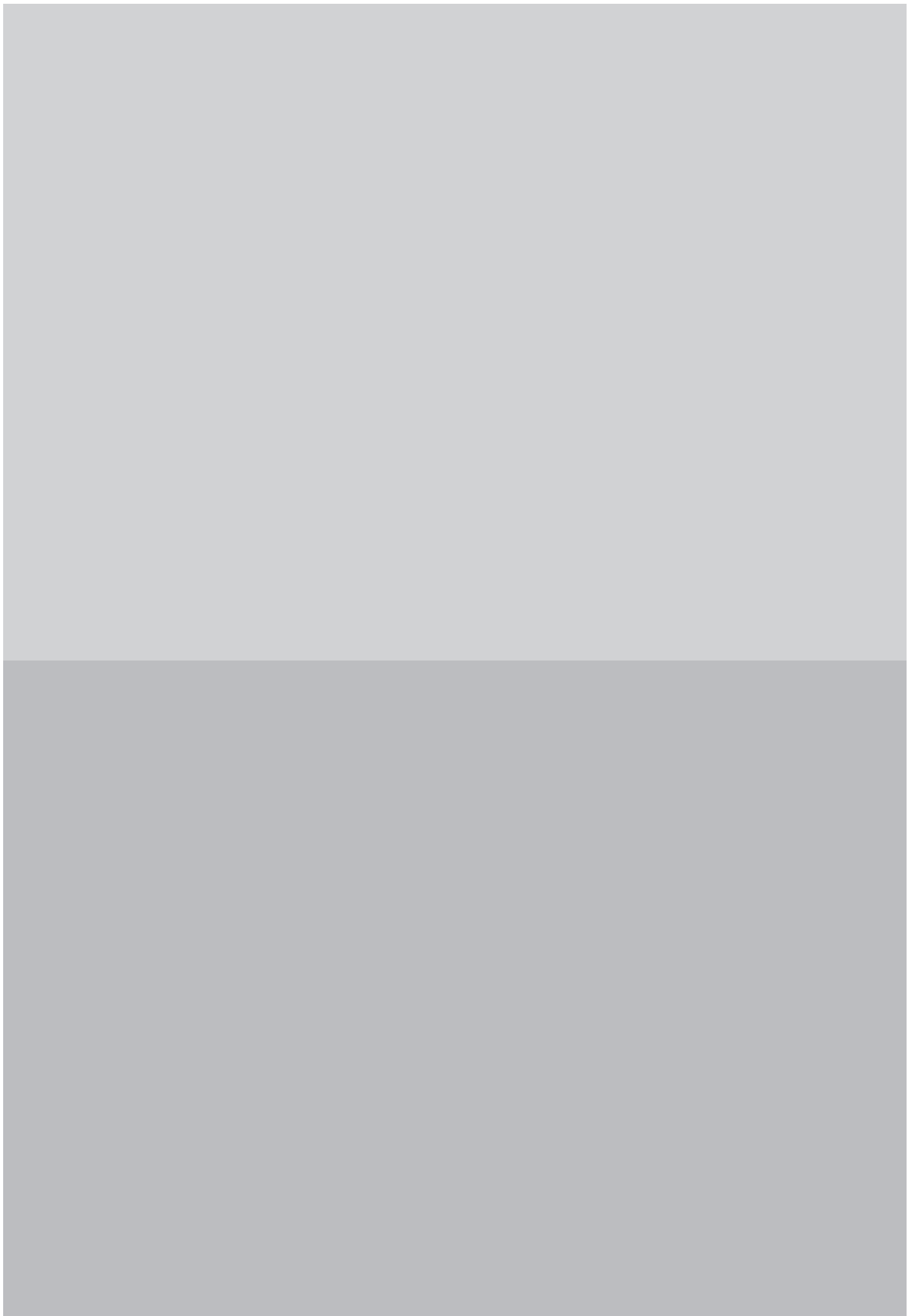


**PLETHORA SOLUTIONS HOLDINGS plc**  
ANNUAL REPORT AND ACCOUNTS

2009



	<i>page</i>
<b>Registered Office and Advisors</b>	2
<b>Highlights</b>	3
<b>Chairman and Chief Executive's Statement</b>	4
<b>Report of the Directors</b>	9
<b>Corporate Governance Report</b>	13
<b>Remuneration Report</b>	16
<b>Report of the Independent Auditors</b>	19
<b>Consolidated Statement of Comprehensive Income</b>	21
<b>Consolidated Statement of Changes in Equity</b>	22
<b>Consolidated Balance Sheet</b>	23
<b>Consolidated Cash Flow Statement</b>	24
<b>Notes to the Consolidated Financial Statements</b>	25
<b>Company Statutory Financial Statements</b>	50

**Company registration number:** 05341336

**Registered Office:** Fourth Floor  
233 High Holborn  
London  
WC1V 7DN

**Directors:** W J Robinson (Non-Executive Chairman)  
S J Powell (Chief Executive Officer)  
M G Wyllie (Chief Scientific Officer)  
J R Openshaw (Non-Executive Director)

**Secretary:** S J Powell

**Nominated advisor and  
Nominated broker:** FinnCap  
4 Coleman Street  
London  
EC2R 5TA

**Registrars:** Equiniti Limited  
Aspect House  
Spencer Road  
Lancing  
West Sussex  
BN99 6DA

**Bankers:** Lloyds TSB Bank plc  
Second Floor  
25 St George Street  
Mayfair  
London  
W1S 1FS

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

**Auditors:** PricewaterhouseCoopers LLP  
Abacus House  
Castle House  
Cambridge  
CB3 0AN

In 2009 Plethora executed a series of transforming transactions which resulted in the Company ending the year with a renewed business focus and a solid foundation for future growth.

## HIGHLIGHTS

- Revenues of £17.7 million (£0.6 million, 2008);
- A £15.3 million transaction with retained royalty rights with Shionogi Pharma, Inc. (formerly Sciele Pharma, Inc.) in which Shionogi acquired global rights to PSD502; Plethora's development product for the treatment of premature ejaculation (PE);
- An option agreement with a global pharmaceutical company for the future development of PSD503 for the treatment of stress urinary incontinence (SUI);
- A significant reduction in Group effective borrowings from £30.8 million to £2.2 million;
- A substantial reduction in the Group's operating cost base from £14.2 million in 2008 to £8.2 million in 2009;
- The creation of a new, wholly owned pharmaceutical marketing and distribution subsidiary, The Urology Company Limited;
- A profit for the year of £9.6 million (2008: loss £16.4 million)

The result of these actions is that the Company can look forward to potential royalties from products embedded with partners in the medium term and from product sales in the near term. These complementary revenue streams should create a sustainable business from which value would flow directly to equity shareholders.

## PSD502

PSD502 has been developed by Plethora as a treatment for premature ejaculation. Following the successful European Phase III pivotal study announced in November 2008, the Group announced in July 2009 that PSD502 had also completed its second and final phase III study successfully. Both of these studies reported highly statistically significant clinical results. PSD502 is now being prepared for regulatory filing with the FDA in the United States and the EMEA in Europe.

In 2007 Plethora first announced a co-development agreement with Sciele Pharma, Inc. ("Sciele"). Under this agreement Plethora and Sciele were to co-promote PSD502, for the treatment of premature ejaculation, in the United States.

At the end of 2008, Sciele was acquired by Shionogi & Co., Ltd., a major international pharmaceutical group headquartered in Japan, following which in January 2010 Sciele was renamed Shionogi Pharma, Inc. ("Shionogi"). The acquisition substantially expanded the financial strength and international reach of our US partner.

In April 2009 Plethora announced the amendment of the existing PSD502 co-development and licence agreement, whereby Sciele/Shionogi acquired exclusive rights to PSD502 in the United States and Plethora received a single licence payment of \$13.7 million (£9.9 million). Plethora will not receive any royalties from Shionogi relating to the commercialisation of PSD502 in the USA but is receiving reimbursement of costs incurred in relation to the completion of the US development programme. The board took this decision to provide much needed income to the Group to fund operations and cut R&D costs related to the US development programme.

In May 2009 Plethora announced that it had licensed Global rights for PSD502 to Sciele/Shionogi. Given their increased strength, global reach and detailed knowledge of the product the board concluded that Shionogi would make an appropriate partner to commercialise PSD502 on an international basis. As a result of this second transaction, Plethora received a further \$8.4 million (£5.4 million) in licensing payments. In addition, Plethora will receive royalties on Shionogi's income arising in Europe and the Rest of the World (ex-Japan and the United States). The Group is also receiving reimbursement revenue to compensate it for certain R&D costs borne following completion of the two licence agreements signed during the year.

In aggregate during 2009 the Group recorded licensing revenue of £15.3 million (2008: nil) and re-imbursement revenue of £2.4 million (2008: £0.6 million) from the agreements with Shionogi relating to PSD502.

Since 2007 the Group has in aggregate received \$29.1 million from Sciele/Shionogi comprising upfront and licensing payments, equity investments and re-imbursement revenue. The Group continues to have an interest in the commercial outcome of PSD502 through its royalty interest in Europe and RoW (ex Japan & USA). Independent analysts have valued this royalty stream on a discounted and risk adjusted basis at approximately £20 million.

During 2010 it is expected that Shionogi will file for approval for PSD502 in the United States with the FDA and in Europe with the EMEA. Both of these are important milestones for Plethora, marking the next stage towards the commercialisation of PSD502 and these events will increase the risk adjusted net present value of Plethora's royalty interest.

## FINANCIAL RESTRUCTURING

In May 2009 Plethora announced a financial restructuring designed to reduce the Group's indebtedness significantly. At the beginning of 2009 the Group had an exposure to Paul Capital Healthcare of \$15.75 million, which, due to a 2.5x put option, gave rise to a potential effective liability of \$39.4 million (£27.2 million). The liability under this instrument was recorded in the Group's subsidiary Timm Medical Technologies, Inc. ("Timm") and is therefore included in Discontinued Operations. In addition, the Group had amounts due to ETV Capital S.A. of £2.8 million and had issued a convertible loan note of £750,000, bringing potential effective liabilities to £30.8 million.

The restructuring comprised the repayment of the ETV Capital S.A. loan facility and a Compromise Agreement with Paul Capital Healthcare. The Compromise Agreement released the Company from all future debt obligations in return for the sale to Paul Capital of the Group's subsidiary, Timm and the repayment of part of the liability out of the proceeds of the licensing agreements with Sciele.

Timm was acquired by Plethora in 2006. Its business is the marketing of medical devices to treat male erectile dysfunction. At the time of its acquisition the Group viewed Timm's role as strategic to provide the sales and marketing infrastructure to the Group to support the co-promotion of PSD502 in the USA. Following the completion of the US licence agreement with Shionogi in 2009, Timm ceased to be of strategic importance. The board therefore took the tactical decision to use Timm as a financial asset and sold it to Paul Capital Healthcare as part of the compromise to extinguish the Group's liability to them. Under IFRS, Timm's results are shown as Discontinued Operations.

## THE UROLOGY COMPANY

In August 2009 the Group formed a new subsidiary – The Urology Company Limited; a marketing and distribution business targeted at the UK urology market. This will exploit the breadth of the Group's urology expertise, building on the management team's ability to grow and develop a sales and marketing business targeted at the urology sector as demonstrated by the growth of Timm from the time of its acquisition.

The Urology Company will be complementary to the Group's development and licensing activities. Milestone and royalty income arising from licensing can be uncertain both in its timing and quantum. The Urology Company is designed to provide a more predictable, regular and growing source of income.

The Urology Company will market a range of products comprising proprietary, branded generic and generic pharmaceuticals, together with selected medical devices and food supplements (where these have a scientifically robust basis). Routes to market will include direct to the specialist prescribing physician and retail pharmacy and, where permitted and appropriate, direct to the consumer.

