



2nd November 2005

Preliminary results for the year ended 31 August 2005

Phytopharm plc (PYM: London Stock Exchange) (“Phytopharm” or the “Company”, or the “Group”) today announces its preliminary results for the year ended 31 August 2005.

Key Points - Operational

- Completion of a Licence and Joint Development Agreement with Unilever for *Hoodia gordonii* extract
- Successful interim data review for Phase II proof of principle study in Alzheimer’s disease (Cogane™)
- Receipt of £4 million milestone in February 2005 (£3.6 million net received in March 2005) from Yamanouchi Pharmaceutical Co., Ltd following evaluation of interim Phase II Alzheimer’s disease data (Cogane™), confirming that the data had met the criteria in the licensing agreement
- Termination of Cogane™ licensing agreement by Yamanouchi in March 2005, following Yamanouchi’s post-merger portfolio review
- Completion of subject dosing and follow-up in Phase II proof of principle study in Alzheimer’s disease (Cogane™)

Key Points – Financial

- Turnover increased to £7.4 million (2004 £1.1 million)
- Loss reduced to £2.7 million (2004 £6.2 million)
- Cash balance increased to £11.6 million (2004 £5.4 million)
- Placing of new shares announced in May raised £9.0 million after expenses

Dr Richard Dixey, Chief Executive of Phytopharm, said:

“The highlight of the year was the signing of a worldwide licence agreement with Unilever, a global leader in weight management products, for our Hoodia gordonii extract. We will be seeking further licensing deals over next year including our veterinary portfolio and our Alzheimer’s product Cogane™, following analysis of the data emerging from the proof of principle study at the end of this quarter.”

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A presentation for analysts will be held at Financial Dynamics, Holborn Gate, 26 Southampton Buildings, London WC2A 1PB at 9:30am today.

www.phytopharm.com

Introduction

Phytopharm is a dedicated pharmaceutical company specialising in the discovery and development of novel pharmaceutical and functional food products for neurodegeneration, obesity and metabolic disease, dermatology and inflammation. The Company's strategy is to develop first-in-class products through 'proof of principle' clinical testing, and then secure pharmaceutical partners for late stage development, sales and marketing.

The business model of Phytopharm is to identify plant extracts with some evidence of clinical efficacy and to isolate, derivatise and develop novel pharmaceutical agents from these plant extracts. During the development of such ethical pharmaceutical products additional income may be derived from the sales of the plant extracts themselves in the veterinary and functional food markets. This business model generates a lean cash burn, and the Company is configured in a semi-virtual manner with low staff overheads to capitalise on this advantage. As the greatest part of the cash burn occurs during the later phases of product development, by which time substantial income from plant extract sales will not yet have been achieved, Phytopharm will seek to finance the further development of its lead neuroprotective and neurotrophic products, CoganeTM and MyoganeTM, through licensing or partnering arrangements with third parties.

Operational review

The progress of our products over the year, each at different stages of development, is described below.

Neurodegeneration

The neurodegeneration programmes include Alzheimer's disease, Parkinson's disease and amyotrophic lateral sclerosis, a motor neurone disease. A library of active molecules has been developed by Phytopharm, and nine patent families protecting this library have been filed world-wide.

Our lead product, **CoganeTM** (coded PYM50028) is being developed for Alzheimer's and Parkinson's disease. In pre-clinical studies, PYM50028 has been shown to be neuroprotective and neurotrophic, reversing both the decrease of neuronal growth factors and neuronal degeneration that are observed in the ageing brain. Importantly, this product has also been shown to restore levels of proteins that are altered in the ageing brain, returning them to levels observed in the young, causing beneficial outgrowth and branching of neurites.

In January 2005, we announced the successful outcome of a scheduled interim data review for the ongoing Phase II 'proof of principle' clinical study with PYM50028 in Alzheimer's disease. This study is being conducted under a clinical trial authorisation (CTA) from the UK Medicines and Healthcare Products Regulatory Agency (MHRA). The Phase II study utilises a randomised, double-blind, placebo-controlled design to evaluate the safety, efficacy and pharmacokinetic profile of PYM50028 after once daily oral administration over three months. The effects of PYM50028 on memory, concentration and executive function are being evaluated during the study. In accordance with the protocol, an interim review was conducted after the first 60 subjects completed the study. The objectives of this review were to evaluate the emergent safety profile of the product and to re-estimate the total number of subjects required to measure the efficacy of PYM50028 on cognitive performance.

