. The profit dealt with in the financial statements of the parent Company was £415,000 (2007: £506,000).

The auditor's remuneration in respect of audit services provided to the Company is disclosed in note 7 of the Notes to the consolidated financial statements.

4. Staff numbers and costs

The only employees of the Company were the executive directors. The average number of employees during the year was:

	2008 Number	2007 Number
Administrative	2	2
	2	2

	2008 £'000	2007 £'000
Staff costs (including all directors):		
Wages and salaries	331	449
Social security costs	34	48
Pension costs	12	13
Total of cash-settled remuneration	377	510
Share-based payments	8	23
Total remuneration	385	533

On 1 November 2008 the service contracts between the executive directors and the parent Company, Proximagen Neuroscience plc, were terminated and the directors signed service agreements with Proximagen Limited, effective 1 November 2008. They therefore began receiving emoluments, including pension benefits from Proximagen Limited on 1 November 2008.

Details of directors' combined remuneration are disclosed in note 8 to the consolidated financial statements.

5. Investments

	Investment in subsidiary undertaking		Capital contributions from share-based payments	
	Shares £'000	Loan £'000	£'000	Total £'000
Cost at 1 December 2007	102	–	78	180
Additions	–	9,436	65	9,501
Cost at 30 November 2008	102	9,436	143	9,681

Name of subsidiary	Class of holding	Proportion held directly	Nature of business
Proximagen Limited	Ordinary	100%	Neuroscience research

The above subsidiary is incorporated in England and Wales (registered number 04977050).

6. Debtors

	2008 £'000	2007 £'000
Due within one year:		
Other debtors	5	5
Prepayments and accrued income	54	225
Balance	59	230
Due after one year:		
Amounts owed by Group undertakings	–	6,147
Balance	–	6,147

7. Creditors: amounts falling due within one year

	2008 £'000	2007 £'000
Trade creditors	**32**	21
Other taxation and social security costs	**2**	12
Accruals and deferred income	**61**	182
Balance	**95**	215

8. Share capital

	2008 £'000	2007 £'000
Authorised		
500,000,000 Ordinary shares of 1p each	**5,000**	5,000
Allotted, issued and fully paid		
21,581,715 (2007: 20,058,872) Ordinary shares of 1p each	**216**	201

On 24 October 2008, the Company issued 1,522,843 new ordinary shares of 1p each, representing 7.1% of the Company's enlarged issued share capital. This issue of new equity was made to Upsher-Smith Laboratories Inc. for consideration of $6 million, equivalent to £2.50 per share.

No new shares (2007: 23,250 new shares) were issued for cash in the year in respect of the exercise of options by members of staff.

Details of the Company's share option schemes and long-term incentive plan can be found in the Directors' report and note 20 to the Group accounts.

9. Reconciliation of movement in reserves and equity shareholders' funds

	Ordinary shares £'000	Share premium £'000	Share-based payment reserve £'000	Retained earnings £'000	Total £'000
Balance at 1 December 2006	200	12,659	64	951	13,874
Profit for the year	–	–	–	506	506
Share-based payments	–	–	62	–	62
Issue of share capital	1	2	–	–	3
Balance at 1 December 2007	201	12,661	126	1,457	14,445
Profit for the year	–	–	–	415	415
Share-based payments	–	–	73	–	73
Issue of share capital	15	1,866	–	–	1,881
Balance at 30 November 2008	**216**	**14,527**	**199**	**1,872**	**16,814**

10. Guarantees

The Company acts as guarantor to Her Majesty's Revenue & Customs in respect of any Value Added Tax amount due by its subsidiary. The directors are of the opinion that the likelihood of default by its subsidiary is remote and as such there is no requirement for any provision to be made in the financial statements.

The liability at 30 November 2008 was nil (2007: nil).

Notice of Annual General Meeting

Notice is hereby given that the 2009 Annual General Meeting of Proximagen Neuroscience plc (the "Company") will be held at the offices of Buchanan Communications Limited, 45 Moorfields, London EC2Y 9AE at 11.30am on Tuesday 19 May 2009 for the purpose of considering and, if thought fit, passing the following resolutions of which numbers 1 to 6 will be proposed as Ordinary Resolutions and numbers 7 and 8 will be proposed as Special Resolutions.

1 To receive and adopt the reports of the Directors and auditors and the audited accounts of the Company for the year ended 30 November 2008.

2 To re-elect as a Director, Kenneth Mulvany, who retires by rotation in accordance with article 117 of the Articles of Association of the Company.

3 To re-elect as a Director, Michael Ashton, who retires by rotation in accordance with article 117 of the Articles of Association of the Company.

4 To re-elect as a Director, Peter Allen, who retires by rotation in accordance with article 123 of the Articles of Association of the Company.

5 To re-appoint Baker Tilly UK Audit LLP as the auditor of the Company until the conclusion of the next annual general meeting of the Company and to authorise the Directors to fix the remuneration of Baker Tilly UK Audit LLP as the auditor of the Company.

