

PLETHORA SOLUTIONS HOLDINGS plc
ANNUAL REPORT AND ACCOUNTS

2006

CONTENTS

	Page
Chairman's and Chief Executive's Statement	3
Financial Review	11
Report of the Directors	12
Corporate Governance	16
Report on Remuneration	20
Report of the Auditors	22
Consolidated Profit and Loss Account	24
Consolidated Statement of Total Recognised Gains and Losses	25
Consolidated Balance Sheet	25
Company Balance Sheet	26
Consolidated Cash Flow Statement	27
Notes to the Financial Statements	28

INTRODUCTION

In the last year we have made progress towards our goal of building a sustainable urology business. We continue to implement our dual strategy of marketing products directly for the treatment of urological disorders through our dedicated urology sales and marketing operation in the USA and generation of revenues by developing and licensing out therapeutic products at the end of Phase II clinical trials. Towards this goal, we can report an upward trend in sales of products for the treatment of erectile dysfunction through our Timm Medical subsidiary. Post the reporting period, we have also announced the first therapeutic licensing agreement for PSD502, our premature ejaculation product. During 2006 we expanded our clinical development pipeline, which now comprises two products progressing towards Phase III and four projects in Phase II. All of these development projects made good progress in 2006 and this is a testament to both the commitment and hard work of our small team and to our capital efficient business model.

At the beginning of the year, we acquired Timm Medical Technologies, Inc., of Minneapolis, USA. This brought us a focused US sales and marketing infrastructure together with product revenues. In Timm, we have a business that has the potential to grow significantly both organically, as we have shown through year-on-year sales increases, and through acquisition of new products to be marketed by the existing, specialist sales force.

In anticipation of this increased activity in both clinical and business development, our senior management team has been strengthened with the appointments in August of Sandrine Cailleteau as Chief Business Officer and Dr Eboo Versi as Senior Vice-President, clinical development. Since the year end we have announced the appointment of Bill Robinson as a non-executive director. Bill's exceptional global pharmaceutical sales and marketing experience together with an extensive industry network will be of great benefit to the Board.

As a result of these combined activities, we now have a platform for continued growth in 2007 and beyond through the consummation of licensing agreements around our development assets and continued growth and development of the Timm Medical business.

LICENSING AGREEMENT FOR PSD502 FOR PREMATURE EJACULATION IN THE USA

Underlining the potential that has been built up within our development portfolio, in May 2007 we announced an exclusive agreement with Sciele Pharma, Inc., for marketing of PSD502 for premature ejaculation in the US. Under the terms of this agreement Sciele made a \$7m upfront payment for an equity stake in Plethora at £2.00 per share, to be followed by milestone payments on the achievement of regulatory and sales milestones. Reflecting the development status of this product, Plethora will also receive significant royalty payments on sales. Plethora has retained co-promotion rights that will be addressed through our existing Timm Medical sales and marketing infrastructure. By retaining co-promotion rights in the US and negotiating non-US rights separately, Plethora aims to extract further value from its investment in the development of this asset. Sciele's equity investment in Plethora reflects the potential that exists in our product development pipeline particularly in women's health, an area of focus for Sciele.

CHAIRMAN'S AND CHIEF EXECUTIVE'S STATEMENT

OUTLOOK

Through the establishment of a profitable US commercial business unit, the successful conclusion of our first out-licensing deal and the expansion of the development pipeline, Plethora has established a platform for the next phase of growth of the company. Following the successful integration of the Timm Medical operation, we look forward to continuing the commercial development of the business and have added new products that can be detailed by the Timm sales force. The twin tracks of licensing and product revenues are central to our strategy to build a sustainable urology business. The exciting prospect of moving therapeutic products closer to market approval brings these two strategic paths together and provides us with a unique opportunity to capture a share of product value from licensing partners whilst maintaining the option to retain commercial rights for our existing US sales and marketing operations.

In addition we will continue to seek opportunities for new product and business acquisitions to strengthen our business and accelerate the Group's route to profitability.

PRODUCT AND PIPELINE REVIEW

The Group's product pipeline includes two drugs which have completed Phase II clinical development and are advancing into Phase III, four drugs in Phase II development and three marketed medical devices.

	Product	Preclinical	Phase I/Pilot	Phase II	Phase III	Market
Erectile Dysfunction	ErecAid®					
	Rigiscan®					
	Invicorp®					
Premature Ejaculation	PSD401					
	PSD502					
	PSD502 (Pain)					
Urinary Incontinence	PSD503					
	PSD506					
Uro-Gyn	PSD597					
	PSD508					
	PSD509					

Plethora's marketed and development stage products and projects are directed to meeting patient and prescriber needs in four major clinical areas:

ERECTILE DYSFUNCTION

Erectile dysfunction (ED), the persistent inability to attain and maintain an erection sufficient to permit satisfactory sexual intercourse, afflicts almost one-fifth of men. It can be treated by either pharmacological or non-pharmacological means or a combination of treatments. A number of oral phosphodiesterase type 5 (PDE₅) inhibitors including sildenafil (Viagra®), vardenafil (Levitra®) and tadalafil (Cialis®) are approved as first-line treatments for ED. These agents are prescribed widely and the two leading products alone had combined global sales in excess of \$2.6 billion in 2006. The use of PDE₅ inhibitors is associated with a number of side effects and is contra-indicated for a large number of individuals, such as the estimated 1.5 million American men aged between 45 and 64 who receive nitrate medications for angina. The reported response rates to oral PDE₅ inhibitors is also substantially lower in diabetics than for all patients (51-56% response rate in diabetics versus 81-84% in all patients). Overall, while ED market expansion has been driven by oral drugs, the current generation of PDE₅ inhibitors is not effective in around 30% of men.

ED may also be treated with prostaglandin E1 (alprostadil) administered either by injection directly into the penis (intracavernosal therapy: Caverject®) or as a small drug pellet placed in the urethra (intraurethral therapy: MUSE®).

Non-pharmacological treatments include vacuum erection devices (VEDs). VEDs are non-invasive and fast-acting with a low incidence of side effects and are suitable for a wide range of patients with either chronic or occasional ED, including patients in which oral ED drugs are contraindicated. The efficacy rate of VED treatment has been reported as being 80% or greater in clinical studies.

The ErecAid® Vacuum Therapy Product Range

Through our subsidiary, Timm Medical, Plethora markets a range of manual and electrical VEDs to physicians active in the management of ED as well as directly to patients. Timm products are marketed outside of the USA through an extensive distributor network.

Timm Medical contributed revenues for the full twelve months ending 31 December 2007 of \$10.5m, primarily from sales of the ErecAid® VED. This equates to 12% year-on-year increase in revenues. Sales growth has been achieved by demonstrating the effectiveness of the product in treating ED in those patients who are either excluded from, or choose not to use, oral therapeutics for the treatment of ED.

During 2006, the importance of this product in these key ED patient groups was underlined when the FDA granted extended labelling for ErecAid®, permitting its use as a means of improving arterial blood flow to the penis ("penile rehabilitation") following prostate cancer surgery. Over 200,000 American men will be diagnosed with prostate cancer in 2007, of which around 80,000 will be treated by having their prostate surgically removed via a radical prostatectomy (RP) procedure. All will experience some degree of ED and this can persist long into

the recovery period. Nerve damage during surgery reduces the efficacy of oral ED drugs and so alternate treatments are required.

Penile shrinkage is also common after RP procedures. A clinical assessment of ErecAid® in post-RP patients demonstrated that of 28 men who made daily use of ErecAid®, only one experienced a reduction in penile length greater than 1cm. Of the four patients who did not make daily use of the vacuum system, three experienced a reduction in penile length of more than 1cm. The study investigators concluded that early intervention with VED should be recommended in all potent men undergoing nerve-sparing RP.

We expect that the continued demonstration of the safety and clinical efficacy of ErecAid® in satisfying medical needs in these ED patient groups will lead to organic growth in Timm Medical revenues.

PSD510 (Invicorp®)

In February 2006, Plethora acquired exclusive North American commercial rights to a non-oral ED drug treatment, Invicorp®. Invicorp® is a combination of two pharmaceutical actives, phentolamine mesylate and aviptadil (vasoactive intestinal peptide), which have a synergistic effect on smooth muscle and vasodilation resulting in an erection upon intracavernosal injection. In contrast to current, marketed injectible therapeutics where pain is a common adverse event experienced by more than 30% of users, the reported incidence of pain associated with Invicorp® in clinical studies to date is in the range 0-11%. Equally, Invicorp appears to illicit fewer other side effects compared with the currently marketed injectible ED products which collectively generated sales in the US in excess \$35 million in 2005. We believe that the superior adverse event profile and clinical efficacy of Invicorp® will allow this product not only to compete for market share but also to attract and retain new users.

