

Company Registration No. 3916791 (England and Wales)

VALIRX PLC
DIRECTORS' REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2009

VALIRX PLC

COMPANY INFORMATION

Directors	N Thorniley S Vainikka J Micallef G Morris G Desler K Alexander N Hardman
Secretary	K Alexander
Company number	3916791
Registered office	24 Greville Street London EC1N 8SS
Auditors	Adler Shine LLP Aston House Cornwall Avenue London N3 1LF

VALIRX PLC

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VALIRX PLC

CHAIRMAN'S REPORT FOR THE YEAR ENDED 31 DECEMBER 2009

I have pleasure presenting the Company's results for the twelve months ended 31 December 2009.

As I reported in the my statement made twelve months ago, the sale of our 10% stake in ValiBio S.A. ("ValiBio"), our wholly owned Belgian subsidiary, to Biofield Corp ("Biofield's) had encountered a number of difficulties. Unfortunately the deal has now fallen away, as a result of Biofield's inability to raise sufficient funds to complete its side of the transaction. This matter has now been referred to our lawyers, and the Company will provide further updates in due course.

On a slightly happier note, last year I also reported that we had reached agreement in principle for a grant in the form of a loan of €1.05 million from one the Belgian Regions to ValiBio. As announced on 22 December 2009, I can confirm that this loan has now been approved and drawdown should begin in the second half of the current year. Although somewhat later than originally anticipated this is a welcome event that should enable ValiBio to accelerate its product development on the diagnostic side.

In my last year's report I also commented on our difficulties in generating revenues for the first time from our range of diagnostics and drug products. I am therefore pleased to report that we formed a new wholly owned subsidiary, ValiMedix Limited, in August last year and sales from this division are starting to build up satisfactorily (revenue for this division was £8,000 for the period under review).

The therapeutics subsidiary, Valipharma Limited, had another successful year, completing additional preclinical work on Genelce following the winning of the €1.2 million Eurostar grant. Over the last eighteen months all development milestones have been met and on current plans this lead compound could enter Phase 1 trials sometime during the first part of 2011.

Your company successfully completed a £0.5 million funding round earlier this year and this once again highlights the continuing support of shareholders.

Outside the Company's own activities, the Directors' believe ValiRx's position continues to strengthen as the industry moves towards a greater recognition of epigenomics and early screening diagnostics.

On a personal note, I would like to thank both the executive team and non-executive directors for the significant contribution both groups have made to the business over the last twelve months.

N Thorniley
Chairman
3 June 2010

VALIRX PLC

CHIEF EXECUTIVE OFFICER'S REPORT FOR THE YEAR ENDED 31 DECEMBER 2009

Over the period under review, I am pleased to report on the continued solid progress of your Company and on the attainment of a number of important milestones.

My report highlights major operational activities, whilst the Chairman's report will cover the more strategic activities.

In the first instance, ValiRx completed a successful funding (£0.98 million) through an equity placing to secure the development of the business. Post period end, the Company was delighted to receive further support (£0.5 million) from its shareholders by way of a recent placing in April this year.

During the reporting period, we have continued preclinical work with GeneICE following our award of a Eurostar grant to develop the Company's lead compound and I am pleased to also report that development milestones were met. GeneICE compounds have the potential to freeze the development and growth of cancerous cells and also have potential major applications in inflammatory disease and inherited genetic conditions. ValiRx's is currently leading a consortium of three companies, and retains commercial rights for GeneICE from the programme.

With respect to associated diagnostic activities, we were also delighted to receive partnership and funding agreement for epigenetic analysis. We have made further progress with the development of our diagnostic tests during the period and subsequently. Significant progress has been made in expanding to other indications and we are also continuing to develop our intellectual portfolio, providing the company with potential further value creation.

The market launch of our new diagnostic product trading platform, ValiMedix has been successful as can be seen by the steady roll-out and expansion of its range of self-testing kits which are being marketed internationally by the Group under the Selfcheck brand and with revenues being generated from Q4 2009. As an increasing number of personalised approaches to therapeutics and diagnostics are required in the marketplace we are confident that, with our expertise and trading platform, we are well positioned within the marketplace and the Company will continue its development into a commercial life sciences business.

Looking to the future, we continue to look for further commercial opportunities and partnering contracts whilst at the same time moving forward with the therapeutic development programmes. Our aim continues to lie in the delivery of earlier and more accurate diagnostics and more targeted and effective therapies across the oncology sector.

Satu Vainikka
Chief Executive Officer
3 June 2010

VALIRX PLC

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2009

The directors present their report and financial statements for the year ended 31 December 2009.

