Focused on development

Phytopharm plc
Annual Report and Accounts 2010

Registered number 3131723

Phytopharm (LSE:PYM) is a development stage pharmaceutical company developing novel treatments targeting diseases with high unmet need. Our lead series of compounds has the potential to be a new class of therapy for neurodegenerative diseases.

Phytopharm has evolved its approach of developing products extracted from natural botanical sources to investigating single chemical entities. We will deliver key development milestones in the next two years.

Phytopharm works as a virtual company and utilises a network of scientific and clinical experts to help guide our development projects.

Our objective is to develop products aimed at major markets to key value inflection points before seeking late-stage development and commercial partners.

Visit us online
Our corporate website provides comprehensive information about our business including the latest news and investor information
www.phytopharm.com

Business highlights

Operational

- Recruitment of patients with Parkinson's disease into the multi-national Cogane™ Phase II dose ranging study (CONFIDENT-PD) commenced in November 2010
- Positive headline results reported from a preclinical efficacy study of Cogane™ in the gold standard, preclinical model of Parkinson's disease
- Completion of a Phase IB safety, tolerability and pharmacokinetic clinical study of Cogane™ in healthy volunteers and Parkinson's disease patients
- Initiation of development programme evaluating the potential of Cogane™ and Myogane™ in glaucoma
- Cooperation agreement signed with the Council for Scientific and Industrial Research ("CSIR"), South Africa, who will fund the future development and commercialisation of Hoodia gordonii ("Hoodia") as an appetite suppressant
- Appointment of Tim Sharpington as Chief Executive Officer
- Appointment of Roger Hickling as Research and Development Director

Financial

- £24 09 million (net of expenses) raised in December 2009 through a Placing and Open Offer
- Loss after tax of £3 80 million (FY 2009· £3 91 million)
- Cash and money market investments of £23 61 million (FY 2009 £3.91 million)

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Strategy and portfolio

Focused on neurodegeneration and inflammatory disease

Phytopharm has evolved its strategic direction of developing products extracted from natural botanical sources to investigating single chemical entities. Our products are sourced from our own research projects or are based on licensed products and technologies.

Portfolio at a glance

Our products are single chemical entities with novel mechanisms of action protected by strong patent families

Phytopharm has an exciting product pipeline with the potential to make a significant impact in the treatment of diseases that have limited therapeutic options

Key development areas

Parkinson's disease

Parkinson's disease is a movement disorder characterised by muscle rigidity, tremor and a slowing of physical movement (bradykinesia) and, in extreme cases, a loss of physical movement (akinesia). The primary symptoms are the result of altered signalling of an area of the brain, the striatum, responsible for the control of movement

Clinical development
Cogane™ is currently being evaluated in a 400 patient multi-national Phase II, randomised, double blind, placebo controlled, dose ranging study (CONFIDENT-PD). The study is comparing the safety, tolerability and efficacy of three doses of Cogane™ and placebo when administered for 28 weeks to untreated patients with early stage Parkinson's disease

Phytopharm's lead products, Cogane™ and Myogane™, are structurally related, small-molecule, chemical entities and members of the Sapogenin class of compounds. They are orally bioavailable neurotrophic factor inducers that readily cross the blood-brain barrier. Both compounds have demonstrated neuroprotective effects in a range of preclinical models

For more, visit us online
www.phytopharm com

Other products

ALS

ALS, also known as Lou Gehrig s disease, is the most prevalent form of motor neurone disease which generally strikes people between 40 and 60 years of age It is characterised by progressive loss of both lower (spinal cord and brain stem) and upper (cerebral cortex) motor neurones, which leads to severe muscle weakness and wasting, followed by paralysis and death, generally caused by respiratory failure

Glaucoma

Glaucoma is a multifactoral, progressive optic neuropathy that is characterised by a loss of retinal ganglion cells ("RGCs") beyond typical age related baseline loss

Published preclinical studies have shown that both BDNF and GDNF can protect RGCs both in vitro and in vivo

P61

The P61 programme was established by Phytopharm to investigate the known pharmacological properties of curcumin and gingerol A medicinal chemistry programme has produced a series of synthetic new chemical entities ("NCEs") with a range of attractive pharmacological properties As with other compounds in the Phytopharm portfolio, this series has its origins based around compounds extracted from a plant source, but is now entirely synthetic in nature

Legacy products

Hoodia

The CSIR, one of the leading research and development, technology and innovation institutions in Africa, is now responsible for the further development and commercialisation of **Hoodia** for the management of obesity

Phytopharm will receive a share of future commercialisation income

Phytopica®

Phytopica® is a natural, three plant marketed product for canine skin health that provides a novel three in one approach to help maintain a normal healthy immune system, support normal white cell function and provide antioxidant benefits Discussions are ongoing with potential partners regarding the future commercialisation of Phytopica

Chairman's review

"In December 2009 the Company completed an equity financing of £24.09 million net of expenses. This financing will allow the Company to make significant progress in the development of its product pipeline."

Mr Alistair Taylor Non-Executive Chairman

2010 was a year which saw some significant changes in Phytopharm's business and outlook The business is now focused solely on the development of its pharmaceutical pipeline In December 2009 the Company completed an equity financing of £24 09 million net of expenses This financing will allow the Company to make significant progress in the development of its product pipeline This was followed by the appointment of a new management team headed by CEO Tim Sharpington and Research and Development Director Roger Hickling Both Tim and Roger bring significant pharmaceutical and biotech industry experience Having taken the decision to focus on our pharmaceutical products, the Company has curtailed expenditure on its functional food products and has subsequently restructured the business reducing internal head count and costs Phytopharm now operates as a virtual biotech company With a strong financial position and a product pipeline reaching key development milestones in the next two years, Phytopharm is well placed to deliver value to shareholders in the coming period

Mr A Taylor
Non-Executive Chairman

Chief Executive's review

"Over the past year we have re-focused the business onto the development of our pharmaceutical pipeline."

Mr Tim Sharpington Chief Executive Officer

In summary

- The Company has an exciting product pipeline with the potential to make a significant impact in the treatment of diseases that presently have limited therapeutic options
- Good progress has been made with our lead programme, Cogane™ in Parkinson's disease
- The building blocks are in place to make significant progress over the coming period
- Completed a Placing and Open Offer securing significant investment of £24 09 million net of expenses providing a robust balance sheet to progress our promising pharmaceutical pipeline

I was delighted to join Phytopharm in July 2010 The Company has an exciting product pipeline with the potential to make a significant impact in the treatment of diseases that presently have limited therapeutic options Since joining I have been working with the Board and the Phytopharm team to put in place the plans to turn that potential into reality We now have a number of programmes underway which will deliver key development milestones in the next two years If results from these studies continue to be positive, the Company will be in a good position to further exploit and increase the value of our products in partnership with larger pharmaceutical companies and generate value for shareholders

Good progress has been made with our lead programme, Cogane™, in Parkinson's disease In 2009 the Company received data from a key non-clinical study which underlined the product's potential and has generated much interest and excitement amongst leading scientists, neurologists and patient groups in the Parkinson's disease community If this result is replicated in clinical trials, it will provide a major breakthrough in the treatment of this condition Since then we have completed a Phase I safety study in healthy volunteers and patients and have initiated a large, dose ranging Phase II study in patients with early stage Parkinson's disease The study is being conducted at leading neurology centres in North America and Europe We are making a significant investment into this study to ensure that Cogane™ is evaluated against study endpoints which fulfil regulatory obligations as well as demonstrating medically and commercially meaningful results This study will take two years to complete, with results due by the end of 2012 If successful, it will allow the project to be rapidly progressed into registration studies either by Phytopharm or in partnership with a larger pharmaceutical company

Cogane™, and its structurally related compound Myogane™, have demonstrated neuroprotective and neurorestorative properties in a range of cell types and industry-standard in vivo models

Chief Executive's review continued

"We now have a number of programmes underway which will deliver key development milestones in the next two years."

This leads us to believe that these compounds have potential utility in a number of neurodegenerative conditions in addition to Parkinson's disease We have recently initiated studies in glaucoma, a degenerative eye condition and amyotrophic lateral sclerosis, the most common form of motor neurone disease Both programmes will evaluate the efficacy of our products in key in vivo models of these conditions As both Cogane™ and Myogane™ have completed required preclinical safety studies and clinical Phase I clinical safety studies, rapid progression to clinical Phase II efficacy studies in these indications will be possible if the preclinical results are positive

Neurodegeneration is an attractive target for pharmaceutical treatment and many approaches to tackling this process, which is fundamental to many diseases, are being developed, including gene therapy and stem cell therapy The fact that Cogane™ and Myogane™ are small molecule therapies, suitable for once-daily oral dosing with the potential to induce the production of innate neurotrophic factors, makes them particularly attractive Small molecule treatments have a well described regulatory development pathway and are relatively simple to produce and administer, producing attractive therapeutic and commercial options

In addition to Cogane™ and Myogane™, we have re-activated a programme investigating a new class of compounds called P61 These early stage compounds have anti-inflammatory, anti-remodelling, anti-spasmodic and TRPV-1 modulating activities This range of activities point to potential utility in a number of inflammatory therapeutic categories, including respiratory diseases, dermatological conditions, gastro-intestinal disorders and pain We will further evaluate these compounds over the coming year

Over the past year we have re-focused the business onto the development of our pharmaceutical pipeline Following the receipt of the promising results generated from Cogane™ and the subsequent fundraising, an evaluation of the Group's assets concluded that there was a higher chance of generating value for shareholders by investing all of our resources in our pharmaceutical assets As a result, we have curtailed all expenditure of Phytopharm's functional food products With regard to Hoodia our weight loss food product previously licensed to Pfizer Inc and Unilever, we have entered into a cooperation agreement with the CSIR This is the South African Government sponsored body from whom Phytopharm originally licensed the patents supporting Hoodia development The CSIR will evaluate the data generated by Phytopharm and its partners with an aim to further developing and commercialising weight loss products based on Hoodia In return for transferring our intellectual property and know-how relating to Hoodia, Phytopharm will receive a share of any future commercial milestones and royalty on sales Our canine atopic dermatitis product, Phytopica, has been promoted by Intervet/ Schering Plough Animal Health over the last few years Sales have been disappointing and the agreement with Intervet/Schering Plough terminated at the end of December 2010 We are in discussions with other potential commercial partners for this product

Significant progress in product pipeline development

"Cogane™ and Myogane™ have potential utility in a number of neurodegenerative diseases in addition to Parkinson's disease "

A large dose ranging Phase II study in patients with early stage Parkinson's disease has been initiated

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We are not planning to invest further in these functional food products and as a result we have downsized the Company and therefore a number of staff who had been working on these programmes have left us We thank them for their help and support The resulting savings will allow further investment in our pharmaceutical products

When looking at the wider pharmaceutical industry environment we believe that there are good prospects if our assets continue to demonstrate encouraging results Most major pharmaceutical companies are facing erosion of their product sales associated with patent expiries Most are committed to replenishing their product pipeline by a mixture of in-house development and licensing/acquisition of products with proven efficacy

The building blocks are therefore in place to make significant progress over the coming period Phytopharm has a three year cash runway and we will invest in our product pipeline to deliver key development milestones during this period If successful, we are confident that our products will have demonstrated their potential to make a major impact, medically and commercially, in a number of therapeutic indications We will continue to keep you informed of our progress Finally I would like to thank our shareholders for their continued support of Phytopharm

Mr T Sharpington
Chief Executive Officer

Business review

Development projects with the potential to produce significant treatment advances in our target areas of neurodegeneration and inflammation

Strategy

Phytopharm is a development stage pharmaceutical Company developing novel treatments targeting diseases with high levels of unmet need Our lead series of compounds, the Sapogenins (including Cogane™ and Myogane™), has the potential to be a new class of therapy for neurodegenerative diseases including Parkinson's disease, motor neurone disease and glaucoma

Phytopharm's strategic direction has evolved from developing products extracted from natural botanical sources to investigating single chemical entities

Phytopharm operates as a virtual company We utilise a network of scientific and clinical experts to help guide our development projects with our experienced pharmaceutical managers overseeing operations

Our commercially focused development projects have the potential to produce significant treatment advances in our target areas of neurodegeneration and inflammatory disease Our products are single chemical entities with novel mechanisms of action protected by strong patent families

Our pipeline has been sourced from our own research activities and from licensing activities, particularly from leading research institutions in China with whom the Company has long-standing relationships

Our objective is to develop products aimed at major markets with high unmet medical need to key value inflection points before seeking late-stage development and commercial partners as appropriate We will consider retaining certain rights to products targeting orphan indications

Overview

In December 2009, Phytopharm successfully completed a Placing and Open Offer securing significant investment of £24 09 million net of expenses, providing a robust balance sheet to progress our promising pharmaceutical pipeline

Following the equity fundraising, we have progressed our strategy of focusing on our pharmaceutical programmes, specifically on the development of Cogane™ for Parkinson's disease During the year, we reported promising results with Cogane™ in a preclinical model and in a safety, tolerability and pharmacokinetic study in Parkinson's disease patients, as well as securing approval from regulatory authorities allowing the commencement of our multi-national Phase II CONFIDENT-PD clinical study

Recruitment of patients with Parkinson's disease into this study commenced in November 2010 The study is being conducted in leading movement disorder centres in North America and Europe The Company anticipates that results from the study will be available by the end of 2012

During the year, the Board was delighted to welcome Tim Sharpington as Chief Executive Officer and Roger Hickling as Research and Development Director These appointments strengthen our ability to drive our research and development programmes forward following our successful fundraising activities

We have continued to limit expenditure to our two legacy programmes, Hoodia and Phytopica® We have been able to enter into a cooperation agreement with the CSIR for the future development of the Hoodia programme and we are progressing discussions on a number of opportunities for Phytopica®

Pharmaceutical programmes

The Sapogenins

Phytopharm's lead products, Cogane™ and Myogane™, are structurally related, small molecule, chemical entities and members of the Sapogenin class of compounds They are orally bioavailable neurotrophic factor inducers that readily cross the blood-brain barrier Both compounds have demonstrated neuroprotective effects in a range of preclinical models Specifically, Cogane™ and Myogane™ have been shown to induce and modulate the production of neurotrophic factors

Both compounds have completed long term toxicology studies, have been formulated as once daily, orally administered therapies and have completed Phase I studies demonstrating good bioavailability and safety profiles

Cogane™ is being studied in a Phase II trial of early stage Parkinson's disease and in preclinical models of amyotrophic lateral sclerosis ("ALS", also known as Lou Gehrig's disease) It has also been evaluated for safety and tolerability in patients with Alzheimer's disease

Additionally, Cogane™ and Myogane™ are being assessed in preclinical models of glaucoma, a neurodegenerative disease of the eye, and, if results are encouraging, have the potential to be progressed rapidly into clinical proof of concept studies

The neuroprotective and neurotrophic actions of Cogane™ suggest potential beneficial effects in other orphan neurodegenerative diseases

Neurodegeneration

Neurodegeneration is the umbrella term for the progressive loss of structure, function or death of neurones Many neurodegenerative diseases including Parkinson's disease, ALS, glaucoma and Alzheimer's disease occur as a result of neurodegenerative processes that exhibit many similarities suggesting that these diseases are related on a sub-cellular level Because of the similarities in neurodegeneration across this range of diseases, there is hope that therapeutic advances, such as Cogane™ and Myogane™ could be beneficial in more than one of these diseases

Cogane™ in Parkinson's disease

Parkinson's disease is a movement disorder characterised by muscle rigidity, tremor and a slowing of physical movement (bradykinesia) and, in extreme cases, a loss of physical movement (akinesia) The primary symptoms are the result of altered signalling of an area of the brain, the striatum, responsible for the control of movement This is caused by degeneration of dopaminergic neurones between the substantia nigra and the striatum parts of the brain, leading to insufficient formation and action of dopamine Parkinson's disease is therefore termed a neurodegenerative disease The disease is slow in onset and the appearance of symptoms reflects the gradual loss of dopaminergic neurones

The prevalence of Parkinson's disease is estimated at being 0 3% in the whole population in industrialised countries rising to 1% in those over 60 years of age and to 4% of the population over 80 The market size for Parkinson's disease was $3 2 billion in 2009 and is forecast to grow to $4 6 billion by 2012

Pharmaceutical programmes continued

Mode of action

Glial derived neurotrophic factor ("GDNF") and brain derived neurotrophic factor ("BDNF") have been shown to be effective in re-growing damaged nerves Since they are proteins, they cannot be given orally (in tablet or liquid form) because they are degraded in the stomach and intestine, and also do not readily cross the blood-brain barrier GDNF and BDNF can work only when injected into, or when produced inside the brain Direct injection of GDNF into the area of the brain involved in Parkinson's disease has shown evidence of being clinically effective in restoring the control of movement but requires highly complex and difficult surgical procedures Cogane™ has the potential to overcome many of the difficulties associated with GDNF administration

In preclinical models, Cogane™ stimulated the release of GDNF and BDNF in the brain and increased neurite outgrowth When administered orally in several different preclinical models of Parkinson's disease, Cogane™ reversed the decrease of neurotrophic factors and reversed the loss of dopaminergic neurones in the striatum, the area of the brain most affected in Parkinson's disease

