

Discoveries for life

Proximagen Neuroscience plc
Annual Report & Accounts 2007

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

Operational Highlights

- Encouraging pre-clinical studies from PRX1 programme revealed enhanced efficacy compared to L-DOPA (the gold standard of care treatment for patients with Parkinson's disease).
- Funding award from Michael J. Fox Foundation for PRX4 giving Elan Corporation plc first option to obtain exclusive worldwide commercial licence.
- PRX2 programme expanded to include new indication of neuropathic pain, a global market worth \$2.7 billion, which leverages the Group's growing expertise with selective neuronal nitric oxide synthase (nNOS) inhibitors.

Financial Highlights

- R&D investment increased by 49% to £2.6 million.
- Four service agreements signed during the year.
- Cash of £8.5 million at 30 November 2007.

The medical need

Neurodegenerative disease:

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

Parkinson's disease:

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

Alzheimer's disease:

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



Programme progress at a glance

PRX1: Prodrugs of L-DOPA for the symptomatic treatment of Parkinson's disease

- PRX1 moves in to development phase
- PRX1 shows greater efficacy and longer duration of effect in predictive models of Parkinson's disease
- PRX1 produces more prolonged plasma levels of L-DOPA than seen after administration of L-DOPA itself
- PRX1 produces less dyskinesia than L-DOPA in predictive models of Parkinson's disease

PRX2: Prevention of dyskinesia in Parkinson's disease

- n-NOS inhibitors shown to suppress L-DOPA-induced dyskinesia in predictive models of Parkinson's disease without worsening motor symptoms
- Highly selective and potent n-NOS inhibitors identified
- Chemistry campaign to improve bioavailability is underway
- Selective n-NOS inhibitor effective in a model of inflammatory pain

PRX4: A naturalistic approach to the prevention of progression of neurodegenerative diseases

- Neuroprotective fragments of osteopontin identified
- Active in models of cell death in Parkinson's disease
- Viral vectors containing osteopontin gene constructed
- Gene transfer into cell lines leads to osteopontin expression

PRX5: A novel approach to treating Parkinson's disease and cognitive decline

- Highly potent and selective D-1 agonists identified
- Effective in predictive models of Parkinson's disease
- Oral activity found but needs to be improved
- Selective D-1 agonist effective in a model of cognitive impairment

There is a need for novel symptomatic therapies and for treatments that are effective over the entire duration of the illness and that avoid current problems with tolerability, toxicity and side-effects. Even more urgent is the need for agents that alter the pathological processes underlying these disorders and that will stop or slow the otherwise inevitable progression of disease.

Chairman's statement

Neurodegenerative diseases pose a major therapeutic challenge for the 21st century and Proximagen is working hard to meet these challenges. Neurodegenerative diseases affect millions of people around the world each year and represent major health and quality of life issues. With a growing population of elderly people, these diseases are expected to be one of the largest segments of need in the pharmaceutical market. For most, there is no effective treatment – existing symptomatic therapies are limited and largely only of benefit in the earlier stages of illness.

That is why we choose carefully and focus on a limited number of drug candidates with great potential. Our programmes, detailed later in this report, are novel symptomatic therapies and treatments that are designed to be effective over the entire duration of the illnesses and to avoid current problems and side-effects. Equally urgent is the need for agents that will stop or slow the otherwise inevitable progression of disease. We are addressing this need through collaborative work with our recently announced industry partners, Boehringer Ingelheim and Elan Pharmaceuticals. In the increasingly competitive landscape that characterizes our industry, we expect our collaborations to be transformational for us by reducing discovery and development time and costs, while increasing productivity and thus the likelihood of success.

I would like to thank all our staff for their continuing outstanding contribution to Proximagen's success. Our success is built each day on the individual contributions of our employees. We are constantly striving to foster a work environment where talented individuals come together in multi-disciplinary teams to advance much needed potential therapies. It is this teamwork that can make the crucial difference as we advance scientific breakthroughs from the laboratory bench through to the clinic.

Proximagen has a strong outlook for 2008 with an advancing and diverse pipeline of drug candidates, two collaborations, and with enthusiasm for the opportunities that our drug programmes offer in our focused area of neurodegenerative disease. We expect to continue to generate value from our balanced pipeline, while remaining disciplined in our use of capital and resources. The Board is confident that the Company has a clear strategic and scientific focus, and will build on the progress made in 2007.

Finally, I would like to thank you, our shareholders, for your steadfast support. You play a central part in our process of innovation, as we all work together in this challenging and rewarding effort.

Bruce Campbell, *Chairman*
3 April 2008



Dr Bruce Campbell

Business review

Chief Executive's review

I am pleased to report that 2007 was a year of accomplishment and progress for Proximagen. A key achievement was receiving the Novel Approaches to Drug Discovery for Parkinson's disease (PD) Award presented by The Michael J. Fox Foundation to pursue development of a novel gene therapy. Elan Corporation provides funding leadership for the development work on this exciting programme, and collaboratively we look forward to success on this innovative programme. Overall in 2007, we increased our investment in research and development by 49% and advanced our drug candidate programmes to important milestones. We also made good progress in expanding our activities into new therapeutic indications by initiating a new programme in the area of neuropathic pain.

The financial year 2008 is off to a great start with the recent announcement of our Strategic Partnership Agreement with Boehringer Ingelheim in December 2007. Under the Agreement, Boehringer Ingelheim and Proximagen will jointly apply their development resource and expertise to a variety of novel central nervous system (CNS) treatments, including those associated with Parkinson's disease (PD). The agreement underlines the value of our pipeline but it also serves as a strong endorsement of the scientific excellence on which our programmes and future programmes are based.

Pipeline advances

Discovery lies at the very core of Proximagen and we remain committed to maximising returns from our pipeline of promising drug candidates for the treatment of PD and other age-related neurodegenerative diseases. While Proximagen is best known for its expertise in PD, in the last year Proximagen's development pipeline has increased in size and has grown more diverse, reflecting the Company's ability to pursue treatments in various indications including cognitive decline and neuropathic pain. Our goal is to be able to pursue CNS therapeutic possibilities wherever the scientific and commercial trail leads.

Such an aspiration must begin with a sound and focused strategic approach. Proximagen's research and development programmes are grounded in the neurological sciences, where advancing technology and rapidly expanding knowledge allows the company to pursue the study of disease and the development of potential new therapies at many levels.

Proximagen funds internal discovery research programmes focused in the area of the CNS and these programmes are enhanced and expanded through external research collaborations and strategic partnership opportunities, such as the industry partnerships mentioned above.

Currently, Proximagen has five programmes in pre-clinical trials. The most advanced programme is PRX1, a platform of levodopa (L-DOPA) prodrugs for symptomatic treatment of PD, a market worth over \$2 billion annually. These compounds have been developed to overcome the poor and unreliable absorption profile and short duration of effect that characterise L-DOPA, the current gold standard treatment for PD. A PRX1 drug candidate has been validated in predictive pharmacokinetic and functional models of PD which demonstrated its enhanced efficacy and consistency of response. Proximagen intends to commence a Phase I proof-of-concept clinical trial study later this year.

The PRX2 programme is designed as a novel treatment for the uncontrollable movements (termed dyskinesia) that are frequently seen in PD patients. Once established, these involuntary movements are persistent and may become the factor significantly limiting current PD treatment strategies. Our pre-clinical studies indicate that our drug candidates are effective in significantly reducing dyskinesia, and are safe and well tolerated.