Invicorp® is a strong complement to the Timm Medical ED franchise and will leverage Timm's current access to a key prescriber group, urologists active in ED management in those men failing oral ED drugs. Invicorp® is already approved in some European countries and other territories outside of the US. Following discussions with the FDA, Plethora intends to initiate the final stage of the clinical development programme for Invicorp®, a Phase III programme, at up to 30 sites in the US later in 2007. The study is expected to take approximately 12 months to complete.

PREMATURE EJACULATION

Premature ejaculation (PE) is a medically recognised condition defined as "persistent or recurrent ejaculation with minimal sexual stimulation before, upon, or shortly after penetration, and before the person wishes it".

Epidemiological surveys indicate that PE is the most commonly reported form of sexual dysfunction in men, with prevalence of 25 to 30%. Unlike ED, the prevalence of PE does not appear to correlate with increasing age and there are no approved pharmaceutical treatments.

PSD502: A Topical Treatment for Premature Ejaculation

PSD502 is a unique formulation of two established anaesthetic drugs, lidocaine and prilocaine, which is dispensed by metered dose aerosol.

PSD502 has successfully completed a double-blind, placebo-controlled parallel group Phase II clinical study conducted in subjects with primary PE. Results obtained for 43 evaluable subjects showed a statistically-significant ($p < 0.01$) increase in mean IELT (intravaginal ejaculation latency time: the time to ejaculation from penetration) over baseline of 3.7 minutes in the PSD502-treated group but only 0.93 minutes in the placebo-treated group, an almost four-fold improvement in time to ejaculation. No subjects withdrew from the study due to treatment associated side-effects. These Phase II study findings are consistent with the results of an earlier published pilot study conducted in 14 subjects.

Following end of Phase II meetings held with the FDA and European regulators in the latter half of 2006, Plethora has established that submission for marketing approval in the US and Europe will require two Phase III studies, involving a total of up to 540 patients. The combined Phase III programme will involve in the region of 20 European and 20 North American centres. In February 2007 the Group filed an Investigational New Drug submission with US regulatory authorities, completing its filing with the FDA ahead of moving the product into Phase III. A manufacturing and supply agreement has been concluded with a US manufacturer (Inyx, Inc.) to undertake commercial drug supply and the recent news of a licensing agreement with Sciele Pharma for rights to the PE product in the US means that the project is on track to move to its final stage of clinical development before the end of 2007.

Plethora is in active discussions to licence out ex-USA rights for the premature ejaculation indication.

PSD502 in Pain Management

Plethora has recognised a significant commercial opportunity for a secondary use of PSD502 in the alleviation of procedural pain arising from the treatment of burns and wounds. Of an estimated 250,000 people burnt each year in the UK, 175,000 attend accident and emergency departments and 13,000 of these are admitted to hospital.

The Company has undertaken preliminary studies in patients requiring skin grafting for burn injuries at a major UK burns centre. Removal of skin for grafting can be excruciatingly painful despite the use of background morphine analgesia. Administration of a single dose of PSD502 resulted in pain reduction or elimination in 75% of subjects according to validated pain scoring systems. As anticipated from the use of a locally-applied formulation, acceptable levels of active drug were found in the systemic circulation. PSD502 was well-tolerated with no adverse treatment effects reported.

The Group is evaluating the feasibility of using PSD502 in additional procedural pain management indications, such as the treatment of chronic venous leg ulcers and pressure sores, in association with a licensing partner.

PSD401 – SAM™ Device for the Diagnosis and Evaluation of PE

The development and comparison of PE treatments is complicated by the absence of reliable and objective means of assessing the condition and quantifying subsequent improvement through drug or other therapies. Plethora's non-invasive Sexual Activity Monitor ('SAM', PSD401) addresses this market need by providing reproducible measurement and recording of ejaculation latency time in clinical trials and in the diagnosis, evaluation and management of patients with PE. During the second half of the year, we received 510(k) clearance from the FDA to market the SAM™ device, complementing the existing CE mark approval for European marketing. We also concluded a supply agreement with a multi-national pharmaceutical company for use of the SAM device in a clinical development programme for PE.

URINARY INCONTINENCE

Urinary incontinence (UI) is a condition where involuntary loss of urine is a social or hygienic problem. UI may be broadly divided into two types: stress UI and urge UI, although "mixed" incontinence is not uncommon.

Stress urinary incontinence (SUI) is the most common form in women and is characterised by the voiding of urine when additional pressure is exerted on the abdomen through coughing, sneezing, laughing, exercising or sitting. There are no globally approved pharmacological treatments for SUI. Urge UI or overactive bladder (OAB) is characterised by an unpredictable, frequent and sudden need to urinate, which may or may not result in the leaking or gushing of urine.

PSD503: Topical Therapy for SUI

Plethora has developed PSD503 to provide a viable 'on demand' treatment initially for the treatment of women suffering from mild to moderate SUI. The product has a potential patient population of around 22 million in North America and Western Europe.

The safety of this approach has been established in a double blind, placebo-controlled crossover study in which patients with confirmed SUI were treated with a single dose of topically applied PSD503 or placebo. No significant increase in mean arterial pressure compared with placebo was found and no local irritation or other adverse events were reported.

A Phase II clinical study has been initiated which is enrolling women with confirmed SUI. Study endpoints include safety and objective assessments of urodynamic improvement. Study results are expected in 2007.

PSD506: An Oral Treatment for OAB in Men and Women

Under an exclusive license from Hoffman La Roche, Plethora is undertaking clinical development of a novel, selective, muscarinic receptor antagonist ("antimuscarinic") PSD506 as a treatment for OAB and related symptoms in men and women. Antimuscarinics (also referred to as anticholinergics) are widely prescribed. Marketed antimuscarinics have differing degrees of selectivity for the receptors found on the bladder, intestines and salivary glands. This results in side effects such as dry mouth and constipation. Based on preclinical and Phase I clinical studies undertaken by Hoffman La Roche, PSD506 may have a superior side effect profile; specifically a reduced propensity to cause dry mouth compared with currently available antimuscarinics.

PSD506 has been evaluated successfully in three Phase I studies by Hoffman La Roche, including multiple dosing studies in healthy female and male volunteers. The drug was well tolerated at potentially therapeutic doses. Plethora has initiated two Phase II clinical studies in spinal injury patients experiencing spontaneous contraction of the bladder muscles causing incontinence and in women with OAB. The results of these studies are expected in 2007.

URO-GYNAECOLOGY

Interstitial Cystitis

Interstitial cystitis/painful bladder syndrome (IC/PBS) is a chronic syndrome characterised by bladder and pelvic pain with increased urinary frequency and urgency in the absence of any identifiable cause. A self-reported survey of American households indicated that almost 1% of women had received a diagnosis of IC/PBS suggesting that there are at least 900,000 female IC/PBS sufferers in the USA alone. IC/PBS is undertreated and only half of women diagnosed with the condition receive medical treatment.

PSD597

PSD597 is a proprietary formulation of a marketed analgesic drug and Plethora has initiated a Phase II, double-blind, placebo-controlled multi-centre study of this formulation in North America for the treatment of IC/PB. In the course of 2006, Plethora also gained access to complementary micelle formulation technology through a license agreement with Maelor plc with the objective of simplifying drug administration.

In parallel, the Company is investigating the potential of PSD597 in an acute indication, specifically as a means of anaesthetising the bladder prior to urological procedures such as cystoscopy, biopsy and hydrodistension. A convenient and effective means of avoiding bladder pain would allow more procedures to be conducted in the physician's office rather than a hospital setting. It is estimated that at least 62,000 Americans undergo bladder biopsy each year to confirm the presence of bladder cancer while over 150,000 women have hydrodistention procedures for IC/PBS.

The results from both PSD597 studies are expected in 2007.

Dysmenorrhea / Chronic Gynaecological Pain

Dysmenorrhea is a painful, often incapacitating, menstrual cramp which afflicts more than 50% of women of reproductive age. 'Primary' dysmenorrhoea occurs with the onset of menstruation in healthy females. 'Secondary' dysmenorrhoea may begin later in life and is strongly linked with endometriosis, uterine fibroids and pelvic infection. Current treatments include non-prescription analgesics and hormone therapy, which may either provide insufficient pain relief or have associated side-effects.