Progress to date

We have made significant progress demonstrating that, in preclinical models of Parkinson's disease, Cogane™ reverses the damage to dopamine-containing neurones and elevates GDNF and BDNF in the area of the brain involved in Parkinson's disease In a recently completed preclinical study, oral administration of Cogane™ over 18 weeks significantly reduced parkinsonian disability by 43% in the gold standard preclinical model of Parkinson's disease research (MPTP-induced Parkinson's disease model), which will be clinically highly relevant if repeated in Parkinson's disease patients Encouragingly, in this study a statistically significant reduction in parkinsonian symptoms was reached after nine weeks of administration with Cogane™ The magnitude of the effect increased over the subsequent nine weeks of administration and was still increasing at the end of the study (week 18) Data from this study suggests that the mechanism underlying these effects is considerably more complex than originally envisaged This study was supported by the Michael J Fox Foundation and further work in this area is ongoing

We have also shown in preclinical models that administration of Cogane™ in conjunction with L-dopa (the standard treatment for Parkinson's disease) resulted in improved control of symptoms compared to those treated with L-dopa alone These data continue to support the development of Cogane™ as an exciting new and potentially disease-modifying therapy for Parkinson's disease

In addition to its effects in preclinical models of Parkinson's disease, Cogane™ has shown efficacy in preclinical models of cognitive impairment and so may have utility in treating the non-motor symptoms of Parkinson's disease

Clinical

Four Phase I studies have evaluated Cogane™ in healthy adults and Parkinson's disease patients for up to 28 days In these studies, daily, oral administration of Cogane™ was well tolerated with a good overall safety profile In a recently completed Phase Ib safety, tolerability and pharmacokinetic clinical study in both healthy volunteers and Parkinson's disease patients, Cogane™ was shown to be safe and generally well tolerated over the 28 day study period

Cogane™ and Myogane™, our lead neurodegenerative products

Structurally related, small molecule, chemical entities and members of the Sapogenin class of compounds

- Induce and modulate the production of neurotrophic factors
- Completed long term toxicology studies
- Demonstrated good bioavailability and safety profile

Importantly at day 28, plasma levels of Cogane™ in Parkinson's disease patients reached levels associated with efficacy in the preclinical efficacy study

Cogane™ is currently being evaluated in a 400 patient multi-national Phase II, randomised, double blind, placebo controlled, dose ranging study (CONFIDENT-PD) The study is comparing the safety, tolerability and efficacy of three doses of Cogane™ and placebo when administered for 28 weeks to untreated patients with early stage Parkinson's disease

Cogane™ in motor neurone disease/ALS

ALS, also known as Lou Gehrig's disease, is the most prevalent form of motor neurone disease which generally strikes people between 40 and 60 years of age It is characterised by progressive loss of both lower (spinal cord and brain stem) and upper (cerebral cortex) motor neurones, which leads to severe muscle weakness and wasting followed by paralysis and death, generally caused by respiratory failure There is an urgent need for the development of new approaches to this devastating condition

It is estimated that over 30 000 patients are diagnosed with ALS in the seven major markets ALS is classified as an orphan disease and, as such, offers the potential for expedited development

Progress to date

In preclinical studies, Cogane™ protects spinal motor neurones from glutamate-induced neuronal damage, increases neurite outgrowth and has also been shown to increase lifespan and improve muscle strength and coordination in several different models of ALS With the support of the Motor Neurone Disease Association, a leading UK charity, we are undertaking work in additional preclinical models of ALS If positive, these studies will facilitate rapid progression to clinical trials

As noted in the Parkinson's disease section, Cogane™ has been evaluated in a number of Phase I studies and shown to be generally safe, well tolerated and orally bioavailable

Glaucoma

Glaucoma is a multifactoral, progressive optic neuropathy that is characterised by a loss of retinal ganglion cells ("RGCs") beyond typical age related baseline loss

Glaucoma is the second most common cause of worldwide blindness (after cataracts) with approximately 60 million sufferers worldwide This figure is expected to rise to 80 million by 2020 In the USA, the prevalence of primary open-angle glaucoma, the most common form of glaucoma, in people over 40 years of age is 1 86%

Elevated intraocular pressure ("IOP") is an important risk factor for glaucoma and has remained a clinical focus for several years, however 20–30% of patients with glaucoma have a normal IOP Additionally, there are people who have raised IOP who do not develop glaucoma Even in patients treated with IOP-lowering therapies the annual progression rate of the disease is ~10% Therefore, drugs that treat the underlying neuropathy are needed

Published preclinical studies have shown that both BDNF and GDNF can protect RGCs both in vitro and in vivo Furthermore, co-application of BDNF and GDNF provided a better level of protection than either factor used individually As Cogane™ and Myogane™ stimulate the release of BDNF and GDNF, they are potential treatments for glaucoma

Business review continued

"Our objective is to develop products aimed at major markets with high unmet medical need to key value inflection points before seeking late-stage development and commercial partners as appropriate."

Pharmaceutical programmes continued

Alzheimer's disease

Cogane™ and Myogane™ protect cortical neurones from glutamate and ß-amyloid induced neuronal damage and increase neurite outgrowth in vitro Cogane™ and Myogane™ also increase the density of muscarinic receptors both in vitro and in vivo In vivo, Cogane™ and Myogane™ improve cognition in the aged rat and ß-amyloid/ibotenic acid rat model of Alzheimer's disease

The safety, tolerability and pharmacokinetics of orally administered Cogane™ in patients with Alzheimer's disease has previously been assessed in a twelve week study Cogane™ was generally well tolerated in this patient group Further work may be undertaken in this area if additional resources become available

P61 Programme

The P61 programme was established by Phytopharm to investigate the known pharmacological properties of curcumin and gingerol A medicinal chemistry programme has produced a series of synthetic new chemical entities ("NCEs") with a range of attractive pharmacological properties As with other compounds in the Phytopharm portfolio, this series has its origins based around compounds extracted from a plant source, but is now entirely synthetic in nature

The chemical series contains molecules which exhibit the following activities

- Anti-inflammatory
- Anti-spasmodic
- Anti-remodelling
- TRPV1 modulatory activity

These activities have potential utility in a number of inflammatory indications including chronic obstructive pulmonary disease, asthma, atopic dermatitis, psoriasis, gastrointestinal inflammatory conditions and pain

We are conducting preclinical studies on this series of compounds with a view to establishing one or more compounds for progression into development

Legacy products

Hoodia programme

The CSIR, one of the leading research and development, technology and innovation institutions in Africa, is now responsible for the further development and commercialisation of Hoodia for the management of obesity The CSIR will collaborate with national and regional stakeholders, and has the full support of the South African San Council for future developments Phytopharm is committed to support this development effort through the contribution of supporting intellectual property and the transfer of technical know-how In return, Phytopharm will receive a share of future commercialisation income

Phytopica®

Phytopica® is a natural, three plant marketed product for canine skin health that provides a novel three in one approach to help maintain a normal healthy immune system, support normal white cell function and provide antioxidant benefits Intervet/Schering Plough Animal Health will continue to market Phytopica® until 31 December 2010 Discussions are ongoing with potential partners regarding the future commercialisation of Phytopica

Financial review

Building shareholder value

The fundraising in December 2009 has provided the resources to progress the development of our pharmaceutical programmes.

The financial performance for the year ended 30 September 2010 reflects the Group's ongoing pharmaceutical development and residual functional food activities

Cash flow

The Company ended the year with £23 61 million of cash and money market investments The £24 09 million (net of expenses) fundraising approved by shareholders in December 2009 strengthened our balance sheet significantly and has provided the resources to progress the development of our pharmaceutical programmes

The net cash used in operating activities for the year ended 30 September 2010 was £4 44 million, an increase from £3 40 million in the prior year, reflecting the Group's continuing focus on the development of its lead programme, Cogane™, in Parkinson's disease The Group's focus remains on building shareholder value by effective progression of its innovative pharmaceutical programmes We expect our net cash outflow to increase in 2011 to continue the development of our pharmaceutical programmes, primarily Cogane™ in a Phase II proof of concept and dose range finding clinical study We also intend to maintain our strong links with disease specific charities which may result in additional charitable funding being available

Income statement

The revenue from continuing operations for the year of £0 70 million (2009 £0 87 million) was principally generated from our residual functional food programmes

Under certain collaboration agreements, funding was provided for development activities and certain of our employees The majority of these activities are now completed resulting in revenue for the year of £0 51 million (2009 £0 57 million)

Sales of Phytopica® continue to be disappointing and during the year we agreed with Intervet/ Schering Plough to terminate our agreement for the product and we are exploring further opportunities for the product Revenue from Intervet/Schering Plough during the year amounted to £0 06 million Sales of Phytopica® during the year amounted to £0 01 million (2009 £0 14 million)

We continued to reduce our inventory of raw materials during the year realising revenue of £0 12 million (2009 £0 16 million)

Other income during the year represents funding from the Michael J Fox Foundation for preclinical development work on Cogane™ completed during the year

Cost of sales for the year amounted to £0 09 million (2009 £0 19 million) and comprised the costs of the inventories sold during the period, the costs of the raw materials and the manufacture of Phytopica®

Research and development costs for the year amounted to £4 01 million compared to £3 91 million in the previous year reflecting the focus on progressing Cogane™ into the next stage of development following the successful fundraising during the year

Our administrative costs before exceptional items remained constant at £1 12 million for the year (2009 £1 12 million) Administrative costs for the year were also £1 12 million (2009 £1 39 million) Exceptional costs of £0 41 million were recognised in the year ended 30 September 2009 in respect of former executive directors and restructuring costs

Our overall operating loss before tax was £4 50 million compared to £4 38 million for the previous year

Our interest received increased to £0 29 million compared to £0 18 million for the year ended 30 September 2009 due to increased cash balances following the fundraising activities during the year

Financial review continued

"The financial performance for the year ended 30 September 2010 reflects the Group's ongoing pharmaceutical development and residual functional food activities."

Income statement continued

The tax credit of £0 41 million (2009 £0 29 million) represents amounts that are expected to be received under current legislation on research and development tax credits The increase for the year is due to increased expenditure on the unfunded development activities primarily in relation to the Cogane™ programme

Balance sheet

Non-current assets representing property, plant and equipment and intangible assets decreased from £0 20 million at 30 September 2009 to £0 11 million at 30 September 2010 Property, plant and equipment amounted to £0 11 million at 30 September 2010 (2009 £0 10 million)

Intangible assets represent patent and know-how licences acquired externally that have been recognised as an asset at cost At each balance sheet date we review the carrying amount of our intangible assets to determine whether there are any indications that these assets have suffered an impairment loss Following a review at 31 March 2010, an impairment charge of £0 10 million was recorded to write down to £nil the carrying value of the intangible assets (2009 £0 10 million) These assets were fully impaired as a result of our strategic focus on specific chemical entities as pharmaceutical products

Current assets comprise inventories, trade and other receivables, tax receivable, money market investments and cash and cash equivalents which increased from £4 68 million at 30 September 2009 to £24 50 million at 30 September 2010

Money market investments together with cash and cash equivalents at 30 September 2010 increased by £19 70 million due to the equity fundraising completed during the year offset by cash outflows from operating and investing activities Money market investments represent fixed-rate, short-term deposits placed with a range of banks at fixed terms with a maturity date of more than three months Cash and cash equivalents are invested for a period of 90 days or less

During the year we have completed the sale of all our existing inventory of raw materials In addition, we have written off our inventory of work in progress to the value of £0 13 million (2009 £nil) resulting in a carrying value of £nil (2009 £0 13 million), due to the disappointing sales of Phytopica® and the termination of our agreement with Intervet/Schering Plough

Current tax receivable has increased from £0 29 million at 30 September 2009 to £0 41 million at 30 September 2010 due to increased expenditure on our qualifying pharmaceutical programmes

Current liabilities decreased to £1 13 million at 30 September 2010 (2009 £1 75 million) principally due to the recognition as revenue of previously deferred revenue during the year

The increase in ordinary shares and share premium reflects the equity fundraising completed in December 2009

"Outsourcing our operations to specialist external organisations enables us to operate with a low headcount and minimal infrastructure."

Outlook

In line with our virtual operational structure, we continue to outsource the majority of our operations to specialist external organisations enabling us to operate with a low headcount and minimal infrastructure This lean operational structure confers substantial cost and technical benefits as the nature and range of our activities change as our programmes progress through the various stages of development Efficiency and cost control continue to be a key focus

Forward looking statements

Certain information included in these statements is forward looking and involves risk and uncertainties that could cause results to differ materially from those expressed or implied by the forward looking statements

Forward looking statements include, without limitation, projections relating to results of operations and financial conditions, market estimates, the Company's plans and objectives for future operations, including future revenues, financial plans and expected expenditures and divestments All forward looking statements in this report are based on information known to the Company on the date of this release The Company undertakes no obligation to publicly update or revise any forward looking statement, whether as a result of new information, future events or otherwise

It is not reasonably possible to itemise all of the many factors and specific events that could cause the Company's forward looking statements to be incorrect or that could otherwise have a material adverse effect on the future operations or results of the Company

Board of Directors

Mr Alistair Taylor
Non-Executive Chairman

Mr Taylor is formerly Executive Chairman of UK listed Lombard Medical Technologies plc and has over 46 years' experience in the healthcare industry, 11 years in pharmaceuticals and over 35 years in medical devices He was Chief Executive Officer of Biocompatibles International plc from 1994 to 1998 and during this period the Company progressed from a technology-based start up company, through flotation to a FTSE 250 company Prior to this, Mr Taylor was Chief Executive Officer of Schneider Inc, a Swiss interventional cardiology/radiology device company and during this time the Company's turnover grew to $100 million Schneider was subsequently sold by Pfizer Inc , its parent, for over $2 billion Mr Taylor's early career included the Chief Accountant role at Beecham Pharmaceuticals He is also Chairman of Starbridge Systems Limited and Nightingale-EOS Limited

Mr Tim Sharpington
Chief Executive Officer

Mr Sharpington has nearly 20 years' experience in the life sciences sector with various biotechnology and pharmaceutical service companies in Europe and the USA He has broad experience across drug development, in-licensing, mergers and acquisitions as well as fundraisings In 2002, Mr Sharpington was appointed as Development Director at Arakis Ltd, a UK based inflammatory and CNS focused company where he led the development of four projects from concept to Phase II, participated in the licensing of its lead product to Novartis and also had a pivotal role in the successful sale of Arakis to Sosei in 2005 for £107 million After leaving Arakis Mr Sharpington founded and became Chief Executive Officer of Serentis Limited in 2006 where he led a £15 million venture capital fundraising and the development of two dermatology products to Phase II

Mr Roger Hickling
Research and Development Director

Mr Hickling has a BSc in chemistry from Kings College, University of London and over 30 years' experience in pharmaceutical research and development This includes management of development portfolios and projects from preclinical through to Phase IV covering a range of disease areas In addition, Mr Hickling has extensive experience in international regulatory affairs, including clinical trials and marketing applications Between 1976 and 1998 Mr Hickling worked at SmithKline Beecham where he oversaw both in-house and partnered early stage neuroscience development projects Mr Hickling held a variety of positions at several pharmaceutical companies between 1998 and 2009 including Alizyme Therapeutics plc He was appointed to the Board of Alizyme Therapeutics as Research and Development Director in 2006 with responsibility for research and development strategy development, all research and development operations and staff

Mr Alexander (Sandy) Morrison
Non-Executive Director

Mr Morrison has a BSc (Hons) in applied chemistry (Strathclyde) and has over 20 years' experience in general and international management, global supply chain management and research and development He was Chief Executive Officer of Lipton Ltd the global tea sourcing organisation for Unilever with operations in six countries from, 2000 to 2006 During Mr Morrison's period as CEO, substantial operational and financial improvements were made to the Unilever global tea supply chain and he also played a significant part in addressing issues in the international tea trade In the immediate years prior to 2000, Mr Morrison had senior international food and beverage roles for Unilever outside the UK, in the supply chain and in research and development, both at the Rotterdam head office and in the Unilever food and beverage subsidiary in Australia

Dr Peter Blower
Non-Executive Director

Dr Blower has over 40 years' experience in medicinal research and development with a strong background in the field of neuroscience He joined Beecham Research Laboratories in 1969 and rose to the position of Director of New Neuroscience products at SmithKline Beecham in 1996 before leaving in 2000 to form his own consultancy company He has been elected to Fellowship of the Royal Society of Medicine and the Institute of Biology and has authored over seventy scientific publications He has a M I Biol from the Institute of Biology (1972), a PhD in pharmacology from the University of Aston (1977) and a DSc from the University of East London (1997)

Directors' report
for the year ended 30 September 2010

The Directors of Phytopharm plc ("Phytopharm") (registered in England and Wales 03131723) present their report together with the financial statements and auditors' report for the year ended 30 September 2010

The Corporate Governance Statement (on pages 29 to 33) forms part of the Directors' Report

Principal activities
Phytopharm is a development stage pharmaceutical company developing novel treatments targeting diseases with high levels of unmet need