Principal activities and review of the business

The principal activity of the company continued to be that of an investment holding company. The principal activity of the group is that of therapeutic and diagnostic research and development.

The company has undertaken to develop a novel and groundbreaking class of therapeutics based on the unique and proprietary Gene ICE platform and Hypergenomics technology.

In common with other small biotechnology companies, our business is subject to a number of risks, which include:

- the early stage of development of our business;
- the safety and effectiveness of our technologies;
- availability and terms of capital needed for the business;
- the uncertainty that clinical trials will succeed or lead to commercially viable products;
- competition from other companies and market acceptance of our products;
- intellectual property infringement claims by others and the ability to protect our intellectual property.

A detailed review of the business and the future prospects of the group is included in the Chief Executive Officer's report.

The business Key Performance Indicator ('KPI') is to carry out the research programme in accordance with the plans approved by the Board of Directors. The financial KPI is to ensure that there is adequate funding in place to achieve the business KPI.

Results and dividends

The results for the year are set out on page 8.

The directors do not recommend payment of an ordinary dividend.

Directors

The following directors have held office since 1 January 2009:

N Thorniley
S Vainikka
J Micallef
G Morris
G Desler
K Alexander
N Hardman

The market value of the company's shares at 31 December 2009 was 1.38p and the high and low share prices during the period were 4.75p and 0.88p respectively.

Charitable donations

	2009	2008
	£	£
During the year the company made the following payments:		
Charitable donations	-	645

Creditor payment policy

The company's current policy concerning the payment of trade creditors is to:

- settle the terms of payment with suppliers when agreeing the terms of each transaction;
- ensure that suppliers are made aware of the terms of payment by inclusion of the relevant terms in contracts; and
- pay in accordance with the company's contractual and other legal obligations.

On average, trade creditors at the year end represented 141 (2008 - 147) days' purchases.

VALIRX PLC

DIRECTORS' REPORT (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2009

Auditors

In accordance with section 489 of the Companies Act 2006, a resolution proposing that Adler Shine LLP be reappointed as auditors of the company will be put to the Annual General Meeting.

Directors' responsibilities

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

Company law requires the Directors to prepare financial statements for the Group in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the European Union. The Directors have chosen to prepare the financial statements for the Company in accordance with United Kingdom Generally Accepted Accounting Practice.

Group financial statements

International Accounting Standards 1 requires that financial statements present fairly for each financial year the Group's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's 'Framework for the preparation of financial statements'. In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable IFRSs. A fair presentation also requires directors to:

- select suitable accounting policies and then apply them consistently;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information; and
- provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.

Parent company financial statements

Company law requires the directors to prepare financial statements for each financial year. 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 company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

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

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and to 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 for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Financial statements are published on the Group's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the Group's website is the responsibility of the Directors. The Directors' responsibility also extends to the ongoing integrity of the financial statements contained therein.

VALIRX PLC

DIRECTORS' REPORT (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2009

Statement of disclosure to auditor

So far as each person serving as a director of the company at the date this report is approved is aware:

(a) there is no relevant audit information of which the company's auditors are unaware, and

(b) each director hereby confirms that he has taken all the steps that he ought to have taken as director in order to make himself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

This report was approved by the board of directors and signed on its behalf by:

G Morris

Director

3 June 2010

VALIRX PLC

INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF VALIRX PLC

We have audited the Group and Parent Company financial statements (the "financial statements") of Valirx Plc for the year ended 31 December 2009 which comprise the Group Statement of Comprehensive Income, the Group and Parent Company Balance Sheets, the Group Cash Flow Statement, the Group Statement of Changes in Equity and the related notes.

The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and International Financial Reporting Standards ('IFRSs') as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the Parent Company financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 4, 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 ('APB') Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and Parent Company's affairs as at 31 December 2009 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the Parent Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the Companies Act 2006.

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 financial statements are prepared is consistent with the financial statements.

VALIRX PLC

INDEPENDENT AUDITORS' REPORT (CONTINUED)

TO THE MEMBERS OF VALIRX PLC

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, 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.

Christopher Taylor (Senior Statutory Auditor)
for and on behalf of Adler Shine LLP
Statutory Auditor

3 June 2010
Aston House
Cornwall Avenue
London
N3 1LF

VALIRX PLC

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2009

	Notes	2009 £	2008 £
Revenue	2	29,326	30,748
Cost of sales		(2,968)	-
Gross profit		26,358	30,748
Administrative expenses		(1,389,010)	(1,258,063)
Other operating income		-	1,400
Operating loss	3	(1,362,652)	(1,225,915)
Amounts written off investments	10	(240,737)	(664,239)
Loss on ordinary activities before interest		(1,603,389)	(1,890,154)
Finance income	4	55	5,092
Finance costs	5	(3,180)	(2,725)
Loss on ordinary activities before taxation		(1,606,514)	(1,887,787)
Income tax expense	6	163,423	-
Loss on ordinary activities after taxation		(1,443,091)	(1,887,787)
Minority interest		-	31,890
Loss for the year		(1,443,091)	(1,855,897)
Loss per share - basic and diluted	7	(1.14)p	(4.13)p

There are no recognised gains and losses other than those passing through the statement of comprehensive income.