While PRX2 compounds were initially evaluated as a treatment for dyskinesia, some of these compounds are now also under evaluation in the treatment of neuropathic pain, a market worth US\$2.7 billion. Neuropathic pain is a chronic and often progressive condition that seriously impacts the quality of life of patients who suffer from it. PRX2 compounds have been shown to be as effective as L-NG-nitroarginine methyl ester (L-NAME), a potent pain reliever; however, unlike L-NAME, PRX2 compounds do not cause hypertension in pre-clinical models. Lead optimisation is currently underway to improve the pharmacokinetic profile of these compounds.

Another major area of unmet need in age-related neurodegenerative disease is the absence of any available treatments proven to stop or slow disease progression. The Company has published recent data identifying a specific gene product that may provide a naturalistic approach to neuroprotection.



Kenneth Mulvany

Business review continued

Chief Executive's review continued

Proximagen's pre-clinical studies as part of the PRX4 programme have already shown that this neuroprotective gene product is implicated in the control of many mechanisms associated with the degeneration of neurons in PD. If successful, the treatment may prevent the disease from causing further damage and may even restore normal brain function to patients, reversing the difficulties in movement that characterise the illness.

The PRX5 programme is aimed at the symptomatic treatment of Parkinson's disease and separately in the control of cognitive decline. Insufficient dopamine in certain parts of the brain, as is the case in PD or with the ageing process, leads to impaired working memory and cognitive awareness which can be alleviated by the administration of D-1 receptor agonists. Compounds from this programme are novel D-1 dopamine agonists and have been shown to be orally active, selective, highly potent and long acting in experimental models of PD and in models of cognition. Currently these compounds are in the discovery phase and we are looking to select a lead series to be developed through to Phase 2 proof-of-concept in human patient studies.

Research at Proximagen has always been a streamlined process with those programmes showing more visible commercialization opportunities receiving more resources. Only programmes that represent true scientific innovations and unmet need are granted a "PRX" programme designation number. Using this standard as a development benchmark makes things more challenging, but demonstrates our commitment to pursuing only those opportunities that present the best chance of generating significant commercial value.

Our service business

During the year we signed four service contracts all of which made an important contribution to the Group's operations. Revenues for the period were down on 2006 levels – in line with our projections and reflecting the increasing demands of our internal R&D programmes on our service resources. We are committed to continue providing services to our valued customers and recognise the value of further strengthening our relationships with these important pharmaceutical companies. Our internal programmes must take priority over external service work, and thus we undertake service contracts when resources permit.

Operational review

We continue to be located in offices and laboratories on Guy's Campus, part of King's College London, one of the largest biomedical campuses in the United Kingdom. During the year we took in hand additional laboratory and office space adjacent to our existing facilities in order to accommodate our increased bioanalytical facility and our additional staff. Whilst we are still a small and nimble Company, we grew our staff numbers by 18% with strategic hires that broadened our capabilities and deepened our expertise. And as our growth continues, we remain committed to building a Company that can attract and cultivate the best possible talents.

We are pleased to report that in 2007, the National Parkinson Foundation again designated our academic facility as a Parkinson's disease Center of Excellence.

During the period, Proximagen continued to pursue its aggressive intellectual property strategy and four new patent applications were filed based upon the Company's growing pipeline of in-house discovery initiatives.

To date, the Group has rights to patent applications pending in ten distinct patent families that encompass all aspects of our discovery programmes, ranging from specific composition of matter patents to use patents claiming novel mechanisms of actions associated with those programmes.

Summary

The period under review has been significant for Proximagen and we move into 2008 with a stronger, more advanced and more diverse pipeline of drug candidates than in 2007. We look forward to building on the progress made over the past year as we move towards becoming a clinical stage biotechnology company with the expectations to report further significant events, which will reinforce our ability to generate value from our balanced and focused pipeline.

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

Kenneth Mulvany, *Chief Executive Officer*
3 April 2008

PRX1 – a more effective L-DOPA

The PRX1 programme has advanced significantly with the identification of PRX1354 as a drug candidate with characteristics that fit the required product profile.

Pharmacokinetic investigations have indicated that after oral administration, PRX1354 is well absorbed and then converted to L-DOPA. The plasma half-life of L-DOPA derived from PRX1354 was shown to be longer than after administration of L-DOPA itself in two models of pharmacokinetics. After absorption, PRX1354 is metabolised to L-DOPA in a manner that maintains plasma levels in the therapeutic range for a longer duration. The full metabolic potential of PRX1354 is currently under investigation.

Efficacy of PRX1354 has been shown in predictive models of Parkinson's disease and the compound also produces increased locomotor activity and improves motor disability. Its effects are both more prolonged and of greater intensity than seen with equivalent doses of L-DOPA, while producing markedly less dyskinesia than L-DOPA. The effects of PRX1354 were also more consistent than those seen following L-DOPA administration, perhaps reflecting more efficient absorption from the gastro-intestinal tract.

The results of these investigations are considered highly significant in meeting the need for an improved form of the gold standard treatment of Parkinson's disease through improved absorption after oral administration, reproducibility of therapeutic effect, prolonged duration of action and avoidance of a key side-effect of treatment, namely dyskinesia. As a result, a full development programme for PRX1354 has been initiated with bulk synthesis of material for toxicological testing and clinical studies.

PRX2 – treatment of dyskinesia in Parkinson's disease and neuropathic pain

Proof of concept studies in experimental models of dyskinesia have shown the utility of n-NOS inhibitors as a treatment for these involuntary movements that occur as a major side-effect of therapy in Parkinson's disease. This emphasises the ability of n-NOS inhibitors to suppress dyskinesia while having no adverse effect on the beneficial effects of L-DOPA on the motor symptoms of the illness. This is a combined effect that is unique to this approach to dyskinesia treatment.

We have advanced the chemistry of novel n-NOS inhibitors through a synthetic programme based around the laboratory of Professor Rick Silverman (Northwestern University). Compounds of high potency and high selectivity for n-NOS over other isoforms have been identified and these are being examined for biological activity and for their interaction with human n-NOS using *in vitro* and *ex vivo* assays. Lead molecules have been shown not to interact with other neuronal or enzymatic targets which differentiates our series from previous n-NOS inhibitors. Key structural elements of the lead series are being optimised to reduce the number of steps and to increase yields while retaining potency and selectivity for inhibition of n-NOS.

Nitric oxide is known to be involved in pain pathways as well. In a programme announced earlier this year, we are investigating the actions of our selective n-NOS inhibitors in experimental pain models. Excitingly, a compound from the Silverman series has been shown to be highly effective in a model of inflammatory pain. Importantly, it did not alter cardiovascular function which might potentially represent a side-effect of NOS inhibition. We are also pleased to note the significant industry interest in developing n-NOS inhibitors for the treatment of neuropathic pain.