Since August 2009 the Group has made substantial progress in the development of this new business including:

- Entering into an exclusive UK distribution agreement for Striant SR<sup>®</sup>, an approved testosterone replacement treatment for hypogonadism;
- Entering into an exclusive UK distribution agreement for Dianatal<sup>®</sup>, a CE marked obstetric gel to facilitate child birth; and

- Securing operational management with specialist knowledge in (i) pharmaceutical logistics and supply chain management, and (ii) the sales, marketing and distribution of pharmaceuticals in the UK.

## DECEMBER 2009 PLACING

In November 2009 the Company announced that it had secured commitments from institutional and other investors to raise £1.56 million by way of a Placing of 11.15 million new ordinary shares at 10p and the issuance of £450,000 convertible loan notes due 31 December 2012 and convertible at 12.5p per share. In connection with the Placing, shareholder approval was also sought for the issuance of up to £1 million of loan notes. Although only £450,000 was issued in December, this provides the Board with the flexibility to issue further securities if this is in shareholders' interests. The Placing was approved by shareholders at a General Meeting on 7 December 2009.

## FINANCIAL RESULTS

### Trading Results

The financial results for 2009 show the receipt of significant revenue from Shionogi as a result of the US and Global licence agreements; declining R&D spend as the major development work on PSD502 was completed; continued focus on controlling G&A costs and the financial restructuring and Placing carried out at the end of 2009. Together these factors give rise to the Company reporting a maiden profit.

Revenue for the year was £17.7 million (2008: £640,000) which comprised £15.3 million (2008: nil) of licensing income arising on the US and Global licence agreements and a further £2.4 million (2008: £640,000) of reimbursement income.

Total Operating Expenses were £8.2 million (2008: £14.2 million), a decrease of 42% compared to the previous year. This cost reduction was seen in all areas of the Group's operations.

R&D Costs fell by 34% to £6.0 million (2008: £9.2 million). This reflects the declining clinical trial activity particularly as PSD502 completed its European Phase III clinical trial in 2008 and the US Phase III clinical trial in the first half of 2009. Costs were still incurred on a number of other projects most notably PSD510, a treatment for erectile dysfunction. If R&D costs are viewed as net of Reimbursement Income the reduction is greater still as net R&D costs were £3.6 million (2008: £8.6 million) a decline of 58%.

Foreign exchange losses for the period were £283,000 (2008: £2.5 million), a decline of 89%. This is due to the disposal of Timm as the Group now has no material foreign currency assets or liabilities.

Other Administration Expenses fell to £1.8 million (2008: £2.5 million) a decline of 30%. This reflects tight cost control across all areas of the business and a reduction in headcount. Across the year, the Group's total headcount fell from 22 to 14 on a like-for-like basis excluding the effect of the disposal of Timm. Comparing the two halves of 2009, Administration Expenses decreased from £1.2 million in H1 by 53% to £0.6 million in H2.

Sales & Marketing expenses of £121,000 (2008: nil) were incurred in the second half of 2009 as the Group commenced the early stages of establishing The Urology Company.

Interest payable during the period was £421,000 (2008: £534,000). The reduction is due to substantially lower borrowings, particularly to ETV Capital S.A. Interest charges incurred in relation to the Paul Capital Revenue Finance Agreement are included in Discontinued Operations.

During 2009 the Group continued to receive UK R&D tax credits, which were £324,000 (2008: £763,000).

Overall, as a result of the substantial income from licensing and the declining costs, the Group recorded its maiden profit after tax from Continuing Operations of £9.4 million (2008: loss £13.3 million).

## Balance Sheet

A substantial proportion of the proceeds arising from the Shionogi PSD502 transactions were used to repay borrowings. As a result effective potential borrowings fell from £30.8 million at 31 December 2008 to £2.2 million at 31 December 2009 and the nature and liquidity profile of the Group's borrowings at year end changed substantially. The £2.2 million of borrowings at 31 December 2009 represents three tranches of convertible loan notes; £750,000 issued in September 2008, a further £1.0 million issued in January 2009 and finally an additional £450,000 issued in December 2009. As a condition of the Placing in December 2009, the terms of these three loan notes were brought into common economic terms. The original maturity dates of the first two tranches were extended from September 2010 and February 2011 to December 2012. Finally the coupon and conversion prices were brought to the same terms at 13% and 12.5p respectively. The extension of the maturity of the loan notes is important, as this is designed to ensure that the loan notes fall due for repayment substantially after the anticipated launch date of PSD502 and the launch of The Urology Company, both of which are anticipated to be cashflow generative by that point.

In December 2009 the Company completed the Placing as described above and consequently, cash resources were £1.4 million at the year end (2008: £0.5 million).

## STRATEGY AND OUTLOOK

The strategic initiatives implemented in 2009 should now accelerate the Group towards a sustainable specialty pharmaceutical business.

Over the course of 2010 the Company expects to see Shionogi file PSD502 for approval, rapid development of revenues from The Urology Company and further reductions in R&D expenditure.

PSD502 will be filed for approval by Shionogi with both the FDA and the EMEA. The timing and control of this is now entirely in Shionogi's hands. This, however, is important for Plethora as it represents the next critical step towards the Group earning sustained royalties from this programme.

The Company still has an interest in a number of additional development programmes including PSD510 for the treatment of erectile dysfunction and PSD597 for the treatment of bladder pain. It remains an objective to deliver value from these and other development stage programmes.

A major part of the Group's effort over 2010 will be the development of The Urology Company. This new business has sourced the first two products for launch and the intention is that between 6 and 9 products will be launched by the end of this year. The revenue of The Urology Company will build as products are launched and as the Company progresses, so it will seek to add further profitable products to its portfolio.

Plethora has developed and implemented a clear strategy for the development of a sustainable business, building on the know-how, skills and contacts developed since its inception. During 2009 the necessary foundations were completed. During 2010 Plethora is focussed on growing the business for the future and delivering shareholder value.

**Bill Robinson**

**Steven Powell**

*8 April 2010*

The directors present their annual report together with the audited financial statements for the Group for the year ended 31 December 2009.

### **Principal activity**

The Group's principal activity is the development and marketing of products for the treatment of urological disorders.

### **Business review and future developments**

The business review, including details of the Group's R&D activities and future developments, are detailed in the Chairman's and Chief Executive's statement.

The Group recorded a profit for the year after taxation of £9.6 million (2008: loss £16.4 million).

The directors do not recommend the payment of a dividend (2008: nil).

### **Principal business and non financial risk**

With regard to the Group's development activities, the business risks are that development activities do not progress to the forecast timetable or that clinical trials provide negative results. The uncertainties in relation to future results and funding are set out in the "Going Concern" disclosure in Note 2 to the financial statements. The principal performance indicators are the results of clinical trials, the results of which are detailed in the Chairman and Chief Executive's Statement.

### **Financial risks and management**

The Group's financial risk management policies are disclosed in Note 18 to the financial statements.

### **Post balance sheet events**

Since 31 December 2009 no post-balance sheet events have occurred.

### **Directors**

The directors of the Company who served during the year ended 31 December 2009 were as follows:

**W J Robinson**

**S J Powell**

**M G Wyllie**

**J R Openshaw** (appointment 26 May 2009)

**S M Wallis** (resigned 25 June 2009)

**M Docherty** (resigned 25 May 2009)

**N B Stafford** (resigned 25 May 2009)

**A G Hayes** (resigned 25 May 2009)

**D J Ellam** (resigned 19 Feb 2009)

The interests of the Directors and their families in the shares of the Company at 31 December, or the date of their resignation if earlier, were as set out in the table below. Details of Directors interests in share options are disclosed in the Remuneration Report.

	<b>2009</b>	2008
	<b>Number</b>	Number
W J Robinson	<b>1,000,000</b>	–
S J Powell	<b>504,100</b>	4,100
M G Wyllie	<b>686,494</b>	486,494
J R Openshaw	<b>250,000</b>	–
S M Wallis	<b>22,300</b>	22,300
N B Stafford	<b>486,594</b>	486,594
A G Hayes	–	–
M Docherty	–	–
D J Ellam	–	–

## Share capital

Details of the Company's share capital, including the number of shares issued in the period under review, are given in Note 20 to the financial statements. The Group's policy for managing capital and financing to support the activities of the Group is detailed in Note 19 to the financial statements.

## Substantial shareholdings

The only interests in excess of 3% of the issued share capital of the Company, which have been notified as at 7 April 2010, were as follows:

<b>Significant Shareholders</b>	<b>No shares</b>	<b>%</b>
Merlin General Partner III Limited	8,059,180	19.20%
Forest Nominees Limited	7,857,710	18.72%
The Bank Of New York (Nominees) Limited	4,612,500	10.99%
J M Finn Nominees Limited	1,990,430	4.74%
Newedge Group SA	1,936,594	4.61%
Sciele Pharma Cayman Limited	1,772,505	4.22%
Pershing Nominees Limited	1,527,500	3.64%
Merlin Biosciences Fund III 2007 LP	1,501,760	3.58%
<b>Total Shares Issued</b>	<b>41,965,800</b>	

## Payment to suppliers

It is the Group's policy to agree appropriate terms and conditions for its transactions with suppliers. The Group does not have a standard or code which deals specifically with the payment of suppliers.

Group trade payables at the year end amount to 84 days of average supplies (2008: 54 days). The Company trade payables are nil days (2008: nil days).

## Directors' responsibilities for the group financial statements

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and the parent company financial statements in accordance with applicable law and United Kingdom Accounting Standards (UK Generally Accepted Accounting Practice "UK GAAP").

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Group for that period.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether IFRSs as adopted by the European Union and applicable United Kingdom Accounting Standards have been followed, subject to any material departures disclosed and explained in the Group and parent company financial statements respectively; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's and Group's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

## Disclosure of information to auditors

So far as each director is aware, there is no relevant audit information of which the Group's auditors are unaware. Each director has taken all steps that he ought to have taken in his duty as a director in order to make himself aware of any relevant audit information and to establish that the Group's auditors are aware of that information.

**Auditors**

During 2009 the directors appointed PricewaterhouseCoopers LLP as auditors to fill a casual vacancy. As a result PricewaterhouseCoopers LLP offer themselves for reappointment as auditors in accordance with section 489 of the Companies Act 2006.

ON BEHALF OF THE BOARD

**S J Powell**

Director

*8 April 2010*

The directors value the principles of good governance and have applied principles of corporate governance commensurate with the Group's 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. 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 two executive directors, who hold the key operational positions in the Group and two non-executive directors. This provides a balance whereby an individual cannot dominate the board's decision making. The Chairman of the board is Bill Robinson and the Group's business is run by Steven Powell and Mike Wyllie. The biographies of the current directors are set out below:

### ***William (Bill) Robinson (Non-Executive Director)***

Bill Robinson recently retired as executive Vice President of Global Operations for UCB, a leading global biopharmaceutical company where he was responsible for all UCB's commercial and medical affairs. He continues to work in an advisory capacity for UCB. He was a non executive director for Sciele Pharma, Inc. of Atlanta, Georgia, USA, until its sale to Shionogi, a major Japanese Pharmaceutical company, in November 2008. Prior to joining UCB Bill held senior executive positions with Eli Lilly, Bourroughs Wellcome and Servier.

### ***Dr Steven Powell (Chief Executive Officer)***

Steven Powell joined Plethora as CEO in 2004. Prior to this he was a partner of the Gilde Biotechnology and Nutrition Fund, a European venture capital fund focused on investments in early-stage companies. In addition to his private equity experience, Steven has 20 years of experience in the pharmaceutical and life sciences sector, latterly as CEO of UK quoted biopharmaceutical company KS Biomedix plc until its acquisition by Xenova Group plc. He has worked in the pharmaceutical and life sciences industries in research and development, commercial and general management roles. Steven has also helped to establish and finance a number of small life science businesses in a non-executive role.