Chronic gynaecological pain can arise from a number of extra- and intra-uterine causes including endometriosis, adhesions and fibroids. The underlying cause of the pain can sometimes be difficult to identify although epidemiological surveys indicate that more than 20% of American women suffer from chronic gynaecological pain.

PSD508 and PSD509

In May 2006, Plethora acquired exclusive licenses to two clinical-stage product candidates and access to an underlying drug delivery technology platform from Metris Therapeutics Limited. This technology effects delivery of drug actives with established or potential benefit in woman's health indications locally to the reproductive system via the vaginal wall. This may enable delivery of higher doses than might be achieved through oral delivery while minimising systemic exposure.

PSD508 is a locally-delivered formulation of a well-characterised non-steroidal anti-inflammatory drug in development for dysmenorrhea. A Phase II clinical study of PSD508 will be initiated later in 2007.

PSD509 is a locally-delivered formulation of a well-characterised sodium channel blocker thought to have potential in the treatment of chronic gynaecological pain. A PSD509 pilot study will be initiated in 2007.



Stuart Wallis

Chairman

29 May 2007



Steven Powell

Chief Executive Officer

The Group strengthened its financial position in 2006 through the acquisition of Timm Medical Technologies, Inc., a profitable US sales and marketing operation. This forms part of the Group's strategy to build a profitable urology company through increased product sales and licensing revenues.

RESULTS OF OPERATIONS

Revenues for the year ended 31 December 2006 were £5.2m (2005:£0.0m), £5.1m of which were generated through product sales at Timm Medical. Sales at Timm Medical have been recognised since the date of acquisition of February 2006.

The Group recorded a loss for the year ended 31 December 2006 of £5.9m (2005:£5.7m) which reflects increased product development activity offset by operating profits at Timm Medical.

The loss for the year includes non-cash charges of £316,000 and £332,000 respectively reflecting the amortisation of goodwill following the Timm Medical acquisition and the treatment of employee share options under FRS 20 share based payments.

The Group's research and development expenditure, which is expensed as it is incurred, for the year ended 31 December 2006 was £5.4m (2005:£4.6m). This reflects increased development activity across the Group's product portfolio.

Other administrative expenses at the continuing operation were £1.6m (2005:£1.4m) for the year and at Timm Medical were £3.2m reflecting sales and marketing activity. The average headcount for the Group in 2006 grew to 67 (2005:14) following the acquisition of Timm Medical.

The Group benefited from net interest receivable income of £253,000 (2005:£198,000).

SHARE ISSUE

In February 2006, the Company raised £7.0m via a placing of 3,200,000 shares at 220p to fund the acquisition of Timm Medical Technologies, Inc and provide additional working capital.

Post year end, in May 2007, the Company raised \$7.0m in equity from the first PSD502 licensing agreement. Under the agreement, Sciele Pharma Inc. acquired 1,772,505 shares a 200p each generating funding of £3.5m.

LIQUIDITY AND CASH RESOURCES

Net cash outflow from operating activities for 2006 was £5.1m (2005:£5.4m) despite increased development activity, further demonstrating the positive cash flow effect of the Timm Medical operations.

The Group's cash resources consist of cash balances together with amounts held on short term deposit and totalled £3.4m at 31 December 2006 (2005:£6.2m).

Brad Hoy

Chief Financial Officer

29 May 2007



REPORT OF THE DIRECTORS

The Directors present their annual report together with the audited financial statements for the year ended 31 December 2006.

Principal activity

The Group's principal activity is the development and sale of drugs and medical devices for the diagnosis, treatment and management of urological disorders. The Company's principal activity is that of a holding company.

Business review

There was a loss for the year after taxation amounting to £5.9m (2005: £5.7m).

In view of the loss the Directors cannot recommend the payment of a dividend.

With regard to the Group's development activities, the principal performance indicators are the results of clinical trials. With regard to the sale of medical devices, the principal performance indicators are sales activity and gross margin.

Post balance sheet event

On 24 May 2007 the Company announced that it had signed an exclusive license agreement for the marketing of PSD502 for premature ejaculation in the USA together with an agreement for Sciele Pharma Inc to purchase a \$7 million equity stake in Plethora. Under the terms of the license agreement Plethora will receive payments upon achievement of regulatory and sales milestones and royalty payments on product sales.

Directors

The present membership of the Board is set out below.

The interests of the Directors and their families in the shares of the Company as at 31 December 2006, or date of appointment if later, were as follows:

	Ordinary shares of 1 pence each 2006 Number	2005 Number
S M Wallis	22,300	22,300
Professor Sir C T Evans	-	-
N B Stafford	486,594	486,594
A G Hayes	-	-
W J Robinson (appointed 1 March 2007)	-	-
S J Powell	100	100
M G Wyllie	486,494	486,494
B R Hoy	-	-

Details of the Director's share options are disclosed in the Report on Remuneration.

Share capital

On 10 February 2006, the Company acquired the urology products marketer Timm Medical Technologies Inc. for £5.8 million funded by a placing of 3.2 million new shares at 220 pence per share and the issue of convertible debt.

On 28 June 2006, the Company issued 374,995 new ordinary shares of 1p each at a price of 200p per share. This was funding received from Metris shareholders for the development of PSD508 and PSD509 and associated delivery technology.

In May 2007 the Company announced that, as part of an exclusive license agreement for the marketing of PSD502 for premature ejaculation in the USA, Sciele Pharma Inc agreed to purchase a \$7 million equity stake in Plethora.

Substantial shareholdings

Apart from the interests of the Directors, the only interests in excess of 3% of the issued share capital of the Company, which have been notified as at 25 May 2007, were as follows:

	Ordinary shares of 1 pence each Number	Percentage of capital %
Merlin Biosciences Fund III LP	8,185,690	31.2
HSBC Global Custody Nominee UK Ltd	3,633,153	13.8
Merlin Biosciences Fund III LP GmbH and Co KG	1,525,250	5.8
Chase Nominees Ltd	1,435,982	5.5
Forest Nominees Ltd	1,403,241	5.4

Financial risks

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The Board reviews and agrees policies for managing each of these risks and they are summarised below:

Interest rate risk

The Group's only exposure to interest rate risk is on its convertible loan. Interest is charged at 5.00% compound per annum.

Foreign currency risk

As a result of increased sales to customers outside the United Kingdom the Group's profits can be affected significantly by movements in US dollar exchange rates. The Group does not seek to hedge this exposure.

Credit risk

The Group trades with only recognised, creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit vetting procedures. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant.

Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of equity, cash and debt arrangements.

Payment to suppliers

It is the Group's policy to agree appropriate terms and conditions for its transactions with suppliers by means ranging from standard terms and conditions to individually negotiated contracts and pay suppliers according to agreed terms and conditions, provided that the supplier meets those terms and conditions. The Group does not have a standard or code which deals specifically with the payment of suppliers.

Trade creditors at the year end amount to 32 days of average supplies (2005: 36 days).

Directors' responsibilities for the financial statements

The Directors are responsible 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).

Company law requires the Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Group and Company and of the profit or loss for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently
- make judgements and estimates that are reasonable and prudent
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping proper accounting records, for safeguarding the assets of the Group and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

REPORT OF THE DIRECTORS

In so far as the Directors are aware:

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

Auditors

Grant Thornton UK LLP offer themselves for reappointment as auditors in accordance with section 385 of the Companies Act 1985.

ON BEHALF OF THE BOARD



S J Powell

Director

29 May 2007

The Directors value the principles of good governance and have applied principles of corporate governance commensurate with its size.

Directors

The Directors support the concept of an effective board leading and controlling the Group. The Board is responsible for approving Group policy and strategy. It meets on a regular basis and has a schedule of matters specifically reserved to it for decision making. Management supply the Board with appropriate and timely information and the Directors are free to seek any further information they consider necessary. All Directors have access to advice from the Company Secretary and independent professional advice at the Group's expense.

The Board consists of three executive directors, who hold the key operational positions in the Group and five non-executive directors, who bring a breadth of experience and knowledge. This provides a balance whereby the Board's decision making cannot be dominated by an individual. The Chairman of the Board is Stuart Wallis and the Company's business is run by Messrs Steven Powell, Mike Wyllie and Brad Hoy. The biographies of the Directors are set out below:

Stuart Wallis (Non-Executive Chairman)

Stuart Wallis is a Chartered Accountant and member of the Institute of Taxation and is currently Chairman of Protherics plc, The Simply Smart Group Limited, BCS Global Networks Ltd., TSL Education Ltd. and LGC Group Holdings plc. He is also director of a number of other companies.