Review of the business and future developments
The Group is required to set out in this Directors' Report a fair review of the business of the Group and a description of the principal risks and uncertainties facing the Group (known as a "Business Review") The Business Review is required to set out a balanced and comprehensive analysis of the development and performance of the Group's business during the year ended 30 September 2010 and of the position of the Group at the end of that financial year The information that fulfils the requirements of the Business Review, in addition to that set out below, can be found on pages 8 to 12

The Directors are satisfied with the progress made across the product portfolio and with the year end position

Key performance indicators
The principal key performance indicators ("KPI's") of the Group are the progress of the Group's development programmes through preclinical and clinical development, in particular its lead programme Cogane™, whilst tightly controlling its cost base While these KPI's demonstrate relevant factors by reference to which the development, performance and position of the Group can be measured effectively, it is the nature of Phytopharm's business and the biopharmaceutical industry in general, that these KPI's are not readily or meaningfully comparable on a year-on-year basis

Principal risks and uncertainties
The nature of pharmaceutical development is such that there are significant inherent risks due to the long and complex development process

Below are those principal risks and uncertainties that the Board considers could have a material impact on the Group's operational results, financial condition and prospects These risks are not in any particular order of priority and there may be other risks that are either currently unknown or not considered material which could have a similar impact on the Group's business in the future

The Board reviews each area of the business at least annually to identify material risks and the controls in place to manage these risks This comprehensive review is undertaken as part of the review of internal controls as set out on page 32

Industry risk
In common with other research and development stage businesses, Phytopharm's business risks relate principally to the success of its development programmes and to the need to fund its operations through these The progress of the development programmes therefore represents the best indicator of the Group's performance and a full review of the programmes is given in the Business Review on pages 8 to 12

Financial risk
The Group expects to continue to make losses until it is able to increase its revenues sufficiently Additional funds such as charitable income, collaboration deals and/or further financing may be required to allow further scope for product development The availability and timing of such additional external funds represent a material uncertainty, although the Group currently has sufficient funds to finance its operational activities for at least the next twelve months

Clinical and regulatory risk
Successful commercialisation of the Group's products is likely to depend on successful progress through clinical studies and registration Development of product candidates involves a lengthy and complex process, and products may not meet the necessary requirements in terms of toxicity, efficacy or safety, or the relevant regulators may not agree with the results of the Group's research and may require further testing or withhold approval altogether

Directors' report continued
for the year ended 30 September 2010

Principal risks and uncertainties continued
Competition risk
The Group's success depends on acceptance of the Group's products by the markets, including physicians and third party payers, and consequently the Group's progress may be adversely affected if it is unable to achieve market acceptance of its products Factors which may affect the rate and level of market acceptance of any of the Group's products include the existence or entry on to the market of superior competing products or therapies and the price of the Group's products compared to competing products

Intellectual property risk
The Group's success depends in part on its ability to obtain and maintain protection for its intellectual and proprietary information, so that it can stop others from making, using or selling its inventions or proprietary rights The Group's patent applications may not be granted and its existing patent rights may be successfully challenged and revoked

Counterparty risk
The Group relies on third party organisations to conduct its clinical trials and to manufacture its products If the relationship with, or performance of, any of these partners is adversely affected, the Group's results or operations may be adversely impacted

The Group also derives revenue or financial support from its collaborators and expects to derive additional support from partnering with certain charitable organisations If these relationships are adversely affected, or if the products involved fail to continue to make satisfactory progress the Group's results or operations may be adversely impacted

Post balance sheet events
See note 26

Results and dividends
The Group's results for the year ended 30 September 2010 are presented on page 37 The Group's net loss after taxation was £3,801 514 (2009 £3,910,688) The Group is not yet in a position to pay a dividend and the loss for the year has been added to the accumulated losses in reserves

Research and development activities
The Group continues to develop pharmaceutical products, as described in the Business Review

Directors
The Directors of the Company, all of whom have been Directors for the whole of the year and up to the date of signing the financial statements, except as noted below, are as follows

Executive Directors
Mr T Sharpington – Chief Executive Officer (appointed 6 July 2010)
Mr R I Hickling – Research and Development Director (appointed 15 January 2010)

Non-Executive Directors
Mr A H Taylor – Non-Executive Chairman
Mr A D Morrison – Acting Chief Executive Officer from 14 November 2008 until 6 July 2010
Dr P R Blower – Senior Independent Director

Biographical details of the Directors are shown on page 16

There were no contracts of significance with the Company or any of its subsidiaries existing during or at the end of the financial year in which a Director of the Company was materially interested

The interests of Directors in the shares and share options of the Company at 30 September 2010 are disclosed in the Remuneration Report of the Board of Directors on pages 23 to 28

Directors continued
Re-election
At the 2011 Annual General Meeting ("AGM"), in accordance with the Company's Articles of Association and the provisions of the UK Corporate Governance Code, Mr A H Taylor and Mr A D Morrison will retire Being eligible, and with the Board's recommendation, they will offer themselves for re-election Mr T Sharpington, being appointed to the Board during the year will offer himself for re-election

Mr A H Taylor, Dr P R Blower and Mr A D Morrison, as Non-Executive Directors, have letters of appointment which provides for three months' notice from either party

The service contracts of the Executive Directors and the letters of appointment for the Non-Executive Directors' are available for inspection at the registered office of the Company and will be available at the 2011 AGM as specified in the notice of meeting

In accordance with Section 992 of the Companies Act 2006, the Directors disclose that the rules regarding the appointment and replacement of Directors are contained in the Company's Articles of Association, which may be amended with shareholder approval in accordance with relevant legislation The powers of the Directors are contained in the Company's Articles of Association The Articles give the Directors powers, subject to relevant legislation, to authorise the issue and buy back of the Company s shares by the Company, subject to authority being given to the Directors by shareholders in general meeting No authority to buy back the Company's Ordinary Shares has been sought

Directors' interests
Details of the Directors' interests in the ordinary share capital of the Company, as required to be disclosed in accordance with the Disclosure and Transparency Rules, are given in the Remuneration Report During the financial year under review, as part of the Placing and Open offer approved by shareholders in December 2009, the Directors took up the following ordinary shares under their entitlement as follows

Mr A H Taylor	150,000 ordinary shares
Mr A D Morrison	150,000 ordinary shares
Dr P R Blower	75,000 ordinary shares

There were no other changes in the Directors' shareholdings between 30 September 2010 and the date of this report

Directors' and officers' liability insurance
The Group has in place for the whole of the year, and at the date of signing the financial statements, qualifying third party indemnity insurance for all Directors and officers

Structure of the Company's capital
The Company's share capital traded on the London Stock Exchange comprises a single class of ordinary shares of one pence each, each carrying one voting right and all ranking equally with each other At 30 September 2010, 346,677,433 shares were allotted and fully paid See note 24 for details of movements in the Company's share capital during the year

Details of employee share option schemes are set out in note 25 to the financial statements Participants in employee share option schemes have no voting or other rights in respect of the shares subject to their awards until the options are exercised, at which time the shares rank pari passu in all respects with shares already in issue

There are no restrictions on the transfer of securities in the Group

Authority to issue shares
Each year at the AGM, the Directors seek authority to allot shares The authority, when granted, lasts until 30 March 2011 or until the conclusion of the next AGM if sooner At the last AGM held on 30 March 2010, shareholders authorised the Directors to allot relevant securities up to an aggregate nominal value of £1,155,591 44 representing one-third of the issued share capital and to further allot equity securities up to a nominal value of £346,677 43 (being 10 per cent of the issued share capital) At the 2011 AGM similar authorities will be sought from shareholders

Directors' report continued
for the year ended 30 September 2010

Substantial shareholdings
At 21 December 2010 the Directors are aware of the following holdings representing 3%, or more of the voting rights of the issued share capital of the Company in accordance with the Disclosure and Transparency Rules of the Financial Services Authority ("FSA")

Name of shareholder having a material interest	% holding
Invesco Perpetual Group	56 40
Gartmore Investment Limited	7 31

The shares held by Invesco Perpetual Group ("Invesco") are held in Invesco's capacity as an institutional investor and an investment channel for others and not on their own behalf A significant number of the shares are held by open ended investment companies together with other shares held in investment portfolios managed by Invesco as nominee/bare trustee

On 3 December 2009, Invesco and the Company entered into a relationship agreement under which Invesco has undertaken to ensure that whilst it holds an interest in the shares of the Company in excess of 30 per cent it will exercise its voting rights insofar that it is able to do so that

(a) The Company is capable of carrying on its business independently of Invesco,

(b) All transactions, agreements and arrangements with any member of the Group and Invesco are conducted on an arm's length basis, and

(c) Any dealing or dispute between Invesco and any member of the Group is dealt with by a committee comprising only of independent Directors

Purchase of own shares
Purchases in shares of Phytopharm plc relate to the Phytopharm Share Incentive Plan whereby the Company issued one "Matching Share" for every one "Partnership Share" purchased by the employee All shares are held by the scheme Trustees until the shares vest unconditionally with the employee

During the year ended 30 September 2010, the Group purchased 39,296 ordinary shares of one pence (2009 52,330) at a total cost of £3,885 (2009 £3,361)

Significant agreements
The Group is not party to any significant agreement which would take effect, alter or terminate upon a change of control of the Company The Group has licences granted to it from Shanghai Jiao Tong University (formerly Shanghai Second Medical University) and the Beijing Institute of Radiation Medicine In addition, the Group has entered into a cooperation agreement with the CSIR in South Africa

Payment of creditors
The Company does not follow a specific payment code but has a policy to pay its suppliers in accordance with the specific terms agreed with each supplier The number of days' purchases outstanding at 30 September 2010 for the Company was 44 days (2009 25 days)

Charitable and political donations
The Group made no charitable donations during the year (2009 £nil) and no political donations during the year (2009 £nil)

Corporate social responsibility
The Board recognises the importance of social, ethical and environmental matters and it endeavours to take into account the interests of the Group's stakeholders, including its investors, employees and suppliers, when operating the business

Corporate social responsibility continued
Social
The Group places considerable value on attracting and retaining its employees and seeks to keep them informed on the Group's business strategy and objectives to assist them in working towards these goals This is achieved through formal and informal meetings where employees have the opportunity to ask questions as well as receive information

Employee training and development requirements are assessed as part of the performance appraisal process Additional training is undertaken as required to provide staff with continuous professional development

The Group is committed to health and safety and has well developed health and safety policies and procedures to safeguard all of its employees, partners, contractors and visitors The Board is aware of its legal and moral obligations for health and safety at work and is committed to preventing accidents and minimising occupational ill health

The Group operates an equal opportunities policy Full consideration is given to all job applicants, irrespective of gender age, marital status, disability, sexual orientation, race, colour, religion, political belief, ethnic or national origin or any other conditions not relevant to the performance of the role who can demonstrate that they have the necessary skills and abilities

The Board of Directors is committed to continuing communication and involvement with all the Group's employees

Ethical
The Group operates within a strict regulatory environment in the pharmaceutical industry and conducts its clinical development activities in accordance with internationally recognised regulatory and quality standards A code of business conduct and ethics is in place to promote fair, honest and ethical conduct by all employees in their relationships with stakeholders

The Group endeavours to appoint employees with appropriate skills, experience and knowledge for the roles they undertake The Group has a range of polices which are aimed at retaining and incentivising key staff Employees have clear objectives based on the Group's business objectives

Environment
The Group recognises that protecting the environment is a primary corporate responsibility and that environmental matters are not just the responsibility of the Board of Directors, but also an area in which each employee, sub-contractor and supplier has a contribution to make

The Group therefore encourages all employees, partners and contractors to operate in an environmentally responsible manner Where appropriate these requirements have been incorporated into the Group's standard operating procedures and the environmental performance of contractors is reviewed as part of the audit process It is the Group's policy to undertake reasonable measures to assess the environmental impact of its operations, processes and products Waste is minimised with paper and packaging recycled and confidential waste is shredded and recycled Where possible other materials, including glass and plastics, are recycled The Group aims to continuously improve environmental performance and compliance within these areas

Financial risk management
The Group's policies in relation to financial risk management in respect of financial instruments are detailed in note 22 to the financial statements

Annual General Meeting
The notice convening and giving details of the 2011 AGM of the Company will be mailed to shareholders

Corporate governance
The Company's statement on corporate governance can be found in the Corporate Governance Report on pages 29 to 33 of these financial statements The Corporate Governance Report forms part of this Directors' Report and is incorporated into it by cross-reference

Directors' report continued
for the year ended 30 September 2010

Audit information
In the case of each of the persons who are Directors of the Company at the date when this report is approved

- so far as each of the Directors is aware, there is no relevant audit information (as defined in the Companies Act 2006) of which the Company's auditors are unaware, and
- each of the Directors has taken all steps that he ought to have taken as a Director to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information

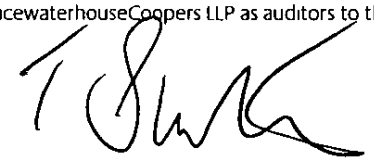
This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006

Going concern
As at 30 September 2010, the Group had cash resources (being cash and cash equivalents and money market investments) of £23,608,171

After making enquiries and taking into account of management's estimate of future expenditure the Directors have a reasonable expectation that the Group will have adequate financial resources to continue in operation for the foreseeable future

Independent auditors
A resolution to reappoint PricewaterhouseCoopers LLP as auditors to the Company will be proposed at the next AGM

Mr T Sharpington
Chief Executive Officer
21 December 2010



Remuneration report

This report complies with the UK Corporate Governance Code (formerly 'Combined Code (2008)') and sets out the Group's remuneration policy and details of Directors' remuneration A resolution to approve this report will be proposed to shareholders at the AGM in 2011

The regulations require the auditors to report to the Company's members on certain parts of the Directors' Remuneration Report and to state whether in their opinion those parts of the report have been properly prepared in accordance with the Companies Act (as amended by the Regulations) The report has therefore been divided into separate sections for audited and unaudited information

Unaudited information
Remuneration Committee
The Remuneration Committee ("the Committee") is comprised exclusively of independent Non-Executive Directors The Directors who have served on the Remuneration Committee during the year are as follows

Dr P R Blower (Chairman)
Mr A H Taylor

Mr A D Morrison temporarily stepped down as a member of the Remuneration Committee on 14 November 2008 whilst Acting Chief Executive Officer and returned to serve as a member of the Remuneration Committee with effect from 6 July 2010

The Remuneration Committee decides the remuneration policy that applies to Executive Directors and all of the Group's employees including other senior management This comprises the setting of salaries for the Executive Directors, the setting of salary scales for other employees, approving the format and range of all performance related arrangements (both annual and long term equity incentive arrangements) and determining the extent to which the elements of variable pay vest In determining remuneration, consideration will be given to reward levels throughout the organisation as well as in the external employment market The Remuneration Committee aims to reward all employees fairly based on their role, their performance and salary levels in the wider market

The Executive Directors are invited to attend the Remuneration Committee meetings to make recommendations on compensation levels for employees

During the year ended 30 September 2010, the Remuneration Committee met four times and there was full attendance at each meeting

Remuneration of Non-Executive Directors
The Non-Executive Directors each receive a fee for their services, which is agreed by the Board following recommendation by the Committee in respect of the Chairman and by the Chairman in respect of the other Non-Executive Directors with the assistance of independent information regarding the level of fees within the sector, where necessary, concerning comparable organisations and appointments

Neither the Chairman nor the other Non-Executive Directors receive any pension or other benefits from the Group

Remuneration policy for Executive Directors
The Group's remuneration policy for Executive Directors is to

- have regard to the Directors' experience and the nature and complexity of their work, and regard to Directors' remuneration in comparable companies, in order to pay a competitive salary, including a performance related cash bonus that attracts and retains management of the highest quality,
- link individual remuneration packages to the Group's long-term performance through the award of share options via the Phytopharm Share Option Plan 2007 and the Phytopharm Long Term Incentive Plan 2007, and
- provide post retirement benefits through the Group's pension schemes

Consistent with the above policy, compensation awarded to Executive Directors comprises four main performance and non-performance related elements

- basic salary and bonuses,
- benefits,
- share options and performance share awards (awarded by reference to annual performance), and
- pension arrangements

Remuneration report continued

Unaudited information continued
Remuneration policy for Executive Directors continued
During the year under review Mr A D Morrison continued as Acting Chief Executive Officer until 6 July 2010 and his remuneration during this period comprised a basic salary payable according to the number of days he had been acting in his capacity as Acting Chief Executive Officer

Basic salary
The Committee sets the annual salaries for Executive Directors, having regard to personal performance and responsibilities of each Director and their expected future contribution

Performance related bonuses
The Group may make bonus payments depending upon the overall performance of the Company

Incentive schemes
The Group operates incentive schemes to assist in attracting and retaining high calibre employees and to focus the performance of key management on creating long-term shareholder value The awards to individuals are linked to the performance targets of the Group and the individual The Group's targets and those for Executive Directors are approved by the Board

Share option schemes
The total number of unissued Ordinary Shares in the capital of the Company which may be placed under option on any day under the Phytopharm share option schemes may not exceed, when added to the aggregate number of shares that have been or may be issued pursuant to rights granted for the past ten years, 10 per cent of the issued ordinary share capital of the Company immediately prior to that day