### ***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.

### **Ronald Openshaw (Non-Executive Director)**

Ronald Openshaw is a non-executive director of the Company and was appointed to the board following the restructuring on 26 May 2009. Ronald is CEO of Lucia Capital LLP, a specialist M&A advisory firm focused on the healthcare sector. Ronald spent many years as an investment banker with Jefferies International Limited, West LB Panmure Limited/Panmure Gordon & Co. Limited. He also served as CFO and latterly CEO of Pharmagene plc taking it through the merger to become Asterand plc. Lucia Capital LLP has supplied Ronald's services as interim CFO to Plethora on a part time basis since February 2009.

### **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 system of internal controls 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 Bill Robinson, which meets half yearly 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 is 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**

In considering the appropriate basis of the financial statements, the directors are required to consider whether the Group can continue in operational existence for the foreseeable future.

The directors have prepared detailed cash flows for the period to 30 June 2011. The cash flow forecasts show that the Group has adequate working capital for the forecast period. The key assumptions and material uncertainties underlying the conclusion that the Group has adequate working capital are set out in detail in Note 2 to the financial statements.

## Directors' remuneration

The Group recognises that directors' remuneration is of legitimate concern to shareholders and is committed to following current best practice. Group 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. Remuneration also reflects the Directors' responsibilities and contains incentives to deliver the Group's objectives. A separate remuneration committee has been established comprising the non-executive directors and is chaired by Ronald Openshaw.

	M Docherty £'000	D Ellam £'000	AG Hayes £'000	BR Hoy £'000	JR Openshaw £'000	SJ Powell £'000	WJ Robinson £'000	NB Stafford £'000	SM Wallis £'000	MG Wyllie £'000	Total £'000
<b>2009</b>											
Salary	–	77	4	–	16	184	28	–	5	170	484
Bonuses	–	–	–	–	–	–	–	–	–	–	–
Benefits in kind	–	1	–	–	–	9	–	–	–	9	19
Fees	15	–	3	–	105	–	8	13	20	–	164
	15	78	7	–	121	193	36	13	25	179	667
Pension	–	9	–	–	–	9	–	–	–	10	28
	15	87	7	–	121	202	36	13	25	189	695
<b>2008</b>											
Salary	–	65	12	54	–	184	–	–	10	170	495
Bonuses	–	–	–	20	–	100	–	–	–	25	145
Benefits in kind	–	3	–	5	–	6	–	–	–	6	20
Fees	20	–	13	–	–	–	30	40	40	–	143
	20	68	25	79	–	290	30	40	50	201	803
Pension	–	6	–	6	–	15	–	–	–	10	37
	20	74	25	85	–	305	30	40	50	211	840

Part of the fees paid to SM Wallis are paid to Stuart Wallis Associates.

Part of the fees paid to AG Hayes are paid to Anne Hayes Consulting Limited.

Fees for M Docherty are paid to Merlin Scientific Services LLP and Merlin Biosciences Limited.

Fees for JR Openshaw are paid to Lucia Capital LLP to supply his services as Interim CFO.

### **Benefits in kind**

Executive directors are entitled to pension contributions of 8% of their basic salary per annum and are entitled to participate in any medical health scheme operated by the Group.

### **Bonuses**

Executive directors are entitled to a bonus of up to 50% 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 period for SJ Powell is 12 months. The notice period for MG Wyllie is 6 months. The notice periods for WJ Robinson and JR Openshaw are 1 month.

## Share option incentives

The Group has adopted an Enterprise Management Incentive share option scheme and granted individual option agreements to motivate and retain key personnel.

At 31 December 2009 the following options were held by the directors:

	At beginning of the year	Lapsed in the year	At end of the year	Exercise price
WJ Robinson	–	–	–	–
SJ Powell	1,334,951	–	1,334,951	59p to 175p
MG Wyllie	724,491	–	724,491	59p to 202p
JR Openshaw	–	–	–	–
M Docherty (Resigned)	–	–	–	–
D Ellam (Resigned)	350,000	(350,000)	–	–
AG Hayes (Resigned)	–	–	–	–
NB Stafford (Resigned)	–	–	–	–
SM Wallis (Resigned)	777,777	(777,777)	–	–
<b>Total</b>	<b>3,187,219</b>	<b>(1,127,777)</b>	<b>2,059,442</b>	

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.

There have been no changes in the directors' interests in share incentives since the year end and the date on which the financial statements were approved by the board.

The market price as at 31 December 2009 was 12.0p and the range during the year was 12.0p to 33.5p.

## To the members of Plethora Solutions Holdings plc

We have audited the Group financial statements of Plethora Solutions Holdings plc for the year ended 31 December 2009 which comprise the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Changes in Equity, the Consolidated Balance Sheet, the Consolidated Cash Flow Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

### Respective responsibilities of directors and auditors

As explained more fully in the statement of directors' responsibilities set out on page 11, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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

### Scope of the audit of the financial statements

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

### Opinion on financial statements

In our opinion the Group financial statements:

- give a true and fair view of the state of the Group's affairs as at 31 December 2009 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### Emphasis of matter – going concern

In forming our opinion on the financial statements, which is not qualified, we have considered the adequacy of the disclosure made in note 2 to the financial statements concerning going concern. The financial statements have been prepared on a going concern basis and the validity of this depends on the Group achieving its forecast cash flow taking into account material uncertainties in relation to receiving certain royalty and/or milestone income, receiving reimbursement of certain development costs, achieving sales and margins in line with budget for the Urology Company and

completing certain planned capital management and financing activities. This indicates the existence of material uncertainties which may cast significant doubt about the Group's ability to continue as a going concern. The financial statements do not include any adjustments that would result from a failure to obtain such funds or secure such future revenues.

### **Opinion on other matter prescribed by the Companies Act 2006**

In our opinion the information given in the Directors' Report for the financial year for which the Group financial statements are prepared is consistent with the Group financial statements. That report is modified by the inclusion of an emphasis of matter.

### **Matters on which we are required to report by exception**

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

### **Other matter**

We have reported separately on the parent company financial statements of Plethora Solutions Holdings plc for the year ended 31 December 2009.

### **Simon Ormiston (Senior Statutory Auditor)**

for and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
Cambridge

8 April 2010

#### Notes

- (a) 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.
- (b) Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

For the year ended 31 December 2009

	Note	2009 £'000	2008 £'000
<b>Revenue</b>	3	<b>17,742</b>	640
Cost of sales		–	–
<b>Gross Profit</b>		<b>17,742</b>	640
Administrative expenses			
– research & development costs		<b>(6,049)</b>	(9,203)
– exchange losses		<b>(283)</b>	(2,480)
– sales & marketing expenses		<b>(121)</b>	–
– general & administrative expenses		<b>(1,787)</b>	(2,538)
		<b>(8,240)</b>	(14,221)
<b>Operating profit/(loss)</b>		<b>9,502</b>	(13,581)
Finance costs	7	<b>(421)</b>	(534)
Finance income	7	<b>4</b>	46
<b>Profit/(loss) for the year from continuing operations before taxation</b>	4	<b>9,085</b>	(14,069)
Tax credit	8	<b>324</b>	763
Profit/(loss) from continuing operations		<b>9,409</b>	(13,306)
Profit/(loss) from discontinued operations	9	<b>165</b>	(3,082)
<b>Total comprehensive income/(loss) for the year attributable to equity shareholders</b>		<b>9,574</b>	(16,388)
<b>Earnings/(loss) per share</b>	10		
Basic earnings/(loss) per share			
– continuing operations		<b>29.8p</b>	(47.2)p
– discontinued operations		<b>0.5p</b>	(10.9)p
– total operations		<b>30.3p</b>	(58.1)p
Diluted earnings/(loss) per share			
– continuing operations		<b>19.4p</b>	(47.2)p
– discontinued operations		<b>0.3p</b>	(10.9)p
– total operations		<b>19.7p</b>	(58.1)p

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

For the year ended 31 December 2009

	Share Capital £'000	Share Premium £'000	Other Reserves £'000	Convertible Loan Note Reserve £'000	Translation Reserve £'000	Share Based Payment Reserve £'000	Retained Loss £'000	Total £'000
<b>Balance at 1 January 2008</b>	280	20,103	4,908	–	(126)	1,300	(24,798)	(1,667)
Exchange movement on translation of foreign entities	–	–	–	–	(128)	–	–	(128)
Net losses recognised directly in equity	–	–	–	–	(128)	–	–	(128)
Discontinued operations	–	–	–	–	254	–	–	254
Loss for the period	–	–	–	–	–	–	(16,388)	(16,388)
Total recognised income/ (expense) for the year	–	–	–	–	126	–	(16,388)	(16,262)
Issue of new shares	28	392	–	–	–	–	–	420
Cost of issue of new shares	–	(239)	–	–	–	–	–	(239)
Employee share based compensation	–	–	–	–	–	492	–	492
<b>Balance at 31 December 2008</b>	308	20,256	4,908	–	–	1,792	(41,186)	(13,922)
Profit for the period	–	–	–	–	–	–	9,574	9,574
Total recognised income/ (expense) for the year	–	–	–	–	–	–	9,574	9,574
Equity component of convertible loan notes	–	–	–	214	–	–	–	214
Issue of new shares	112	1,003	–	–	–	–	–	1,115
Cost of issue of new shares	–	(93)	–	–	–	–	–	(93)
Employee share based compensation	–	–	–	–	–	41	–	41
<b>Balance at 31 December 2009</b>	420	21,166	4,908	214	–	1,833	(31,612)	(3,071)

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

For the year ended 31 December 2009

	Note	2009 £'000	2008 £'000
<b>ASSETS</b>			
<b>Non current</b>			
Property, plant & equipment	11	34	46
<b>Current</b>			
Trade & other receivables	13	226	418
Cash & cash equivalents	14	1,428	515
		<b>1,654</b>	933
<b>Assets for disposal classified as held for sale</b>	9	–	7,028
<b>Total Assets</b>		<b>1,688</b>	8,007
<b>LIABILITIES</b>			
<b>Current</b>			
Trade & other payables	16	(2,764)	(4,280)
Borrowings	17	–	(2,162)
		<b>(2,764)</b>	(6,442)
<b>Non current</b>			
Borrowings	17	(1,995)	(1,436)
<b>Liabilities for disposal classified as held for sale</b>	9	–	(14,051)
<b>Total liabilities</b>		<b>(4,759)</b>	(21,929)
<b>Net liabilities</b>		<b>(3,071)</b>	(13,922)
<b>EQUITY</b>			
Share capital	20	420	308
Share premium		21,166	20,256
Other reserves		4,908	4,908
Convertible loan note reserve		214	–
Share based payment reserve		1,833	1,792
Retained loss		(31,612)	(41,186)
<b>Total deficit</b>		<b>(3,071)</b>	(13,922)

The financial statements were approved by the board of directors and authorised for issue on 8 April 2010

**S J Powell**  
Director

**J R Openshaw**  
Director

Registered number: 05341336

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

For the year ended 31 December 2009

	Note	2009 £'000	2008 £'000
<b>Cash flows from operating activities</b>			
Profit/(loss) after taxation from continuing operations		9,409	(16,388)
Profit from discontinued operations		165	–
Finance income		(4)	(46)
Finance costs		421	534
Adjustment for foreign exchange		–	380
Share-based payment charge		41	492
Depreciation of plant & equipment		26	44
Change in trade & other receivables		100	412
Change in trade & other payables		(1,657)	2,331
Taxation income		(324)	(763)
<b>Cash generated/(utilised) from operations</b>		<b>8,177</b>	<b>(13,004)</b>
Interest paid		(179)	(508)
Income taxes received		324	1,084
Cash flow from operating activities (discontinued operations)		276	2,053
<b>Net cash inflow/(outflow) from operating activities</b>		<b>8,598</b>	<b>(10,375)</b>
<b>Cash flows from investing activities</b>			
Disposal of discontinued operations and repayment of associated indebtedness		(474)	–
Purchases of property, plant & equipment		(14)	(3)
Interest received		4	46
<b>Net cash (outflow)/inflow from investing activities</b>		<b>(484)</b>	<b>43</b>
<b>Cash flows from financing activities</b>			
Proceeds from issue of shares		1,115	420
Share issue costs		(93)	(239)
Repayment of borrowings		(2,848)	(1,980)
Proceeds from receipt of borrowings		1,450	1,000
Cash used in financing activities (discontinued operations)		(6,825)	9,051
<b>Net cash (outflow)/inflow from financing activities</b>		<b>(7,201)</b>	<b>8,252</b>
<b>Net increase/(decrease) in cash &amp; cash equivalents</b>		<b>913</b>	<b>(2,080)</b>
Cash & cash equivalents at beginning of period		515	2,595
<b>Cash &amp; cash equivalents at end of period</b>	14	<b>1,428</b>	<b>515</b>

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

For the year ended 31 December 2009

## 1. GENERAL INFORMATION

Plethora Solutions Holdings plc and its subsidiaries' principal activities are the development and sale of drugs and medical devices for the diagnosis, treatment and management of urological disorders.