VALIRX PLC

STATEMENT OF CHANGES IN SHAREHOLDERS EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2009

	Share capital	Share premium	Merger reserve	Reverse acquisition reserve	Share option reserve	Retained earnings	Total
Notes	£	£	£	£	£	£	£
Balance at 1 January 2008	1,896,786	145,643	637,500	602,413	-	(1,593,692)	1,688,650
Changes in equity for 2008							
Loss for the year	-	-	-	-	-	(1,855,897)	(1,855,897)
Movement in the year	-	90	-	-	2,801	-	2,891
Issue of shares	1,583,200	(74,613)	-	-	-	-	1,508,587
Other movements	-	-	-	-	-	28,181	28,181
Balance at 31 December 2008	3,479,986	71,120	637,500	602,413	2,801	(3,421,408)	1,372,412
Changes in equity for 2009							
Loss for the year	-	-	-	-	-	(1,443,091)	(1,443,091)
Movement in the year	-	-	-	-	7,646	-	7,646
Issue of shares	16 970,382	(2)	-	-	-	-	970,380
Other movements	-	-	-	-	-	-	-
Balance at 31 December 2009	17 4,450,368	71,118	637,500	602,413	10,447	(4,864,499)	907,347

VALIRX PLC

CONSOLIDATED BALANCE SHEET

AS AT 31 DECEMBER 2009

	Notes	2009 £	£	2008 £	£
ASSETS					
Non current assets					
Intangible assets	8	1,466,297		1,421,207	
Property, plant and equipment	9	8,039		9,608	
Financial assets: available-for-sale investments	10	-		240,737	
		<u>1,474,336</u>		<u>1,671,552</u>	
Current assets					
Stocks	11	15,659		-	
Trade and other receivables	12	159,879		94,159	
Cash and cash equivalents		15,911		15,722	
		<u>191,449</u>		<u>109,881</u>	
LIABILITIES					
Current liabilities					
Trade and other payables	13	(712,254)		(388,850)	
Borrowings	14	(46,184)		(20,171)	
		<u>(566,989)</u>		<u>(299,140)</u>	
Net current liabilities					
		<u>907,347</u>		<u>1,372,412</u>	
Net assets					
		<u>907,347</u>		<u>1,372,412</u>	
SHAREHOLDERS' EQUITY					
Called up share capital	16	4,450,368		3,479,986	
Share premium		71,118		71,120	
Merger reserve		637,500		637,500	
Reverse acquisition reserve		602,413		602,413	
Share option reserve		10,447		2,801	
Profit and loss account		(4,864,499)		(3,421,408)	
		<u>907,347</u>		<u>1,372,412</u>	
Total shareholders' equity					
		<u>907,347</u>		<u>1,372,412</u>	

Approved by the Board and authorised for issue on 3 June 2010

S Vainikka
Director

G Morris
Director

VALIRX PLC

CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2009

	Notes	£	2009 £	£	2008 £
Cash outflows from operating activities	1		(1,017,395)		(791,810)
Taxation			93,818		-
Investing activities					
Interest received		55		5,092	
Interest paid		(3,180)		(2,725)	
Payments to acquire intangible assets		(65,512)		(80,590)	
Payments to acquire tangible assets		(3,990)		(6,118)	
Cost of minority interest share in subsidiary undertaking		-		(31,988)	
Cash flows used in investing activities			(72,627)		(116,329)
Financing activities					
Issue of ordinary share capital		970,382		893,200	
Cost of share issue		(2)		(74,523)	
Capital element of hire purchase contracts		(1,647)		-	
Net cash generated from financing activities			968,733		818,677
Net decrease in cash and cash equivalents			(27,471)		(89,462)
Cash and cash equivalents at beginning of period			(1,187)		88,275
Cash and cash equivalents at end of period	2		(28,658)		(1,187)