6 That the Directors be and they are hereby generally and unconditionally authorised to allot relevant securities (within the meaning of section 80 of the Companies Act 1985) (the "Act") up to an aggregate nominal amount of £71,939 provided that this authority shall expire on the earlier of the conclusion of the annual general meeting of the Company to be held in 2010 or the expiry of 15 months from the date of the passing of this Resolution 6 (whichever is earlier) and, unless and to the extent that such authority is renewed or extended prior to such date, that the Company may before such expiry make an offer or agreement which would, or might, require relevant securities to be allotted after such expiry and the Directors may allot relevant securities in pursuance of such offer or agreement as if the authority conferred hereby has not expired.

7 That the Directors be and they are hereby empowered pursuant to section 95 of the Act to allot equity securities (within the meaning of section 94 of the Act) for cash pursuant to the authority conferred by Resolution 6 above as if section 89(1) of the Act did not apply to such allotment provided that this power shall be limited to:

(a) the allotment of equity where the equity securities respectively attributable to the interests of all shareholders are proportionate (as nearly as may be) to the number of Ordinary Shares held by them but subject to such exclusions or other arrangements as the Directors may deem necessary or expedient to deal with legal or practical problems in respect of overseas holders, fractional entitlements or otherwise;

(b) the allotment of equity securities of up to an aggregate nominal amount of £21,580 in connection with the issue of Ordinary Shares by the Company pursuant to the exercise of options proposed to be granted by the Company;

(c) the allotment (other than pursuant to sub-paragraphs (a) and (b) above) of equity securities up to an aggregate nominal amount of £21,580.

and this authority shall expire on the earlier of the conclusion of the annual general meeting of the Company to be held in 2010 or the expiry of 15 months from the date of the passing of this Resolution 7 (whichever is earlier) save that the Company may before such expiry make an offer or agreement which would or might require equity securities to be allotted before such expiry and the Directors may allot equity securities in pursuance of such offer or agreement as if the authority conferred hereby had not expired.

8 The Company be and is hereby generally and unconditionally authorised for the purposes of Section 166 of the Companies Act 1985 (the Act) to make one or more market purchases (within the meaning of Section 163(3) of the Act) of ordinary shares of 1p each in the capital of the Company provided that:

i. the Company does not purchase under this authority more than 2,158,171 ordinary shares;

ii. the Company does not pay for each such ordinary share less than the nominal amount of such ordinary share at the time of purchase; and

iii. the Company does not pay for each such ordinary share more than 105% of the average closing mid-market prices of the ordinary shares as derived from the London Stock Exchange Daily Official List for the five business days immediately preceding the date on which the Company agrees to buy the share concerned.

and this authority shall expire on the earlier of the conclusion of the annual general meeting of the Company to be held in 2010 or the expiry of 15 months from the date of the passing of this Resolution 8 (whichever is earlier) save that if the Company has agreed, before this authority expires, to purchase ordinary shares where the purchase will or may be executed after this authority expires (either wholly or in part), the Company may complete such purchase as if this authority had not expired.

By order of the Board
June Mary Paddock
Company Secretary
23 March 2009

Registered office:
Proximagen Neuroscience plc
Hodgkin Building
Guy's Campus
King's College
London SE1 1UL

Notice of Annual General Meeting continued

Notes

Entitlement to attend and vote

1. Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, the Company specifies that only those members registered on the Company's register of members at 6.00pm on 17 May 2009 or, if this Meeting is adjourned, at 6.00pm on the day two days prior to the adjourned meeting, shall be entitled to attend and vote at the Meeting.

Appointment of proxies

2. If you are a member of the Company at the time set out in note 1 above, you are entitled to appoint a proxy to exercise all or any of your rights to attend, speak and vote at the Meeting and you should have received a proxy form with this notice of meeting. You can only appoint a proxy using the procedures set out in these notes and the notes to the proxy form.

3. If you are not a member of the Company but you have been nominated by a member of the Company to enjoy information rights, you do not have a right to appoint any proxies under the procedures set out in this "Appointment of proxies" section. Please read the section "Nominated persons" below.

4. A proxy does not need to be a member of the Company but must attend the Meeting to represent you. Details of how to appoint the Chairman of the Meeting or another person as your proxy using the proxy form are set out in the notes to the proxy form. If you wish your proxy to speak on your behalf at the Meeting you will need to appoint your own choice of proxy (not the Chairman) and give your instructions directly to them.

5. You may appoint more than one proxy provided each proxy is appointed to exercise rights attached to different shares. You may not appoint more than one proxy to exercise rights attached to any one share. To appoint more than one proxy, it will be necessary to notify the registrar in accordance with note 7 below.

6. A vote withheld is not a vote in law, which means that the vote will not be counted in the calculation of votes for or against the resolution. If no voting indication is given, your proxy will vote or abstain from voting at his or her discretion. Your proxy will vote (or abstain from voting) as he or she thinks fit in relation to any other matter which is put before the Meeting.

Appointment of proxy using hard copy proxy form

7. The notes to the proxy form explain how to direct your proxy how to vote on each resolution or withhold their vote. To appoint a proxy using the proxy form, the form must be:
- completed and signed;
- sent or delivered to Capita Registrars, The Registry (Proxies Department), 34 Beckenham Road, Beckenham, Kent BR3 4TU; and
- received by Capita Registrars no later than 11.30am on 17 May 2009.