The sample size re-assessment was conducted by an independent statistician, who reported that due to slightly increased variability between subjects the sample size for the study should be increased from 200 to 238 subjects. Phytopharm subsequently received regulatory and ethics approval for this amendment.

The safety review was conducted by an independent consultant physician, who was provided with blinded data for each of the two treatment groups. He concluded that "the data obtained to date indicate that the study medication is not associated with any safety concerns." Therefore, the study continued with no changes to the safety monitoring. These safety data from 60 patients were forwarded to Yamanouchi Pharmaceutical Co. Ltd ("Yamanouchi") in February 2005 and this triggered the milestone payment received in March 2005 of £4 million (£3.6 million net). This payment confirmed that the data met the criteria set out in the licensing agreement.

In March 2005, Phytopharm received confirmation from Yamanouchi that, as a result of a portfolio review arising out of the merger of Yamanouchi with Fujisawa Pharmaceutical Co, Yamanouchi was terminating the licensing agreement, covering Japan and some other Asian countries, in connection with PYM50028. Phytopharm had previously announced in February 2005 that it had been informed by Yamanouchi that it was likely to terminate this agreement.

In September 2005, we announced that a total of 256 subjects had completed their participation into this study, including a 6 week monitoring period to assess any changes following cessation of dosing. During the study the safety, efficacy and pharmacokinetic profile of PYM50028 was compared to placebo treatment. These data are now being analysed and it is anticipated that the results of the study will be announced early in December 2005. Following analysis of the results we will be seeking further global licensing partners for this product and preliminary discussions have commenced with potential licensees.

Our second lead product **Myogane**TM (coded PYM50018) is being developed for amyotrophic lateral sclerosis (ALS; also known as Lou Gehrig's disease). ALS is the most common motor neurone disease and results from progressive degeneration of both upper and lower motor neurones. In pre-clinical models, PYM50018 protects against neuronal damage, increases neurite outgrowth, reverses oxidative damage and reverses neuronal apoptosis *in vitro*. When administered orally to a transgenic pre-clinical model of ALS, PYM50018 delays the loss of muscle strength and extends survival time.

Last year, we successfully completed a Phase Ia clinical study to evaluate the safety, tolerability and pharmacokinetic profile of PYM50018. This residential clinical study was conducted under an investigational new drug (IND) application filed with the United States Food and Drug Administration (FDA) and confirmed that the product was well absorbed with a good safety profile. We also announced last year that the FDA had granted Orphan Drug and Fast Track designation to PYM50018 for the treatment of ALS. Building on this success we are now developing the manufacturing process and new formulations to support further clinical studies with PYM50018 for ALS.

Obesity and metabolic disease

Our obesity programme includes an extract of *Hoodia gordonii* for the dietary control of obesity. This extract contains a novel appetite suppressant that reduces caloric intake in overweight subjects, as demonstrated in our double-blind, placebo-controlled clinical study announced in December 2001. Extracts of *Hoodia gordonii* and the active molecules therein are the subject of a global patenting programme, with major patents granted in the US, UK and Japan and pending in Europe and all other major territories.

In December 2004, we announced that we had granted an exclusive global licence for our *Hoodia gordonii* extract to Unilever plc. As part of the agreement, Unilever committed to initial payments totalling approximately £6.5 million (\$12.5 million) out of a potential total of £21 million (\$40 million) in payments to us. In addition, we will receive a royalty on sales

of all products, including globally recognised brands, containing the extract. We are collaborating with Unilever on a five stage research and development programme of safety and efficacy studies with a view to bringing new products to market. Unilever will manage the agronomy programme and will support the international patent programme for the products.

During the course of this year the programme has made good progress and clinical studies are planned for H1 2006.

Phytopharm and Unilever have also become aware of many companies that are selling products over the Internet claiming to contain Hoodia and causing weight loss. Phytopharm and Unilever are in discussion with the relevant authorities concerning this development.

Phytopharm has also developed screens that are predictive of appetite suppressant activity to develop and evaluate prescription product candidates from our obesity and metabolic disease programme.

Dermatology

The dermatology programmes include products for canine skin disorders and human eczema. These products have a dual mode of action that targets both the allergic and inflammatory components of skin disorders.