He has been Chairman of a number of publicly listed companies including LLP plc, Yorkshire Group plc, SSL International plc and Communis plc, as well as a number of private businesses. He was formerly Chief Executive of Fisons plc and was also an executive director of Bowater plc, Octopus plc and Hestair plc.

Professor Sir Christopher Evans (Non-Executive Director)

As one of Europe's leading biotechnology entrepreneurs, Sir Christopher has established twenty successful technology companies and floated four on the London Stock Exchange. Sir Christopher is the founder and Chairman of Merlin Biosciences Limited, a European venture capital firm specialising in investments in life sciences.

Sir Christopher was awarded a Knighthood in the 2001 New Year's Honours List for services to the bioscience industry and in the 1995 New Year's Honours List an OBE for services to biotechnology.

Neil Stafford (Non-Executive Director)

Neil Stafford has been a Director of Plethora Solutions since 2 December 2003 and is its co-founder. Neil has held positions of increasing responsibility with American Cyanamid, Hoffmann-La Roche and Monsanto

Corporation. He stepped down as Global Business Director of Monsanto Corporation in January 2000 in order to develop his own business portfolio. Neil helped establish Exemplar, the US market leader in the outsourcing of corporate healthcare, led the buy-out of Medscreen from its US parent and was responsible for the spin-out of Vientia Genetics Limited from a leading UK teaching hospital. Neil is an advisor to a number of leading private equity houses and institutions in London and New York.

Dr Ann Hayes (Non-Executive Director)

Ann worked for GlaxoWellcome (now GlaxoSmithKline) for over 20 years, initially in research, with particular expertise in the areas of CNS and analgesia. Her last position in GlaxoWellcome was an international role as a Director in Drug Discovery, with accountability for determining long-term discovery strategy across all therapeutic areas, and with additional responsibilities in portfolio management and in re-engineering discovery processes. Ann is currently an independent consultant, working extensively with small Pharma and biotechnology companies.

William (Bill) Robinson (Non-Executive Director)

Bill Robinson is currently Executive Vice President of Global Operations for UCB, a leading global biopharmaceutical company, where he is responsible for all of UCB's global commercial and medical affairs. He is also currently a Non-Executive Director of Sciele Pharma Inc., of Atlanta, Georgia USA. Before joining UCB in 2005, Bill spent 28 years with Eli Lilly in a variety of senior executive roles including VP Sales and Marketing based in Indianapolis and regional management in Europe, Asia Pacific and Middle East. Prior to joining Eli Lilly he worked for Bourroughs Wellcome and Servier, both based in the UK.

Dr Steven Powell (Chief Executive Officer)

Steven joined Plethora as CEO in 2004. Prior to this he was a director of the Gilde Biotechnology and Nutrition Fund, a pan-European venture capital fund focused on investments in early-stage life science companies. In addition to his private equity experience, Steven has 20 years of experience in the pharmaceutical and life sciences sector, during which time he has worked in research and development, commercial and general management roles.

Dr Mike Wyllie (Chief Scientific Officer)

Mike Wyllie is a co-founder of Plethora Solutions. He has over 25 years of experience in senior management level positions within the pharmaceutical industry with American Home Products and Pfizer. He has considerable experience in all aspects of drug discovery and development and has been involved the successful commercialisation of products including Cardura (doxazosin) and Viagra (sildenafil). Dr. Wyllie sits on The Clinical Trial Design and Future Therapies in BPH Committees of the World Health Organisation International Consultations on Urological Disease and he is an assistant editor of the British Journal of Urology in the Sexual Medicine Section. He has over 100 publications and is named as the inventor of in excess of 80 patents.

Bradley Hoy (Chief Financial Officer)

Brad joined Plethora as CFO in March 2005. He has over ten years experience in the pharmaceutical and biotechnology industries through financial and general management roles in the UK and USA. Most recently Brad was CEO of UK private biotech company Xcellsys Limited until the sale of its assets to Cambrex Corporation Inc. Prior to this he was Senior Director of Geron Corporation's Edinburgh-based subsidiary Geron Bio-Med Limited. Previously Brad held senior financial positions at Cyclacel Limited and ChiRex, Inc. and in subsidiaries of Rolls-Royce plc and BTR plc. Brad is co-founder of Seven Hills Venture Partners Limited an Edinburgh-based life science advisory group. Brad is a Chartered Management Accountant.

Relations with shareholders

The Directors value the views of its shareholders and recognise their interest in the Group's strategy and performance. The Annual General Meeting will be used to communicate with private investors and they are encouraged to participate. The Directors will be available to answer questions. Separate resolutions will be proposed on each issue so that they can be given proper consideration and there will be a resolution to approve the annual report and accounts.

Internal control

The Board is responsible for maintaining a strong system of internal control to safeguard shareholders' investment and the Group's assets and for reviewing its effectiveness. The system of internal financial control is designed to provide reasonable, but not absolute, assurance against material mis-statement or loss.

An audit committee has been established, chaired by Dr Ann Hayes, which meets twice per year and is responsible for ensuring that the financial performance of the Group is monitored properly and reported on, as well as meeting the auditors and reviewing any reports from the auditors regarding accounts and internal control systems.

The Board has considered the need for an internal audit function but has decided the size of the Group does not justify it at present. However, it will keep the decision under annual review.

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

- the Group is headed by an effective Board, which leads and controls the Group;
- there is a clear division of responsibilities in running the Board and running the Group's business;
- the Board includes a balance of executive and non-executive Directors; and
- the Board receives and reviews on a timely basis financial and operating information appropriate to being able to discharge its duties.

Going concern

After making enquiries, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future based on Group forecasts. The forecasts include the funding from the recently agreed purchase by Sciele Pharma Inc of a \$7 million equity stake in Plethora and future licensing transactions. If the future licensing transactions are not forthcoming, the Group would either draw down on available alternate funding or curtail certain research and development activities. Accordingly, the Group has sufficient cash resources to allow it to continue in business for a period of at least twelve months from the date of approval of these financial statements.

International Financial Reporting Standards (IFRS)

The Group recognises that there is a requirement to prepare its financial statements under IFRS for the financial year ending 31 December 2007. Accordingly, the Group's interim results to June 2007 will be prepared under IFRS. The Board believes that the most significant impact on the Group's financial statements will be with regard to accounting for intangible assets and taxation.

REPORT ON REMUNERATION

Directors' remuneration

The Group recognises that directors' remuneration is of legitimate concern to the shareholders and is committed to following current best practice. The Group operates within a competitive environment, performance depends on the individual contributions of the Directors and employees and it believes in rewarding vision and innovation.

Policy on executive directors' remuneration

The policy of the Board is to provide executive remuneration packages designed to attract, motivate and retain Directors of the calibre necessary to maintain the Group's position and to reward them for enhancing shareholder value and return. It aims to provide sufficient levels of remuneration to do this, but to avoid paying more than is necessary. The remuneration will also reflect the Directors' responsibilities and contain incentives to deliver the Group's objectives. A separate remuneration committee has been established comprising the non-executive directors and is chaired by Dr Ann Hayes.

The remuneration of the Directors was as follows:

	S M Wallis £'000	Prof Sir C T Evans £'000	N B Stafford £'000	A G Hayes £'000	S J Powell £'000	M G Wyllie £'000	B R Hoy £'000	Total £'000
2006								
Salary and fees	50	20	40	12	144	119	103	488
Bonuses	-	-	-	-	43	33	28	104
Benefits in kind	-	-	-	-	6	6	7	19
Pension	-	-	-	-	12	-	8	20
Total	50	20	40	12	205	158	146	631
2005								
Salary and fees	42	20	49	9	146	122	87	475
Bonuses	-	-	-	-	60	42	25	127
Benefits in kind	-	-	-	-	-	-	1	1
Pension	-	-	-	-	11	-	5	16
Total	42	20	49	9	217	164	118	619

Benefits in kind

S J Powell, M G Wyllie and B R Hoy are entitled to pension contributions of 8% of their basic salary per annum.

S J Powell, M G Wyllie and B R Hoy are entitled to participate in any medical health scheme operated by the Group.