PRX4 – neuroprotection in Parkinson's disease

Fragments of osteopontin (OPN) containing as few as 6 amino acids have now been shown by Proximagen to be highly protective against toxin induced insults to human brain tissues, confirming the potential for this naturally occurring protein to stop or slow the progression of Parkinson's disease. These peptide fragments contain a motif that interacts with a known signalling pathway for the whole protein and this site appears critical for the biochemical effects we have observed. The actions of these peptide fragments have been confirmed in a model of nigral cell degeneration produced by the focal injection of 6-OHDA. Chemical modelling of these fragments against libraries of existing molecules is being undertaken to identify small molecules with similar properties and computational chemistry is being employed to identify cyclic peptides or peptidomimetics to allow the actions of osteopontin to be expressed after peripheral administration.



Professor Peter Jenner

Business review continued

Chief Scientist's review continued

Basic science studies are being used to locate the receptor target for osteopontin in brain and the signalling pathways leading to its neuroprotective actions. Cell lines have been identified that can be utilised to understand the natural neuroprotective role of OPN in cell survival. These have been transfected with the gene for osteopontin and its over-expression utilised to investigate protection against toxic insults relevant to the pathogenesis of osteopontin. Links are being established between osteopontin and the production of neurotrophic factors essential for the survival of dopaminergic cells under normal physiological conditions.

In an exciting new development, with the support of the Michael J. Fox Foundation and Elan Pharmaceuticals, we are developing the delivery of the gene for osteopontin using an AAV viral vector for the prevention of the progression of cell death in Parkinson's disease. The vector containing a marker gene has been shown to express in neurones. Importantly there was no immune or inflammatory response to the vector, therefore establishing an important criterion of safety. The vector containing the osteopontin gene has now been successfully used to transfect cell lines with the expression of osteopontin protein. This programme intends to establish the viability of this approach as a potential gene therapy for Parkinson's disease, and potentially other neurodegenerative disorders, within 18 months. Viral vector approaches to the prevention of Parkinson's disease are an acceptable means of treating the disorder as shown by the results from clinical trials in this illness using different vectors and genes encoding for dopamine formation and neurotrophic factor production.

PRX5 – D-1 dopamine agonists for the treatment of Parkinson's disease and cognitive decline

Rapid progress has been made in designing and synthesising novel D-1 agonists of high selectivity and high potency. Compounds that show up to 30,000 fold selectivity for D-1 receptors over D-2 receptors have been identified. These compounds have been shown to have functional D-1 receptor activity by the stimulation of adenylate cyclase as the known transduction or signalling pathway for D-1 receptors. The functional use of selective D-1 agonists for the treatment of Parkinson's

disease has been shown by their ability to improve motor function and by reversing deficits in locomotor activity and motor disability.

A problem associated with D-1 agonists previously has been a lack of oral bioavailability. We have derivatives that are effective in experimental models of Parkinson's disease after oral administration although the extent of their availability needs to be further improved. The low oral bioavailability is due to extensive first pass metabolism and a major highlight has been the extensive on-going chemical campaign which is aimed at establishing structure-activity relationships for the interaction of the current platforms with the D-1 receptor. Structural modifications are aimed at moving away from catechol derivatives that are the source of low oral bioavailability to non-catechol derivatives that have already been shown to function as selective D-1 agonists in our predictive models.

We are also examining the activity of D-1 agonists in models of cognitive decline related to Parkinson's disease. These investigations are at an early stage but one of Proximagen's novel compounds has been shown to significantly improve performance in models of cognition. These data confirm the concept of the D-1 receptor's involvement in the control of cognitive behaviour and they form a prelude to the programme being advanced to target cognitive decline and dementia in the elderly, in classical dementing illnesses and symptoms of schizophrenia.

Professor Peter Jenner, *Chief Scientist*
3 April 2008

Profit and loss account

R&D investment in the Group's programmes rose by 49% over the year with £2.6 million being spent in 2007 compared with £1.7 million in 2006. The increased investment in our science is accounted for by an increase in scientific staff numbers, our PRX1 programme moving to lead candidate status and a full year of discovery chemistry on our PRX5 programme.

Our revenues for the year at £0.28 million were down on 2006 levels where we reported revenues of £0.74 million. As detailed above, this decrease reflects the reduction in capacity we have available for external contracts owing to the progress of our own R&D programmes. Gross margin improved slightly, however, from 55% in 2006 to 58% this year owing primarily to the specific nature of the contracts we undertook in the year.

Overheads for the year were £1.09 million, with the increase over 2006 levels due in part to an increase in non-cash charges of depreciation and expensing for share-based payments under FRS20, the standard adopted by the Group on 1 December 2006. FRS20 requires companies to adopt fair value accounting for share options in issue and for comparative purposes the 2006 accounts have been restated accordingly. For the period up to 30 November 2006 the charge for share-based payments was £0.064 million and for the year to 30 November 2007 the charge was £0.062 million.

Interest receivable was £0.55 million in 2007 compared with £0.56 million in 2006, despite operating with significantly lower average cash balances through the year. These lower balances were offset by higher interest rates in 2007 where we averaged a return of 5.47% on fixed rate deposits compared with return of 4.69% in 2006.

The retained loss for the year was £2.96 million, equating to a loss per share of 14.8p compared with a retained loss in 2006 of £1.65 million and a loss per share of 8.3p.

Balance sheet and cash flow

Net assets at the year end totalled £8.7 million (2006: £11.6 million) with cash and deposits of £8.5 million (2006: £11.5 million).

The decrease in the cash balance of £3.0 million from the previous year is principally accounted for by:

- Cash outflow from operations of £3.36 million (2006: outflow of £1.9 million).
- Interest received of £0.49 million (2006: inflow of £0.58 million).
- Tax credit received of £0.07 million (2006: nil).
- Capital expenditure of £0.19 million (2006: outflow of £0.18 million).

International Financial Reporting Standards (IFRS)

The Company has adopted IFRS for its financial year beginning 1 December 2007 and therefore these results to 30 November 2007 will be the last produced under UK GAAP. The first financial results to be reported under IFRS will be the Group's unaudited interim results for the six months to 31 May 2008. The Group has assessed the likely impact of the transition to IFRS on the Group's operations and its financial reporting and this has been reported to the Audit Committee and the Board.

James Hunter, *Finance Director*
3 April 2008



James Hunter

Directors and advisers

Bruce Campbell

Chairman

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

Kenneth Mulvany

Chief Executive Officer

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

Professor Peter Jenner

Chief Scientist

As co-founder and Chief Scientist, Peter is responsible for scientific leadership and management of Proximagen's pre-clinical research and discovery initiatives. Peter has published more than 600 papers in peer reviewed journals, is a frequent speaker at international congresses and to lay groups of patients and caregivers, and is widely considered an opinion leader in Parkinson's disease.

James Hunter

Finance Director

James joined the Group in January 2005 as Financial Controller and was subsequently appointed to the Board in February 2006. James joined Proximagen after spending six years in the corporate finance team at Ernst & Young where he worked in mergers and acquisitions and corporate restructuring, latterly advising companies on improving their management of working capital. James has an MBA from the Cranfield School of Management.

Michael Ashton

Non-executive Director

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

Nigel Whittle

Non-executive Director

Nigel has more than 20 years' scientific and commercial experience in the biotechnology and pharmaceutical industry, with Genentech, Celltech and as vice-president of Project Management at Cantab Pharmaceuticals. Most recently Nigel has been working as an international technology adviser for the United Kingdom government, covering life science opportunities in Australasia. Nigel has a PhD in biochemistry from Imperial College and an MBA from Cambridge University.

Company Secretary

June Mary Paddock

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Directors' report

Financial statements

The directors present their report and financial statements for the Company and Group for the year ended 30 November 2007.