Plethora Solutions Holdings plc, a public limited company, is incorporated and domiciled in the United Kingdom.

The financial statements for the year ended 31 December 2009 (including the comparative information for the year ended 31 December 2008) were approved by the board of directors on 8 April 2010. Amendments to the financial statements are not permitted after they have been approved.

## 2. ACCOUNTING POLICIES

### Basis of preparation

These consolidated financial statements have been prepared using the required measurement bases specified under International Financial Reporting Standards (IFRS) and in accordance with applicable IFRS as adopted by the European Union and IFRS as issued by the International Accounting Standards Board and in accordance with the Companies Act 2006.

### Overall considerations

The significant accounting policies that have been used in the preparation of these consolidated financial statements are summarised below.

The consolidated financial statements have been prepared using the measurement bases specified by IFRS for each type of asset, liabilities, income and expense. The measurement bases are more fully described in the accounting policies below.

The accounting estimates and assumptions are consistent with the Group's latest approved budget forecast where applicable. Judgements are based on the information available at each balance sheet date. All estimates are based on the best information available to management.

### Going concern

In considering the appropriate basis on which to prepare the financial statements, the directors are required to consider whether the Group can continue in operational existence for the foreseeable future.

As at 31 December 2009, the Group had net current liabilities of £1.1 million.

The directors have prepared detailed cash flow forecasts for the period to 30 June 2011, which show that the Group has adequate working capital for the forecast period. These cash flow projections assume that a number of as yet materially uncertain events occur including that the Group receives royalty and / or milestone income in relation to PSD502 within the expected timeframes, which is dependent on the success of Shionogi in obtaining regulatory approval for this product; that it continues, within the expected timeframes and in the expected amounts, to receive the

## For the year ended 31 December 2009

reimbursement of costs from Shionogi relating to the development of PSD502; that The Urology Company achieves sales and earns margin broadly in line with budget and that certain of the planned capital management and financing activities are completed.

Consequently, the directors have concluded that it is appropriate to prepare the Group's financial statements on the going concern basis, which assumes that the Group will continue in operational existence for the foreseeable future. Nevertheless, there is material uncertainty in relation to the events set out above, which may cast significant doubt on the Group's ability to continue as a going concern. In the event that one or more of the above events fails to occur as expected, the Group may be unable to realise its assets and discharge its liabilities in the normal course of business.

### Interpretations and amendments to published standards effective in the financial statements

For the purposes of the preparation of these consolidated financial statements, the Group has applied all standards and interpretations that are effective for accounting periods beginning on or after 1 January 2009.

The following new standards and amendments to existing standards are effective for accounting periods beginning on or after 1 January 2009:

- Amendment to IFRS 2 "Share based payment – vesting conditions and cancellations", provides guidance on accounting for the cancellation of a share based payment award and clarification on the definition of vesting conditions. This has not had any impact on the Group's accounts;
- Amendment to IFRS 7 "Financial instruments – disclosures", increases the disclosure requirements about fair value measurement and reinforces existing principles for disclosure about liquidity risk. This has not had any impact on the Group's accounts;
- IFRS 8 "Operating segments", requires segment information to be disclosed based on the information reported internally to the entity's "chief operating decision maker" and used to allocate resources and assess performance. As the Group has a single reportable business segment, the impact on the Group accounts is limited (see note 3);
- Amendment to IAS 1 (Revised) "Presentation of financial statements", requires a new statement of comprehensive income to be presented as a single statement, or alternatively as two statements. The Group has accordingly presented a single Consolidated Statement of Comprehensive Income;
- IAS 23 (Revised) "Borrowing costs", requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset. This has not had any impact on the Group's accounts; and
- Amendment to IAS 32 "Financial instruments – presentation" and IAS 1 "Presentation of financial statements – puttable financial instruments", ensures entities classify the certain types of financial instruments as equity, provided they have particular features and meet specific conditions. This has not had any impact on the Group's accounts.

For the year ended 31 December 2009

### **Standards, interpretations and amendments to published standards that are not yet effective**

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning on or after 1 July 2009 or later periods, and which the Group has not adopted early:

- IFRS 3 (Revised) "Business combinations";
- Amendment to IFRS 1 "First time adoption of IFRS" and IAS 27 "Consolidated and separate financial statements";
- Amendment to IAS 39 "Financial instruments: recognition and measurement" – eligible hedged items;
- Amendment to IAS 32 "Financial instruments – presentation" – classification of rights issues;
- IFRIC 15 "Agreements for the construction of real estate";
- IFRIC 17 "Distributions of non-cash assets to owners"; and
- IFRIC 18 "Transfers of non-cash assets from customers".

The Directors do not anticipate that the adoption of these Standards and Interpretations, where relevant, will have a material impact on the Group's financial statements in future periods.

### **Significant accounting estimates and judgments**

Certain estimates and judgments need to be made by the directors of the Group which affect the results and position of the Group as reported in the financial statements. Estimates and judgments are required for example, as at the reporting date, not all liabilities have been settled and certain assets/ liabilities are recorded at fair value which requires a number of estimates and assumptions to be made.

The major areas for judgments within the financial statements are as follows:

- preparing the financial statements on a going concern basis;
- revenue recognition;
- the treatment of development costs; and
- the recognition of a tax receivable for R&D tax refunds.

The reasons that the directors believe it is appropriate to prepare the financial statements on a going concern basis are set out above.

**For the year ended 31 December 2009**

The Group earns revenue from licensing transactions and from the re-imburement of R&D expenses incurred in relation to out-licensed or co-development projects. Licensing revenues are recorded on the date of the licensing agreement to the extent that all obligations are fulfilled on that date. Re-imburement revenue is recognised only when the directors consider that it is probable that the economic benefit will flow to the entity to reflect the uncertainties in the timing and collection of amounts.

The development costs of the Group are incurred for the development and sale of drugs and medical devices for the diagnosis, treatment and management of urological disorders. At the time the costs are incurred, the directors have concluded that there is insufficient evidence to support the capitalisation of these costs. It is unclear whether the products will achieve medical and safety approval and yield income in excess of costs incurred to date. As such, the costs are not capitalised.

Within the United Kingdom, a tax credit is claimed for research and development costs incurred in the year. The Group financial statements do not include a receivable for research and development tax credits until the claim has been agreed with the local tax authorities.

There are no major areas of estimation.

**Consolidation and investments in subsidiaries**

Subsidiaries are all entities over which the Group has the power to control the financial and operating policies. The Group obtains and exercises control through voting rights. The consolidated financial statements of the Group incorporate the financial statements of the parent company as well as those entities controlled by the Group by full consolidation.

Material intra-group balances and transactions and any unrealised gains or losses arising from intra-group transactions are eliminated in preparing the consolidated financial statements.

**Revenue recognition**

Revenue is measured by reference to the fair value of consideration received or receivable by the Group for licensing arrangements and reimbursement of development expenditure, excluding VAT and trade discounts. Revenue is recognised upon the performance of services or transfer of risk and reward to the customer.

The recognition of income received, such as licence 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.

Licence fees are recognised as revenue when all substantial obligations to the licensee have been fulfilled.

Income in relation to the reimbursement of research and development costs incurred is recognised as revenue when:

## For the year ended 31 December 2009

- the stage of completion of the transaction at the end of the reporting period can be measured reliably;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the entity; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

### **Non current assets held for sale and discontinued operations**

Non-current assets and disposal groups classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell.

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. In order to qualify for recognition as held for sale, management must be committed to the sale with the sale expected to complete within one year from the date of classification.

### **Foreign currencies**

These financial statements are presented in UK Sterling which is the functional currency of the Company.

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 income statement.

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 directly to the translation reserves. On disposal of a foreign operation the cumulative translation differences (including, if applicable, gains and losses on related hedges) are transferred to the income statement as part of the gain or loss on disposal.

### **Segmental reporting**

IFRS 8 defines operating segments as those activities of an entity about which separate financial information is available and which are evaluated by the Group to assess performance and determine the allocation of resources. IFRS 8 also sets out the process by which operating segments may be amalgamated into reportable segments because they share the same economic characteristics due to the nature of the products sold, the production processes used and the type of customer for the products.

## For the year ended 31 December 2009

In adopting IFRS 8 the board has concluded that the Group has a single reportable segment during 2009, being the development of drugs and devices of the treatment of urological conditions. In reaching this conclusion the board considered the following.

- The principal business of the Group throughout the period was the pursuit of the clinical development of drugs to treat urological conditions. The risks and rewards of these are similar in nature and the Group's resources were focused on this.
- During 2009 the Group disposed of Timm and in both 2008 and 2009 this business was treated as a discontinued operation. Had this business not been treated as discontinued, it is likely that it might have constituted a separate segment.
- At the very end of the year work commenced on the development of The Urology Company, the amounts allocated to this were immaterial during the year and so did not comprise a separate segment during 2009. As this business unit develops in 2010 this may become a separate segment during that year and the board will review the treatment.

### Property, plant and equipment

Leasehold property improvements, computer equipment and fixtures and fittings are carried at acquisition cost less subsequent depreciation and impairment losses. Depreciation is charged on these assets on a straight line basis over the estimated useful economic life of each asset.

The useful lives of leasehold property improvements, equipment and fixtures can be summarised as follows:

Leasehold property improvements	period of the lease
Computer equipment	3 years
Fixtures and fittings	3 to 5 years

Residual asset values are reassessed annually.

### Impairment

The carrying value of non-current assets is reviewed whenever events or changes in circumstances indicate that the carrying value may not be recoverable to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount of property, plant and equipment is the greater of their fair value less costs to sell and value in use.

### Leases

In accordance with IAS 17, the economic ownership of a leased asset is transferred to the lessee if the lessee bears substantially all the risks and rewards related to the ownership of the leased asset and accounted for as finance leases. The related asset is recognised at the time of inception of the lease at the fair value of the leased asset or, if lower, the present value of the lease payments plus incidental payments, if any, to be borne by the lessee. A corresponding amount is recognised as a finance

## For the year ended 31 December 2009

leasing liability, irrespective of whether some of these lease payments are payable up-front at the date of inception of the lease.