Share options are granted under the Phytopharm Share Option Plan 2007 and the Phytopharm Save As You Earn Plan 2007, which are open to all employees The Phytopharm Share Option Plan 2007 complies with the tax favoured Enterprise Management Incentive Legislation Where possible the Company will grant tax advantaged options The Remuneration Committee determines the level of awards To provide maximum flexibility, the Committee has discretion to make awards up to an annual 400% of salary individual limit although the Committee would only envisage making an award at such a level in very exceptional circumstances Performance share awards will normally vest three years after the date of grant subject to continued employment and the extent to which a performance target has been satisfied

The vesting of a share option under the above schemes will depend on total shareholder return ("TSR") performance conditions being met The Company's TSR will be compared to that of the companies making up the FTSE SmallCap index at or within three months of the vesting date No option or award can be exercised for below median performance

The Committee considers TSR to be the most appropriate method of measuring performance at this stage of the Group's development where income streams have not stabilised and the Group has not yet made a profit The Committee seeks independent verification of the TSR conditions before confirming that a share option has vested

The Phytopharm Save As You Earn Plan 2007 is an HMRC approved scheme and the first offer was made to employees and Executive Directors on 13 August 2007 and vests on 30 September 2010 Details of the Executive Directors' interests in this plan are specified in the table on page 28

During 2010, shareholders approved the 2010 Directors' Reward Plan to enable the Group to recognise the input of the Non-Executive Directors to the success of the Group in the previous twelve months Options granted under the plan will vest at the end of three years and no performance conditions will apply As a condition of exercise, Directors will be required to enter into an agreement under which they agree not to dispose of any shares acquired on exercise for a period of at least one year from the date of exercise

Long-term incentives
The Group operates the Phytopharm Long Term Incentive Plan 2007 under which performance share awards can be made to selected senior managers of the Group and its subsidiaries The Committee determines the level of awards to provide maximum flexibility The Committee has discretion to make awards up to an annual 400% of salary individual limit although the Committee would only envisage making an award at such a level in very exceptional circumstances Performance share awards will normally vest three years after the date of grant subject to continued employment and the extent to which a performance target has been satisfied

The Committee's policy is that the same TSR performance condition as described above for share options will apply to the vesting of performance share awards This is for the same reasons as given above The relevant distinction is that the grant of share options depends on annual performance whereas it is envisaged that performance share awards will be granted each period in order to ensure that there is a continual and material long term incentive element to the Executive Directors' remuneration packages

Unaudited information continued

Remuneration policy for Executive Directors continued

Share purchase scheme

The Group also operates an HMRC approved Share Incentive Plan which is open to all employees who may purchase Partnership shares up to the value of £125 each month and are awarded one Matching Share for each Partnership Share purchased The shares are held in trust for a minimum of three years and are not subject to performance criteria Details of the Executive Directors' interests in this plan are specified in the table on page 28

Pensions

The Executive Directors have money purchase pension schemes to which the Group contributed 12 5% of basic salary

Fees retained for non-executive directorships in other companies

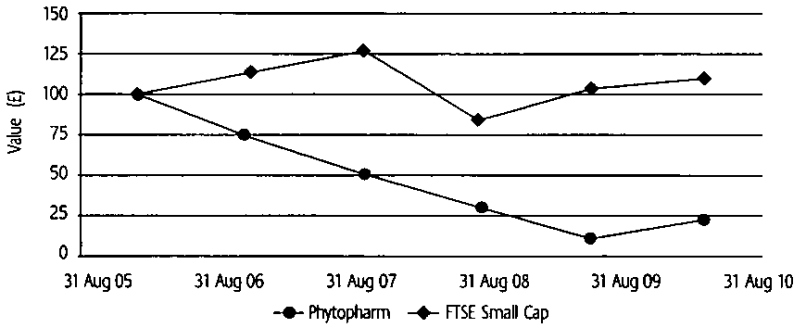
The Committee recognises that Executive Directors may be invited to take up non-executive directorships and that these can broaden the experience and knowledge of the Director, from which the Group would benefit Accordingly, subject to Board approval, they may accept non-executive appointments, as long as they are not likely to lead to a conflict of interest They are also allowed to retain any fees paid under such appointments Mr T Sharpington serves as a non-executive director of Clinical Force Limited for which he does not receive a fee

Performance graph

The following shows the Company's performance, measured by TSR compared with the performance of the FTSE SmallCap Index also measured by TSR TSR looks at the value at 30 September 2010 of £100 invested in the Company on 1 September 2005 compared with the value of £100 invested in the FTSE SmallCap Index over the same period This index has been selected for this comparison because, in the opinion of the Directors, it is the most appropriate index against which the total shareholder return of the Company should be measured

Total Shareholder Return

Source Thomson Reuters



The graph looks at the value, by 30 September 2010, of £100 invested in Phytopharm on 31 August 2005 compared with the value of £100 invested in the FTSE SmallCap Index The other points plotted are the values at intervening financial year ends

Executive Directors' contracts

It is the Group's policy that Executive Directors have contracts with an indefinite term but which provide for a maximum period of six months' notice to be served by the Company or by the Director

The appointment of Mr A D Morrison as Acting Chief Executive Officer was made on 14 November 2008 This appointment was made on a consultancy basis and provides for a maximum of one month's notice to be served by the Company or by Mr A D Morrison Following the appointment of the Chief Executive Officer Mr A D Morrison has returned to his position as Non-Executive Director

Remuneration report continued

Unaudited information continued
Non-Executive Directors' letters of appointment
The terms of service for Non-Executive Directors are specified in letters of appointment Currently appointments are for a period of twelve months, which may be renewed, and are summarised in the table below

	Date of appointment	Notice period
Mr A H Taylor	1 July 2010	3 months
Mr A D Morrison	1 June 2010	3 months
Dr P R Blower	31 July 2010	3 months

In addition, one third of all Directors are required under the Articles of Association to resign and offer themselves for re-election at each annual general meeting

Directors' interests in shares
The interests of the Directors in the shares of the Company at 30 September 2010 and 30 September 2009, or at the date of appointment if later, were

	Ordinary shares of 1 pence	
	2010	2009
Mr T Sharpington	—	—
Mr R I Hickling	—	—
Mr A H Taylor	**330,043**	180,043
Mr A D Morrison	**246,544**	96,544
Dr P R Blower	**193,682**	118,682

All Directors' interests are beneficially held

Apart from the interests disclosed above, no Directors had any interest in the year in the share capital of the Company or other Group companies There have been no changes in the Directors' interests in the share capital of the Group since the year end

Audited information
Directors' detailed emoluments and compensation
Details of individual Directors' emoluments for the year are as follows

	2010					2009	
	Salary and fees £	Performance related bonus £	Monetary value of benefits £	Total excluding pensions £	Pension contributions £	Total excluding pensions £	Pension contributions £
Executive							
Mr T Sharpington (i)	**43,266**	**—**	**—**	**43,266**	**5,089**	—	—
Mr R I Hickling (ii)	**81,846**	**—**	**—**	**81,846**	**7,408**	—	—
Mr A D Morrison (iii)	**116,000**	**10,000**	**2,031**	**128,031**	**—**	103,896	—
Dr D D Rees (iv)	**—**	**—**	**—**	**—**	**—**	25,081	3,669
Mr P J Morgan (v)	**—**	**—**	**—**	**—**	**—**	18,164	2,703
	241,112	**10,000**	**2,031**	**253,143**	**12,497**	147,141	6,372
Non-Executive							
Mr A H Taylor	**38,906**	**—**	**—**	**38,906**	**—**	37,500	—
Mr A D Morrison	**28,531**	**—**	**—**	**28,531**	**—**	27,748	—
Dr P R Blower	**28,531**	**—**	**494**	**29,025**	**—**	28,107	—
	95,968	**—**	**494**	**96,462**	**—**	93,355	—
Total	**337,080**	**10,000**	**2,525**	**349,605**	**12,497**	240,496	6,372

(i) From 6 July 2010

(ii) From 15 January 2010

(iii) To 6 July 2010

(iv) From 1 October 2008 to 12 November 2008

(v) From 1 October 2008 to 12 November 2008

No Directors waived emoluments in the financial year ended 30 September 2010 (2009 £nil)

There were no gains made by individual Directors from the exercise of share options for the year ended 30 September 2010 (2009 £nil)

Details of the individual Directors' emoluments for the year ended 30 September 2009 have been adjusted by £33,000 to reflect the Remuneration Committee's decision not to award any bonus payments in respect of the year ended 30 September 2008

On 12 November 2008 the Company received notices of resignation as Directors of the Company with immediate effect and their subsequent termination of employment from Dr D D Rees and Mr P J Morgan Subsequently Dr D D Rees and Mr P J Morgan were awarded payments in respect of their contractual notice periods and certain post termination payments The cost to the Group for Dr D D Rees was £135,985 and Mr P J Morgan was £169,613 Neither of these amounts are included in the table presented above

The Executive Directors may receive certain benefits in kind The benefits provided to Dr D D Rees were the provision of a fully expensed company car, life insurance and private medical insurance The benefits provided to Mr P J Morgan were the provision of a car allowance and life assurance The benefit provided to Mr A D Morrison is the reimbursement of travel costs from home to work

Remuneration report continued

Audited information continued
Directors' interest in share options
Details of options over shares of the Company held by Directors, all of which have been granted at no cost to the Directors, are set out below

	Number of options						
	At 1 October 2009	Granted during the year	**At 30 September 2010**	Note*	Exercise price	Date from which exercisable	Expiry date
Mr T Sharpington	—	3,466 774	**3,466,774**	1	£0 0763	20 July 2013	20 July 2020
	—	3,466,774	**3,466,774**				
Mr R I Hickling	—	1,733,387	**1,733,387**	1	£0 0763	20 July 2013	20 July 2020
	—	1,733,387	**1,733,387**				
Mr A H Taylor	—	350,000	**350,000**	3	£0 1125	30 March 2013	30 March 2018
Mr A D Monson	—	256,667	**256,667**	3	£0 1125	30 March 2013	30 March 2018
Dr P R Blower	—	256,667	**256,667**	3	£0 1125	30 March 2013	30 March 2018
Total	—	6,063,495	**6,063,495**				

* Further details of the terms of the share option schemes are contained in note 25 to the financial statements under the note reference in the above table

Directors' interests in long term incentive plans
There are no awards in issue under the long term incentive plan

The market price of the Company's shares at the end of the financial year was 8 43 pence (2009 5 13 pence) and the range of market prices during the year was between 26 75 pence and 5 pence

Approval
This report was approved by the Board of Directors and signed on its behalf by

Dr P R Blower
Chairman of the Remuneration Committee
21 December 2010

Corporate governance

The UK Corporate Governance Code
The Directors are accountable to shareholders for the good corporate governance of the Group and seek to uphold and report on compliance with current best practice in corporate governance

See page 34 for the Statement of Directors' Responsibilities in respect of the Annual Report, the Directors' Remuneration Report and the financial statements

Compliance statement
The Directors are satisfied that, unless disclosed otherwise within this report, the Group has complied throughout the year with the best practice provisions set out in section 1 of the UK Corporate Governance Code in effect for the financial year to 30 September 2010 This report together with the Remuneration Report sets out the manner in which the Group has applied the main principles contained in the UK Corporate Governance Code A copy of the UK Corporate Governance Code is available at the FRC's website www frc org

The principles set out in the UK Corporate Governance Code cover four areas the Board, Directors' remuneration, accountability and audit and relations with shareholders With the exception of Directors' remuneration (which is dealt with separately in the Remuneration Report) the following section sets out how the Board has applied such principles

Board
The Board is chaired by Mr A H Taylor and met for regular business seven times during the year under review All meetings were attended by all the Directors appointed at the time of the meeting In addition, further meetings are held when circumstances and urgent business dictate

The Board has agreed a schedule of items that are specifically reserved for its consideration, which is reviewed on an annual basis This schedule includes business strategy, financing arrangements, material acquisitions and divestments, approval of budgets, major capital expenditure projects, risk management, treasury policies, and establishing and monitoring internal controls The Board is responsible for the overall direction and strategy of the Group and for securing the optimum performance from Group assets At each meeting, the Board reviews strategy and progress of the Group towards its objectives, particularly in respect of research and development projects, and monitors financial progress against budget

The Group's policy is that the Board of Directors would normally consist of two Executive and three independent Non-Executive Directors Dr P R Blower is the Senior Non-Executive Director At the 2010 AGM shareholders approved the 2010 Directors' Reward Plan together with the grant of share options to Mr A H Taylor, Mr A D Morrison and Dr P R Blower The grant of options to the Non-Executive Directors of the Company reflected their input to the success of the Company during 2009 and the Board considers that due to the one off nature of the option grant together with no performance conditions being attached to the options, there is no impact on the independence of the Non-Executive Directors The value of the options granted was equal to their 2010 annual Director's fee

Biographies of the Directors are set out on page 16 Details of the Directors' shareholdings are shown on page 26

All Directors are required to retire and submit themselves for re-election at the first AGM after appointment and, thereafter, at least every three years Subject to their re-election and Companies Act provisions, the Non-Executive Directors are appointed for specified terms See page 26

There is clear separation of the roles of Chairman and Chief Executive Officer on terms which have been agreed and set out in writing by the Board and which are reviewed on an annual basis The Chairman is responsible for overseeing the running of the Board, encouraging all Directors to participate fully in discussions with the aim of reaching a consensus and ensuring that the Non-Executive Directors are properly briefed on matters The Chief Executive Officer has responsibility for implementing the Board's strategy and managing day to day business activities of the Group with the Executive Directors and senior managers The Company Secretary, through the Chairman, is responsible for advising the Board on all governance matters

The Board has agreed procedures to allow individual Directors to seek independent professional advice at the Company's expense for the furtherance of their duties and all Directors have access to the services of the Company Secretary The Company Secretary is accountable to the Board through the Chairman on governance matters It is the responsibility of the Company Secretary to ensure that Board procedures are followed and all rules and regulations are complied with Newly appointed Directors receive a comprehensive, formal and tailored introduction to the Group's business as well as information on their responsibilities and roles as a Director of the Company

Corporate governance continued

Board performance and appraisal
The Board is mindful of the requirement to undertake annual evaluation of its performance and that of its committees and individual Directors All Directors have conducted a self assessment of the performance of the Board during the year by reference to an evaluation checklist provided by the Group's external auditors The results were compiled and analysed by the Company Secretary Areas for improvement identified by the assessment will be addressed accordingly

Board Committees
In accordance with best practice, the Company has established Audit, Remuneration and Nominations Committees with written terms of reference for each that deal with their authorities and duties The full terms of reference of all the Committees have been published on the Company's website

Audit Committee
The Audit Committee comprises the independent Non-Executive Directors, Dr P R Blower and Mr A H Taylor, who the Board considers has recent and relevant financial experience and is chaired by Dr P R Blower The Audit Committee met two times during the year under review, with the Group's external auditors and Executive Directors attending where appropriate All meetings were fully attended During the year ended 30 September 2009, Mr A D Morrison temporarily stepped down as a member of the Audit Committee whilst fulfilling the role of Acting Chief Executive Officer until 6 July 2010 Mr A D Morrison has now returned to his role as a Non-Executive Director and it is intended that he will revert to a member of the Audit Committee following the publication of the 2010 Annual Report

During the year, the Audit Committee did not consist of at least two independent Non-Executive Directors other than the Non-Executive Chairman as required under Section C 3 1 of the UK Corporate Governance Code

The Audit Committee assists the Board in ensuring that the Group's published financial statements give a true and fair view and in securing reliable internal financial information for decision making The Audit Committee reviews the findings of the external auditors and reviews key accounting policies and judgements The Audit Committee is also responsible for monitoring the effectiveness of the external audit process and the independence of the external auditors, recommending audit fee proposals to the Board and considering the scale and nature of non-audit work Non-audit services provided by the external auditors are discussed to ensure the Audit Committee is satisfied regarding the objectivity and independence of the external audit, including any relevant safeguards Any material non-audit fees are approved by the Audit Committee before being committed

The Audit Committee assesses annually the qualification, expertise and resources, and independence of the external auditors and the effectiveness of the audit process The assessment covers all aspects of the audit service provided by the audit firm

The Audit Committee reviews the Group's Protected Disclosure ("Whistleblowing") policy and procedure on an annual basis to ensure that adequate arrangements are in place by which members of staff may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other areas The Audit Committee considers that appropriate arrangements are in place for the proportionate and independent investigation of such matters and for appropriate follow up action

The Audit Committee conducted a self-assessment of its performance during the year by reference to an evaluation checklist provided by the Group's external auditors The results were compiled and analysed by the Company Secretary Areas for improvement identified by the assessment will be addressed accordingly

The terms of reference of the Audit Committee include the following responsibilities

- to monitor the integrity of the Group's financial statements,
- to review annually the need for an internal audit function,
- to review the effectiveness of the Group's internal control and risk management systems, and
- to consider and make recommendations to the Board regarding the appointment of the Group's external auditors

Remuneration Committee
The Remuneration Committee comprises the independent Non-Executive Directors Dr P R Blower and Mr A H Taylor and is chaired by Dr P R Blower The Remuneration Committee met four times during the year under review All meetings were attended by all members During the year ended 30 September 2009, Mr A D Morrison temporarily stepped down as a member of the Remuneration Committee whilst fulfilling the role of Acting Chief Executive Officer until 6 July 2010 Mr A D Morrison has now returned to his role as a Non-Executive Director and member of the Remuneration Committee