VALIRX PLC

NOTES TO THE CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2009

1 Cash flows from operating activities

	2009 £	2008 £
Operating loss	(1,362,652)	(1,225,915)
Depreciation of tangible assets	5,148	5,302
Amortisation of intangible assets	20,422	14,158
(Increase)/decrease in stocks	(15,659)	-
Decrease in debtors	3,885	59,146
Increase/(decrease) in creditors within one year	323,404	295,440
Other non-cash movements	411	57,258
Share option charge	7,646	2,801
Cash outflows from operating activities	<u>(1,017,395)</u>	<u>(791,810)</u>

2 Cash and cash equivalents

	1 January 2009 £	Cash flow £	31 December 2009 £
Net cash:			
Cash at bank and in hand	15,722	189	15,911
Bank overdrafts	(16,909)	(27,660)	(44,569)
	<u>(1,187)</u>	<u>(27,471)</u>	<u>(28,658)</u>

VALIRX PLC

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2009

1 Principal accounting policies

The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below.

1.1 Basis of preparation

Valirx Plc is a company incorporated in the United Kingdom under the Companies Act 1985, which is listed on the AIM market of the London Stock Exchange Plc. The address of its registered office is 24 Greville Street, London EC1N 8SS.

The registered number of the company is 03916791.

The group financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union ('IFRSs'), International Financial Reporting Interpretations Committee ('IFRIC') interpretations and the Companies Act 2006 applicable to companies reporting under IFRS.

The group financial statements have been prepared under the historical cost convention or fair value where appropriate.

1.2 Basis of consolidation

The group financial statements consolidate the financial statements of the company and all its subsidiaries ('the group'). Subsidiaries include all entities over which the group has the power to govern financial and operating policies. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the group controls another entity. Subsidiaries are consolidated from the date on which control commences until the date that control ceases. Intra-group balances and any unrealised gains and losses on income or expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

On 3 October 2006, Valirx Bioinnovation Limited ('Bioinnovation') acquired 60.28% of the issued share capital of Valipharma Limited ('Valipharma') in exchange for shares in Bioinnovation. Concurrently, the Company, ("Valirx"), acquired the entire issued share capital of Bioinnovation in a share for share transaction. As a result of these transactions, the former shareholders of Valipharma became the majority shareholders in Valirx. Accordingly, the substance of the transaction was that Valipharma acquired Valirx in a reverse acquisition. Under IFRS 3 'Business Combinations', the acquisition of Valipharma has been accounted for as a reverse acquisition.

In May 2008 the Company acquired the remaining 39.72% of the issued share capital of Valipharma, which is now wholly owned by the Group. This acquisition was accounted for using the acquisition method of accounting.

In July 2007, the company invested in ValiBio SA, a newly formed company incorporated in Belgium. From July 2007 the Group owned 100% of ValiBio SA.

Intra-group transactions, profits and balances are eliminated in full on consolidation.

VALIRX PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2009

1 Accounting policies

(continued)

1.3 Sources of estimation uncertainty

The preparation of the financial statements in conformity with IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Although these estimates are based on management's best knowledge of the amounts, events or actions, actual results ultimately may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised.

Material estimates and assumptions are made in particular with regard to the carrying value of the financial assets - available-for-sale investments, goodwill impairment testing and the likelihood that tax assets can be realised.

1.4 Goodwill

Goodwill on acquisition of subsidiaries represents the excess of the cost of acquisition over the fair value of the group's share of the net identifiable net assets and contingent liabilities acquired. Identifiable assets are those which can be sold separately or which arise from legal rights regardless of whether those rights are separable. Goodwill on acquisition of subsidiaries is included in intangible assets. Goodwill is not amortised but tested annually for impairment or when trigger events occur, and is carried at cost less accumulated impairment losses.

1.5 Other intangible assets

Acquired licences, trademarks and patents are capitalised at cost and are amortised on a straight-line basis over their useful life. Patents are amortised over 16 years.

Acquired brands are written off in equal annual instalments over their useful economic life, which the directors estimate to be 15 years.

1.6 Research and development

Research expenditure is recognised as an expense and is charged to the income statement in the year in which it is incurred.

Development expenditure is recognised as an expense in the same way unless it meets the recognition criteria of IAS 38 'Intangible Assets'. Regulatory and other uncertainties generally mean that such criteria are not met. Where, however, the recognition criteria are met, intangible assets are capitalised and amortised over their useful economic lives from product launch.

1.7 Property, plant and equipment

Property, plant and equipment are stated at cost less depreciation.

Depreciation is provided at the following rates per annum to write off the cost of property, plant and equipment, less estimated residual value, on a straight line basis from the date on which they are brought into use:

Plant and machinery	over 3 years straight line
Computer equipment	33% per annum straight line

VALIRX PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2009

1 Accounting policies

(continued)

1.8 Impairment of assets

The carrying value of property, plant and equipment and intangibles is reviewed for impairment when events or changes in circumstances indicate the carrying value may be impaired. An impairment loss is recognised in the income statement for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

1.9 Leasing and hire purchase commitments

Leases are classified as financial leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee.