Subsequent accounting for assets held under finance lease agreements, i.e. depreciation methods and useful lives, correspond to those applied to comparable acquired assets. The corresponding finance leasing liability is reduced by lease payments less finance charges, which are expensed to finance costs. Finance charges represent a constant periodic rate of interest on the outstanding balance of the finance lease liability.

All other leases are treated as operating leases. Payments on operating lease agreements are recognised as an expense on a straight-line basis. Associated costs, such as maintenance and insurance, are expensed as incurred. The Group does not act as a lessor.

### **Taxation**

Current income tax assets and/or liabilities comprise those obligations to, or claims from, fiscal authorities relating to the current or prior reporting period, that are unpaid at the balance sheet date. They are calculated according to the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit for the year.

Deferred income taxes are calculated using the liability method on temporary differences. This involves the comparison of the carrying amounts of assets and liabilities in the consolidated financial statements with their respective tax bases. However, in accordance with the rules set out in IAS 12, no deferred taxes are recognised in conjunction with the initial recognition of goodwill on acquisitions. This applies also to temporary differences associated with shares in subsidiaries if reversal of these temporary differences can be controlled by the Group and it is probable that reversal will not occur in the foreseeable future. In addition, tax losses available to be carried forward as well as other income tax credits to the Group are assessed for recognition as deferred tax assets.

Deferred tax liabilities are always provided for in full. Deferred tax assets are recognised to the extent that it is probable that they will be able to be offset against future taxable income. Deferred tax assets and liabilities are calculated, without discounting, at tax rates that are expected to apply to their respective period of realisation, provided they are enacted or substantively enacted at the balance sheet date.

Most changes in deferred tax assets or liabilities are recognised as a component of tax expense in the statement of comprehensive income. Only changes in deferred tax assets or liabilities that relate to a change in value of assets or liabilities that is charged directly to equity are charged or credited directly to equity.

### **Employee benefits**

#### ***(i) Defined contribution pension scheme***

Pensions to employees are provided through contributions to individual personal pension plans. A defined contribution plan is a pension plan under which the Group pays fixed contributions into an independent entity. The Group has no legal or constructive obligations to pay further contributions after payment of the fixed contribution.

**For the year ended 31 December 2009**

The contributions recognised in respect of personal pension plans are expensed as they fall due. Liabilities and assets may be recognised if underpayment or prepayment has occurred and are included in current liabilities or current assets as they are normally of a short term nature.

**(ii) Other employee benefits**

Short-term employee benefits, including holiday entitlement are included in current pension and other employee obligations at the undiscounted amount that the group expects to pay as a result of the unused entitlement.

**Financial assets**

The Group's financial assets include cash and trade and other receivables.

All financial assets are recognised when the entity becomes party to the contractual provisions of an instrument. All financial assets are derecognised on their settlement date. All financial assets are initially recognised at fair value, plus transaction costs, and are subsequently measured at amortised cost using the effective interest rate.

Interest and other cash flows resulting from holding financial assets are recognised the statement of comprehensive income when received, regardless of how the related carrying amount of financial assets is measured.

Trade receivables are provided against when objective evidence is received that the Group will not be able to collect all amounts due to it in accordance with the original terms of the receivables. The amount of the write-down is determined as the difference between the assets' carrying amount and the present value of estimated future cash flows. No general provisions are made against trade receivables.

**Cash and cash equivalents**

Cash and cash equivalents include cash at bank and in hand and overdrafts as well as short term highly liquid investments such as money market instruments and bank deposits.

**Equity**

Share capital is determined using the nominal value of shares that have been issued.

The share premium account represents premiums received on the initial issuing of the share capital. Any transaction costs associated with the issuing of shares are deducted from share premium, net of any related income tax benefits.

The other reserve is a merger reserve.

Retained earnings include all current and prior period results as disclosed in the income statement.

For the year ended 31 December 2009

### **Compound financial instruments**

Compound financial instruments issued by the group comprise convertible notes that can be converted to share capital at the option of the holder, and the number of shares to be issued does not vary with changes in their fair value.

The liability component of a compound financial instrument is recognised initially at the fair value of a similar liability that does not have an equity conversion option. The equity component is recognised initially at the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortised cost using the effective interest method. The equity component of a compound financial instrument is not re-measured subsequent to initial recognition except on conversion or expiry.

Borrowings are classified as current liabilities unless the group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

### **Share based employee remuneration**

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.

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).

All share-based remuneration is ultimately recognised as an expense in the statement of comprehensive income 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.

### **Financial liabilities**

The Group's financial liabilities include convertible loan notes and trade and other payables and derivatives.

## For the year ended 31 December 2009

Financial liabilities are recognised when the Group becomes a party to the contractual agreements of the instrument. All interest related charges are recognised as an expense in “finance cost” in the statement of comprehensive income. Financial liabilities are initially recognised at fair value and subsequently measured at amortised costs using the effective interest rate.

Derivative instruments are held at fair value and any adjustments to fair value are accounted for as a profit or loss.

### Embedded derivatives

Embedded derivatives identified in host contracts are separated from the host contract when they are not closely linked to the contract and are valued at fair value through the income statement. The embedded derivative is revalued to fair value at each reporting period with the income statement charge/credit being disclosed in finance income/costs and the asset/liability being separately shown in the notes to the balance sheet.

### Research & Development costs

Expenditure on research (or the research phase of an internal project) is recognised as an expense in the period in which it is incurred.

Development costs do not meet the criteria for capitalisation in accordance with IFRS and are expensed as incurred.

## 3. SEGMENTAL REPORTING

The Group's revenue and profit from continuing operations were all derived from the principal activity of development and sale of products for the diagnosis, treatment and management of urological disorders. This activity was undertaken solely within the United Kingdom. All of the Group's revenue has been derived from external customers.

## 4. PROFIT FOR THE YEAR BEFORE TAXATION

The profit/(loss) on ordinary activities before taxation is stated after charging:

	2009 £'000	2008 £'000
<b>Auditors' remuneration</b>		
Audit services		
– company	28	25
– subsidiary undertakings	16	26
Non-audit services	–	13
Corporate taxation	8	5
<b>Operating lease charges</b>		
Land and buildings	121	121
<b>Depreciation</b>		
Property, plant and equipment – owned	26	44

For the year ended 31 December 2009

**5. DIRECTORS AND EMPLOYEES**

	2009 Number	2008 Number
<b>The average number of persons (including directors) employed by the Group during the period was:</b>		
Administration and management staff	4	7
Development employees	10	15
	<b>14</b>	<b>22</b>
	<b>£'000</b>	<b>£'000</b>
<b>Staff costs during the period:</b>		
Wages and salaries	1,217	1,656
Social security costs	144	168
Other pension costs	43	59
Share based compensation	41	288
	<b>1,445</b>	<b>2,171</b>

Remuneration in respect of directors, including the highest paid director, is disclosed in the Remuneration Report on pages 16 to 18. There are no key managers in the Group other than the directors. The disclosures above exclude amounts and employee numbers associated with discontinued operations.

**6. SHARE BASED EMPLOYEE REMUNERATION**

The Group operates share based payment schemes 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 of Plethora Solutions Holdings plc and subject to the rules of the scheme, the key points of which are as follows:

- options are granted for the shares of Plethora Solutions Holdings plc to employees of subsidiary companies;
- options vest on the third anniversary of the date of grant;
- options are exercisable between three and ten years of being granted;
- except in certain limited circumstances, all options lapse six months after an employee leaves the Group; and
- exercise of options is not subject to any specific performance criteria.

For the year ended 31 December 2009

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

	31 December 2009		31 December 2008	
	Number	Weighted average exercise price (p)	Number	Weighted average exercise price (p)
Outstanding at start of period	5,047,012	124	4,186,165	144
Granted	-	-	1,097,528	59
Lapsed	(2,676,554)	153	(236,681)	175
Outstanding at end of period	2,370,458	91	5,047,012	124

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

Date exercisable and (option life):	31 December 2009			31 December 2008		
	Number	Weighted average exercise prices (pence)	Weighted average contractual life (months)	Number	Weighted average exercise prices (pence)	Weighted average contractual life (months)
2008 (up to 2013)	1,623,736	78	-	3,020,653	129	-
2009 (up to 2014)	100,000	202	-	306,028	201	4
2010 (up to 2015)	264,857	275	6	622,803	175	18
2011 (up to 2016)	381,865	59	18	1,097,528	59	30

Share options are exercisable between values of 59p and 275p. The fair value of options granted was determined using the Black-Scholes valuation model. Significant inputs into the calculations related to the 2008 grants were:

- exercise prices as detailed above;
- 52.7% to 45.8% volatility based on expected and historical share price;
- a risk free interest rate of 5.5% to 4.1%;
- all options are assumed to vest after three years from the date of grant of the options;

## For the year ended 31 December 2009

- an expected leavers rate is estimated for each option scheme and reviewed at each reporting date.

In total £41,000 (2008: £288,000) of employee remuneration expense has been included in the consolidated income statement contributing to the share based payment reserve. No liabilities were recognised due to share based payment transactions.

A charge of £nil (2008: £175,00) is included within the consolidated statement of comprehensive income for share options granted to a third party as consideration for work performed.

**7. FINANCE INCOME AND EXPENSE**

	2009 £'000	2008 £'000
Bank interest receivable	4	46
<b>Finance income</b>	<b>4</b>	<b>46</b>
Effective interest charge on borrowings	(414)	(527)
Other charges	(7)	(7)
<b>Finance expense</b>	<b>(421)</b>	<b>(534)</b>

**8. TAXATION ON PROFIT/(LOSS) FROM CONTINUING OPERATIONS**

The tax credit is based on the profit/(loss) for the year and represents:

	2009 £'000	2008 £'000
UK corporation tax	–	–
Adjustments in respect of prior years	(324)	(763)
<b>Current tax credit</b>	<b>(324)</b>	<b>(763)</b>
Deferred taxation (note 15)	–	–
<b>Tax credit on profit/(loss) on continuing operations</b>	<b>(324)</b>	<b>(763)</b>

## For the year ended 31 December 2009

The tax assessed is different than the standard rate of corporation tax in the UK of 28% (2008: 21%). The differences are explained as follows:

	<b>2009</b>	2008
	<b>£'000</b>	£'000
Profit/(loss) on ordinary activities before tax	<b>9,085</b>	(14,069)
Profit/(loss) on ordinary activities multiplied by standard rate of corporation tax in the UK of 28% (2008: 21%)	<b>2,544</b>	(2,954)
Effect of:		
Expenses not deductible for tax purposes	<b>100</b>	20
Depreciation in excess of capital allowances	<b>9</b>	10
Utilisation of previously unrecognised tax losses	<b>(3,172)</b>	–
Unutilised tax losses	<b>519</b>	2,924
Adjustments in respect of prior years	<b>(324)</b>	(763)
	<b>(324)</b>	(763)

At 31 December 2009 the Group had tax losses of £17 million (2008: £35 million) to offset against future profits within the United Kingdom.

## 9. DISCONTINUED OPERATIONS

On 26 May 2009 the Group announced that it had entered into a compromise agreement with Paul Capital Healthcare under which it would be released from further obligations under the Revenue Finance Agreement (see Note 17 Borrowings). One part of that agreement was the disposal of Timm Medical Technologies, Inc. ("Timm") to Paul Capital for consideration of \$1, and the waiver of the intergroup creditors of £2.8 million. Timm was therefore recorded at 31 December 2008 as 'held for sale', and its operations as 'discontinued'. Set out in this note are the effects of this transaction on the Group, which includes the removal from the Group of any further liability due to Paul Capital Healthcare.