Principal activities

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

Business review

Further details relating to a review of the business, its results and future direction are included in the Chairman's statement and the Chief Executive's review.

Principal risks and uncertainties

Clinical and regulatory risk

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

Competition and intellectual property risk

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

Financial risk

With the Group's operations currently based entirely in the UK and with no debt financing currently in place, the directors consider the Group to be exposed to limited financial risks. The Group principally relies on its cash deposits to fund its operations but the contribution from its service business and the returns on its invested cash deposits also contribute positively to its ongoing funding. Details relating to exposure to financial instrument risks are provided in note 11.

Key performance indicators

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

Research and development

Details of the Company's research and development programmes can be found in the Chief Scientist's review on pages 8 and 9.

Charitable and political donations

The Group made no charitable or political donations in the year under review (2006: £nil).

Dividends

The directors do not recommend the payment of a dividend (2006: £nil).

Directors

The following directors have held office during the year:

Bruce Campbell
Kenneth Mulvany
Peter Jenner
Nigel Whittle
Michael Ashton
James Hunter

Share capital

As at 30 November 2007, the authorised and issued share capital of the Company was:

	Number of Ordinary 1p shares	Amount £
Authorised	500,000,000	5,000,000
Issued and fully paid up	20,058,872	200,058

The average market price of the Company's ordinary shares at close of business on 30 November 2007 was 92.5p.

The maximum share price during the period was 118.5p (1 December 2006) and the minimum price was 85p per share (10 July 2007).

Directors' report continued

Substantial share interests

The interests in the share capital of the Company of the directors who held office at 30 November 2007 are shown in the Directors' remuneration report on page 16.

At 1 February 2008, the Company had been advised or is aware of the following interests of 3% or more of the Company's issued share capital:

	Number of shares	Percentage of issued share capital
IP Group plc (formerly known as IP2IPO plc)	4,704,000	23.45
King's College London	2,204,324	11.00
Lansdowne Partners	1,520,270	7.58
Gartmore Investment Management	1,087,485	5.42
Goldman Sachs	1,072,518	5.34
New Star Asset Management	1,071,619	5.34
Black Rock Investment Management Ltd	985,878	4.91
Henderson Global Investors	893,137	4.45

Statement as to disclosure of information to auditors

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

Auditors

The directors, having been notified of the cessation of the partnership known as Baker Tilly, resolved that Baker Tilly UK Audit LLP be appointed as successor auditor with effect from 1 April 2007, in accordance with the provisions of the Companies Act 1989, s26(5). Baker Tilly UK Audit LLP has indicated its willingness to continue in office.

A resolution to re-appoint Baker Tilly UK Audit LLP, Chartered Accountants, as auditors will be put to members at the Annual General Meeting.

Annual General Meeting

The 2008 Annual General Meeting will be held on 28 April 2008.

By order of the Board,

Kenneth Mulvany
Director

3 April 2008

Corporate governance

Proximagen Neuroscience plc has adopted the majority of the June 2006 Combined Code on Corporate Governance ("the Code") principles as set out below although, as an AIM company, it is not required to comply with the Code.

The Board

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

During 2007, a formal evaluation was undertaken of the executive directors' performance based on information provided by directors and senior staff. It is the Board's intention to review annually its performance and that of its Committees and individual directors.

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

The Board receives reports covering finance, business development, operations and science, together with any other material deemed necessary for the Board to discharge its duties. The Chairman, Bruce Campbell, is primarily responsible for the effective operation and chairing of the Board and for ensuring that it receives appropriate information to make informed judgments. The Board has a formal schedule of matters reserved to it for decision but otherwise delegates specific responsibilities to Committees, as described below. The terms of reference of the Committees are available on request from the Company Secretary. The Board is responsible for decisions, and the review and approval of key policies and decisions in respect of business strategy, board appointments, budgets, items of substantial investment and acquisitions.

Board Committees

The Board has established an Audit Committee, a Nomination Committee and a Remuneration Committee with written terms of delegated responsibilities for each. Details of these committees can be found on page 16. Under the Articles of Association all directors must offer themselves for re-election at least once every three years. One third of the directors retire by rotation at every Annual General Meeting and are eligible for re-appointment.

Internal control and risk management

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

The Board's approach is designed to manage rather than eliminate risk and can provide only reasonable and not absolute assurance against material misstatement or loss. It operates with principles and procedures designed to achieve the accountability and control appropriate to a science-based business operating internationally in a highly regulated business sector. The principal features of the Group's internal control system are as follows:

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

Shareholder relations

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

Audit Committee

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

The Committee reviewed the half year and full year results and the Interim Statement and Annual Report and Accounts prior to their submission to the Board and considered any matters raised by the external auditors. The meetings were fully attended by all Committee members and the conclusions were presented to the full Board. The Audit Committee reviews on an annual basis the need for an internal audit function. In 2007, in common with other companies of its size and complexity of operation, the Group did not operate an internal audit function.

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

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

Nomination Committee

In 2007, the Nomination Committee consisted of Bruce Campbell, who chairs the Committee, Nigel Whittle and Michael Ashton. The Committee keeps under review the Board structure, size and composition, identifies and nominates candidates for the approval of the Board and ensures plans are put in place for succession of the executive directors.

Remuneration Committee

During the year, the Remuneration Committee of the Board consisted of Nigel Whittle, who chairs the Committee, Bruce Campbell and Michael Ashton. It is responsible for considering directors' remuneration packages and makes its recommendations to the Board. The Committee met once during the year and the conclusions were presented to the full Board.

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

As in 2006, the Committee was provided with a benchmarking study prepared by New Bridge Street Consultants, an independent remuneration, performance evaluation, and share scheme consultancy. The benchmarking study provided remuneration data on senior executives of 58 companies within the UK biotechnology sector ("Comparator Group") and excludes participation by large multinational pharmaceutical companies.

Directors' remuneration report

This report sets out the remuneration policy operated by the Company in respect of the executive directors. Where executive directors have attended a Remuneration Committee meeting there was no discussion relating to their own remuneration and benefits.

Remuneration policy overview

It is the aim of the Remuneration Committee to encourage and reward superior performance by executives with that performance being measured against achieving corporate goals, strong financial performance and the delivery of value to shareholders. In line with the policy in 2006, the Remuneration Committee recommended a remuneration policy which benchmarks main elements of the remuneration package against a sub-set of companies in the UK biotechnology sector ('Comparator Group'). The policy benchmarks executive base salaries to the average lower quartile of base salaries in the Comparator Group and provides annual bonus potential measurable against deliverables set by the Board. The base salary and performance-based bonus together would provide compensation benchmarked between the lower and median quartiles of total compensation in the Comparator Group. Performance-based share options would be awarded in-line with the biotechnology industry.

<i>Base salary</i>	Average lower quartile
<i>Performance-based bonus</i>	Average upper quartile
<i>Share incentives</i>	Industry average
<i>Total compensation</i>	Between lower quartile and median

At present, the executive directors, Kenneth Mulvany and James Hunter, are entitled to receive salary, medical insurance, pension contributions and a discretionary bonus. The timing and amount of bonuses are decided by the Remuneration Committee with reference to the individual's performance and benchmarked against those offered by the Comparator Group.