Board Committees continued
Remuneration Committee continued
The Remuneration Committee is responsible for making recommendations to the Board on remuneration policy for all members of staff and Executive Directors The policy recommendations include setting salary scales, and approving the format and range of incentive payments and share option grants to all staff Remuneration of Non-Executive Directors is under the control of the Chairman and the executive members of the Board

The Remuneration Committee conducted a self-assessment of its performance during the year by reference to an evaluation checklist provided by the Group's external auditors The results were compiled and analysed by the Company Secretary Areas for improvement identified by the assessment will be addressed accordingly

The terms of reference of the Remuneration Committee include the following responsibilities

- to determine and agree with the Board the framework and policy for the remuneration of the Executive Directors and other members of the Executive Team,
- to determine targets for any performance related pay scheme,
- to approve overall remuneration structure, and
- to review employee benefit structures

The Remuneration Report, which includes details of the Group's remuneration policy, is set out on pages 23 to 28

Nomination Committee
The Nomination Committee comprises Dr P R Blower and Mr A H Taylor and is chaired by Dr P R Blower The Nomination Committee met twice during the year under review and the meeting was attended by all members During the year ended 30 September 2009, Mr A D Morrison temporarily stepped down as a member of the Nomination Committee whilst fulfilling the role of Acting Chief Executive Officer until 6 July 2010 Mr A D Morrison has now returned to his role as a Non-Executive Director and member of the Nomination Committee

The Nomination Committee is responsible to the Board for determining the qualities and experience required of the Company's Executive and Non-Executive Directors and for identifying suitable candidates In appropriate cases, recruitment consultants assist in the process The Nomination Committee is also responsible for succession planning

The terms of reference of the Nomination Committee include the following responsibilities

- to identify and nominate candidates to fill Board positions as they arise,
- to prepare a description of the role and capabilities required for a particular appointment, and
- to give full consideration to succession planning

Shareholder relations
The Group is committed to maintaining good relations with its institutional and private shareholders and reports formally to shareholders four times a year through the provision of interim results (around April) and annual results (around November) and as required under the Disclosure and Transparency Rules releases interim management statements around February and August In addition, the Group keeps shareholders informed of significant events for the Group during the year by issuing press releases which are immediately made available on the Group's website (www phytopharm com) The Group's website also provides an overview of the business including its strategy, products and objectives

The Group also maintains communication by making presentations during the year to institutional shareholders on request and to all shareholders through the Group's website This contains information on all of the Group's products and all financial reports and press releases issued by the Group Details of the current share price and historic share price performance are also included

The Board is kept up to date at its regular meetings with the views of shareholders and analysts by the Chairman and Chief Executive Officer

Corporate governance continued

Annual General Meeting
The principal forum for discussion with shareholders is the AGM and their participation is encouraged The Group endeavours to provide formal notification together with an explanation of each proposed resolution and to send these to shareholders at least twenty working days in advance of the meeting

At the AGM the Board provides a summary of the year's events after which all the Directors are available to answer questions from shareholders

In accordance with the UK Corporate Governance Code recommendations, the Company counts all proxy votes On each resolution which is voted on a show of hands, the Company indicates the level of proxies lodged, the number of proxy votes for and against each resolution and the number of abstentions The Chairs of the Audit, Remuneration and Nomination Committees attend to answer questions

Announcements
All major announcements are approved by the Board prior to issue The Group also has internal procedures to guard against unauthorised release of information

Internal control
The Board acknowledges that it is responsible for the Group's system of internal control and reviews its effectiveness at least annually and the Board confirms that this process has been in place up to the date of the approval of the financial statements However, the Board acknowledges that such a system can only provide reasonable and not absolute assurance against material misstatement or loss, as it is designed to manage rather than eliminate the risk of failure to achieve business objectives

The key procedures that the Board has established are designed to provide effective internal controls within the Group and comply with the Internal Control Guidance for Directors on the UK Corporate Governance Code (Turnbull Guidance 2005) issued by the Financial Reporting Council There is an ongoing process for identifying, evaluating and managing significant risks faced by the Group and the effectiveness of all the Group's internal controls in effect during the year has been reviewed by the Board This process has been in place throughout the year under review The Board confirms that the necessary steps have been taken to rectify any significant failings or weaknesses identified through this process

The Group has a quality assurance function, but it does not have a formal internal audit function which is considered appropriate by the Audit Committee given the size of the Group The Executive Directors' active involvement in the activities of the Group allows the Board to continually monitor and assess significant business, operational, financial, compliance and other risks and to review the effectiveness of internal control The Executive Directors provide regular management reports covering inter alia research and development activities, shareholder relations, financial management and commercial activities

The Group's key internal control procedures include the following

Control environment
The Group's control environment is the responsibility of the Group's Directors and managers at all levels The Group's organisational structure has clear lines of reporting and responsibility Regular research and development programme reviews are held to review progress against plans for each programme The information from these meetings is reported on a regular basis to a management group comprising the Executive Directors and key senior managers to compare progress against plans for the business as a whole Overall control of the business rests with the Board of Directors

Risk identification and evaluation
Regular assessments of ongoing risks facing the business are undertaken as part of the operational reviews and regular management group meetings in the key areas such as management of working capital, compliance, legal and operational issues

Operational controls
Quality
Investigational medicinal products are manufactured on behalf of Phytopharm and are produced in accordance with Good Manufacturing Practice ("GMP") to ensure that the products are manufactured consistently to the appropriate quality standards

Non-clinical studies
Key non-clinical studies to determine the safety and efficacy of new products are conducted in accordance with Good Laboratory Practice ("GLP") at contractors who operate under those regulations Each contractor is audited to assess compliance with GLP prior to initiation of studies

Internal control continued
Operational controls continued
Clinical studies
All clinical studies carried out by the Group are in accordance with Good Clinical Practice ("GCP") This ensures that the health and well being of the subjects is carefully monitored during the study and that the data gathered is complete and reliable All studies are audited for compliance under the management of Phytopharm's quality assurance group

Financial controls
Financial reporting and consolidation
Budgets and long term forecasts are normally prepared twice a year to allow management to monitor the key business and financial risks Further, more frequent, forecasts are prepared if circumstances require The budgets are reviewed and approved by the Board prior to adoption by the Group Consolidated management accounts are prepared on a monthly basis and performance against budget is analysed in detail and reported on monthly and reviewed regularly by the Board

The integrity of the Group's public financial reporting process is supported by a number of processes and steps to provide assurance over the completeness and accuracy of the content, including

- review by Executive Directors,
- review and recommendation by the Audit Committee, and
- review and approval by the Board

Control procedures
The Group has established detailed policies, and accounting and administrative procedures are in place covering all significant areas and key systems These include formal authorisation procedures for the transfer of funds, capital expenditure and recruitment Any commitment of expenditure requires documentary approval which is subject to prescribed limits of authority Any major expenditure or commitment including the appointment of senior members of staff requires Board approval

Compliance
The Group has established policies and standard operating procedures ("SOP's") that provide instruction on all aspects of the operation of the business These SOPs are designed to ensure compliance with the quality management requirements of the Group and external regulations where appropriate All SOPs are reviewed on a regular basis and updated where necessary

Insurance
The Group has reviewed its portfolio of insurance policies with its insurance broker to ensure that the policies are appropriate to the Group's activities

Takeover directive
Disclosures relating to the Takeover Directive are included in the Directors' Report on pages 17 to 22

On behalf of the Board

Mr A H Taylor
Non-Executive Chairman
21 December 2010

Statement of Directors' responsibilities

The Directors are responsible for preparing the Annual Report, the Directors' Remuneration Report and the financial statements in accordance with applicable law and regulations

Company law requires the Directors to prepare financial statements for each financial year Under that law the Directors have elected to prepare the Group and parent company financial statements in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union ("EU") Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Group for that period In preparing these financial statements, the Directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and accounting estimates that are reasonable and prudent, and
- state whether applicable IFRSs as adopted by the EU have been followed, subject to any material departures disclosed and explained in the financial statements

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the financial statements and the Directors' Remuneration Report comply with the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

The Directors are responsible for the maintenance and integrity of the Company's website Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions

Each of the Directors, whose names and functions are listed in the Board of Directors on page 16, confirm that, to the best of their knowledge

- the Group financial statements, which have been prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and loss of the Group, and
- the information contained in the Directors' Report and the Business Review includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that it faces

On behalf of the Board

Mrs Z McGowan
Company Secretary
21 December 2010

Independent auditors' report
to the members of Phytopharm plc

We have audited the financial statements of Phytopharm plc for the year ended 30 September 2010 which comprise the Consolidated Statement of Comprehensive Income, the Consolidated and Company Balance Sheets, the Consolidated and Company Statements of Changes in Equity, the Consolidated and Company Cash Flow Statements and the related notes The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards ("IFRSs") as adopted by the EU and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006

Respective responsibilities of directors and auditors
As explained more fully in the Statement of Directors' Responsibilities set out on page 34, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing

Scope of the audit of the financial statements
An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error This includes an assessment of whether the accounting policies are appropriate to the Group's and the parent Company s circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the Directors, and the overall presentation of the financial statements

Opinion on financial statements
In our opinion

- the financial statements give a true and fair view of the state of the Group's and of the parent company's affairs as at 30 September 2010 and of the Group's loss and Group's and parent company's cash flows for the year then ended,
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the EU,
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006, and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation

Opinion on other matters prescribed by the Companies Act 2006
In our opinion

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006, and
- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements

Independent auditors' report continued
to the members of Phytopharm plc

Matters on which we are required to report by exception
We have nothing to report in respect of the following

Under the Companies Act 2006 we are required to report to you if, in our opinion

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us, or
- the parent company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns, or
- certain disclosures of Directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit, or
- a corporate governance statement has not been prepared by the parent Company

Under the Listing Rules we are required to review

- the Directors' Statement, set out on page 22, in relation to going concern, and
- the parts of the Corporate Governance Statement relating to the Company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review

Simon Ormiston (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Cambridge
21 December 2010

Consolidated statement of comprehensive income
for the year ended 30 September 2010

	Note	2010 £	2009 £
Revenue	2	**696,854**	867,426
Cost of sales		**(87,447)**	(186,761)
Gross profit		**609,407**	680,665
Other income	2	**17,120**	245,196
Operating expenses	3	**(5,129,037)**	(5,306,748)
Before exceptional items		**(5,129,037)**	(4,900,531)
Exceptional items	4	**—**	(406,217)
Operating loss		**(4,502,510)**	(4,380,887)
Finance income	7	**289,825**	176,034
Loss before taxation	8	**(4,212,685)**	(4,204,853)
Taxation	9	**411,171**	294,165
Loss and total comprehensive income for the year		**(3,801,514)**	(3,910,688)
Basic and diluted loss per ordinary share (pence)	11	**(1 3)**	(4 1)

The notes on pages 42 to 64 form part of these financial statements

All revenues and expenses shown above were generated from continuing operations All of the loss is attributable to the owners of the parent

Consolidated and Company balance sheets
at 30 September 2010

	Note	Group 2010 £	Group 2009 £	Company 2010 £	Company 2009 £
Assets					
Property, plant and equipment	12	**112,904**	102,366	—	—
Intangible assets	13	—	99,400	—	—
Investments	14	—	—	**1,501,603**	1445,661
Amounts due from subsidiary undertaking	15	—	—	**16,471,326**	12,291,586
Non-current assets		**112,904**	201,766	**17,972,929**	13,737,247
Inventories	16	—	249,474	—	—
Trade and other receivables	17	**480,974**	228,019	**209,794**	22,054
Current tax receivable	9	**411,171**	294,855	—	—
Money market investments	18	**22,500,000**	—	**22,500,000**	—
Cash and cash equivalents	19	**1,108,171**	3,910,117	**484,469**	3,683,802
Current assets		**24,500,316**	4,682,465	**23,194,263**	3,705,856
Total assets		**24,613,220**	4,884,231	**41,167,192**	17,443,103
Liabilities and equity					
Trade and other payables	20	**1,134,915**	1,746,820	**76,961**	70,159
Current liabilities		**1,134,915**	1,746,820	**76,961**	70,159
Equity attributable to owners of the parent					
Ordinary shares	24	**3,466,774**	945,484	**3,466,774**	945,484
Share premium		**77,278,113**	55,709,052	**76,782,706**	55,213,645
Merger reserve		**(204,211)**	(204,211)	—	—
Accumulated loss		**(57,062,371)**	(53,312,914)	**(39,159,249)**	(38,786,185)
Total equity		**23,478,305**	3,137,411	**41,090,231**	17,372,944
Total liabilities and equity		**24,613,220**	4,884,231	**41,167,192**	17,443,103

The notes on pages 42 to 64 form part of these financial statements

The financial statements comprising the Consolidated Statement of Comprehensive Income, the Consolidated and Company Balance Sheets, the Consolidated and Company Statements of Changes in Equity, the Consolidated and Company Cash Flow Statements and the related notes, were approved by the Board of Directors and were signed on its behalf by:

Mr T Sharpington
Chief Executive Officer
21 December 2010

Phytopharm plc
Registered number 3131723

Consolidated statement of changes in equity
for the year ended 30 September 2010

Group	Ordinary shares £	Share premium £	Merger reserve £	Accumulated losses £	Total £
Balance at 1 October 2008	**945,484**	**55,671,139**	**(204,211)**	**(49,251,097)**	**7,161,315**
Comprehensive income					
Loss attributable to owners of the parent	—	—	—	(3 910,688)	**(3,910,688)**
	—	—	—	(3,910,688)	**(3,910,688)**
Transactions with owners					
Recovery of share issue costs	—	37,913	—	—	**37,913**
Purchase of shares in Phytopharm plc	—	—	—	(3,361)	**(3,361)**
Debit in respect of share options	—	—	—	(147,768)	**(147,768)**
Transactions with owners	—	37913	—	(151,129)	**(113,216)**
Balance at 30 September 2009	**945,484**	**55,709,052**	**(204,211)**	**(53,312,914)**	**3,137,411**
Balance at 1 October 2009	945,484	55,709,052	(204,211)	(53,312,914)	**3,137,411**
Comprehensive income					
Loss attributable to owners of the parent	—	—	—	(3,801,514)	**(3,801,514)**
	—	—	—	(3,801,514)	**(3,801,514)**
Transactions with owners					
Issue of ordinary shares	2,521,290	21,569,061	—	—	**24,090,351**
Purchase of shares in Phytopharm plc	—	—	—	(3,885)	**(3,885)**
Credit in respect of share options	—	—	—	55,942	**55,942**
Transactions with owners	2,521,290	21,569,061	—	52,057	**24,142,408**
Balance at 30 September 2010	**3,466,774**	**77,278,113**	**(204,211)**	**(57,062,371)**	**23,478,305**

The notes on pages 42 to 64 form part of these financial statements

Company statement of changes in equity
for the year ended 30 September 2010

Company	Ordinary shares £	Share premium £	Accumulated losses £	Total £
Balance at 1 October 2008	**945,484**	**55,175,732**	**(38,233,346)**	**17,887,870**
Comprehensive income				
Loss for the year	—	—	(405,071)	**(405,071)**
	—	—	(405,071)	**(405,071)**
Transactions with owners				
Recovery of share issue costs	—	37,913	—	**37,913**
Debit in respect of share options	—	—	(147,768)	**(147,768)**
Transactions with owners	—	37,913	(147,768)	**(109,855)**
Balance at 30 September 2009	**945,484**	**55,213,645**	**(38,786,185)**	**17,372,944**
Balance at 1 October 2009	945,484	55,213,645	(38,786,185)	**17,372,944**
Comprehensive income				
Loss attributable to owners of the parent	—	—	(429,006)	**(429,006)**
	—	—	(429,006)	**(429,006)**
Transactions with owners				
Issue of ordinary shares	2,521,290	21,569,061	—	**24,090,351**
Credit in respect of share options	—	—	55,942	**55,942**
Transactions with owners	2,521,290	21,569,061	55,942	**24,146,293**
Balance at 30 September 2010	**3,466,774**	**76,782,706**	**(39,159,249)**	**41,090,231**

The notes on pages 42 to 64 form part of these financial statements

Consolidated and Company cash flow statements
for the year ended 30 September 2010