The results of the discontinued operations are analysed as follows:

	<b>2009</b>	2008
	<b>£'000</b>	£'000
Trading (loss)/profit for Timm	–	(2,828)
Historic foreign exchange losses taken to reserves on consolidation	–	(254)
Gain on disposal of asset group classified as held for sale at 31 December 2008	<b>165</b>	–
(Loss)/profit from discontinued operations	<b>165</b>	(3,082)

## For the year ended 31 December 2009

The revenues, expenses, pre-tax profits and related tax expenses of Timm in the period 1 January 2009 to the date of disposal are not considered material as this operation was, materially, break-even in this period.

The results for Timm in the year ended 31 December 2008 were as follows:

	2008 £'000
Revenue	6,477
Cost of sales	(931)
Gross profit	5,546
Administrative expenses	
– amortisation of intangibles	(464)
– selling and marketing	(4,306)
– other administrative expenses	(891)
Operating (loss)/profit	(115)
Finance costs	(2,659)
(Loss)/profit for the year before taxation	(2,774)
Taxation	(54)
(Loss)/profit for the year	(2,828)

The assets and liabilities of Timm that were classified as held for sale at 31 December 2008 are as follows:

	2008 £'000
<b>Assets</b>	
Goodwill	1,463
Other intangible assets	3,728
Property, plant and equipment	134
Deferred taxation	213
Long term receivables	28
Inventory	277
Trade and other receivables	711
Cash	474
<b>Assets for disposal held for sale</b>	<b>7,028</b>
<b>Liabilities</b>	
Trade and other payables	(3,338)
Borrowings (note 17)	(9,525)
Deferred taxation	(1,188)
<b>Liabilities for disposal held for sale</b>	<b>(14,051)</b>

For the year ended 31 December 2009

**10. EARNINGS PER SHARE**

The calculation of the basic and diluted earnings per share is based on the profit on ordinary activities after tax and on the weighted average number of ordinary shares in issue during the year. The earnings and weighted average number of shares used in the calculations are set out below.

	2009 Profit £'000	2009 Earnings per share (p)	2008 Loss £'000	2008 Loss per share (p)
<b>Basic earnings/(loss) per share</b>				
Continuing operations	9,409	29.8p	(13,306)	(47.2)p
Discontinued operations	165	0.5p	(3,082)	(10.9)p
Total operations	9,574	30.3p	(16,388)	(58.1)p
<b>Diluted earnings/(loss) per share</b>				
Continuing operations	9,550	19.4p	(13,306)	(47.2)p
Discontinued operations	165	0.3p	(3,082)	(10.9)p
Total operations	9,715	19.7p	(16,388)	(58.1)p

Basic earnings per share are calculated based on a weighted average number of shares in issue of 31,548,951 (2008: 28,198,569). Diluted earnings per share takes into account the dilutive effect of share options to the extent they are in the money and convertible loan notes. Diluted earnings per share are calculated based on 49,148,951 shares. The dilutive effect on the loss per share in 2008 is not shown as the effect of loss per share due to share options and convertible loans is anti-dilutive on the loss.

For the year ended 31 December 2009

**11. PROPERTY, PLANT AND EQUIPMENT**

	Leasehold improvements £'000	Fixtures, fittings, & computer equipment £'000	Total £'000
<b>Cost</b>			
At 1 January 2008	27	404	431
Additions	–	3	3
Less: discontinued operations	(27)	(209)	(236)
At 31 December 2008	–	198	198
Additions	–	14	14
<b>At 31 December 2009</b>	<b>–</b>	<b>212</b>	<b>212</b>
<b>Depreciation</b>			
At 1 January 2008	4	196	200
Charge for the year	–	44	44
Less: discontinued operations	(4)	(88)	(92)
At 31 December 2008	–	152	152
Charge for the year	–	26	26
<b>At 31 December 2009</b>	<b>–</b>	<b>178</b>	<b>178</b>
<b>Net book value</b>			
At 1 January 2008	23	208	231
At 31 December 2008	–	46	46
<b>At 31 December 2009</b>	<b>–</b>	<b>34</b>	<b>34</b>

**12. PRINCIPAL SUBSIDIARIES**

At 31 December 2009 the principal subsidiaries of the Group were as follows:

Name of subsidiary undertaking	Country of incorporation	Description of shares held	% of nominal value of shares held	Principal business activity
Plethora Solutions Limited	United Kingdom	1p Ordinary	100	Development of drugs and medical devices
Plethora Therapeutics Limited	United Kingdom	£1 Ordinary	100	Development of drugs and medical devices
The Urology Company Holdings Limited	United Kingdom	£1 Ordinary	100	Holding Company
The Urology Company Limited	United Kingdom	£1 Ordinary	100	Marketing and distribution of drugs

For the year ended 31 December 2009

**13. TRADE AND OTHER RECEIVABLES**

	<b>2009</b>	2008
	<b>£'000</b>	£'000
Trade receivables	<b>24</b>	35
Other receivables	<b>78</b>	144
Prepayments and accrued income	<b>124</b>	239
Total	<b>226</b>	418
Impairment of trade and other receivables	-	-
	<b>226</b>	418

At 31 December 2009, some of the unimpaired trade receivables are past their due date. The age of financial assets past due but not impaired, is as follows:

	<b>2009</b>	2008
	<b>£'000</b>	£'000
Not more than one month	<b>24</b>	35
	<b>24</b>	35

The trade receivables consist of amounts due from Shionogi which are payable within 14 days. The directors consider credit risk to be immaterial. The amounts do not bear interest.

The fair value of these short term financial assets is not individually determined as the carrying amount is a reasonable approximation of fair value.

**14. CASH AND CASH EQUIVALENTS**

	<b>2009</b>	2008
	<b>£'000</b>	£'000
Cash and cash equivalents	<b>1,435</b>	522
Overdraft	<b>(7)</b>	(7)
	<b>1,428</b>	515

Cash and cash equivalents consist of cash on hand and balances with banks only.

For the year ended 31 December 2009

## 15. DEFERRED TAXATION

At 31 December 2009, the Group had an unrecognised deferred tax asset relating to losses carried forward of £4 million (2008: £7 million). The asset has not been recognised as the directors do not foresee a reversal in the foreseeable future.

Other deferred tax assets and liabilities arising from other temporary differences are considered to be insignificant.

## 16. CURRENT LIABILITIES : TRADE AND OTHER PAYABLES

	2009 £'000	2008 £'000
Trade and other payables	2,061	2,311
Other taxation and social security	50	80
Derivative instrument: borrowings conversion right	–	20
Accruals	653	1,869
	<b>2,764</b>	4,280

Due to the short term duration of trade and other payables the carrying value in the balance sheet represents the fair value of the liabilities.

The derivative instrument represents the fair value of the conversion rights on the borrowings. This liability is held at fair value through the income statement.

## 17. BORROWINGS

	2009 £'000	2008 £'000
<b>Current borrowings</b>		
ETV Capital S.A.	–	1,412
Merlin Biosciences	–	750
	–	2,162
<b>Non current borrowings</b>		
Convertible loan notes due 2012	1,995	–
ETV Capital S.A.	–	1,436
	1,995	1,436
<b>Total Borrowings</b>	<b>1,995</b>	3,598

## For the year ended 31 December 2009

The future contractual payments are as follows

	2009 £'000	2008 £'000
<b>In one year or less or on demand</b>		
ETV Capital S.A.	–	1,412
Merlin Biosciences	–	750
<b>In more than two years</b>		
ETV Capital S.A.	–	1,436
<b>In more than two years but not more than three years</b>		
Convertible loan notes due 2012	2,200	–
	<b>2,200</b>	<b>3,598</b>

**(i) ETV Capital S.A.**

In May 2007 the Group entered into a loan with ETV Capital S.A. for £4.0 million. The loan was originally repayable in 33 equal instalments, had a maturity of September 2010 and contained provision to be convertible into ordinary shares. Interest was charged at 13.51%. On 6 August 2009 in accordance with the terms of the loan agreement the Group repaid the remaining balance outstanding on the loan.

**(ii) Merlin Biosciences**

On 26 September 2008, Merlin Biosciences Fund III LP and Merlin Biosciences Fund III (2007) LP (together "Merlin Biosciences Fund III") entered into a two year convertible loan note for £750,000, maturing on 26 September 2010 and bearing a coupon of 13.5% per annum, with the interest being repaid at maturity. The loan note was convertible at the holders' option into ordinary shares at a price of 36p per share. In consideration for Merlin subscribing for the loan notes and for providing a guarantee to ETV Capital S.A., Merlin was granted warrants to acquire up to 520,833 new ordinary shares in the Company at an exercise price of 36p per share.

The terms of this loan were amended on 7 December 2009 as described in (v) below.

**(iii) Paul Capital Healthcare (included within discontinued operations)**

The Group entered into a Revenue Finance Agreement (the "RFA") on 27 March 2008 with Paul Capital Healthcare ("Paul Capital"). The Group received \$15 million on signature. In return, Paul Capital received an interest in the revenues generated from Plethora's male-health portfolio, primarily on revenues derived from sales of ErecAid®, PSD502 and PSD510. The revenue interest was calculated on a decreasing percentage of revenues over time. The agreement was to expire in 2018. Plethora had the right to terminate the agreement at any time before then by making a final payment to Paul Capital which was the greater of either (a) 250% of the payments funded by Paul Capital, or (b) an amount that would generate an IRR of 25% on the amounts funded by Paul Capital. This final payment

## For the year ended 31 December 2009

would be reduced by amounts already paid to Paul Capital. The loan was secured against the assets of the male-health portfolio.

The proceeds received from Paul Capital met the definition of financial liabilities under IAS39 and accordingly were treated as financial liabilities. Revenue interest paid to Paul Capital was treated as a repayment of the liability and notional interest was charged on the liability using the effective interest rate at inception of 26.9%. Any change in the estimated future payments to Paul Capital was recognised as income or expense in the income statement.

On 26 September 2008 the Group entered into an amendment to the RFA and Paul Capital advanced a further \$750,000 on the same terms as the previous amounts.

Under an agreement dated 22 May 2009, the Group entered a Compromise Agreement with Paul Capital for the termination of the RFA. Under the Compromise Agreement, the Group sold its subsidiary Timm Medical Technologies, Inc. ("Timm") to Paul Capital. Under the RFA Timm is the borrower and due to the classification of Timm as an asset held for resale, the RFA does not appear as a borrowing of the Group at 31 December 2008. Instead the liability to Paul Capital, which was recorded as \$15.75 million, together with accrued interest, at 31 December 2008 is included in the Liabilities Held For Resale.

### **(iv) Convertible loan notes due 2011**

On 16 February 2009, following shareholder approval, the Group issued £1 million loan notes to certain institutional investors. The loan notes originally bore interest at the rate of 4% per annum, and the payment of the interest accrued is at final maturity of the loan. These loan notes were to be repayable in full on the second anniversary of issue, being 15 February 2011. The loan note holders were able to convert the notes at any point prior to maturity at a conversion price of 25p per share. In consideration for the note holders subscribing for the loan notes they were granted with warrants to acquire up to 1,333,332 new ordinary shares in the Company at an exercise price of 33p per share.

The terms of this loan were amended on 7 December 2009 as described in (v) below.

### **(v) Convertible loan notes due 2012**

On 7 December 2009, as part of a placing to raise £1.56 million, the Company issued £450,000 new convertible loan notes. On the same day shareholders approved the waiver of pre-emption rights in relation to the issuance of up to £1 million of convertible loan notes. Consequently, £550,000 of convertible loan notes remain approved but unissued.

The principal terms of the convertible loan notes include: maturity 31 December 2012; coupon 13% per annum, accrued until maturity; convertible into ordinary shares at 12.5p per share; secured by first charge over the Company's assets; repayable by the Company at any point post issuance; convertible by the holder at any point post issuance; convertible by the Company after 31 December 2010 provided the Company's share price is 25% greater than the conversion price for the preceding 60 days prior to conversion.