REPORT ON REMUNERATION

Bonuses

S J Powell, M G Wyllie and B R Hoy are entitled to a bonus of up to a maximum of 50 per cent of basic salary per annum at the discretion of the remuneration committee based on the achievement of such measures of performance of the Group as the remuneration committee considers appropriate.

Notice periods

The notice periods for S M Wallis and S J Powell are 12 months.

The notice periods for M G Wyllie and B R Hoy are 6 months.

The notice periods for Sir C T Evans, N B Stafford, A G Hayes and W J Robinson are 1 month.

Share option incentives

The Group adopted an Enterprise Management Incentive Share Option Scheme on 16 March 2005 and granted individual option agreements to motivate and retain key personnel.

At 31 December 2006 the following options were held by the Directors:

	At beginning of year	Granted in year	At end of year	Exercise price
S M Wallis	777,777	–	777,777	135p
Professor Sir C T Evans	–	–	–	–
N B Stafford	–	–	–	–
A G Hayes	–	–	–	–
W J Robinson	–	–	–	–
S J Powell	1,111,111	–	1,111,111	135p
M G Wyllie	444,444	–	444,444	135p
M G Wyllie	–	100,000	100,000	202p
B R Hoy	181,818	–	181,818	110p

The share options may be exercised in whole or in part at any time during the period between the third and tenth anniversary of the date of grant.

The market price as at 25 May 2007 was 175.5p and the range during the year was 191p to 270p.

Independent Auditor's Report to the members of Plethora Solutions Holdings plc

We have audited the financial statements of Plethora Solutions Holdings Plc for the year ended 31 December 2006 which comprise, the consolidated profit and loss account, the consolidated statement of total recognised gains and losses, the consolidated balance sheet, the company balance sheet, the consolidated cash flow statement and notes 1 to 29. These financial statements have been prepared under the accounting policies set out therein.

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 auditors' 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 United Kingdom law and accounting standards 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 United Kingdom auditing standards.

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 if, in our opinion, the Report of the Directors is not consistent with the financial statements, if 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 transactions with the Company 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 only the Chairman and Chief Executive's Statement, the Report of the Directors and the Corporate Governance Statement. 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 opinion

We conducted our audit in accordance with United Kingdom auditing standards 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 judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group'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 Company's affairs as at 31 December 2006 and of the Group's loss for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the report of the directors is consistent with the financial statements for the year ended 31 December 2006.

GRANT THORNTON UK LLP
REGISTERED AUDITORS
CHARTERED ACCOUNTANTS
BIRMINGHAM

29 May 2007

The maintenance and integrity of the Plethora Solutions Holdings plc website is the responsibility of the directors: the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website. Legislation in the United Kingdom governing the preparation and dissemination of the financial statements may differ from legislation in other jurisdictions

CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the year ended 31 December 2006

	Note	2006 £'000	2005 As restated £'000
Turnover	2		
– continuing operations		12	17
– acquisitions		5,146	–
		5,158	17
Cost of sales			
– acquisitions		(1,071)	–
Gross profit			
– continuing operations		12	17
– acquisitions		4,075	–
		4,087	17
Administrative expenses			
Continuing operations			
– research and development expenses		(5,378)	(4,614)
– other administrative expenses		(1,566)	(1,406)
		(6,944)	(6,020)
Acquisitions			
– amortisation of goodwill and intangibles		(316)	–
– research and development expenses		(24)	–
– other administrative expenses		(3,187)	–
		(3,527)	–
		(10,471)	(6,020)
Operating loss			
– continuing operations		(6,932)	(6,003)
– acquisitions		548	–
		(6,384)	(6,003)
Net interest receivable	5	253	198
Loss on ordinary activities before taxation	2	(6,131)	(5,805)
Taxation on loss on ordinary activities	6	219	143
Loss on ordinary activities after taxation for the financial period transferred from reserves	18	(5,912)	(5,662)
Basic loss per share	8	(23.3p)	(32.3p)

The accompanying accounting policies and notes form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

For the year ended 31 December 2006

	2006	2005
	£'000	As restated £'000
Loss for the financial period	(5,912)	(5,662)
Exchange translation difference on consolidation	(338)	–
Total recognised gains and losses relating to the year	(6,250)	(5,662)

CONSOLIDATED BALANCE SHEET AT 31 DECEMBER 2006

	Note	2006	2005
		£'000	As restated £'000
Fixed assets			
Intangible assets	9	1,689	–
Goodwill	9	2,786	–
Tangible assets	10	199	70
		4,674	70
Current assets			
Stocks - finished goods		186	–
Debtors	12	1,521	269
Cash in bank and in hand		3,439	6,213
		5,146	6,482
Creditors: amounts falling due within one year	14	(2,017)	(797)
Net current assets		3,129	5,685
Total assets less current liabilities		7,803	5,755
Creditors: amounts falling due after more than one year	15	(671)	–
		7,132	5,755
Capital and reserves			
Called up share capital	17	258	222
Share premium account	18	16,072	8,813
Other reserves	18	4,908	4,908
Share based payment reserve	18	564	232
Profit and loss account	18	(14,670)	(8,420)
Shareholders' funds	19	7,132	5,755

The financial statements were approved by the Board of Directors on 29 May 2007.

S J Powell
Director




B R Hoy
Director

The accompanying accounting policies and notes form an integral part of these financial statements.

COMPANY BALANCE SHEET AT 31 DECEMBER 2006

	Note	2006 £'000	2005 As restated £'000
Fixed assets			
Investments	11	5,862	148
Current assets			
Debtors	12	10,712	8,714
Creditors: amounts falling due within one year	14	(52)	(52)
Net current assets		10,660	8,662
Total assets less current liabilities		16,522	8,810
Creditors: amounts falling due after more than one year	16	(671)	–
		15,851	8,810
Capital and reserves			
Called up share capital	17	258	222
Share premium account	18	16,072	8,813
Profit and loss account	18	(479)	(225)
Shareholders' funds		15,851	8,810

The financial statements were approved by the Board of Directors on 29 May 2007.

S J Powell
Director




B R Hoy
Director

The accompanying accounting policies and notes form an integral part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2006

	Note	2006 £'000	2005 £'000
Net cash outflow from operating activities	23	(5,087)	(5,425)
Returns on investments and servicing of finance			
Interest received		265	248
Interest paid		(2)	(50)
Net cash inflow from returns on investments and service of finance		263	198
Taxation		(117)	143
Capital expenditure			
Payments to acquire tangible assets		(142)	(52)
Net cash outflow for capital expenditure		(142)	(52)
Acquisitions			
	28		
Purchase of subsidiary undertaking		(5,009)	-
Cash acquired with subsidiary undertaking		23	-
Net cash outflow from acquisitions		(4,986)	-
Net cash outflow before financing		(10,069)	(5,136)
Financing			
Issue of shares		7,790	10,000
Redemption of shares		-	(50)
Expenses paid in connect with share issue		(495)	(700)
Receipts from borrowings		-	2,050
Net cash inflow from financing		7,295	11,300
(Decrease)/increase in cash	23	(2,774)	6,164

The accompanying accounting policies and notes form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

1. PRINCIPAL ACCOUNTING POLICIES

BASIS OF PREPARATION

The financial statements have been prepared under the historical cost convention and in accordance with applicable United Kingdom accounting standards. The Group has prepared forecasts that demonstrate that it is a going concern. The forecasts include the funding from the recently agreed purchase by Sciele Pharma Inc of a \$7 million equity stake in Plethora and future licensing transactions. If the future licensing transactions are not forthcoming, the Group would either draw down on available alternate funding or curtail certain research and development activities. Accordingly, the Group has sufficient cash resources to allow it to continue in business for a period of at least twelve months from the date of approval of these financial statements.

The principal accounting policies of the Group are set out below.

BASIS OF CONSOLIDATION

The Group financial statements consolidate those of the Company and of its subsidiary undertakings. Profits or losses on intra-group transactions are eliminated in full. On 10 February 2006, the Company acquired the entire issued share capital of Timm Medical Technologies, Inc., the consideration being satisfied by cash and the issue of a convertible loan note. In preparing the consolidated financial statements acquisition accounting has been applied with regard to the acquisition of Timm Medical Technologies Inc., and merger accounting with regard to the previous acquisition of Plethora Solutions Limited.

PRIOR YEAR ADJUSTMENT REGARDING SHARE BASED PAYMENTS

Further to the introduction of FRS 20 the Group's accounting policy relating to share based payments is set out below.