	Group		Company	
	2010 £	2009 £	2010 £	2009 £
Cash flows from operating activities				
Operating loss	**(4,502,510)**	(4,380,887)	**(718,335)**	(575,515)
Depreciation	**67,198**	100,975	**–**	–
Impairment of intangible asset	**99,400**	–	**–**	–
(Gain)/loss on disposal of property, plant and equipment	**(4,108)**	8,740	–	–
Share option charge/(credit)	**55,942**	(147,768)	**–**	–
	(4,284,078)	(4,418,940)	**(718,335)**	(575,515)
Changes in working capital				
(Increase)/decrease in trade and other receivables	**(90,254)**	255,856	**(25,307)**	162,573
(Decrease)/increase in trade and other payables	**(611,905)**	413,234	**6,802**	(60,485)
Decrease in inventories	**249,474**	150,757	**–**	–
Cash used in operations	**(4,736,763)**	(3,599,093)	**(736,840)**	(473,427)
Taxation received	**294,855**	199,418	**–**	–
Net cash used in operating activities	**(4,441,908)**	(3,399,675)	**(736,840)**	(473,427)
Cash flows from investing activities				
Purchase of property, plant and equipment	**(85,128)**	(42,261)	**–**	–
Sale of property, plant and equipment	**11,500**	34,400	**–**	–
Investment in shares of Phytopharm plc	**(3,885)**	(3,361)	**–**	–
Interest received	**127,124**	176,034	**126,896**	170,443
Loan to subsidiary undertaking	–	–	**(4,179,740)**	(2,288,077)
Net cash generated from/(used in) investing activities	**49,611**	164,812	**(4,052,844)**	(2,117,634)
Cash flows from financing activities				
Issue of shares	**25,212,904**	–	**25,212,904**	–
Share issue costs	**(1,122,553)**	–	**(1,122,553)**	–
Share issue costs recovered	–	37,913	–	37,913
Movement in money market investments	**(22,500,000)**	5 500,000	**(22,500,000)**	5,500,000
Net cash generated from financing activities	**1,590,351**	5,537,913	**1,590,351**	5,537,913
Movements in cash and cash equivalents in the year	**(2,801,946)**	2,303,050	**(3,199,333)**	2,946,852
Cash and cash equivalents at the beginning of the year	**3,910,117**	1,607,067	**3,683,802**	736,950
Cash and cash equivalents at the end of the year	**1,108,171**	3,910,117	**484,469**	3,683,802
Money market investments at the end of the year	**22,500,000**	–	**22,500,000**	–
Total cash, cash equivalents and money market investments	**23,608,171**	3,910,117	**22,984,469**	3,683,802

The notes on pages 42 to 64 form part of these financial statements

Notes to the financial statements
for the year ended 30 September 2010

1 Accounting policies and basis of preparation
Phytopharm plc is a public limited company incorporated in England and Wales and domiciled in the UK with a listing on the London Stock Exchange The address of its registered office is Lakeview House, 2 Lakeview Court, Ermine Business Park, Huntingdon, Cambridgeshire PE29 6UA

The principal accounting policies adopted in the preparation of these financial statements are set out below These policies have been consistently applied to both years presented, unless otherwise stated

Basis of preparation
These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the EU, IFRIC interpretations and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS The financial statements have been prepared on a historical cost basis

Going concern
At 30 September 2010, the Group had cash resources (being cash and cash equivalents and money market investments) of £23 608,171

After making enquiries and taking into account management's estimate of future expenditure, the Directors have a reasonable expectation that the Group will have adequate financial resources to continue in operation for the foreseeable future

Basis of consolidation
The acquisition by the Company's subsidiary, Phytotech Limited (formerly Phytopharm Limited), of Phytodevelopments Limited on 21 March 1996 has been accounted for as a merger in the consolidated financial statements and all transactions between the two companies have been eliminated

On 3 April 1996 the Group structure was reorganised and a new holding company established by way of a share exchange This has been accounted for as a merger in the consolidated accounts, and all transactions within the Group have been eliminated

There has been no change to the basis set out as a result of the implementation of IFRS, as permitted by IFRS1, 'First time adoption of International Financial Reporting Standards'

Accounting developments
a) The following new standards, amendments to standards or interpretations are mandatory for the first time for the financial year beginning 1 October 2009

IFRS 8, 'Operating segments' (effective 1 January 2009) IFRS 8 replaces IAS 14, 'Segment reporting' It requires a 'management approach' under which segment information is presented on the same basis as that used for internal reporting purposes Management considers that there is only one reportable segment research and development programmes, including pharmaceutical products and residual functional foods

IAS 1 (revised), 'Presentation of financial statements' (effective 1 January 2009) The revised standard prohibits the presentation of items of income and expenses (that is 'non-owner changes in equity') in the statement of changes in equity, requiring 'non owner changes in equity' to be presented separately from owner changes in equity All 'non-owner changes in equity' are required to be shown in a performance statement Entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the income statement and statement of comprehensive income) The Group has presented a statement of comprehensive income prepared under the revised disclosure requirements

IFRS 2 (amendment), 'Share-based payment' (effective 1 January 2009) The revised standard deals with vesting conditions and cancellations It clarifies that vesting conditions are either service or performance conditions only Other features of a share-based payment would need to be included in the grant date fair value calculation for transactions with employees and others providing similar services, they would not impact the number of awards expected to vest or valuation thereof subsequent to grant date Prior to the adoption of the amendment to IFRS 2, any cancellations made by employees under the Group's Save As You Earn Plan resulted in the reversal of all charges to date The amendment requires that cancellations are treated as accelerated vestings and all remaining charges are immediately recognised in the income statement with the credit recognised in equity There have been no cancellations of options under the Save As You Earn Plan and therefore there is currently no impact of the amendment to this standard

1 Accounting policies and basis of preparation continued
Accounting developments continued
IFRS 7 (amendment), 'Financial instruments – Disclosures' (effective 1 January 2009) The amendment increases the disclosure requirements about fair value measurement and reinforces existing principles for disclosure about liquidity risk The amendment introduces a three-level hierarchy for fair value measurement disclosure and requires some specific quantitative disclosures for financial instruments in the lowest level in the hierarchy In addition, the amendment clarifies and enhances existing requirements for the disclosure of liquidity risk primarily requiring a separate liquidity risk analysis for derivative and non-derivative financial liabilities See note 22 for further details

The amendment has not had a significant impact on the disclosures about fair value measurement as the Group does not have any derivative financial instruments

IAS 23 (revised), 'Borrowing costs' (effective 1 January 2009) A result of the joint short-term convergence project with the FASB, this new standard requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset The option of immediately expensing those borrowing costs has been removed This is currently not relevant to the Group

IFRS 3 (revised), 'Business combinations' (effective 1 July 2009) The revision to this standard changes accounting for business combinations While the acquisition method is still applied, there are significant changes to the treatment of contingent payments, transaction costs and the calculation of goodwill This is currently not relevant to the Group

IAS 27 (revised), 'Consolidated and separate financial statements' (effective 1 July 2009) This revises the accounting for transactions with non-controlling interests This is not relevant to the Group as it does not have any non-controlling interests

Amendment to IFRS 1, 'First time adoption of IFRS' and IAS 27, 'Consolidated and separate financial statements' (effective 1 July 2009) This allows first-time adopters to use a deemed cost of either fair value or the carrying amount under previous accounting practice to measure the initial cost of investment in subsidiaries, jointly controlled entities and associates in the separate financial statements The amendment also removed the definition of the cost method from IAS 27 and replaced it with a requirement to present dividends as income in the separate financial statements of the investor This is currently not relevant to the Group

Amendment to IAS 32, 'Financial instruments Presentation', and IAS 1, 'Presentation of financial statements' (effective 1 January 2009) This amendment requires entities to classify the following types of financial instruments as equity, provided they have particular features and meet specific conditions

- Puttable financial instruments, and
- Instruments, or components of instruments, that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation

This is not relevant to the Group

IAS 39 (amendment), 'Financial Instruments, Recognition and measurement on eligible hedged items' (effective 1 July 2009) The amendment makes two significant changes It prohibits designating inflation as a hedgable component of a fixed rate debt It also prohibits including time value in the one-sided hedged risk when designating options as hedges This does not currently impact the Group

IFRIC 15, 'Agreements for construction of real estates' (effective 1 January 2009 but EU-endorsed from 1 January 2010) The interpretation clarifies which standard (IAS 18 or IAS 11) should be applied to particular transactions and is likely to mean that IAS 18 will be applied to a wider range of transactions This is currently not relevant to the Group

Notes to the financial statements continued
for the year ended 30 September 2010

1 Accounting policies and basis of preparation continued
Accounting developments continued
IFRIC 16, 'Hedges of a net investment in a foreign operation' (effective 1 October 2008 but EU-endorsed for use from 1 July 2009) This interpretation clarifies certain areas in respect of net investment hedging This is currently not relevant to the Group

IFRIC 17, 'Distributions of non-cash assets to owners' (effective 1 July 2009) This interpretation clarifies how an entity should measure distributions of assets, other than cash, when it pays dividends to its owners The interpretation states that, 1) a dividend payable should be recognised when appropriately authorised, 2) it should be measured at the fair value of the net assets to be distributed, and 3) the difference between the fair value of the dividend paid and the carrying amount of the net assets distributed should be recognised in profit or loss This is currently not relevant to the Group

(b) Forthcoming accounting standards

The following standards and amendments to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after 1 October 2010

IFRIC 18, 'Transfer of assets from customers' (effective 1 July 2009 but EU-endorsed for use from 31 October 2009)

Annual improvements 2009 (effective 1 January 2010),

Amendment to IFRS 1, 'First time adoption' on additional exemptions (effective 1 January 2010),

Amendment to IFRS 2, 'Share-based payments' on group cash-settled transactions (effective 1 January 2010),

Amendment to IAS 32, 'Financial instruments Presentation' on classification of rights issues (effective 1 February 2010),

Amendment to IFRS 1, 'First time adoption' on 'Financial instrument disclosures' (effective 1 July 2010),

IFRIC 19, 'Extinguishing financial liabilities with equity instruments' (effective 1 July 2010),

Amendment to IAS 24, 'Related party disclosures' (effective 1 January 2011),

Annual improvements 2010 (effective 1 January 2011, although not yet EU-endorsed),

Amendment to IFRIC 14, 'Prepayments of minimum funding requirement' (effective 1 January 2011),

Amendments to IFRS 7, 'Financial instruments Disclosures' on derecognition (effective 1 July 2011, although not yet EU-endorsed), and

IFRS 9, 'Financial instruments' on 'classification and measurement' (effective 1 January 2013, although not yet EU-endorsed)

The Directors do not anticipate that the adoption of these standards will have a significant impact on the financial statements of the Group when they come into effect for periods commencing on or after 1 October 2010

Critical accounting judgements
The preparation of the consolidated financial statements requires the Directors to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses The main accounting judgements relate to the determination of the carrying value of investments in subsidiaries and the share option charge and the underlying assumptions The Directors have assessed the carrying value of the investments and the inputs to the share option charge calculation and there is not considered to be a reasonable change to a metric that would result in a material adjustment to the carrying value of the investments or the share option charge

The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgements about carrying value of assets and liabilities that are not readily apparent from other sources Actual results may differ from these estimates The estimates and underlying assumptions are reviewed on an ongoing basis Revisions to accounting estimates are recognised in the year in which the estimate is revised if the revision affects only that year, or in the year of revision and future years if the revision affects both current and future years

1 Accounting policies and basis of preparation continued

Revenue

Revenue, which excludes value added tax, represents the invoiced value of goods and services supplied, net of certain promotional activity Revenue from sales of products is recognised when the risks and rewards of ownership pass to the customer and is stated net of value added tax

Amounts received or receivable in respect of research and development contracts, collaborative research agreements, licence fees or milestone payments are recognised as revenue when the licence rights are granted or the specific conditions stipulated in the agreements have been satisfied and provided that there are no future obligations These amounts are shown gross of any withholding tax

Other income

Other income, which excludes value added tax, represents amounts received or receivable from charitable organisations

Cost of sales and operating expenses

Cost of sales comprises the proportion of milestone and royalty income earned by the Group and due to third parties under licence agreements and the direct cost of goods sold, including distribution costs

Research and development expenditure

All research and development costs, whether funded by third parties under licence and development agreements or not, are included within operating expenses and classified as research and development costs

All on-going development expenditure is currently expensed in the year in which it is incurred Due to the regulatory and other uncertainties inherent in the development of the Group's products, the criteria for development costs to be recognised as an asset, as prescribed by IAS 38 'Intangible assets', are not met until the product has been submitted for regulatory approval, such approval has been received, and it is probable that future economic benefits will flow to the Group The Group does not currently have any such internal development costs that qualify for capitalisation as intangible assets

Exceptional items

Exceptional items represent significant items of income or expense which due to their nature or the expected infrequency of the events giving rise to them, are presented separately on the face of the income statement to give a better understanding to shareholders of the elements of financial performance during the year This disclosure will facilitate comparison with prior years and enable the reader to better assess trends in financial performance

Share-based payments

The Group makes equity-settled share-based payments to its employees and Directors Equity-settled share-based payments are measured at fair value at the date of grant and are expensed on a straight line basis over the vesting period of the award At each balance sheet date, the Group revises its estimate of the number of options that are expected to become exercisable The share-based payment charge/(credit) is allocated to research and development expenses and administrative expenses on the basis of staff numbers, with a corresponding adjustment to equity

Employee benefits

All employee benefit costs, notably holiday pay and contributions to Group or personal defined contribution plans, are charged to the income statement on an accruals basis The Group operates a defined contribution pension scheme The assets of this scheme are held separately from those of the Group in independently administered funds The Group does not offer any other post retirement benefits

Operating leases

Costs in respect of operating leases are charged to the income statement on a straight line basis over the lease term

Notes to the financial statements continued
for the year ended 30 September 2010

1 Accounting policies and basis of preparation continued
Property, plant and equipment
Property, plant and equipment are stated at historic purchase cost less accumulated depreciation The cost of property, plant and equipment is its purchase cost, together with any incidental expenses of acquisition Depreciation is calculated so as to write off the cost of property, plant and equipment, less its estimated residual value, on a straight line basis over the expected useful economic lives of the assets concerned

The principal rates used for this purpose are

Plant and machinery	20%
Computer equipment	33%
Fixtures and fittings	20%
Motor vehicles	25%

Leasehold improvements are depreciated over the shorter of the lease term and the asset's useful economic life

The assets' residual values and useful lives are reviewed, and adjusted if necessary at each balance sheet date

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within the operating loss

Intangible assets
Intangible assets acquired separately are measured on initial recognition at cost Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses At each balance sheet date the Group reviews the carrying amount of its intangible assets to determine whether there is any indication that these assets have suffered an impairment loss

Impairment of assets
Non-current assets are reviewed for impairment both annually and when there is an indication that an asset may be impaired (when events or changes in circumstances indicate that carrying value may not be recoverable) An impairment loss is recognised in the income statement for the amount by which the asset's carrying value exceeds its recoverable amount The recoverable amount is the higher of an asset's fair value less cost to sell and value in use

Investments in subsidiary
Investments in subsidiary undertakings are carried at cost less any impairment provision Such investments are subject to an annual review, and any impairment is charged to the income statement The fair value of the options granted after 7 November 2002 by Phytopharm plc to the employees of Phytotech Limited which had not vested by 1 September 2005 is also included in the value of the investment

Inventory
Inventory, including raw materials, work in progress and finished goods is stated on a first in first out basis at the lower of cost and net realisable value Cost represents direct materials and, where applicable, production overheads Where necessary, provision is made for obsolete, slow-moving or defective inventory

Trade and other receivables
Trade receivables are non-interest bearing and are initially stated at their fair value, as reduced by appropriate allowances for estimated irrecoverable amounts

Money market investments
Money market investments have fixed maturities that the Group's management has the positive intention to hold to maturity These investments include short-term investments with an original maturity date of more than three months

Cash and cash equivalents
Cash and cash equivalents include cash in hand, bank deposits repayable on demand and other short-term highly liquid investments with original maturities at inception of 90 days or less

1 Accounting policies and basis of preparation continued

Foreign currency translation
Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency") The consolidated financial statements are presented in sterling ("£"), which is the Company's functional and presentation currency

Transactions denominated in foreign currencies are translated into sterling, being the functional currency of the Group, at actual rates of exchange ruling at the date of transaction Monetary assets and liabilities expressed in foreign currencies are translated into sterling at rates of exchange ruling at the end of the financial year All foreign currency exchange differences are taken to the income statement in the year in which they arise

Current tax
Current tax represents UK tax recoverable and is provided at amounts expected to be recovered using the tax rates and laws that have been enacted at the balance sheet date

Deferred taxation
Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements in accordance with IAS 12 'Income taxes' Deferred tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction, other than a business combination, that at the time of the transaction affects neither the accounting nor taxable profit or loss Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled A deferred tax asset is recognised only to the extent that it is probable that sufficient taxable profit will be available in future years to utilise the temporary difference

Trade and other payables
Trade payables are non-interest bearing and are initially stated at their fair value and subsequently held at amortised cost

Ordinary shares and share premium
Equity instruments issued by the Group are recorded at the proceeds received, net of direct issue costs

Employee share trust
The Company recognises the assets and liabilities of the trust in its own accounts and shares held by the trust are recorded at cost as a deduction at arriving at shareholders' funds until such time as the shares vest unconditionally to employees The trust is a separately administered trust, funded by contributions from employees and Phytotech Limited, whose assets comprise shares in the Company

Segmental information
Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker The chief operating decision maker has been identified as the Executive Directors

Company income statement
In accordance with the provisions of Section 408 of the Companies Act 2006, no separate income statement has been presented for the Company The results of the Company are also prepared under IFRS