As part of the negotiation of the placing, it was agreed with Excalibur Fund Managers (formerly Merlin Biosciences), which holds the £750,000 convertible issued in September 2008, and the holders of the

## For the year ended 31 December 2009

£1,000,000 convertible loan notes issued in February 2009 to amend the terms of their loan notes. The amendment brought the economic terms and the eventual maturity of these loan notes on to the same terms as the new loan notes, save only that their security would rank behind the new loan notes.

As a result the Company now has effectively a single class of £2,200,000 convertible loan notes in issue comprising two tranches as relates to their security interests.

Under IFRS a proportion of the convertible loan note is regarded as equity and is recorded in the convertible loan note reserve. In addition, amounts were recorded as notional interest and as a loss on the restructuring of the convertible loan notes due 2011. The following non-IFRS disclosure shows the effect of the accounting treatment.

<b>Convertible loan notes due 2012</b>	<b>2009</b>	2008
	<b>£'000</b>	£'000
Amount recorded in liabilities	<b>1,995</b>	–
Amount recorded in equity	<b>214</b>	–
	<b>2,209</b>	–
Add: loan arrangement fees set against liability	<b>92</b>	–
Less: notional interest and deemed loss on extinguishment	<b>(101)</b>	–
Principal amount of loan notes	<b>2,200</b>	–

## 18. FINANCIAL INSTRUMENTS

The Group uses financial instruments comprising cash and short term deposits and convertible debt instruments. It does not enter into derivative transactions such as interest rate swaps, forward rate agreements or forward currency contracts. The Group has items such as trade receivables and trade payables that arise directly from its operations.

### Credit risk

All trade receivables have set credit terms which are monitored. Cash is held with UK high street banks.

### Liquidity risk

The Group seeks to manage financial risk by ensuring it has adequate liquid resource to meet its obligations as they fall due. The Group uses share issues and loans to raise finance for the Group's activities. The directors prepare detailed cashflow forecasts which are monitored frequently to ensure that all obligations can be settled as they fall due.

### Interest rate risk

All interest rates are fixed on the Group's borrowing. Interest is paid at 13% on the convertible loan notes due 2012. A sensitivity analysis of interest has not been performed as all rates are fixed, therefore there is no interest rate sensitivity.

For the year ended 31 December 2009

### Financial assets and liabilities

The IAS 39 categories of financial assets included in the balance sheet and the headings in which they are included are as follows:

	<b>2009</b>	2008
	<b>£'000</b>	£'000
Loans and other receivables	<b>1,531</b>	694

The financial assets are included on the balance sheet in the following headings:

	<b>2009</b>	2008
	<b>£'000</b>	£'000
<b>Current assets</b>		
Trade and other receivables	<b>102</b>	179
Cash and cash equivalents	<b>1,428</b>	515
	<b>1,530</b>	694

The IAS 39 categories of financial liabilities included in the balance sheet and the headings in which they are included are as follows:

	<b>2009</b>	2008
	<b>£'000</b>	£'000
Financial liabilities held for trading and carried at fair value through the income statement	–	20
Financial liabilities measured at amortised cost	<b>4,759</b>	7,858
<b>Total liabilities</b>	<b>4,759</b>	7,878

## For the year ended 31 December 2009

The financial liabilities are included on the balance sheets in the following headings:

	2009 £'000	2008 £'000
<b>Current Liabilities</b>		
Trade and other payables	2,764	4,280
Borrowings	–	2,162
<b>Non current liabilities</b>		
Borrowings	1,995	1,436
	<b>4,759</b>	<b>7,878</b>

## 19. CAPITAL MANAGEMENT POLICIES PROCEDURES

The Group's capital management objectives are to ensure that it can continue as a going concern, has adequate capital to undertake planned research and development and to fund marketing and distribution activities.

The Group's capital equals total equity less cash and cash equivalents. The Group's financing includes total equity plus borrowings. The borrowings have been taken out to provide working capital for the Group.

## 20. SHARE CAPITAL

	2009 £'000	2008 £'000
<b>Allotted, issued and fully paid</b>		
41,965,800 (2008: 30,815,800) ordinary shares of 1 pence each	420	308

All 1 pence ordinary shares carry the same voting rights and rights to discretionary dividends.

On 7 December 2009 the Company issued 11,150,000 new ordinary shares at 10p each. This issuance was part of a placing to raise £1.56 million. The proceeds of the placing will be used for general working capital purposes. On the same date the Company passed a resolution as permitted under the Companies Act 2006 to dispense with the Company's authorised share capital limit.

## 21. CONTINGENT LIABILITIES

There were no contingent liabilities at 31 December 2009 or 31 December 2008.

For the year ended 31 December 2009

## 22. CAPITAL COMMITMENTS

There were no capital commitments at 31 December 2009 or 31 December 2008.

## 23. LEASING COMMITMENTS

The Group's aggregate minimum operating lease payments for the remaining lives of the leases are as follows:

	<b>2009</b>	2008
	<b>Land and buildings</b>	Land and buildings
	<b>£'000</b>	£'000
One to five years	<b>342</b>	463

## 24. TRANSACTIONS WITH DIRECTORS AND OTHER RELATED PARTIES

During the year the Group acquired services from certain companies of which Dr Wyllie is a director and majority shareholder as set out below:

	Value of services acquired		Amounts due at 31 December	
	2009	2008	2009	2008
	£	£	£	£
Mens Health Limited	–	11,480	–	–
Wellbeings Limited	<b>2,040</b>	26,367	–	7,191
GPC	<b>6,711</b>	230,475	–	884

During 2008, the Company was provided with a convertible loan for £750,000 by Merlin Bioscience Fund III. This loan was made on an arms length basis. Mr Docherty, who served as a director of the Company during the year, is a Director of Excalibur Fund Managers Limited (formerly Merlin Biosciences Limited) which acts as manager to Merlin Bioscience Fund III.

During the year the Group paid Lucia Capital LLP £104,947 (2008: £nil) , for the provision of Mr Openshaw's services as Interim CFO to the Group. Mr Openshaw is a partner in Lucia Capital LLP. No amounts were outstanding at the year end (2008: £nil).

**PLETHORA SOLUTIONS HOLDINGS PLC**

COMPANY FINANCIAL STATEMENTS

STATUTORY ANNUAL REPORT (UNDER UK GAAP)

FOR THE YEAR ENDED 31 DECEMBER 2009

COMPANY NUMBER 05341336

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	<i>page</i>
<b>Report of the independent auditor</b>	<b>51</b>
<b>Balance Sheet</b>	<b>53</b>
<b>Notes to the financial statements</b>	<b>54</b>

## **Report of the Independent Auditor to the Members of Plethora Solutions Holdings plc**

We have audited the parent company financial statements of Plethora Solutions Holdings plc for the year ended 31 December 2009 which comprise the Company balance sheet and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

### **Respective responsibilities of directors and auditors**

As explained more fully in the directors' responsibilities statement set out on page 11, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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

### **Scope of the audit of the financial statements**

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

### **Opinion on financial statements**

In our opinion the parent company financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2009;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### **Emphasis of matter – going concern**

In forming our opinion on the financial statements, which is not qualified, we have considered the adequacy of the disclosure made in note 2 to the consolidated financial statements concerning going concern. The financial statements have been prepared on a going concern basis and the validity of this depends on the Group achieving its forecast cash flow taking into account material uncertainties in relation to receiving certain royalty and/or milestone income, receiving

reimbursement of certain development costs, achieving sales and margins in line with budget for the Urology Company and completing certain planned capital management and financing activities. This indicates the existence of material uncertainties which may cast significant doubt about the Group's ability to continue as a going concern. The financial statements do not include any adjustments that would result from a failure to obtain such funds or secure such future revenues.

### **Opinion on other matter prescribed by the Companies Act 2006**

In our opinion the information given in the Directors' Report for the financial year for which the parent company financial statements are prepared is consistent with the parent company financial statements. That report is modified by the inclusion of an emphasis of matter.

### **Matters on which we are required to report by exception**

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

### **Other matter**

We have reported separately on the group financial statements of Plethora Solutions Holdings plc for the year ended 31 December 2009.

### **Simon Ormiston (Senior Statutory Auditor)**

For and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
Cambridge

8 April 2010

At 31 December 2009

	Note	2009 £'000	2008 £'000
<b>Fixed assets</b>			
Investments	5	79,000	79,000
<b>Current assets</b>			
Debtors amounts due after more than one year	6	–	5,713
Cash and cash equivalents		1,203	–
<b>Creditors: amounts due within one year</b>	7, 8	<b>(83,300)</b>	(79,776)
<b>Net current liabilities</b>		<b>(82,097)</b>	(74,063)
Total assets less current liabilities			
		<b>(3,097)</b>	4,937
Creditors: amounts due after more than one year	8	<b>(1,995)</b>	–
<b>Net (liabilities)/assets</b>		<b>(5,092)</b>	4,937
<b>Capital and reserves</b>			
Called up share capital	9	420	308
Share premium accounts	10	21,166	20,256
Convertible loan note reserve	10	214	–
Share based payment reserve	10	216	175
Profit and loss accounts	10	<b>(27,108)</b>	(15,802)
<b>Shareholders' (deficit)/funds</b>		<b>(5,092)</b>	4,937

The financial statements were approved by the Board of Directors and authorised for issue on 8 April 2010.

**SJ Powell**  
Director

**JR Openshaw**  
Director

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

## 1. BASIS OF PREPARATION

The separate financial statements of the Company have been prepared under the historical cost convention and in accordance the Companies Act 2006 and with United Kingdom accounting standards.

The principal activity of the Company is that of a holding company which has remained unchanged from the previous year.

## 2. ACCOUNTING POLICIES

### Going concern

In considering the appropriate basis on which to prepare the financial statements, the directors are required to consider whether the Company can continue in operational existence for the foreseeable future. In making that determination the directors have considered the projected cash flows of the Group as a whole.

As at 31 December 2009, the Group had net current liabilities of £1.1 million.

The directors have prepared detailed cash flow forecasts for the period to 30 June 2011, which show that the Group has adequate working capital for the forecast period. These cash flow projections assume that a number of as yet materially uncertain events occur including that the Group receives royalty and/or milestone income in relation to PSD502 within the expected timeframes, which is dependent on the success of Shionogi in obtaining regulatory approval for this product; that it continues, within the expected timeframes and in the expected amounts, to receive the reimbursement of costs from Shionogi relating to the development of PSD502; that The Urology Company achieves sales and earns margin broadly in line with budget; and that certain of the planned capital management and financing activities are completed.

Consequently, the directors have concluded that it is appropriate to prepare the Group's financial statements on the going concern basis, which assumes that the Group will continue in operational existence for the foreseeable future. Nevertheless, there is material uncertainty in relation to the events set out above, which may cast significant doubt on the Group's ability to continue as a going concern. In the event that some combination of the above events fails to occur as expected, the Group may be unable to realise its assets and discharge its liabilities in the normal course of business.

### 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 612 of the Companies Act 2006 applies, cost represents the nominal value of shares issued together with the fair value of any additional consideration given and costs.

### 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 the instrument is classed as an equity instrument. Dividends and distributions relating to equity instruments are debited direct to equity.

### **Deferred taxation**

Deferred tax is recognised on all timing differences where the transactions or events that give the Company 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 substantive enacted by the balance sheet date.

### **Share based payments**

The Company applies UITF Abstract 44, "FRS 20 - Group and treasury share transactions". The Company grants options over its equity instruments to the employees of Plethora Solutions Limited. The carrying value of the investment in the subsidiary is increased by an amount equal to the value of the share based payment charge attributable to the option holders in the respective subsidiary.