In the case of a member which is a company, the proxy form must be executed under its common seal or signed on its behalf by an officer of the company or an attorney for the company. Any power of attorney or any other authority under which the proxy form is signed (or a duly certified copy of such power or authority) must be included with the proxy form.

Appointment of proxy by joint members

8. In the case of joint holders, where more than one of the joint holders purports to appoint a proxy, only the appointment submitted by the most senior holder will be accepted. Seniority is determined by the order in which the names of the joint holders appear in the Company's register of members in respect of the joint holding (the first-named being the most senior).

Changing proxy instructions

9. To change your proxy instructions simply submit a new proxy appointment using the methods set out above. Note that the cut-off time for receipt of proxy appointments (see above) also applies in relation to amended instructions; any amended proxy appointment received after the relevant cut-off time will be disregarded. Where you have appointed a proxy using the hard-copy proxy form and would like to change the instructions using another hard-copy proxy form, please contact Capita Registrars. If you submit more than one valid proxy appointment, the appointment received last before the latest time for the receipt of proxies will take precedence.

Termination of proxy appointments

10. In order to revoke a proxy instruction you will need to inform the Company by sending a signed hard copy notice clearly stating your intention to revoke your proxy appointment to Capita Registrars, The Registry (Proxies Department), 34 Beckenham Road, Beckenham, Kent BR3 4TU. In the case of a member which is a company, the revocation notice must be executed under its common seal or signed on its behalf by an officer of the company or an attorney for the company. Any power of attorney or any other authority under which the revocation notice is signed (or a duly certified copy of such power or authority) must be included with the revocation notice. The revocation notice must be received by Capita Registrars no later than 11.30am on 17 May 2009. If you attempt to revoke your proxy appointment but the revocation is received after the time specified then, subject to the paragraph directly below, your proxy appointment will remain valid. Appointment of a proxy does not preclude you from attending the Meeting and voting in person. If you have appointed a proxy and attend the Meeting in person, your proxy appointment will automatically be terminated.

Issued shares and total voting rights

11. As at 5.00pm on 23 March 2009, the Company's issued share capital comprised 21,581,715 ordinary shares of 1 penny each. Each ordinary share carries the right to one vote at a general meeting of the Company and, therefore, the total number of voting rights in the Company as at 5.00pm on 23 March 2009 is 21,581,715.

Nominated persons

12. If you are a person who has been nominated under section 146 of the Companies Act 2006 to enjoy information rights (Nominated Person):
- You may have a right under an agreement between you and the member of the Company who has nominated you to have information rights ("Relevant Member") to be appointed or to have someone else appointed as a proxy for the Meeting.
- If you either do not have such a right or if you have such a right but do not wish to exercise it, you may have a right under an agreement between you and the Relevant Member to give instructions to the Relevant Member as to the exercise of voting rights.
- Your main point of contact in terms of your investment in the Company remains the Relevant Member (or, perhaps, your custodian or broker) and you should continue to contact them (and not the Company) regarding any changes or queries relating to your personal details and your interest in the Company (including any administrative matters). The only exception to this is where the Company expressly requests a response from you.

Documents on display

13. Copies of the following documents will be available for at least 15 minutes prior to the Meeting and during the Meeting:
- Service agreement of Mr Kenneth Mulvany, dated 1 November 2008.
- Letter of appointment of Mr Michael Ashton, dated 15 December 2005.
- Letter of appointment of Mr Peter Allen, dated 2 February 2009.

Communication

14. Except as provided above, members who have general queries about the Meeting should call the Capita shareholder helpline on 0871 664 0300 (or from outside the UK: +44 (0)20 8639 3399). No other methods of communication will be accepted.

You may not use any electronic address provided either in this notice of general meeting or any related documents (including the Executive Director's letter and proxy form) to communicate with the Company for any purposes other than those expressly stated.

Shareholder information

Company contact details
Proximagen Neuroscience plc
Hodgkin Building
Guy's Campus
King's College
London SE1 1UL

Tel: +44 (0)20 7848 6938
Fax: +44 (0)20 7848 6034

Company Secretary
June Mary Paddock

Registered office
Hodgkin Building
Guy's Campus
King's College
London SE1 1UL

Incorporated and registered in England and Wales with No. 05333020

Website
Further information on the Group can be found on our website at **www.proximagen.com**

Share price information
The latest Proximagen share price can be obtained via a number of financial information websites. Proximagen's London Stock Exchange code is PRX.

Shareholder enquiries
Enquiries concerning shareholdings, change of address or other particulars, should be directed in the first instance to the Company's registrars:

Capita Registrars
The Registry
34 Beckenham Road
Beckenham
Kent BR3 4TU

Tel: 0870 162 3100

Investor relations
Any shareholders with enquiries regarding the Group are welcome to contact Kenneth Mulvany on +44 (0)20 7848 6938. Alternatively, they can e-mail their enquiry to ir@proximagen.com

Copies of this report are being sent to all shareholders.
Copies are also available at the registered office of the Company, Hodgkin Building, Guy's Campus, King's College, London SE1 1UL.

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