Mr Mulvany has foregone his entitlement to the Company's contribution to his pension of £7,750 (2006: £6,500) for the period under review and all prior periods.

The Remuneration Committee believes that the current policy retains and motivates executives appropriately while enforcing a strong pay-for-performance culture within the Group.

The Remuneration Committee will continue to review the policy on an annual basis to ensure that it is in line with the Group's objectives and shareholders' interests.

Executive service contract

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

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

Non-executive directors

The non-executive directors have entered into letters of engagement with the Company, with the Board determining the fees paid to the non-executive directors. During 2006, the current directors were all remunerated at the same rate. Non-executive directors do not participate in the Group's pension or bonus schemes. The appointments can be terminated upon three months' notice being given by either party.

Pensions

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

Directors' remuneration

Full details of the directors' remuneration can be found in note 4 on page 33.

External directorships

Bruce Campbell is a director of Iceblack Ltd, a company that provides consultancy services to the Group. Details of this contract can be found in note 4 to the financial statements. He is also a non-executive director of Synairgen Plc, IQur Ltd, Modern Biosciences Ltd and Retroscreen Ltd.

Peter Jenner is a director of Primagen Ltd, a company that provides consultancy services to the Group. Details of this contract can be found in note 4 to the financial statements.

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

Nigel Whittle is a director of NRW Consulting Ltd.

Directors' remuneration report continued

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

The shares described are Ordinary 1p shares.

	30 November 2007	30 November 2006
Peter Jenner	1,800,000	1,800,000
Kenneth Mulvany	781,568	781,568
Bruce Campbell	67,567	67,567
Michael Ashton	20,384	20,384

Share incentive schemes

The Company currently operates two share option schemes, an Inland Revenue Approved Enterprise Management Incentive ("EMI") scheme and an Unapproved Share Option Scheme.

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

The grant of share options to executive directors is determined by the Remuneration Committee and recommended to the Chief Executive. Grants are related to the achievement of individual performance objectives and to the performance of the Group against its key development objectives.

Directors' share options

	Number of options granted during the year	Options as at 30 November 2006	Options as at 30 November 2007	Date from which exercisable	Expiry date	Exercise price
Bruce Campbell	–	600,000	600,000	27 Sep 2004	26 Sep 2014	8.33p
Michael Ashton	–	45,455	45,455	28 Jun 2006	27 Jun 2016	136p
James Hunter	–	60,000	60,000	17 Jan 2005	16 Jan 2012	83.33p
James Hunter	–	39,999	39,999	25 Oct 2008	24 Oct 2010	130p
James Hunter	–	150,267	150,267	27 Feb 2006	26 Feb 2011	135p

No directors exercised any options during the year.

Employees

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

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

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

Environment

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

Creditor payment policy

The Group's standard payment policy is to pay suppliers at the end of the month following the month of invoice, where no other agreement is in place. This equates to average payment terms of 45 days. Excluding amounts owed to King's College London, Group trade creditors as at 30 November 2007 represented 44 days of purchases (2006: 48 days). Suppliers are made aware of the terms of payment and it is the Group's policy to abide by the agreed terms, subject to the terms and conditions being fulfilled by the supplier.

Going concern

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

Statement of directors' responsibilities

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

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

- a) select suitable accounting policies and then apply them consistently;
- b) make judgements and estimates that are reasonable and prudent;
- c) state whether applicable United Kingdom Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- d) prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the requirements of the Companies Act 1985. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

Report of the independent auditors

to the shareholders of Proximagen Neuroscience plc

We have audited the financial statements on pages 20 to 37.

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

Respective responsibilities of directors and auditors

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

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

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

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

We read other information contained in the Annual Report, and consider whether it is consistent with the audited financial statements. This other information comprises the Directors' report, the Chairman's statement, the Chief Executive's review, the Chief Scientist's review, the Financial review, the Corporate Governance statement and the Director's Remuneration report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

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

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

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Group's and parent Company's affairs as at 30 November 2007 and of the Group's loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' report is consistent with the financial statements.

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

3 April 2008

Consolidated profit and loss account

For the year ended 30 November 2007

	Note	Year ended 30 November 2007 £	Year ended 30 November 2006 Restated £
Turnover	1	281,984	737,509
Cost of sales		(117,686)	(334,353)
Gross profit		164,298	403,156
Net operating costs			
Research and development		(2,601,191)	(1,742,528)
Administrative expenses		(1,088,864)	(915,612)
		(3,690,055)	(2,658,140)
Other operating income		41,988	–
Operating loss		(3,483,769)	(2,254,984)
Net interest receivable	2	550,204	564,033
Loss on ordinary activities before tax	3	(2,933,565)	(1,690,951)
Taxation	5	(32,361)	32,361
Loss after taxation		(2,965,926)	(1,658,590)
Basic loss per share (pence)	6	(14.8)	(8.3)
Diluted loss per share (pence)		(14.8)	(8.3)

All Group activities relate to continuing operations.

Consolidated statement of total recognised gains and losses

For the year ended 30 November 2007

	At 30 November 2007 £	At 30 November 2006 Restated £
Loss for the financial year	(2,965,926)	(1,658,590)
Prior year adjustment – see note 14	(64,200)	
Total gains and losses recognised since last financial statements	(3,030,126)	

Consolidated balance sheet

At 30 November 2007

	Note	At 30 November 2007 £	At 30 November 2006 Restated £
Fixed assets			
Tangible fixed assets	8	354,216	231,543
Current assets			
Debtors	9	635,740	526,934
Cash at bank and in hand		8,507,067	11,486,310
		9,142,807	12,013,244
Creditors: amounts falling due within one year	10	(826,449)	(673,057)
Net current assets		8,316,358	11,340,187
Net assets		8,670,574	11,571,730
Capital and reserves			
Called up share capital	12	200,589	200,356
Share premium account	15	12,661,413	12,659,223
Merger reserve	15	298,900	298,900
Share based payment reserve	15	126,547	64,200
Profit and loss account	15	(4,616,875)	(1,650,949)
Equity shareholders' funds	16	8,670,574	11,571,730

Approved and authorised for issue by the Board on 3 April 2008 and signed on its behalf by:

Kenneth Mulvany
James Hunter
Directors

Company balance sheet

At 30 November 2007

	Note	At 30 November 2007 £	At 30 November 2006 Restated £
Fixed assets			
Investments	7	179,796	140,113
Current assets			
Debtors			
Amounts due within one year	9	230,230	164,344
Amounts due after one year	9	6,147,610	2,742,194
Cash at bank and in hand		8,103,674	11,018,451
		14,481,514	13,924,989
Creditors: amounts falling due within one year	10	(215,543)	(190,208)
Net current assets		14,265,971	13,734,781
Net assets		14,445,767	13,874,894
Capital and reserves			
Called up share capital	12	200,589	200,356
Share premium account	15	12,661,413	12,659,223
Share based payment reserve	15	126,547	64,200
Profit and loss account	15	1,457,218	951,115
Equity shareholders' funds	16	14,445,767	13,874,894

Approved and authorised for issue by the Board on 3 April 2008 and signed on its behalf by:

Kenneth Mulvany
James Hunter
Directors

Consolidated cash flow statement

For the year ended 30 November 2007

	Note	Year ended 30 November 2007 £	Year ended 30 November 2006 £
Net cash outflow from operating activities	17a	(3,356,334)	(1,941,183)
Returns on investment	17b	484,515	580,624
Taxation	17b	75,650	–
Capital expenditure	17b	(185,497)	(180,830)
Management of liquid resources	17b	3,000,000	1,600,000
Financing	17b	2,423	–
Increase in cash in the period	17b	20,757	58,611

Reconciliation of net cash flow to movement in net funds

For the year ended 30 November 2007

	Note	Year ended 30 November 2007 £	Year ended 30 November 2006 Restated £
Increase in cash in the period		20,757	58,611
Cash drawn down from deposit		(3,000,000)	(1,600,000)
Change in net funds resulting from cash flows		(2,979,243)	(1,541,389)
Movement in net funds in the period		(2,979,243)	(1,541,389)
Net funds at beginning of period		11,486,310	13,027,699
Net funds at end of period	17c	8,507,067	11,486,310

Accounting policies

Basis of accounting

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

The accounting policies used in preparing the financial statements have been applied consistently throughout all periods presented with the exception of FRS 20 – “Share based payments”. The Company has adopted FRS 20 for the first time for the year ending 30 November 2007 and therefore restated prior year results to reflect the historic impact of this charge. See “Share based payments” below for further details.

Basis of consolidation

Proximagen Neuroscience plc acquired the entire share capital of Proximagen Limited on 9 March 2005 by way of a share for share exchange. In accordance with the principles set out in Financial Reporting Standard 6 the financial information is presented as though the merged business had always been a single group. Accordingly, in those years where mergers take place, the whole of the results, assets, liabilities and shareholders’ funds of the merger companies are consolidated, regardless of the actual merger date and corresponding figures for previous years are re-stated.

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

No profit and loss account is presented for Proximagen Neuroscience plc as provided by Section 230(3) of the Companies Act 1985.

Turnover

Turnover represents the value of services provided to third parties after deducting Value Added Tax.

Turnover is derived from a broad range of services aimed at accelerating the drug discovery process in neurology. Services are generally provided through specific research agreements with distinct milestones, each with a typical study duration of six to twelve months.

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

Research and development

Expenditure on pure and applied research is charged to the profit and loss account in the period in which it is incurred.

Development costs are also charged to the profit and loss account in the year of expenditure, unless individual projects satisfy all of the following criteria:

- the project is clearly defined and related expenditure is separately identifiable;
- the project is technically feasible and commercially viable;
- current and future costs are expected to be exceeded by future sales; and
- adequate resources exist for the project to be completed.

Tangible fixed assets

All fixed assets are stated at cost. Depreciation is provided on all tangible fixed assets at rates calculated to write each asset down to its estimated residual life, as follows:

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

The need for any fixed asset impairment write down is assessed by comparing the carrying value of the asset against the higher of its realisable value and its value in use.

Liquid resources

Liquid resources comprise term deposits of less than one year which are convertible into cash at the date of maturity.

Foreign currency

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

Accounting policies continued

Deferred taxation

Deferred tax is recognised in respect of all timing differences that have originated, but not reversed, at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the Group's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantially enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis.

Investments

Long-term investments are classified as fixed assets. Short-term investments are classified as current assets.

Long-term investments are stated at cost less impairment in the Company balance sheet.

Pension contributions

The Group contributes to the personal pension plans of certain employees only. Contributions are charged to the profit and loss account as they become payable in accordance with the rules of the scheme.

Share based payments

The Group has adopted FRS 20 – "Share Based Payments" in the current year. FRS 20 requires the recognition of a charge for share based payment transactions. The adoption of FRS 20 also requires a prior period adjustment to be made. This has created a share option reserve as at 30 November 2007 of £126,547 and increased retained loss by £126,547. Of this amount £62,347 relates to the year ended 30 November 2007, £54,794 related to the year ended 30 November 2006 and £9,406 related to prior years.

Notes to the accounts

For the year ended 30 November 2007

1 Segmental reporting

Turnover by destination	2007 £	2006 £
United Kingdom	–	17,550
Rest of Europe	222,489	286,800
Rest of the World	20,000	40,000
United States of America	39,495	393,159
Total	281,984	737,509

Segmental reporting of profit before taxation is not shown since all expenditure is incurred in the UK. Net assets are also all in the UK.

2 Net interest receivable

	2007 £	2006 £
Bank interest paid	(16)	(61)
Bank interest receivable	10,707	5,343
Interest receivable from short-term deposits	539,513	558,751
Total	550,204	564,033

Funds belonging to the Group not required for immediate working capital have been placed on deposit at a number of UK-based banks and building societies on fixed term contracts (see note 11).

3 Loss on ordinary activities before taxation

	2007 £	2006 £
Loss on ordinary activities before taxation is stated after charging/(crediting):		
Depreciation charged for the year on owned assets	62,824	36,724
Research and development costs	2,601,191	1,742,528
Grant income	(41,988)	–
Auditors' remuneration: statutory audit of the Company's annual accounts	12,000	11,000
Auditors' remuneration: audit of the Company's subsidiaries	12,000	11,000
Auditors' remuneration: other services pursuant to such legislation	2,400	1,200
Auditors' remuneration: tax advisory services	8,460	8,000
Exchange gains	(14,311)	(6,697)
Share based payments	62,347	54,794

Notes to the accounts continued
For the year ended 30 November 2007

4 Employees	2007 Number	2006 Number
The average number of persons (including directors) employed by the Group during the period was:		
Laboratory	19	16
Administrative	4	3
	23	19
	£	Restated £
Staff costs for the above persons:		
Wages and salaries	1,287,191	932,519
Social security costs	114,335	85,455
Pension costs	29,881	21,635
Share based payments	62,347	54,794
	1,493,754	1,094,403

Directors' remuneration 2007

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

Directors' remuneration 2006

	Directors' emoluments £	Other remuneration £	Total salary and fees £	Bonus £	Benefits £	Total £	Pension contributions £	Total £
Executive directors								
Kenneth Mulvany	130,000	–	130,000	19,500	1,085	150,585	–	150,585
James Hunter*	77,422	–	77,422	14,625	1,356	93,403	7,803	101,206
Non-executive directors								
Bruce Campbell (a)	20,000	30,000	50,000	–	–	50,000	–	50,000
Peter Jenner (b)	20,000	72,000	92,000	–	–	92,000	–	92,000
Michael Ashton#	19,246	–	19,246	–	–	19,246	–	19,246
Nigel Whittle	20,000	–	20,000	–	–	20,000	–	20,000
George Murlewski‡	83	–	83	–	–	83	–	83
Total	286,751	102,000	388,751	34,125	2,441	425,317	7,803	433,120

* appointed 27 February 2006

appointed 15 December 2005

‡ resigned 31 December 2005

Notes to the accounts continued
For the year ended 30 November 2007

4 Employees continued

(a) The Group was charged £56,500 in the year (2006: £30,000) by Iceblack Limited, a company owned by Bruce Campbell for the provision of his consulting services.

(b) The Group was charged £90,746 in the year (2006: £73,729) by Primagen Limited, a company owned by Peter Jenner for the provision of his consulting services. Of these amounts £88,500 (2006: £72,000) related to consultancy and £2,246 (2006: £1,729) to out of pocket expenses.