Following the success last year of the three-plant product, coded PYM00217, in our European multi-centre study in canine atopic dermatitis, we launched PYM00217 as a complementary pet food with the brand name **Phytopica**TM. Following the successful UK launch to veterinary dermatologists in 2004, the average weekly sales have grown 101% during the year. Further sales growth will require a dedicated sales force to target all veterinary practitioners throughout the UK and also expand into international markets. We have enjoyed considerable interest from potential licensing partners and are in on-going discussions with multinational companies.

Inflammation

The inflammation programmes include products for canine joint disorders and human inflammatory disorders, including asthma. These products are characterised by their inhibition of a wide range of enzymes central to chronic inflammation.

Last year, we announced the launch of **Zanthofen**TM (coded PYM50014) for the maintenance of canine joint mobility. Pre-clinical studies have demonstrated that the components of ZanthofenTM maintain normal white cell function and have anti-oxidant properties that help maintain joint mobility. ZanthofenTM is available to veterinary practitioners across the UK and is marketed by Phytopharm's marketing partner, Genitrix Ltd, a UK based veterinary product company. Further sales growth will require expansion into international markets and discussions with interested parties are ongoing.

Steady progress has been made in identifying novel synthetic molecules that can be developed as a prescription medicine for the treatment of asthma and other inflammatory disorders. Pre-clinical studies have demonstrated anti-inflammatory and anti-spasmodic activity in several models of asthma and inflammation. We anticipate that further proof of concept studies will be investigated during 2006 using these compounds in pre-clinical models of asthma.

Other events

This year has also been marked by the resignation of our broker Canaccord Capital. Whilst we have received expressions of interest from a number of brokerage houses to take on this important role, we have decided to wait until the results of the CoganeTM study become available in December before making a final decision.

Financial Review

Turnover

Revenues for the year ended 31 August 2005 were £7.38 million (2004: £1.07 million). The revenues for 2005 comprised principally £3.2 million in payments received from Unilever, for the exclusive licence to develop, manufacture and market *Hoodia gordonii* extract for the dietary control of obesity on a global basis, and a £4 million (£3.6 million net of Japanese withholding tax) milestone payment from Yamanouchi, following acknowledgement by Yamanouchi that the safety data in relation to 60 patients treated with PYM50028 had fulfilled the criteria in the licensing agreement. The significant increase in revenues for the period reflects the intermittent timing of milestone payments.

Operating expenses

Research and development expenses

Phytopharm subcontracts all laboratory work to third party specialists. The research and development expenses include the reimbursement of the costs incurred by the third party subcontractors and the overhead of Phytopharm arising from research and development activities. Research and development expenses were £8.46 million (2004: £6.35 million). Expenditure was dominated by the ongoing PYM50028 Phase IIa clinical trial in Alzheimer's disease and the commencement of development and agronomy work on *Hoodia gordonii* extract for the dietary control of obesity; the latter programme is now fully funded by Unilever. Expenses were also incurred on work to secure a robust supply chain for PYM50018 for motor neurone disease.

Administrative expenses

Administrative expenses comprised mainly the costs incurred in respect of the employees in the finance, business development and secretarial departments. Administrative expenses were £1.81 million (2004: £1.71 million). The increased costs reflect the additional one-off costs of an aborted £23.9 million fundraising, US financial compliance costs and the share option compensation charge.

Net interest receivable

Net interest receivable comprises mainly the interest income generated from cash invested in short-term deposits. Net interest income was £0.34 million (2004: £0.24 million). The change over the year was due to changing short-term deposits as the Company utilised the cash of £6.3 million raised from the equity financing in February 2004, and £9.0 million, net of issue costs, raised from an additional equity financing in April 2005, as well as changing interest rates during the year.

Taxation

There were no corporation tax charges for the period under review due to the incidence of tax losses. The tax credit on the loss on ordinary activities was £0.28 million (2004: £0.53 million). The tax credit is net of a 10% withholding tax on the income from Yamanouchi.

Liquidity and capital resources

Since Phytopharm's initial public offering, cash expenditures have exceeded revenues. Phytopharm has financed its research and development operations primarily through:

- an initial public offering of ordinary shares in 1996
- ordinary share offerings in November 1998, October 2000, December 2001, February 2004 and May 2005
- revenue generated from collaborative arrangements.