Notes to the financial statements continued
for the year ended 30 September 2010

2 Business and geographical segments
The Group's development and other functions operating across all the Group's research programmes, are managed centrally and are reported internally as a single business This also applies to the Group's marketed products The chief operating decision maker has been identified as the Executive Directors of Phytopharm plc The Executive Directors review the Group's internal reporting in order to assess performance and allocate resources Management has determined the operating segment based on these reports Accordingly, the Directors consider that there is only one reporting segment

Revenue by final destination of the sale is as follows

	2010 £	2009 £
Revenue		
Europe	**566,717**	607,489
United Kingdom	**—**	136,506
Asia	**130,137**	118,935
South Africa	**—**	4,496
	696,854	867,426
Other income		
USA(i)	**17,120**	245,196
	713,974	1,112,622

(i) Represents grant income recognised

All non-current assets are located in the United Kingdom (2009 all)

The Group has revenue exceeding 10% from more than one customer

	2010 £	2009 £
Customer A	**506,717**	575,299
Customer B	**116,611**	80,997
Customer C	**17,120**	245,196
Customer D	**60,000**	135 606

3 Operating expenses

	2010 £	2009 £
Research and development	**4,013,486**	3,913,876
Administrative expenses	**1,115,551**	1,392,872
	5,129,037	5,306,748

4 Exceptional items
Exceptional items represent significant items of income or expense which, due to their nature or the expected infrequency of the events giving rise to them are presented separately on the face of the income statement to assist the reader of the financial statements There were no exceptional items in the year ended 30 September 2010

Exceptional items in the year ended 30 September 2009 comprised the restructuring costs following the Group's business strategy review of £100,619 together with the costs of the contractual notice periods and certain post termination payments for the former Chief Executive Officer of £135,985 and the former Chief Financial Officer of £169,613 These exceptional items comprised £130,992 of research and development costs and £275,225 of administrative expenses There was no tax effect of these items

5 Directors' emoluments

	2010 £	2009 £
Aggregate emoluments	**349,605**	240,496
Contributions to money purchase pension schemes	**12,497**	6,372
	362,102	246,868

There were no gains made by individual Directors from the exercise of share options for the year ended 30 September 2010 (2009 nil)

Detailed disclosures of Directors' individual remuneration and share options are given in the Remuneration Report on pages 23 to 28

Two of the Executive Directors (2009 two) had retirement benefits accruing to them from money purchase pension schemes in respect of qualifying services

6 Employee information
The average monthly number of persons (including Executive Directors) employed during the year was

	2010 Number	2009 Number
Administration	**5**	6
Research and development	**15**	21
	20	27

	2010 £	2009 £
Staff costs (for the above persons)		
Wages and salaries	**1,126,653**	1,209,052
Social security costs	**100,810**	92,759
Other pension costs	**54,973**	54,409
Share option charge/(credit)	**55,942**	(147,768)
	1,338,378	1,208,452

Notes to the financial statements continued
for the year ended 30 September 2010

6 Employee information continued
Key management compensation

	2010 £	2009 £
Short-term employee benefits	**689,968**	713,467
Post employment benefits	**25,173**	16,764
Share-based payments	**33,345**	(563,580)
	748,486	166,651

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including all Executive Directors and Non-Executive Directors The number of management personnel whose remuneration is included above is 6 (2009 5)

Included within wages and salaries is an amount of £71,840 (2009 £73,040) paid in consultancy costs for the services of the Interim Chief Operating Officer, Keith Thomson, paid to Thomson Business Consultancy Limited, of which Keith Thomson is a director In the year ended 30 September 2009, a further £150,250 was paid to a third party consultancy company in respect of the services of the Interim Chief Operating Officer

The Company has no employees (2009 none)

7 Finance income
Interest receivable represents interest from cash and cash equivalents and money market deposits

	2010 £	2009 £
Cash and cash equivalents	**93,678**	69,795
Money market investments	**196,147**	106,239
	289,825	176,034

8 Loss before taxation

	2010 £	2009 £
Loss before taxation is stated after charging/(crediting)		
Depreciation charge for the year		
Owned property, plant and equipment	**67,198**	100,975
(Gain)/loss on disposal of property, plant and equipment	**(4,108)**	8,740
Impairment charge for intangible asset	**99,400**	—
Fees payable to the Company's auditors for the audit of the parent company and consolidated financial statements	**27,000**	26,000
Fees payable for other services supplied pursuant to legislation	**10,000**	9,800
Fees payable for the audit of the Company's subsidiaries pursuant to legislation	**6,000**	6,000
Tax services	**25,642**	8,500
Foreign exchange loss	**36,299**	192,763
Operating lease charges		
Plant and machinery	—	89
Other	**104,127**	75,713

In addition to the fees payable to the Company's auditor disclosed above, £108,000 was paid to the Company's auditor in respect of fees for other services supplied pursuant to legislation These fees have been recorded against the share premium account

9 Taxation

	2010 £	2009 £
Current tax		
UK corporation tax		
Current UK corporation tax credit on loss for the year	**411,171**	294,855
Adjustment in respect of prior year	**—**	(690)
Current UK corporation tax credit on loss for the year	**411,171**	294,165

No corporation tax liability arises on the results for the year due to the loss incurred (2009 £nil) The Company has taken advantage of the research and development corporation tax credits introduced in the Finance Act 2000 whereby a company may surrender corporation tax losses incurred on research and development expenditure for a corporation tax refund at the rate of 24 5 pence in the pound of actual spend

The tax on the Group's loss before taxation differs from the theoretical amount that would arise using the weighted average tax rate applicable to losses of the Group as follows

	2010 £	2009 £
Loss before taxation	**(4,212,685)**	(4,204,853)
Loss before taxation multiplied by the standard rate for research and development tax credits at 14% (2009 14%)	**(589,776)**	(588,679)
Effect of		
Difference between depreciation and capital allowances	**4,690**	6,988
Expenses not deductible for tax purposes	**92**	99
Effect of share option charge/(credit)	**7,832**	(20,688)
Enhanced research and development expenditure	**(176,216)**	(126,366)
Adjustment in respect of prior year	**—**	690
Carried forward losses	**342,207**	433,791
Tax credit for the year	**(411,171)**	(294,165)

See note 21 for details of the potential deferred tax assets that have not been recognised due to uncertainty as to the timing of their utilisation See note 26 for details of the impact on the potential deferred tax assets of changes to the UK corporation tax system announced in the June 2010 Budget Statement

10 Loss for the financial year

As permitted by Section 408 of the Companies Act 2006 the parent company's income statement has not been included in these financial statements The parent company's loss for the year to 30 September 2010 was £429,006 (2009 £405,071)

11 Loss per ordinary share

Basic loss per share is calculated by dividing the loss attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year after the deduction of the weighted average number of the ordinary shares held by the employee benefit trust during the year

For diluted loss per share, the weighted average number of ordinary shares in issue is adjusted to assume conversion for all dilutive potential ordinary shares The Company has no dilutive potential ordinary shares in issue because it is loss making

	2010	2009
Attributable loss (£)	**(3,801,514)**	(3,910,688)
Weighted average number of shares in issue	**284,234,443**	94,548,391
Basic and diluted loss per ordinary share (pence)	**(1 3)**	(4 1)

Notes to the financial statements continued
for the year ended 30 September 2010

12 Property, plant and equipment

Group	Leasehold improvements £	Computer equipment £	Motor vehicles £	Plant and machinery £	Fixtures and fittings £	Total £
Cost						
At 1 October 2009	9,184	251,355	95,000	28,838	189,687	574,064
Additions	32,637	22,562	—	1,277	28,652	85,128
Disposals	(9,184)	(40,660)	(33,696)	(11,066)	(88,285)	(182,891)
At 30 September 2010	**32,637**	**233,257**	**61,304**	**19,049**	**130,054**	**476,301**
Accumulated depreciation						
At 1 October 2009	5,142	188,090	82,866	25,314	170,286	471,698
Charge for year	3 789	39,441	10,941	1,262	11,765	67,198
Disposals	(6,920)	(39,887)	(33,696)	(9,295)	(85,701)	(175,499)
At 30 September 2010	**2,011**	**187,644**	**60,111**	**17,281**	**96,350**	**363,397**
Net book value						
At 30 September 2010	**30,626**	**45,613**	**1,193**	**1,768**	**33,704**	**112,904**
At 30 September 2009	4,042	63,265	12,134	3,524	19,401	102,366

Group	Leasehold improvements £	Computer equipment £	Motor vehicles £	Plant and machinery £	Fixtures and fittings £	Total £
Cost						
At 1 October 2008	3,363	296,694	160,677	28,271	188,368	677,373
Additions	5,821	8,704	25,850	567	1,319	42,261
Disposals	—	(54,043)	(91,527)	—	—	(145,570)
At 30 September 2009	**9,184**	**251,355**	**95,000**	**28,838**	**189,687**	**574,064**
Accumulated depreciation						
At 1 October 2008	3,363	193,622	95,695	23,619	156,854	473,153
Charge for year	1,779	45,839	38,230	1,695	13,432	100,975
Disposals	—	(51,371)	(51,059)	—	—	(102,430)
At 30 September 2009	**5,142**	**188,090**	**82,866**	**25,314**	**170,286**	**471,698**
Net book value						
At 30 September 2009	**4,042**	**63,265**	**12,134**	**3,524**	**19,401**	**102,366**
At 30 September 2008	—	103,072	64,982	4,652	31,514	204,220

Company
The Company has no property, plant and equipment (2009 £nil)

13 Intangible assets

	2010 £	2009 £
Cost		
At 1 October and 30 September	**99,400**	99,400
Impairment at 1 October	—	—
Charge for the year	**(99,400)**	—
Impairment at 30 September	**(99,400)**	—
Net carrying value at 30 September	—	99,400

Intangible assets represent patent and know-how licences acquired externally that have been recognised as an asset at cost At each balance sheet date the Group reviews the carrying amount of its intangible assets to determine whether there is any indication that these assets have suffered an impairment loss

Following a review at 31 March 2010, the Group's interim balance sheet date, an impairment charge of £99,400 was recorded in operating expenses to write down to £nil the carrying value of the intangible assets The intangible assets were impaired as a result of the Groups strategy of focusing on specific chemical entities as pharmaceutical products, which means that the intangible assets are no longer expected to be utilised

Company
The Company has no intangible assets (2009 £nil)

14 Investments

	Group		Company	
Investment in Group undertakings	**2010 £**	2009 £	**2010 £**	2009 £
At 1 September	**—**	—	**1,445,661**	1,593,429
Increase/(decrease) in capital contribution relating to share-based payments	—	—	**55,942**	(147,768)
At 30 September	—	—	**1,501,603**	1,445,661

The capital contribution relating to share-based payments relates to share options granted by the Company to employees of subsidiary undertakings in the Group Refer to note 25 for further details on the Group's share option schemes

Interests in Group undertakings

			Proportion of voting rights and nominal value of issued shares held by	
Name of undertaking	Country of incorporation	Description of shares held	Group %	Company %
Phytotech Limited	England and Wales	Ordinary 10 pence shares	100	100
Phytodevelopments Limited	England and Wales	Ordinary £1 shares	100	—

Both the above companies have been included in these financial statements and operated principally in their country of incorporation or registration

The principal business activities of these subsidiary undertakings are

- Phytotech Limited – development of pharmaceutical products and functional foods, and
- Phytodevelopments Limited – dormant

Notes to the financial statements continued
for the year ended 30 September 2010

15 Amounts due from subsidiary undertaking

	Group		Company	
	2010 £	2009 £	**2010** £	2009 £
Amounts due from subsidiary undertaking	—	—	**16,471,326**	12,291586

No provision was made against the amount due to the Company from its subsidiary undertaking during the year (2009 £nil)

There are no fixed terms in respect of amounts owed by subsidiary undertakings These are non-interest bearing, unsecured and not payable on demand

16 Inventories

	Group	
	2010 £	2009 £
Work in progress	—	126,292
Raw materials and consumables	—	123,182
	—	249,474

In the year ended 30 September 2010 raw materials and consumables to the value of £80,778 (2009 £80,588) were recognised as an expense in cost of sales The value of raw materials and consumables was written down to net realisable value during the year as an expense of £42,403 (2009 £462) recognised in research and development expenses within operating expenses

Work in progress to the value of £126,292 has been written off during the year (2009 £nil) due to lower than expected sales of Phytopica®
The expense of £126,292 has been recognised in research and development expenses within operating expenses

No finished goods were recognised as an expense during the year (2009 £69,708)

The Company has no inventories (2009 £nil)

17 Trade and other receivables
The fair value of trade and other receivables are their current book values

	Group		Company	
	2010 £	2009 £	**2010** £	2009 £
Trade receivables	—	44,794	—	—
Other receivables	**59,926**	11,803	**7,797**	(3,943)
Prepayments and accrued income	**421,048**	171,422	**201,998**	25,997
	480,974	228,019	**209,795**	22,054

As of 30 September 2010, the Group had no trade receivables As of 30 September 2009, all trade receivables were fully performing and aged less than three months from their due date These related to independent customers for whom there was not recent history of default

17 Trade and other receivables continued
The carrying amounts of the Group's trade receivables are denominated in the following currencies

	Group		Company	
	2010 £	2009 £	**2010 £**	2009 £
Sterling	—	6,228	—	—
US dollar	—	36,280	—	—
South African rand	—	2,286	—	—
	—	44,794	—	—

18 Money market investments

	Group		Company	
	2010 £	2009 £	**2010 £**	2009 £
Held-to-maturity financial assets	**22,500,000**	—	**22,500,000**	—

These represent fixed-rate short-term deposits placed with a range of banks at fixed terms

19 Cash and cash equivalents

	Group		Company	
	2010 £	2009 £	**2010 £**	2009 £
Cash and cash equivalents	**1,108,171**	3,910,117	**484,469**	3,683,802

The Company holds its excess cash and cash equivalents in a combination of fixed interest accounts and fixed term money market deposits At 30 September 2010 and 30 September 2009 these did not exceed three months in duration The fair value of cash and cash equivalents approximates their carrying value

20 Trade and other payables
The fair value of trade and other payables approximates their current book values

	Group		Company	
	2010 £	2009 £	**2010 £**	2009 £
Trade payables	**354,219**	203,597	**36,970**	14,724
Other taxation and social security	**36,364**	32,160	—	—
Other payables	**11,502**	5,871	—	—
Accruals and deferred income	**732,830**	1,505,192	**39,991**	55,435
	1,134,915	1,746,820	**76,961**	70,159

Notes to the financial statements continued
for the year ended 30 September 2010

21 Provisions
Deferred taxation
The Group and Company have the potential deferred tax assets shown below, which are not recognised due to uncertainty as to the timing of their utilisation

	Group		Company	
	2010 £	2009 £	**2010** £	2009 £
Tax effect of timing differences				
Depreciation in excess of tax allowances	**329,776**	332,609	**7,902**	8,195
Accumulated losses	**11,448,286**	11,186,799	**1,087,228**	1,007,374
	11,778,062	11,519,408	**1,095,130**	1,015,569

A number of changes to the UK corporation tax system were announced in the June 2010 Budget Statement The Finance Bill 2010–2011 (enacted in July 2010) includes legislation to reduce the main rate of corporation tax from 28% to 27% from 1 April 2011

Consequently, potential deferred tax assets relating to temporary differences expected to reverse prior to 1 April 2011 have been measured at 28% and potential deferred tax assets relating to temporary differences expected to reverse after 1 April 2011 have been measured at the tax rate of 27%, as this is the tax rate that will apply on reversal

22 Financial instruments
The Group's financial instruments comprise primarily cash and liquid resources and various items such as trade receivables and trade payables, which arise directly from its operations The Group does not enter into derivative transactions

The Group's ongoing objectives in using financial instruments are to maximise the returns on funds held on deposit, while investing only with institutions with high credit ratings, to minimise exchange rate risk where appropriate, and to generate additional cash resources through the issue of shares when market conditions are appropriate In addition, the Group has from time to time conserved cash resources by entering into financing arrangements for the acquisition of major capital assets

The balance sheet positions at 30 September 2010 and 30 September 2009 are not representative of the positions throughout the years as cash and short-term investments fluctuate considerably depending on when significant receipts have occurred and on the timing of share issues

Risk in relation to the use of financial instruments
Capital risk
The capital structure of the Group consists of cash and cash equivalents and equity attributable to owners of the parent, comprising issued capital, reserves and accumulated losses The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern and to ensure that the Group has sufficient capital available to meet future funding requirements The Group does not typically utilise debt financing

Liquidity risk
The Group's policy throughout the year regarding liquidity has been to maximise the return on funds, but to minimise the associated credit and liquidity risk by placing funds in low risk cash deposits and short term cash deposits The Board monitors the level of cash and money market investments on a regular basis and management monitors the level on a daily basis to ensure that the Group has sufficient liquid funds to meet its commitments as they fall due

The Group and Company holds cash deposits at call or with a maturity of up to twelve months

Trade payables are normally payable within the terms specified by the supplier

22 Financial instruments continued
Risk in relation to the use of financial instruments continued
Credit risk
Other than trade receivables, the financial instruments that subject the Group to a potential credit risk comprise principally cash and money market investments The Group's policy is to minimise the risks associated with cash and money market investments by placing these deposits with institutions with a recognised high rating (typically A or above) or with one of the major clearing banks Trade receivables are largely with highly reputable, creditworthy trading partners