5 Taxation	2007	2006
	£	£
Current tax		
United Kingdom corporation tax credit on loss for the year	–	(32,361)
Adjustments in respect of previous periods	32,361	–
Total current tax charge/(credit)	32,361	(32,361)
Deferred tax		
Origination and reversal of timing differences	–	–
Total deferred tax	–	–
Tax charge/(credit) on loss on ordinary activities	32,361	(32,361)

Factors affecting tax charge/(credit) for the year

The tax assessed for the period is higher than the standard rate of corporation tax in the United Kingdom (30%). The difference is explained below:

Loss on ordinary activities before tax	(2,933,565)	(1,636,157)
Loss on ordinary activities multiplied by standard rate of corporation tax in the United Kingdom of 30%	(880,070)	(490,847)
Effects of:		
Expenses not deductible for tax purposes	31,626	5,765
Capital allowances for period in excess of depreciation	(18,021)	(11,399)
Tax losses not utilised	1,219,173	725,975
Research and development enhanced relief	(352,709)	(290,171)
Adjustment to the tax charge/(credit) in respect of previous periods	–	28,316
Current tax charge/(credit) for the year	–	(32,361)

A potential deferred tax asset of £2,217,294 (2006: £961,431) arising from tax losses has not been recognised due to the uncertainty of its recoverability.

Notes to the accounts continued
For the year ended 30 November 2007

6 Basic and diluted earnings per ordinary share	2007	2006
	£	Restated £
The calculations of basic and diluted earnings per ordinary share are based on the following results and numbers of shares:		
Loss for the year	(2,965,926)	(1,658,590)

	2007	2006
	Number	Number
	of shares	of shares
Weighted average number of shares		
For basic earnings per share	20,044,396	20,035,622
Dilutive effect of share options	n/a	n/a
For diluted earnings per share	20,044,396	20,035,622

In 2007 the number of shares used in the calculation of diluted loss per share was the same as that used in the calculation of basic loss per share as the Group incurred a loss.

7 Investment in subsidiary undertaking	£
Company	
Cost	
1 December 2006	102,000
Prior year adjustment – Capital contributions arising from share based payments	38,113
1 December 2006 – restated	140,113
Capital contributions arising from share based payments	39,683
30 November 2007	179,796

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

The above subsidiary is incorporated in England and Wales (Company number 4977050).

Notes to the accounts continued
For the year ended 30 November 2007

8 Tangible fixed assets	Laboratory equipment £	Computer equipment £	Office equipment £	Total £
Group				
Cost				
1 December 2006	251,324	21,892	1,492	274,708
Additions	184,605	892	–	185,497
30 November 2007	435,929	22,784	1,492	460,205
Depreciation				
1 December 2006	37,082	5,795	288	43,165
Charged in the year	56,848	5,603	373	62,824
30 November 2007	93,930	11,398	661	105,989
Net book value				
30 November 2007	341,999	11,386	831	354,216
30 November 2006	214,242	16,097	1,204	231,543

9 Debtors	2007 £	2006 £
Group		
Due within one year:		
Trade debtors	66,360	110,628
Other debtors	96,432	169,524
Prepayments and accrued income	472,948	246,782
Balance	635,740	526,934
Company		
Due within one year:		
Other debtors	5,075	6,195
Prepayments and accrued income	225,155	158,149
Balance	230,230	164,344
Due after one year:		
Amounts owed by Group undertakings	6,147,610	2,742,194
Balance	6,147,610	2,742,194

The agreement between the Company and its subsidiary in respect of intercompany loans states that no interest is chargeable on any outstanding balance and that any loan shall only be repaid when there are sufficient funds to do so.

Notes to the accounts continued
For the year ended 30 November 2007

10 Creditors	2007	2006
	£	£
Group		
Amounts falling due within one year:		
Trade creditors	496,955	449,292
Other taxation and social security costs	34,425	22,385
Accruals and deferred income	295,069	201,380
Balance	826,449	673,057
Company		
Amounts falling due within one year:		
Trade creditors	21,393	50,505
Other taxation and social security costs	12,007	7,489
Accruals and deferred income	182,143	132,214
Balance	215,543	190,208

Notes to the accounts continued
For the year ended 30 November 2007

11 Financial instruments

The Group's financial instruments comprise cash and short-term deposits. The Group has various other financial instruments, such as trade debtors and trade creditors, that arise directly from its operations and which have not been included in the following disclosures.

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

The Group operates in the United Kingdom and as such substantially all of the Group's financial assets and liabilities are denominated in sterling and there is very limited exposure to exchange rate risks.

Interest rate risk

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

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

- (a) it has sufficient liquidity in its investments. For this purpose it will use its cashflow forecasts for determining the maximum periods for which funds may prudently be committed; and
- (b) it maintains a policy covering both the categories of investment types in which it will invest, the criteria for choosing investment counterparties with adequate security, and monitoring their security.

The interest rate risk profile of the Group's financial assets as at 30 November 2007 was:

	Fixed rate £	Floating rate £	2007 total £	2006 total £
Sterling	8,000,000	212,569	8,212,569	11,469,041
US Dollars	291,828	2,414	294,242	44
Euro	–	256	256	17,225
	8,291,828	215,239	8,507,067	11,486,310
Of which:				
Cash at bank and in hand	8,291,828	215,239	8,507,067	11,486,310

The weighted average interest rate earned on fixed sterling deposits during the year was 5.47% (2006: 4.69%). The weighted average interest rate earned on fixed US dollar deposits during the year was 4.35% (2006: n/a).

The weighted average period for which fixed rate sterling deposits were placed was 105 days (2006: 133 days). The weighted average period for which fixed rate deposits (US dollar) were placed was 7 days (2006: n/a).

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

Liquidity risk

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

Banking facility

The Group does not currently have an overdraft facility.

Fair value

There is no material difference between the fair value of borrowings and other financial interests and their book value at the balance sheet date.

Notes to the accounts continued
For the year ended 30 November 2007

12 Share capital

Group and Company	2007 £	2006 £
Authorised: 500,000,000 Ordinary shares of 1p each	5,000,000	5,000,000
Allotted, issued and fully paid: 20,058,872 (2006: 20,035,622) Ordinary shares of 1p each	200,589	200,356

A total of 23,250 new shares were issued for cash in the year in respect of the exercise of options by certain members of staff.

Date	Number	Nominal value	Class	Consideration £
12 April 2007	10,500	1p	Ordinary	1,094
14 August 2007	12,750	1p	Ordinary	1,329
	23,250			2,423

The weighted average share price based upon the share price prevailing at the two dates of exercise is £1.02.

The weighted average fair value of options granted in the year is 24.5p (2006: 47.6p).

13 Share based payments

At 30 November 2007 there were options outstanding over 1,288,266 ordinary 1p shares.