### **Related party transactions**

In accordance with FRS 8, Related party transactions, the Company is exempt from disclosing transactions with all its 100% owned subsidiaries.

## **3. LOSS FOR THE FINANCIAL YEAR**

The Company has taken advantage of section 408 of the Companies Act 2006 and has not included its own profit and loss account in these financial statements. The Company's loss for the year was £11,306,000 (2008: £14,788,000).

Auditor's remuneration incurred by the Company during the year for audit services totalled £3,000 (2008: £5,000), and for tax compliance services totalled £1,000 (2008: £1,000) which was borne by the subsidiary undertaking, Plethora Solutions Limited.

## **4. DIRECTORS' AND EMPLOYEES' REMUNERATION**

The Company has no employees and its directors are remunerated through the Company's subsidiary, Plethora Solutions Limited. Details of emoluments receivable by the directors are disclosed in the Remuneration report on pages 16 to 18.

## 5. FIXED ASSET INVESTMENTS

	Subsidiary undertakings £'000
<b>Cost</b>	
At 1 January 2009	79,149
Additions	41
Disposals	–
<b>At 31 December 2009</b>	<b>79,190</b>
<b>Impairment</b>	
At 1 January 2009	(149)
Provided during the period	(41)
<b>At 31 December 2009</b>	<b>(190)</b>
<b>Net book value</b>	
At 31 December 2008	79,000
<b>At 31 December 2009</b>	<b>79,000</b>

Investment in subsidiary undertakings of £79 million (2008: £79 million) principally represents the investment in the called up share capital of Plethora Therapeutics Limited. Amounts owed to this subsidiary were £83 million, and the net balance with this undertaking is therefore (£4) million.

Additions represent the capital contribution arising from the share based payment charge in accordance with FRS20.

At 31 December 2009 the company held 100% of the ordinary share capital of the following subsidiaries:

Name of subsidiary undertaking	Country of incorporation	Description of shares held	% of nominal value of shares held	Principal business activity
Plethora Solutions Limited	United Kingdom	1p Ordinary	100	Development of drugs and medical devices
Plethora Therapeutics Limited	United Kingdom	£1 Ordinary	100	Development of drugs and medical devices
The Urology Company Holdings Limited	United Kingdom	£1 Ordinary	100	Holding Company

**6. DEBTORS**

	2009 £'000	2008 £'000
Amount owed by Group undertakings	–	5,713

**7. CREDITORS : AMOUNTS DUE WITHIN ONE YEAR**

	2009 £'000	2008 £'000
Merlin BioSciences	–	750
Amounts owed to Group undertakings	83,133	79,000
Accruals	167	26
	<b>83,300</b>	<b>79,776</b>

**8. CREDITORS: AMOUNTS DUE AFTER MORE THAN ONE YEAR**

	2009 £'000	2008 £'000
<b>Current borrowings</b>		
Merlin Biosciences	–	750
	–	750
<b>Non current borrowings</b>		
Convertible loan notes due 2012	1,995	–
	1,995	–
<b>Total borrowings</b>	<b>1,995</b>	<b>750</b>

**(i) Merlin Biosciences**

On 26 September 2008, Merlin Biosciences Fund III LP and Merlin Biosciences Fund III (2007) LP (together "Merlin Biosciences Fund III") entered into a two year convertible loan note for £750,000, maturing on 26 September 2010 and bearing a coupon of 13.5% per annum, with the interest being repaid at maturity. The loan note was convertible at the holders option into ordinary shares at a price of 36p per share. In consideration for Merlin subscribing for the loan notes and for providing a guarantee to ETV Capital S.A., Merlin was granted with warrants to acquire up to 520,833 new ordinary shares in the Company at an exercise price of 36p per share.

The terms of this loan were amended on 7 December 2009 as described in (iii) below.

**(ii) Convertible loan notes due 2011**

On 16 February 2009, following shareholder approval, the Group issued £1 million loan notes to certain institutional investors. The loan notes originally bore interest at the rate of 4% per annum, and the payment of the interest accrued is at final maturity of the loan. These loan notes were to be repayable in full on the second anniversary of issue, being 15 February 2011. The loan note holders were able to convert the notes at any point prior to maturity at a conversion price of 25p per share. In consideration for the note holders subscribing for the loan notes they were granted with warrants to acquire up to 1,333,332 new ordinary shares in the Company at an exercise price of 33p per share.

The terms of this loan were amended on 7 December 2009 as described in (iii) below.

**(iii) Convertible loan notes due 2012**

On 7 December 2009, as part of a placing to raise £1.56 million, the Company issued £450,000 new convertible loan notes. On the same day shareholders approved the waiver of pre-emption rights in relation to the issuance of up to £1 million of convertible loan notes. Consequently, £550,000 of convertible loan notes remain approved but unissued.

The principal terms of the convertible loan notes include: maturity 31 December 2012; coupon 13% per annum, accrued until maturity; convertible into ordinary shares at 12.5p per share; secured by first charge over the Company's assets; repayable by the Company at any point post issuance; convertible by the holder at any point post issuance; convertible by the Company after 31 December 2010 provided the Company's share price is 25% greater than the conversion price for the preceding 60 days prior to conversion.

As part of the negotiation of the placing, it was agreed with Excalibur Fund Managers (formerly Merlin Biosciences), which holds the £750,000 convertible issued in September 2008, and the holders of the £1,000,000 convertible loan notes issued in February 2009 to amend the terms of their loan notes. The amendment brought the economic terms and the eventual maturity of their loan notes on to the same terms as the new loan notes, save only that their security would rank behind the new loan notes.

As a result the Company now has effectively a single class of £2,200,000 convertible loan notes in issue comprising two tranches as relates to their security interests.

Under IFRS a proportion of the convertible loan note is regarded as equity and is recorded in the convertible loan note reserve. In addition an amount was recognised as notional interest in respect of the loan as a loss on the restructuring of the convertible loan notes due 2011 which were amended and are now recorded in this instrument.

The following non-UK GAAP disclosure shows the effect of the accounting treatment.

	2009 £'000	2008 £'000
<b>Convertible loan notes due 2012</b>		
Amount recorded in liabilities	1,995	–
Amount recorded in equity	214	–
	<b>2,209</b>	–
Add: loan arrangement fees set against liability	92	–
Less: notional interest and deemed loss on extinguishment	(101)	–
Principal amount of loan notes	<b>2,200</b>	–

## 9. SHARE CAPITAL

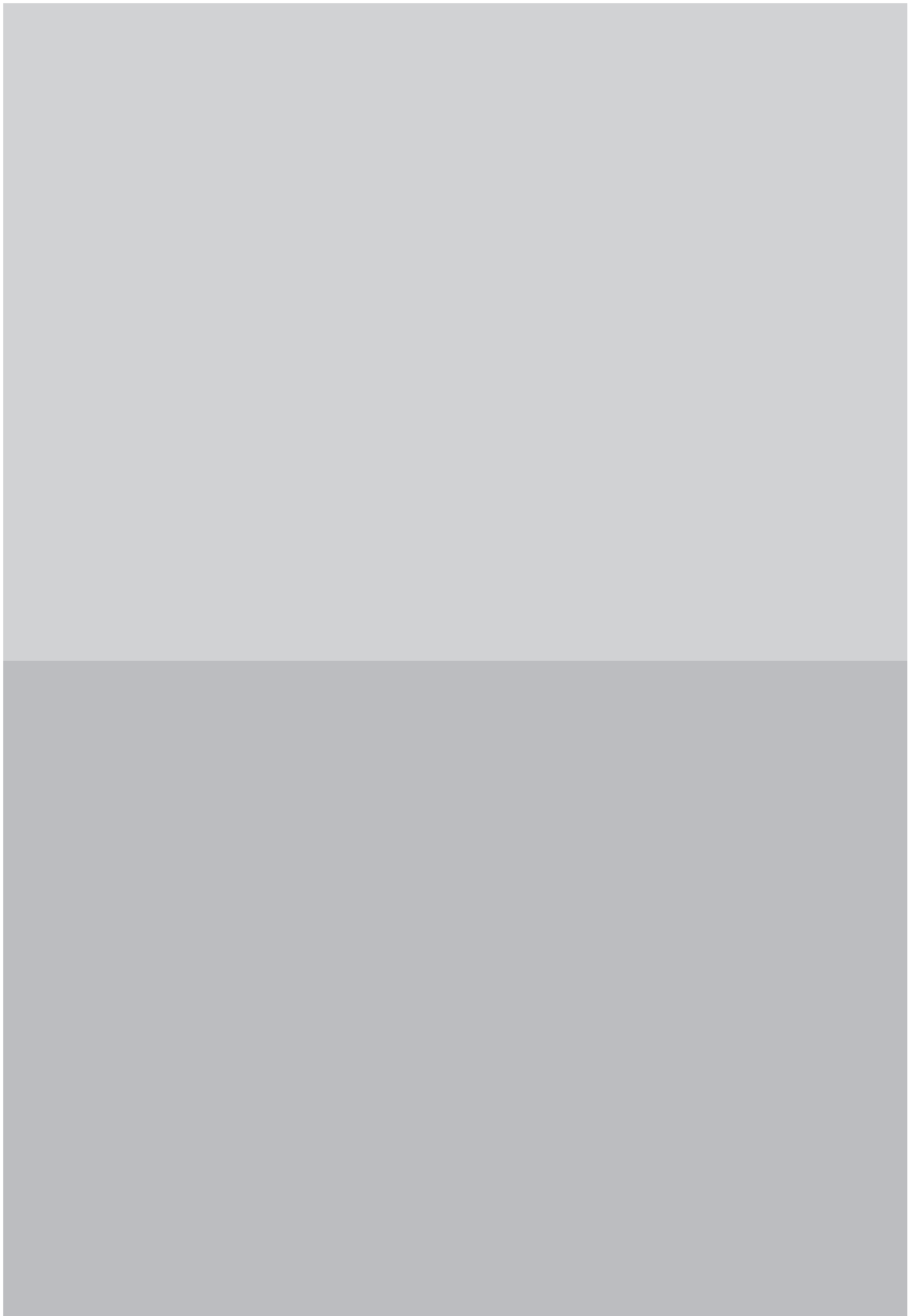
	2009 £'000	2008 £'000
Alotted, issued and fully paid		
41,965,800 (2008: 30,815,800) ordinary shares of 1 pence each	<b>420</b>	308

All 1p ordinary shares carry the same voting rights and rights to discretionary dividends.

On 7 December 2009 the Company issued 11,150,000 new ordinary shares at 10p each. This issuance was part of a placing to raise £1.56 million. The proceeds of the placing will be used for general working capital purposes. On the same date the Company passed a resolution as permitted under the Companies Act 2006 to dispense with the Company's authorised share capital limit.

**10. RESERVES**

	Share premium £'000	Convertible Loan note Reserve £'000	Share based Payment reserve £'000	Profit and loss account £'000
At 1 January 2009	20,256	–	175	(15,802)
Retained loss for the year	–	–	–	(11,306)
Equity component of convertible loan	–	214	–	–
Premium on equity share capital issued	1,003	–	–	–
Issue costs on equity share capital issued	( 93)	–	–	–
Employee share based compensation	–	–	41	–
At 31 December 2009	21,166	214	216	(27,108)



**Plethora Solutions Holdings plc**

**Fourth Floor**

**233 High Holborn**

**London**

**WC1V 7DN**

**Tel: +44 (0)203 077 5400**

**Fax: +44 (0)203 077 5440**

**Email: [mail@plethorasolutions.co.uk](mailto:mail@plethorasolutions.co.uk)**

**Website: [www.plethorasolutions.co.uk](http://www.plethorasolutions.co.uk)**