The table below shows the rating of the financial institutions that the Group's cash and cash equivalents and money market deposits are held with

Group	Rating	2010 £	2009 £
Institution A	AA	**12,166,258**	1,069,582
Institution B	A	**11,432,498**	2,831,000
Institution C	A	**8,787**	8,895
		23,607,543	3,909,477

Company	Rating	2010 £	2009 £
Institution A	AA	**11,958,260**	861,630
Institution B	A	**11,021,816**	2,817,724
Institution C	A	**4,393**	4,448
		22,984,469	3,683,802

The Group disclosure above does not include cash in hand amounting to £628 (2009 £640)

Interest rate risk
The Group holds all cash, bank and held-to-maturity investments in sterling ("GBP"), Euros ("EUR"), United States dollar ("USD") and South African rand ("ZAR") accounts Interest rates on current accounts are floating and are based on London Interbank Bid Rate ("LIBID"), while interest rates on term deposits are fixed for the duration of deposit

The interest rate profile of the Group's financial assets is

	2010		2009	
Group	Fixed £	Floating £	Fixed £	Floating £
Sterling cash at bank and in hand	—	**586,183**	—	3,792,782
US dollar cash at bank and in hand	—	**496,932**	—	89,164
Euro cash at bank and in hand	—	**24,309**	—	28,171
South African rand cash at bank and in hand	—	**747**	—	—
Sterling money market deposits	**22,500,000**	—	—	—
	22,500,000	**1,108,171**	—	3,910,117

The weighted average interest rate of the Group's cash and cash equivalents at 30 September 2010 was 0 24% (2009 0 92%)

The weighted average interest rate of the Group's money market investments at 30 September 2010 was 1 73% (2009 0%)

Notes to the financial statements continued
for the year ended 30 September 2010

22 Financial instruments continued
Risk in relation to the use of financial instruments continued
Interest rate risk continued

	2010		2009	
Company	Fixed £	Floating £	Fixed £	Floating £
Sterling cash at bank and in hand	—	**484,469**	—	3,683,802
Sterling money market deposits	**22,500,000**	—	—	—
	22,500,000	**484,469**	—	3,683,802

The weighted average interest rate of the Company's cash and cash equivalents at 30 September 2010 was 0 26% (2009 0 97%)

The weighted average interest rate of the Company's money market investments at 30 September 2010 was 1 73% (2009 0%)

The Group does not have any committed borrowing facilities Consequently, there is no material exposure to interest rate risk in respect of financial liabilities

Foreign currency risk
The Company's principal functional currency is GBP However during 2010 and 2009, the Group had income and expenditure in USD The Group's policy is to maintain natural hedges, where possible, by matching USD revenue with USD expenditure The Group also incurred minimal expenditure in other foreign currencies and the strengthening of GBP against those currencies is not considered to have a material impact on the net loss for the year Consequently, there is no material exposure to foreign currency rate risk

Fair value of financial assets and liabilities
There is no material difference between the fair value and the carrying values of the financial instruments referred to above, because of the short maturity period of these financial instruments or their intrinsic size and risk

Financial instruments by category

Group	2010 Loans and receivables £	2009 Loan and receivables £
Assets as per balance sheet		
Trade and other receivables excluding prepayments	**229,002**	56,597
Money market investments	**22,500,000**	—
Cash and cash equivalents	**1,108,171**	3,910,117
	23,837,173	3,966 714

Company	2010 Loans and receivables £	2009 Loan and receivables £
Assets as per balance sheet		
Trade and other receivables excluding prepayments	**176,564**	(3,943)
Money market investments	**22,500,000**	—
Cash and cash equivalents	**484,469**	3,683,802
	23,161,033	3,679,859

22 Financial instruments continued
Financial instruments by category continued

Group	2010 Other financial liabilities £	2009 Other financial liabilities £
Liabilities as per balance sheet		
Trade and other payables excluding statutory liabilities	**1,098,551**	1,714,660

Company	2010 Other financial liabilities £	2009 Other financial liabilities £
Liabilities as per balance sheet		
Trade and other payables excluding statutory liabilities	**76,961**	70,159

23 Pensions
The Group operates a number of defined contribution pension schemes for employees The assets of the schemes are held separately from those of the Group in independently administered funds The pension cost represents contributions paid and payable by the Group to the funds and amounted to £54,973 (2009 £54,409) The amounts outstanding in respect of pensions are £11,705 (2009 £5 871)

24 Ordinary shares

	2010 £	2009 £
Issued and fully paid		
346,677,433 (2009 94,548,391) Ordinary Shares of one pence each	**3,466,774**	945,484

In the year ended 30 September 2010 the Company issued 252,129,042 new Ordinary Shares of one pence each for a total cash consideration of £24,090,351 after the expenses of issue The nominal value of these shares was £2,521,290

Purchases in shares of Phytopharm plc relate to the Phytopharm Share Incentive Plan whereby the Company issued one "Matching Share" for every one "Partnership Share" purchased by the employee All shares are held by the scheme Trustees until the shares vest unconditionally with the employee During the year ended 30 September 2010 the Group purchased 39,296 Ordinary Shares of one pence (2009 52,330) at a total cost of £3,885 (2009 £3,361)

In the year ended 30 September 2009 no shares were issued for cash consideration During the year ended 30 September 2009, the Company received reimbursement of £37,913 in respect of Value Added Tax on previous share issues

Notes to the financial statements continued
for the year ended 30 September 2010

25 Options over shares of Phytopharm plc
Potential issues of ordinary shares
The Company may grant share options to selected employees on joining the Company and any such grants are made following the preliminary and interim announcements together with performance related grants to all employees Performance criteria must be satisfied before share options can be exercised and these are detailed below In addition the Company has a long-term incentive scheme and a Directors' Reward Plan under which long-term share incentives may be granted to selected senior executives

The outstanding share scheme options and long-term incentive awards at 30 September 2010 are shown below analysed according to the exercise criteria

	Number outstanding 2010	Exercise price	Note	Date granted	Exercisable from	Exercisable to	Currently vested 2010	Currently exercisable 2010
Phytopharm Share Option Plan 2007								
	80,426	£0 3100	1	19/12/2007	19/12/2010	18/12/2017	–	–
	14,327	£0 2350	1	28/03/2008	28/03/2011	27/03/2018	–	–
	239,963	£0 2175	1	30/05/2008	30/05/2011	29/05/2018	–	–
	409,230	£0 0413	1	11/03/2009	11/03/2012	10/03/2019	–	–
	1,406,750	£0 1100	1	20/01/2010	19/01/2013	19/01/2020	–	–
	5,200,161	£0 0763	1	21/07/2010	20/07/2013	20/07/2020	–	–
	7,350,857						–	–
Phytopharm Save As You Earn Plan 2007								
	125,285	£0 0613	2	22/12/2008	22/12/2011	21/12/2012	–	–
	125,285						–	–
Phytopharm Directors' Reward Plan 2010								
	863,334	£0 1125	3	31/03/2010	30/03/2013	30/03/2015	–	–
	863,334						–	–

25 Options over shares of Phytopharm plc continued

Potential issues of ordinary shares continued

	Number outstanding 2009	Exercise price	Note	Date granted	Exercisable from	Exercisable to	Currently vested 2009	Currently exercisable 2009
Phytopharm Share Option Plan 2007								
	52,000	£0 4450	1	03/08/2007	03/08/2010	02/08/2017	—	—
	87,863	£0 3100	1	19/12/2007	19/12/2010	18/12/2017	—	—
	14,327	£0 2350	1	28/03/2008	28/03/2011	27/03/2018	—	—
	274,621	£0 2175	1	30/05/2008	30/05/2011	29/05/2018	—	—
	480,145	£0 0413	1	11/03/2009	11/03/2012	10/03/2019	—	—
	908,956						—	—
Phytopharm Save As You Earn Plan 2007								
	27,810	£0 4825	2	12/09/2007	01/10/2010	30/09/2011	—	—
	125,285	£0 0613	2	22/12/2008	22/12/2011	21/12/2012	—	—
	153,095						—	—

1 These options vest on the third anniversary of the date of grant and have been granted under the Phytopharm Share Option Plan 2007 Enterprise Management Incentive Scheme The number of options exercisable will be determined by the Company's TSR compared to the constituents of the FTSE SmallCap Index The value of options (at date of grant) will be exercisable if the Company's TSR in the relevant ranking group is above the median

2 These options are granted under a Save As You Earn plan approved by HMRC The last offer under the plan was made to all employees and Executive Directors on 13 August 2007 There are no performance conditions attached to the exercise of these options

3 These options vest on the third anniversary of the grant date and have been granted under the Phytopharm Directors' Reward Plan 2010 There are no performance conditions attached to the exercise of these options

Option valuations

Exercise of options is subject to continued employment or being a good leaver Options were valued using a stochastic model (also known as a Monte Carlo model) The fair value per option granted and the assumptions used in the calculation for options granted since 3 August 2007 are set out in the tables below The Company's effective date for IFRS 2 'Share-based Payments' implementation is 1 September 2005 and the IFRS has been applied to all options granted after 7 November 2002 which had not vested by this effective date

Award	Grant date	Exercise price	**Number of shares outstanding 2010**	Number of shares outstanding 2009	Fair value per option at grant date
Share Option Plan 2007	03/08/2007	£0 4450	—	52,000	£0 2034
Share Option Plan 2007	19/12/2007	£0 3100	**80,426**	87,863	£0 1531
Share Option Plan 2007	28/03/2008	£0 2350	**14,327**	14,327	£0 1297
Share Option Plan 2007	30/05/2008	£0 2175	**239,963**	274,621	£0 1142
Share Option Plan 2007	11/03/2009	£0 0413	**409,230**	480,145	£0 0223
Share Option Plan 2007	20/01/2010	£0 1100	**1,406,750**	—	£0 0574
Share Option Plan 2007	21/07/2010	£0 0763	**5,200,161**	—	£0 0404
Save As You Earn Plan 2007	12/09/2007	£0 4825	—	27,810	£0 1900
Save As You Earn Plan 2007	22/12/2008	£0 0613	**125,285**	125,285	£0 0308
Directors' Reward Plan 2010	31/03/2010	£0 1125	**863,334**	—	£0 0666
			8,339,476	1,062,051	

Notes to the financial statements continued
for the year ended 30 September 2010

25 Options over shares of Phytopharm plc continued
Option valuations continued
The fair values of the original share options granted but not vested as at 30 September 2010 were calculated using the following assumptions

Award	Grant date	Expected term (note(a))	Expected dividend yield (note(b))	Risk free rate (note (c))	Expected volatility (note (d))	Performance condition (note)
Share Option Plan 2007	19/12/2007	3 years	0%	4 7%	65 7%	1
Share Option Plan 2007	28/03/2008	3 years	0%	4 1%	69 8%	1
Share Option Plan 2007	30/05/2008	3 years	0%	4 9%	69 9%	1
Share Option Plan 2007	11/03/2009	3 years	0%	2 3%	72 4%	1
Share Option Plan 2007	20/01/2010	3 years	0%	3 2%	70 5%	1
Share Option Plan 2007	21/07/2010	3 years	0%	2 3%	70 4%	1
Save As You Earn Plan 2007	22/12/2008	3 years	0%	1 9%	77 2%	2
Directors' Reward Plan 2010	31/03/2010	3 years	0%	2 7%	73 7%	3

Notes to assumptions
(a) Expected term
i) 40% of participants exercise after three years if a gain of 40% is available If this gain is not available, these individuals hold on to their shares until such a gain can be made

ii) 25% of the remainder exercise from the third anniversary onwards using a reducing balance methodology, providing that a gain of 20% is available If this gain is not available these individuals refrain from exercising until such a gain can be made

iii) 15% of the total participants are "good leavers" A good leaver is an employee who ceases to be an employee due to redundancy or other circumstances outside their control

iv) 5% of the participants exercise per annum on a reducing balance methodology, providing that the options are "in the money" (irrespective of the level of gain) to allow for leavers in these years

v) any remaining options are exercised at maturity providing that they are "in the money" (i e the share option price is less than the market price) Any awards that are "underwater" (i e the share option price is greater than the market price) therefore lapse at maturity

vi) all exercises are dependent on the performance condition being met

(b) Expected dividend yield
The dividend yield of 0% reflects the absence of a history of paying dividends and a clear dividend policy statement at the relevant grant dates

(c) Risk free interest rate
UK Gilt rates prevalent on the date of grant with a period commensurate with the term of the award

25 Options over shares of Phytopharm plc continued

Notes to assumptions continued

(d) Expected volatility

Expected volatility is the measurement of the amount by which a share price is expected to fluctuate during a period The expected volatility has been calculated using the standard approach of calculating the standard deviation of the natural logarithm of historical share price movements Certain periods where there has been inactivity followed by substantial increases in price and volume have been excluded from this calculation due to specific events creating a volatility that would not be representative of the potential future volatility

A reconciliation of share option scheme movements for the years ended 30 September 2010 and 30 September 2009 is set out below

	2010		2009	
	Number	Weighted average exercise price	Number	Weighted average exercise price
At 1 October	**1,062,051**	**£0 15**	4,467,500	£0 36
Granted	**7,563,495**	**£0 09**	843,470	£0 05
Exercised	**—**	**—**	—	—
Lapsed	**(286,070)**	**£0 21**	(4,248,919)	£0 35
At 30 September	**8,339,476**	**£0 09**	1,062,051	£0 15

The following tables summarise the information about the range of exercise prices for share options outstanding at 30 September 2010 and 30 September 2009

	2010			2009		
Range of exercise prices	Weighted average exercise price	Number of shares	Weighted average remaining life contractual years	Weighted average exercise price	Number of shares	Weighted average remaining life contractual years
£0 04 to £0 08	**£0 07**	**5,734,676**	**9 73**	£0 05	605,430	8 34
£0 11 to £0 12	**£0 11**	**2,270,084**	**8 10**	—	—	—
£0 21 to £0 24	**£0 22**	**254,290**	**8 00**	£0 22	288,948	9 00
£0 31	**£0 31**	**80,426**	**7 00**	£0 31	87,863	8 00
£0 44 to £0 48	**—**	**—**	**—**	£0 46	79,810	5 91

The total charge for the year relating to employee share-based payment plans was £55,942 (2009 £147,768 credit) all of which related to the above equity based transactions The credit in 2009 arose due to the large number of unvested options which lapsed in the year

Provision for employer's national insurance on share option gains

There is no provision for Employer's National Insurance Contributions on share option gains at the year end for options granted under the 2007 share option schemes as the liability for National Insurance has been transferred to the employee

There is no provision for Employer's National Insurance Contributions on share option gains at the year end for options granted under the 2010 scheme as the option price of the share options granted is greater than the market value of the shares under option

Notes to the financial statements continued
for the year ended 30 September 2010

26 Post balance sheet events
A number of changes to the UK corporation tax system were announced in the June 2010 Budget Statement Certain of these tax changes were substantively enacted in the Finance Bill 2010–11 on 20 July 2010 The impact of these changes have been reflected in the unrecognised potential deferred tax asset

Certain other changes are expected to be enacted in future Finance Bills, including further reductions to the main rate of corporation tax by 1% per annum to 24% by 1 April 2014 The overall effect of the further changes from 27% to 24% if these applied to the potential deferred tax asset balance at 30 September 2010 would be to reduce the potential deferred tax asset by £1,308,000 (being £436,000 recognised in the year ending 30 September 2011, £436,000 recognised in the year ending 30 September 2012 and £436,000 recognised in the year ending 30 September 2013)

27 Capital commitments
The Group had no capital commitments contracted but not provided for at 30 September 2010 (2009 £nil) The Company had no capital commitments contracted but not provided for at 30 September 2010 (2009 £nil)

28 Contingent liabilities
There were no contingent liabilities in the Group or Company at 30 September 2010 (2009 £nil)

29 Financial commitments
At 30 September 2010 there were the following commitments under non-cancellable operating leases

	2010 Land and buildings £	2009 Land and buildings £
Within one year	**81,224**	13,650
Between two and five years inclusive	**315,185**	17,063
	396,409	30,713

The Group's commitments have increased due to relocation to new premises during the year on fixed term lease arrangements

The Group has purchase obligations of £2,531,835 in respect of its sub-contracted research and development activities as at 30 September 2010 (2009 £208,103) The Company had no such commitments (2009 £nil)

Company
The Company has no annual commitments under non-cancellable operating leases (2009 £nil)

30 Related party transactions
Group
Under IAS 24, 'Related Party Disclosures' the Group is not required to disclose intra-group transactions which are eliminated on consolidation

The Directors regard Phytopharm plc as the ultimate controlling party of the Group

Company
The inter-company balances outstanding at 30 September 2010 and 30 September 2009 are shown on the Company balance sheet

The Company has been charged £412,694 (2009 £333,407) for corporate services provided by subsidiary undertakings

The remuneration received by key management personnel, including the Directors, is disclosed in note 6

Shareholder information

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Phytopharm plc is a company registered in England and Wales, which is listed on the London Stock Exchange (symbol PYM)

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Phytopharm's commitment to environmental issues is reflected in this Annual Report and Accounts which has been printed on Revive 100, a recycled paper stock containing 100% recovered waste

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