The net cash used by operating activities for the year ended 31 August 2005 was £4.02 million (2004: £6.83 million) resulting principally from the decrease in operating losses incurred by the Company during the year.

Phytopharm's net cash outflow for capital expenditure was £54,000 (2004: £103,000). The capital expenditure is primarily for office and administrative facilities. The net cash inflow of £614,000 from the repayment of advances to suppliers arises from the repayment by Unilever of advances made to certain suppliers in 2004. There was no cash outflow for acquisitions during these periods.

Phytopharm's net cash inflow from financing activities was £9.11 million (2004: £6.37 million). The net cash inflow in 2005 primarily resulted from an equity financing in May 2005 and the proceeds from the exercise of the share options.

Phytopharm had cash and short-term deposits of £11.64 million at 31 August 2005 (2004: £5.43 million). The increase in cash and short-term deposits mainly reflected the payments received from licensing partners and also the fund raising in May 2005. Phytopharm invested funds that were surplus to its requirements in highly liquid short-term deposits and has not borrowed funds during the financial year. Phytopharm had working capital of £11.68 million at 31 August 2005 (2004: £5.11 million). Overall the results for the year were within the budget.

PHYTOPHARM PLC

Consolidated Profit and Loss Account for the year ended 31 August 2005

	Notes	2005 Unaudited £'000	2004 Audited £'000
Turnover	2	7,378	1,072
Cost of sales		(400)	(10)
		<hr/>	<hr/>
Gross profit		6,978	1,062
Net operating expenses	3	(10,271)	(8,058)
		<hr/>	<hr/>
Operating loss		(3,293)	(6,996)
Interest receivable and similar income		338	239
		<hr/>	<hr/>
Loss on ordinary activities before taxation		(2,955)	(6,757)
		<hr/>	<hr/>
Tax on loss on ordinary activities	4	274	531
		<hr/>	<hr/>
Loss for the year	6	(2,681)	(6,226)
		<hr/> <hr/>	<hr/> <hr/>
Basic and fully diluted loss per ordinary share (pence)	5	(5.9)	(15.3)

All revenue and expenses shown above were generated from continuing operations.

The Group has no recognised gains or losses for the financial year other than those disclosed above.

PHYTOPHARM PLC

Consolidated Balance Sheet at 31 August 2005

	Notes	2005 Unaudited £'000	2004 Audited £'000
Fixed assets			
Tangible assets		146	178
Current assets			
Stocks		947	350
Debtors falling due after one year		-	614
Debtors falling due within one year		1,340	978
Cash held on deposit as short term investments		11,600	5,237
Cash at bank and in hand		40	194
		<hr/>	<hr/>
		13,927	7,373
Creditors: amounts falling due within one year		(2,244)	(2,259)
		<hr/>	<hr/>
Net current assets		11,683	5,114
		<hr/>	<hr/>
Total assets less current liabilities		11,829	5,292
		<hr/>	<hr/>
Net assets		11,829	5,292
		<hr/>	<hr/>
Capital and reserves			
Called up share capital		512	427
Share premium account	6	47,157	38,135
Merger reserve	6	(204)	(204)
Profit and loss account	6	(35,636)	(33,066)
		<hr/>	<hr/>
Equity shareholders' funds		11,829	5,292
		<hr/>	<hr/>

PHYTOPHARM PLC

Consolidated Cash Flow Statement for the year ended 31 August 2005

	Notes	2005 Unaudited £'000	2004 Audited £'000
Net cash outflow from continuing operating activities	7	(4,024)	(6,826)
<hr/>			
Returns on investment and servicing of finance			
Interest received		338	239
<hr/>			
Taxation			
UK corporation tax received		630	856
Foreign taxation paid		(400)	(100)
<hr/>			
Net cash inflow from taxation		230	756
<hr/>			
Capital expenditure and financial investment			
Purchase of tangible fixed assets		(64)	(117)
Sale of tangible fixed assets		9	14
Repayment of advances to/(advances to) suppliers		614	(614)
<hr/>			
Net cash inflow/(outflow) for capital expenditure and financial investment		559	(717)
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Cash outflow before use of liquid resources and financing		(2,897)	(6,548)
<hr/>			
Management of liquid resources			
Increase in cash held on short term deposit		(6,362)	(106)
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Financing			
Proceeds from exercise of share options		158	37
Proceeds from issue of share capital		10,101	6,483
Expenses of issue of share capital		(1,153)	(154)
Repayment of principal under finance leases		(1)	-
<hr/>			
Net cash inflow from financing		9,105	6,366
<hr/>			
Decrease in cash in the year		(154)	(288)
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Notes to the preliminary announcement