All share-based payment arrangements are recognised in the consolidated financial statements. The Group operates equity-settled share-based remuneration plans for remuneration of its employees. Options are issued by the parent to the employees of its subsidiaries. As such, the charge for the share based remuneration is recognised in the subsidiary company profit and loss account with no charge being borne in the ultimate parent profit and loss account.

All employee services received in exchange for the grant of any share-based remuneration are measured at their fair values. These are indirectly determined by reference to the fair value of the share options awarded. Their value is appraised at the grant date and excludes the impact of any non-market vesting conditions (for example, profitability and sales growth targets).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

All share-based remuneration is ultimately recognised as an expense in profit or loss with a corresponding credit to the share based payment reserve, net of deferred tax where applicable. If vesting periods or other vesting conditions apply, the expense is allocated over the vesting period, based on the best available estimate of the number of share options expected to vest. Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. Estimates are subsequently revised, if there is any indication that the number of share options expected to vest differs from previous estimates. No adjustment is made to the expense recognised in prior periods if fewer share options ultimately are exercised than originally estimated.

Upon exercise of share options, the proceeds received net of any directly attributable transaction costs up to the nominal value of the shares issued are allocated to share capital with any excess being recorded as share premium.

This change in accounting policy has resulted in an increase to the loss before taxation of £332,000 for the year ended 31 December 2006 and £232,000 for the year ended 31 December 2005 respectively. This change has not resulted in any increase or decrease in net assets.

GOODWILL

Goodwill arising on consolidation, representing the excess of the fair value of the consideration given over the fair values of the identifiable net assets acquired, is capitalised and is amortised over 20 years on a straight line basis.

PATENTS AND LICENCES

Patents and licences are included at cost and amortised over their useful economic lives which are considered to be 10 years.

STOCKS

Stocks represent finished goods and are stated at the lower of cost and net realisable value, after making allowance for obsolete and slow moving items.

TURNOVER

Turnover is the total amount receivable by the Group for services provided, excluding sales tax and trade discounts.

The recognition of income received, such as license fees, contract research fees, up front payments and milestone payments is dependent on the terms of the related arrangement, having regard to the ongoing risks and rewards of the arrangement, and the existence of any performance or repayment obligations with any third party.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

The Group recognises turnover when persuasive evidence of an arrangement exists; delivery has occurred or services have been rendered; the fee fixed and determinable; and collectability is reasonably assured. Amounts received are recognised immediately as turnover where there are no substantial risks, there are no ongoing performance obligations and amounts received are not refundable. Amounts are deferred over an appropriate period where these conditions are not met.

TANGIBLE FIXED ASSETS AND DEPRECIATION

Depreciation is calculated to write down the cost less estimated residual value of all tangible fixed assets, other than freehold land, by annual instalments over their expected useful economic lives. The rates/periods generally applicable are:

Leasehold improvements	Period of lease
Fixtures and fittings and equipment	3 to 7 years straight line
Computers and equipment	3 years straight line

LEASED ASSETS

Assets held under finance leases and hire purchase contracts are capitalised in the balance sheet and depreciated over their expected useful economic lives. The interest element of leasing payments represent a constant proportion of the capital balance outstanding and is charged to the profit and loss account over the period of the lease.

All other leases are regarded as operating leases and the payments made under them are charged to the profit and loss account on a straight line basis over the lease term.

INVESTMENTS

Investments held by the Company are included at cost less amounts written off. Where the consideration for the acquisition of a subsidiary undertaking includes shares in the Company to which the provisions of Section 131 of the Companies Act 1985 apply, cost represents the nominal value of shares issued together with the fair value of any additional consideration given and costs.

DEFERRED TAXATION

Deferred tax is recognised on all timing differences where the transactions or events that give the Group an obligation to pay more tax in the future, or a right to pay less tax in the future, have occurred by the balance sheet date. Deferred tax assets are recognised when it is more likely than not that they will be recovered. Deferred tax is measured using rates of tax that have been enacted or substantially enacted by the balance sheet date.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

FOREIGN CURRENCY

Transactions in foreign currencies are translated at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities in foreign currencies are translated at the rates of exchange ruling at the balance sheet date. Exchange differences are dealt with through the profit and loss account.

The results of overseas subsidiary undertakings are translated at the average exchange rates and the balance sheets of such undertakings are translated at the year end exchange rates. Exchange differences arising on the retranslation of opening net assets of overseas subsidiary undertakings are taken to reserves.

PENSIONS

The pension costs charged against profits represent the amount of the contributions payable to the scheme in respect of the accounting period.

FINANCIAL INSTRUMENTS

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the entity after deducting all of its financial liabilities.

Where the contractual obligations of financial instruments (including share capital) are equivalent to a similar debt instrument, those financial instruments are classed as financial liabilities. Financial liabilities are presented as such in the balance sheet. Finance costs and gains or losses relating to financial liabilities are included in the profit and loss account. Finance costs are calculated so as to produce a constant rate of return on the outstanding liability.

Where the contractual terms of share capital do not have any terms meeting the definition of a financial liability then this is classed as an equity instrument. Dividends and distributions relating to equity instruments are debited direct to equity.

RESEARCH AND DEVELOPMENT COSTS

At present, research and development expenditure, including licence fees, constitutes pure research and is therefore written off in the year it is incurred.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

2. TURNOVER AND LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION

The Group's turnover and loss on ordinary activities before taxation were all derived from the principal activity of developing and sale of products for the diagnosis, treatment and management of urological disorders. These activities may be analysed as follows:

Country/activity	Turnover		(Loss)/profit before taxation		Net assets	
	2006 £'000	2005 £'000	2006 £'000	2005 £'000	2006 £'000	2005 £'000
UK/research and development	12	17	(6,679)	(5,805)	6,970	5,755
USA/sale of products	5,146	-	548	-	162	-
	5,158	17	(6,131)	(5,805)	7,132	5,755

The loss on ordinary activities is stated after charging:

	2006 £'000	2005 £'000
Auditors' remuneration:		
Audit services	38	22
Non-audit services – taxation services	8	14
Operating lease charges:		
Land and buildings	129	39
Depreciation and amortisation:		
Intangible assets (including goodwill)	316	-
Tangible fixed assets, owned	69	26

During the year the auditors also received remuneration of £12,300 (2005: £55,000) in respect of transaction support services which has been charged to cost of investment and share premium account. This cost was borne by the parent company. All other auditors' remuneration was borne by subsidiary undertakings.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

3. DIRECTORS AND EMPLOYEES

	2006 Number	2005 Number
The average number of persons (including directors) employed by the Group during the period was:		
Sales staff	25	-
Administration and management staff	29	5
Development employees	13	9
	67	14
Staff costs during the period were as follows:		
	£'000	£'000
Wages and salaries	3,366	1,113
Social security costs	268	161
Other pension costs	56	41
	3,690	1,315

Remuneration in respect of directors is disclosed in the Report on Remuneration.

4. SHARE BASED EMPLOYEE REMUNERATION

At 31 December 2006 the Group operated a share based payment scheme for employee remuneration known as the Executive Share Option Scheme (ESOP).

The Executive Share Option scheme (ESOP) is available to all employees and directors of the Group subject to the discretion of the Remuneration Committee and subject to the rules of the scheme, the key points of which are as follows:

- options are exercisable between three and ten years of being granted;
- except in certain limited circumstances, all options lapse if an employee leaves the Group; and
- exercise of options is not subject to any specific performance criteria.

All share based employee remuneration will be settled in equity. The Group has no other legal or constructive obligation to repurchase or settle the options in cash.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

Share options and weighted average exercise price are as follows for the reporting periods presented:

	31 December 2006		31 December 2005	
	Number	Weighted average exercise price (pence)	Number	Weighted average exercise price (pence)
Outstanding at start of period	3,075,881	129	–	–
Granted	409,689	200	3,075,881	129
Lapsed	(52,189)	201	–	–
Outstanding at end of period	3,433,381	138	3,075,881	129

The Group has the following outstanding share options and exercise prices:

	31 December 2006			31 December 2005		
	Number	Weighted average exercise price (pence)	Weighted average contractual life (months)	Number	Weighted average exercise price (pence)	Weighted average contractual life (months)
Date exercisable and (option life):						
2008 (up to 2013)	3,041,108	129	16	3,075,881	129	29
2009 (up to 2014)	392,273	200	28	–	–	–

Share options are exercisable between values of 111p and 202p.