Date of grant	At 30 November 2007 Number of shares	At 30 November 2006 Number of shares	Exercise price per 1p ordinary share Pence	Date from which exercisable	Latest exercise date
Approved EMI scheme					
27 Sep 04	600,000	600,000	8.33	31 Mar 05	26 Sep 14
18 Oct 04	66,000	66,000	10.42	18 Oct 07	17 Oct 11
18 Oct 04	15,000	23,625	10.42	18 Oct 07	17 Oct 09
17 Jan 05	60,000	60,000	83.33	17 Jan 08	16 Jan 12
25 Oct 05	112,770	117,598	130	25 Oct 08	24 Oct 10
25 Nov 05	–	9,621	135	n/a	n/a
10 May 06	16,701	25,325	130	30 Nov 08	9 May 11
15 May 06	12,186	12,840	130	30 Nov 08	14 May 11
1 Aug 06	25,369	25,994	130	30 Nov 08	31 Jul 11
10 Jul 07	26,136	–	100	30 Nov 08	9 Jul 12
Unapproved scheme					
18 Oct 04	24,000	24,000	10.42	18 Oct 07	17 Oct 11
18 Oct 04	6,000	21,000	10.42	18 Oct 07	17 Oct 09
20 Oct 04	102,000	102,000	17.08	20 Oct 07	19 Oct 12*
8 Mar 05	12,000	12,000	100	8 Mar 08	7 Mar 10
27 Feb 06	150,267	150,267	135	27 Mar 06	26 Feb 11
30 May 06	14,382	22,773	130	30 Nov 08	29 May 11
28 Jun 06	45,455	45,455	136	28 Jun 06	27 Jun 16
Total outstanding	1,288,266	1,318,498			
Total exercisable	1,090,724	905,389			

* The option period was extended by five years to October 2012 from October 2007 by agreement of the Board of Directors on 5 September 2007.

Notes to the accounts continued
For the year ended 30 November 2007

13 Share based payments continued

The movement in the number of shares under option between 1 December 2006 and 30 November 2007 is set out below:

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

Outstanding at 1 December 2005 Number of shares	Granted Number of shares	Forfeited Number of shares	Exercised Number of shares	Lapsed Number of shares	Outstanding at 30 November 2006 Number of shares
1,065,224	282,654	(29,380)	–	–	1,318,498

At 30 November 2007, the weighted average contractual life of options exercisable is 5.3 years (2006: 6.3 years)

The key assumptions used in calculating the share based payments are as follows:

- (a) The Black-Scholes valuation methodology was used.
- (b) A figure of 40% has been used for expected volatility.
- (c) The expected dividend yield is nil.
- (d) The risk free rate is based on the UK Gilt rate as at the grant date with a period to maturity commensurate with the expected term of the relevant option tranche.
- (e) The fair value charge is spread evenly over the expected vesting period.

14 Prior year adjustment

The Group policy for Share based payments was changed during the year in order to comply with FRS 20. Further details of this adjustment are provided in the accounting policies. The comparative figures in the financial statements and notes have been restated to reflect this new policy.

The effect of this change is as follows:

	2007 £	2006 £
Profit and loss account		
FRS 20 – Share based payment charge	62,347	54,794
Increase in loss for the financial year	62,347	54,794
Balance sheet		
Increase in share based payment reserve	126,547	64,200
Decrease in profit and loss account	(126,547)	(64,200)
Change in net assets	–	–

Notes to the accounts continued
For the year ended 30 November 2007

15 Reserves	Share premium £	Merger reserve £	Share based payment reserve £	Profit and loss account £	Total £
Group					
At 1 December 2006	12,659,223	298,900	–	(1,586,749)	11,371,374
Prior year adjustment – see note 14	–	–	64,200	(64,200)	–
At 1 December 2006 – restated	12,659,223	298,900	64,200	(1,650,949)	11,371,374
New share capital issued	2,190	–	–	–	2,190
Share based payment	–	–	62,347	–	62,347
Loss for year	–	–	–	(2,965,926)	(2,965,926)
At 30 November 2007	12,661,413	298,900	126,547	(4,616,875)	8,469,985

The merger reserve represents the excess of the nominal value of the shares issued by Proximagen Neuroscience plc over the nominal value of the share capital and share premium of Proximagen Limited which was acquired on 9 March 2005.

	Share premium £	Share based payment reserve £	Profit and loss account £	Total £
Company				
At 1 December 2006	12,659,223	–	977,202	13,636,425
Prior year adjustment – Note 14	–	64,200	(26,087)	38,113
At 1 December 2006 – restated	12,659,223	64,200	951,115	13,674,538
New share capital issued	2,190	–	–	2,190
Share based payment	–	62,347	–	62,347
Profit for year	–	–	506,103	506,103
At 30 November 2007	12,661,413	126,547	1,457,218	14,245,178

16 Reconciliation of movement in equity shareholders' funds	2007 £	2006 Restated £
Group		
Opening shareholders' funds	11,571,730	13,175,526
Shares issued during the year	233	–
Premium on shares issued during the year (net of expenses)	2,190	–
Share based payment	62,347	54,794
Loss for the year	(2,965,926)	(1,658,590)
Closing shareholders' funds	8,670,574	11,571,730
Company		
Opening shareholders' funds – as previously reported	13,874,894	13,263,774
Prior year adjustment – see note 14	–	6,620
Opening shareholders' funds – restated	13,874,894	13,270,394
Shares issued during the year	233	–
Premium on shares issued during the year (net of expenses)	2,190	–
Share based payment	62,347	54,794
Profit for the year	506,103	549,706
Closing shareholders' funds	14,445,767	13,874,894

Notes to the accounts continued
For the year ended 30 November 2007

17 Notes to the Cash Flow Statement

	Year ended 30 November 2007 £	Year ended 30 November 2006 Restated £	
a Reconciliation of operating profit to operational cash flow			
Operating loss	(3,483,769)	(2,254,984)	
Depreciation	62,824	36,724	
Share based payments	62,347	54,794	
(Increase)/decrease in debtors	(151,128)	167,366	
Increase in creditors	153,392	54,917	
Net cash outflow from operating activities	(3,356,334)	(1,941,183)	
b Analysis of cash flows			
Returns on investment			
Interest paid	(16)	(61)	
Interest received	484,531	580,685	
Net cash inflow from returns on investments and servicing of finance	484,515	580,624	
Taxation			
R&D tax credit received	75,650	–	
Net cash inflow from taxation	75,650	–	
Capital expenditure and financial investment			
Purchase of tangible fixed assets	(185,497)	(180,830)	
Net cash outflow from capital expenditure and financial investment	(185,497)	(180,830)	
Management of liquid resources			
Cash withdrawn from term deposits	3,000,000	1,600,000	
Net cash inflow from investments	3,000,000	1,600,000	
Financing			
Issue of ordinary share capital	2,423	–	
Net cash inflow from financing	2,423	–	
Increase in cash in the period	20,757	58,611	
c Analysis of funds			
	At 1 December 2006 £	Cash flow £	At 30 November 2007 £
Cash at bank and in hand	486,310	20,757	507,067
Short-term deposits*	11,000,000	(3,000,000)	8,000,000
Net funds	11,486,310	(2,979,243)	8,507,067

* Short-term deposits are included within cash at bank and in hand in the balance sheet.

Notes to the accounts continued

For the year ended 30 November 2007

18 Guarantees

The Company acts as guarantor to its bankers, NatWest, in respect of any amount due by itself and its subsidiary. The directors are of the opinion that the likelihood of default by itself or its subsidiary is remote and as such there is no requirement for any provision to be made in the financial statements.

The borrowings at 30 November 2007 were nil (2006: nil).

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

The liability at 30 November 2007 was nil (2006: nil).

19 Related party transaction

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

£670,176 (2006: £462,491) was charged in the year under this agreement. The Group owed £192,525 (inclusive of VAT) to King's College London at the year-end in respect of this agreement (2006: £215,540 inclusive of VAT).

Discoveries for life

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