1. Basis of preparation

The financial information for the year ended 31 August 2005 is unaudited and has been prepared in accordance with the accounting policies set out in the Annual Report for the year ended 31 August 2004. The financial information relating to the years ended 31 August 2005 and 31 August 2004 does not constitute statutory accounts within the meaning of Section 240 of the Companies Act 1985. The data relating to the year ended 31 August 2004 has been extracted from the full report for that year which has been filed with the Registrar of Companies. The report of the auditors on these accounts was unqualified. Statutory accounts for the year ended 31 August 2005 will be delivered to the Registrar of Companies for England and Wales in due course. The report of the auditors on the 2005 accounts has yet to be signed.

2. Turnover

	2005 Unaudited £'000	2004 Audited £'000
Licensing and development	7,249	1,052
Product sales	129	20
	<hr/> 7,378 <hr/> <hr/>	<hr/> 1,072 <hr/> <hr/>

3. Other operating expenses

	2005 Unaudited £'000	2004 Audited £'000
Research and development:		
Funded	1,606	-
Unfunded	6,856	6,347
	<hr/> 8,462 <hr/>	<hr/> 6,347 <hr/>
Administrative expenses	1,809	1,711
	<hr/> 10,271 <hr/> <hr/>	<hr/> 8,058 <hr/> <hr/>

4. Tax on loss on ordinary activities

	2005 Unaudited £'000	2004 Audited £'000
United Kingdom		
Corporation tax credit	674	631
Foreign Taxation		
Withholding tax suffered	(400)	(100)
	<hr/> 274 <hr/> <hr/>	<hr/> 531 <hr/> <hr/>

The Group has taken advantage of the Research and Development corporation tax credits introduced in the Finance Act 2000 whereby the Group may surrender corporation tax losses incurred on research and development expenditure for a corporation tax refund at the rate of 24 pence in the pound.

5. Loss per share

The basic undiluted loss per share is based on the loss for the year of £2,680,457 (2004: loss of £6,226,130) and on 45,623,780 (2004: 40,820,636) ordinary shares, being the weighted average number of shares in issue during the period.

The Company has no dilutive potential ordinary shares in issue because it is loss making.

A further measure of earnings per share has been recommended by the Institute of Investment Management and Research (the 'IIMR') for adoption by financial analysts. This measure, known as headline earnings, adjusts standard earnings per share to eliminate capital items only. There are no material adjustments in respect of this measure

6. Share premium account and reserves

	Share premium account Unaudited £'000	Merger reserve Unaudited £'000	Profit and loss account Unaudited £'000
At 1 September 2004	38,135	(204)	(33,066)
Premium on issue of shares	10,175	-	-
Expenses of new share issue	(1,153)	-	-
Loss for the year	-	-	(2,681)
Share option compensation charge	-	-	111
At 31 August 2005	47,157	(204)	(35,636)

7. Reconciliation of operating loss to net cash outflow from operating activities

	2005 Unaudited £'000	2004 Audited £'000
Continuing activities		
Operating loss	(3,293)	(6,996)
Depreciation on tangible fixed assets	90	93
Gain on disposal of fixed assets	(1)	(6)
Increase in stocks	(597)	(308)
Increase in debtors	(318)	(108)
(Decrease)/increase in creditors	(16)	444
Increase in provision for share option compensation charge	111	55
Net cash outflow from continuing operating activities	(4,024)	(6,826)

8. Related party transactions

The Group was obliged during the year to pay to the Inland Revenue £157,731 in respect of personal tax arising on the exercise by the Chief Executive Officer of 288,889 share options on 3 December 2004, near the end of the exercise period. Dr Dixey is accordingly obliged to reimburse such amount to the Company including interest charges at 5%, being the Inland Revenue Approved Rate. The balance outstanding at 31 August 2005 is £161,616, the maximum liability during the year, including £3,885 accrued interest. No provision for this debt has been made and there are no security or guarantee arrangements in place. The total amount, including interest, is included in other debtors due within one year.