The fair value of options granted was determined using the Black-Scholes valuation model. Significant inputs into the calculations were:

- exercise prices as detailed above
- 52.7% to 45.8% (2005: 52.7% to 47.3%) volatility based on expected and historical share price
- a risk free interest rate of 4.4% (2005: 4.4%)
- all options are assumed to vest after three years from the date of grant of the options dividends in line with current levels.

In total £332,000 of employee remuneration expense has been included in the consolidated income statement for 31 December 2006 (2005: £232,000) which gave rise to the share based payment reserve. The charge in the previous year represents a prior year adjustment. No liabilities were recognised due to share based payment transactions.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

5. NET INTEREST RECEIVABLE

	2006 £'000	2005 £'000
Other interest payable and similar charges	83	50
Gains and losses on foreign exchange	(71)	-
Bank interest receivable	(265)	(248)
	(253)	(198)

6. TAXATION ON LOSS ON ORDINARY ACTIVITIES

The tax credit is based on the loss for the year and represents:

	2006 £'000	2005 £'000
UK corporation tax	-	-
Adjustments in respect of prior periods	400	143
Overseas tax	(117)	-
Current tax charge for the period	283	143
Deferred taxation (see note 12)	(64)	-
Tax on loss on ordinary activities	219	143

The tax assessed is different than the standard rate of corporation tax in the UK of 19% (2005: 19%).

The differences are explained as follows:

	2006 £'000	2005 £'000
Loss on ordinary activities before tax	(6,131)	(5,805)
Loss on ordinary activities multiplied by standard rate of corporation tax in the UK of 19% (2005: 19%)	(1,165)	(1,103)
Effect of:		
Expenses not deductible for tax purposes	2	8
Depreciation in excess of capital allowances	-	4
Unutilised tax losses	1,163	1,091
Foreign taxation	(117)	-
	(117)	-

At 31 December 2006 the Group had tax losses of £12.5 million (2005: £8 million) to offset against future profits within the United Kingdom. At 31 December 2006 the Group had tax losses of £2.5 million to offset against the future profits within the USA.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

7. LOSS FOR THE FINANCIAL YEAR

The parent Company has taken advantage of Section 230 of the Companies Act 1985 and has not included its own profit and loss account in these financial statements. The parent Company's loss for the period was £254,000 (2005: £225,000).

8. LOSS PER SHARE

The calculation of the basic and diluted loss per share is based on the loss on ordinary activities after tax and on the weighted average number of ordinary shares in issue during the period. The impact of the share options and convertible debt are anti dilutive. The loss and weighted average number of shares used in the calculations are set out below:

Basic loss per share	Loss £'000	Weighted average number of shares	Loss per share Pence
Year ended 31 December 2006	(5,912)	25,279,300	(23.3)
Year ended 31 December 2005	(5,662)	17,516,280	(32.3)

9. INTANGIBLE FIXED ASSETS

Group	Patents and licences £'000	Goodwill £'000	Total £'000
Cost			
At 1 January 2006	–	–	–
Acquisitions	2,103	2,913	5,016
Foreign exchange	(225)	–	(225)
At 31 December 2006	1,878	2,913	4,791
Amortisation			
At 1 January 2006	–	–	–
Charge for the year	189	127	316
At 31 December 2006	189	127	316
Net book amount at 31 December 2006	1,689	2,786	4,475
Net book amount at 31 December 2005	–	–	–

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

10. TANGIBLE FIXED ASSETS

Group	Leasehold improvements £'000	Fixtures, fittings, computers and equipment £'000	Total £'000
Cost			
At 1 January 2006	–	105	105
Acquisitions	8	32	40
Additions	20	142	162
Foreign exchange	(1)	(3)	(4)
At 31 December 2006	27	276	303
Depreciation			
At 1 January 2006	–	35	35
Charge for the year	2	67	69
At 31 December 2006	2	102	104
Net book amount at 31 December 2006	25	174	199
Net book amount at 31 December 2005	–	70	70

11. FIXED ASSET INVESTMENTS

Company	Subsidiary undertakings £'000
Cost and net book amount	
At 1 January 2006	148
Additions	5,714
At 31 December 2006	5,862

The additions in the year to 31 December 2006 related to the acquisition of Timm Medical Technologies Inc. Further details of the acquisition are shown in note 27.

At 2006 the Company holds 100% of the ordinary share capital of the following subsidiaries:

Name of subsidiary undertaking	Country of incorporation	Description of shares held	% of normal value of shares held	Principal business activity
Plethora Solutions Limited	United Kingdom	1p Ordinary	100	Development of drugs and medical devices
Timm Medical Technologies, Inc.	United States of America	\$1 Ordinary	100	Sales of medical devices

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

12. DEBTORS

Group	2006	2005
	£'000	£'000
Trade debtors	371	17
Other debtors	271	162
Prepayments and accrued income	126	90
Deferred tax (note 13)	353	-
Corporation tax credits receivable	400	-
	1,521	269

Company	2006	2005
	£'000	£'000
Amounts owed by Group undertakings	10,712	8,714

The amounts owed by the Group undertakings are due outside one year and will be settled on completion of licensing agreements by the subsidiary undertaking.

13. DEFERRED TAXATION

The deferred tax included in the balance sheet is as follows:

Group	2006	2005
	£'000	£'000
Deferred tax asset included in debtors (noted 12)	353	-

The movement in the deferred taxation account during the year was:

	2006	2005
	£'000	£'000
Balance brought forward	-	-
On acquisition	465	-
Profit and loss account movement arising during the year (note 6)	(64)	-
Foreign exchange difference	(48)	-
Balance carried forward	353	-

The deferred tax asset relates to trading losses which can be offset against the future profits of the subsidiary in the USA. At 31 December 2006, the Group had an unprovided deferred tax asset relating to losses carried forward of £4.0 million (2005: £1.5 million). The asset has not been provided for as the Directors do not foresee a reversal in the foreseeable future.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

14. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

Group	2006	2005
	£'000	£'000
Trade creditors	872	284
Other taxation and social security	339	40
Pensions creditor	10	13
Accruals	796	460
	2,017	797
Company	2006	2005
	£'000	£'000
Accruals	52	52

15. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

Group and company	2006	2005
	£'000	£'000
Convertible loan	671	–

The convertible loan was issued as part of the acquisition fee for Timm Medical Technologies Inc. The loan can be converted into shares in Plethora Solutions Holdings plc up to 10 February 2008. On conversion, shares will be issued to the value of the carrying value of the loan at the conversion date. Interest is charged at 5.00% compound on the loan and is payable on maturity on 10 February 2008. If the loan is not converted into shares it will be settled in cash on 10 February 2008.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

16. FINANCIAL INSTRUMENTS

The Group uses financial instruments comprising cash and short term deposits and a convertible debt instrument. It does not enter into derivative transactions such as interest rate swaps, forward rate agreements or forward currency contracts.

Short-term debtors and creditors

As permitted by FRS 13: 'Derivatives and other financial instruments: disclosures', short-term debtors and creditors have been excluded from all financial instrument disclosures.

Liquidity risk

The Group seeks to manage financial risk by ensuring sufficient liquidity is available to meet foreseeable needs and to invest cash assets safely and profitably.

The Group policy throughout the year has been to ensure continuity of funding. The Group's only borrowings were a convertible loan the terms for which are set out in note 15.

17. SHARE CAPITAL

	2006 £	2005 £
Authorised		
45,000,000 ordinary shares of 1 pence each	450,000	450,000
Allotted, issued and fully paid		
25,797,416 (2005: 22,222,421) ordinary shares of 1 pence each	257,974	222,224

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

18. RESERVES

Group	Share premium £'000	Other reserves £'000	Share based Payment reserve £'000	Profit and loss account £'000
At 1 January 2006	8,813	4,908	–	(8,188)
Share based payment	–	–	232	(232)
At 1 January 2006 restated	8,813	4,908	232	(8,420)
Retained loss for the year	–	–	–	(5,912)
On share placing	7,754	–	–	–
Issue costs	(495)	–	–	–
Exchange movements	–	–	–	(338)
FRS20 adjustment	–	–	332	–
At 31 December 2006	16,072	4,908	564	(14,670)

Company	Share based Premium £'000	Profit and loss account £'000
At 1 January 2006	8,813	(225)
Retained loss for the year	–	(254)
On share placing	7,754	–
Issue costs	(495)	–
At 31 December 2006	16,072	(479)

The other reserve represents the difference between the issue price and the nominal value of shares issued as consideration for the acquisition of a subsidiary undertaking when the Group has taken advantage of merger relief. Relief has been taken in respect of the shares issued relating to the acquisition of Plethora Solutions Limited.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

19. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	2006	As restated
	£'000	2005
		£'000
Loss for financial period	(5,912)	(5,662)
Issue of ordinary share capital	7,295	12,950
Net increase in shareholders' funds	1,383	7,288
Share based payment	332	232
Foreign exchange movements	(338)	-
Shareholders' funds/(deficit) at 31 December 2005	5,755	(1,765)
Shareholders' funds at 31 December 2006	7,132	5,755

20. CONTINGENT LIABILITIES

There were no contingent liabilities at 31 December 2006 or 31 December 2005.

21. CAPITAL COMMITMENTS

There were no capital commitments at 31 December 2006 or 31 December 2005.

22. LEASING COMMITMENTS

Operating lease payments amounting to £123,500 (2005: £39,000) are due within one year; the leases to which these amounts relate expire as follows:

Group	2006	2005
	Land and buildings	Land and buildings
	£'000	£'000
Between one and five years	123	39

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

23. RECONCILIATION OF OPERATING PROFIT TO NET CASH OUTFLOW FROM OPERATING ACTIVITIES

	2006 £'000	2005 £'000
Operating loss before interest and tax	(6,384)	(6,003)
Depreciation	69	26
Amortisation of intangibles	316	–
Share based payments	332	232
Exchange differences	(9)	–
Decrease in stock	84	–
Increase in debtors	(160)	(252)
Increase in creditors	665	572
Net cash outflow from operating activities	(5,087)	(5,425)

24. RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS

	2006 £'000	2005 £'000
Decrease in cash in the period	(2,774)	6,164
Cash inflow from financing	–	(2,050)
Change in net debt resulting from cashflows	(2,774)	4,114
Convertible loan issued on acquisition	(705)	–
Non cash movements	34	3,569
	(3,445)	7,683
Change in net funds resulting from cashflows		
Net funds at start of period	6,213	(1,470)
Net funds at end of period	2,768	6,213

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

25. ANALYSIS OF CHANGES IN NET FUNDS

	At 1 January 2006 £'000	Acquisitions £'000	Non cash Cash flow £'000	Movements £'000	At 31 December 2006 £'000
Cash in hand and at bank	6,213	–	(2,774)	–	3,439
Debt	–	(705)	–	34	(671)
	6,213	(705)	(2,774)	34	2,768

Non cash movements represent the unwinding of the discounted loan note and foreign exchange movements. Loan notes in respect of acquisitions were issued to the value of £705,000 (2005: £nil).

26. PENSION OBLIGATIONS

The Group operates a defined contribution Group personal pension scheme for employees and directors. The total pension cost for the Group was £56,000 (2005: £41,000).

27. TRANSACTIONS WITH DIRECTORS AND OTHER RELATED PARTIES

During the period the Group made purchases of £146,274, £36,632, £31,222 (2005: £111,686, £26,890 and £26,457) on an arms length basis from Urodoc Limited, Men's Health Limited and Wellbeings Limited respectively. Dr M G Wyllie, a director and shareholder, is a director and majority shareholder of Urodoc Limited, Men's Health Limited and Wellbeings Limited.

At 31 December 2006 the Group owed £11,916, £2,130, £2,397 (2005: £30,497, £9,717 and £2,397) to Urodoc Limited, Mens Health Limited and Wellbeings Limited respectively.

During the period the Group paid fees in respect of the services provided by Professor Sir Christopher Evans to the Group of £20,036 (2005: £20,000) through Merlin Scientific Services LLP and Merlin Biosciences Ltd. Professor Sir Christopher Evans, a director of the Company, is a designated member of Merlin Scientific Service LLP and Merlin Biosciences Limited. At 31 December 2006 no amounts were owed to the Group by, or by the Group to, Merlin Scientific Services LLP.

During the period the Group paid fees in respect of the services provided by Dr Ann Hayes to Plethora of £7,290 (2005: £nil) through Ann Hayes Consultancy Limited. Dr Ann Hayes, is a director and majority shareholder of Ann Hayes Consultancy Limited.

At 31 December 2006 no amounts were owed to the Group by, or by the Group to, Ann Hayes Consultancy Limited.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

28. ACQUISITION OF TIMM MEDICAL TECHNOLOGIES, INC.

On 10 February 2006, the Group acquired all of the ordinary shares in Timm Medical Technologies, Inc. for a consideration before professional costs of £5.8m. Goodwill arising on the acquisition has been capitalised. The acquisition of this business has been accounted for using the acquisition method of accounting.

The fair value of the assets and liabilities acquired are set out below:

	Book values £'000	Adjustments £'000	Fair values £'000
Fixed assets			
– intangible assets	2,103	–	2,103
– tangible assets	40	–	40
Current assets			
Stocks and work in progress	270	–	270
Debtors	339	500	839
Cash	23	–	23
Creditors			
Trade creditors	(182)	–	(182)
Accruals	(469)	177	(292)
	2,124	677	2,801
	£'000	£'000	£'000
Satisfied by:			
Cash	4,574	–	4,574
Convertible loan	814	(109)	705
Expenses of acquisition	435	–	435
Total consideration	5,823	(109)	5,714
Net assets acquired	2,124	(677)	2,801
Goodwill arising on acquisition	3,699	(786)	2,913

The Directors have not completed all of their acquisition enquiries in relation to the valuation of provisions, accrued costs and taxation and consequently the book values of the assets and liabilities acquired are considered to be their provisional values. These fair values will be finalised in the 2007 Financial Statements.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

A number of fair value adjustments have been identified to date by the directors:

- a deferred tax asset of £465,000 was recognised on trading losses available for offset against future taxable profits
- an excess bad debt provision of £35,000 has been released as it was not required
- two excess accruals for £177,000 were released on acquisition
- the convertible loan was recorded at its fair value.

The acquired Company achieved turnover of £471,000 (2005: year £5.2m), an operating profit of £39,000, (2005: year £740,000) and made a retained profit of £37,000 (2005: year £870,000 profit) from 1 January 2006 to the date of acquisition.

The subsidiary undertaking acquired during the period made the following contributions to, and utilisations of, Group cash flow:

	£'000
Net cash inflow from operating activities	804
Returns on investment and servicing of finance	6
Taxation	(117)
Capital expenditure and financial investment	(120)
Financing	-
Increase in cash	573

29. POST BALANCE SHEET EVENTS

On 24 May 2007 the Company announced that it has signed an exclusive licence agreement for the marketing of PSD502 for premature ejaculation in the USA together with an agreement for Sciele Pharma Inc to purchase a \$7 million equity stake in Plethora. Under the terms of the licence agreement Plethora will receive payments upon achievement of regulatory and sales milestones and royalty payments on product sales.

REGISTERED OFFICE AND ADVISERS

Company registration number: 05341336

Registered office: Lupus House
11/13 Macklin Street
Covent Garden
London
WC2B 5NH

Directors: S M Wallis (Non-Executive Chairman)
Professor Sir C T Evans (Non-Executive Director)
N B Stafford (Non-Executive Director)
A G Hayes (Non-Executive Director)
W J Robinson (Non-Executive Director)
S J Powell (Chief Executive Officer)
M G Wyllie (Chief Scientific Officer)
B R Hoy (Chief Financial Officer)

Secretary: B R Hoy

Nominated adviser and Nominated broker: Collins Stewart Limited
88 Wood Street
London
EC2V 7QR

Registrars: Lloyds TSB Registrars
The Causeway
Worthing
West Sussex
BN99 6DA

Bankers: Lloyds TSB Bank plc
Second Floor
P O Box 18436
39 Threadneedle Street
London
EC2R 8PT

Solicitors: Morrison & Foerster MNP
City Point
One Ropemaker Street
London
EC2Y 9AW

Auditors: Grant Thornton UK LLP
Registered Auditors
Chartered Accountants
Enterprise House
115 Edmund Street
Birmingham
B3 2HJ

Plethora Solutions Holdings plc
Lupus House
11-13 Macklin Street
Covent Garden
London WC2B 5NH
UK

Tel: +44 (0)207 269 8630

Fax: +44 (0)207 242 8518

Email: info@plethorasolutions.co.uk

Website: www.plethorasolutions.co.uk