Assets acquired under finance leases are recognised as assets of the Group at the fair value or, if lower, at the present value of the minimum lease payments, each determined at the start of the lease. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and the reduction of lease obligations so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income.

1.10 Investments

The group classifies its investments as available-for-sale financial assets in accordance with IAS 39.

Available-for-sale financial investments are non-derivative assets. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date. After initial recognition available-for-sale assets are measured at fair value with gains or losses being recognised as a separate component of equity until the investment is de-recognised or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in equity is included in the income statement. If a fair value for an investment cannot be reliably measured that investment will be carried at cost.

An impairment test is performed annually on the carrying value of each investment. If an available-for-sale asset is impaired, an amount comprising the difference between its carrying value and its cost and its fair value is transferred from equity to the income statement.

1.11 Stock

Stock is valued at the lower of cost and net realisable value.

1.12 Trade and other receivables

Trade and other receivables are recognised and carried at the lower of their original amount less an allowance for any doubtful amounts. An allowance is made when collection of the full amount is no longer considered possible.

VALIRX PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2009

1 Accounting policies

(continued)

1.13 Taxation

The taxation charge represents the sum of current tax and deferred tax.

The tax currently payable is based on the taxable loss for the period using the tax rates that have been enacted or substantially enacted by the balance sheet date. Taxable loss differs from the net loss as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible.

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the group financial statements. Deferred tax is determined using tax rates that have been enacted or substantially enacted at the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred tax liability is settled.

Deferred tax assets are only recognised to the extent that it is probable that future taxable profit will be available against which the asset can be utilised.

Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited to equity, in which case the deferred tax is also dealt with in equity.

1.14 Foreign currency translation

Transactions in currencies other than sterling, the presentational and functional currency of the Company, are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary assets and liabilities carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Gains and losses arising on retranslation are included in the income statement for the period, except for exchange differences on non-monetary assets and liabilities, which are recognised directly in equity, where the changes in fair value are recognised directly in equity.

On consolidation, the assets and liabilities of the Group's overseas entities (none of which has the currency of a hyper-inflationary economy) are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised as income or as expenses in the period in which the operation is disposed of.

1.15 Government grants

Grants are credited to deferred revenue. Grants towards capital expenditure are released to the profit and loss account over the expected useful life of the assets. Grants towards revenue expenditure are released to the profit and loss account as the related expenditure is incurred.

1.16 Turnover

Revenue represents sales and services to third party customers in the health sector, stated net of any applicable value added tax. Revenue is recognised when the services are provided.

VALIRX PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2009

1 Accounting policies

(continued)

1.17 Share based payments

All share-based payment arrangements granted after 7 November 2002 that had not vested prior to 1 January 2006 are recognised in the financial statements.

IFRS 2 'Share-based Payments' requires that an expense for equity instruments granted is recognised in the financial statements based on their fair values at the date of the grant. This expense, which is in relation to employee share options is recognised over the vesting period of the scheme. The fair value of employee services is determined by reference to the fair value of the awarded grant calculated using the Black Scholes model.

At the year end date, the group revises its estimate of the number of share incentives that are expected to vest. The impact of the revisions of original estimates, if any, is recognised in the statement of comprehensive income, with a corresponding adjustment to equity, over the remaining vesting period.

1.18 New IFRS standards and interpretations not applied

A number of new Standards and amendments to Standards and Interpretations have been issued by the IASB and IFRIC with an effective date after the date of these financial statements. Those that are relevant to the group which have not yet been adopted are as follows:

	Effective date
IFRS 1 Amendment to Additional Exemptions for First-time Adopters	1 January 2010
IFRS 2 Amendments to Group Cash-settled Share-based Payment Transactions	1 January 2010
IFRS 3 Business Combinations (revised 2008)	1 July 2009
IFRS 5 Non-current assets held for sale	1 January 2010
IFRS 8 Segmental information	1 January 2010
IFRS 9 Financial Instruments	1 January 2013
IAS 1 Presentation of financial statements	1 January 2010
IAS 7 Statement of cash flows	1 January 2010
IAS 24 Related Party Disclosures (revised 2009)	1 January 2011
IAS 27 Consolidated and Separate Financial Statements (revised 2008)	1 July 2009
IAS 32 Amendment to Classification of Rights Issues	1 February 2010
IAS 36 Impairment of assets	1 January 2010
IAS 38 Intangible assets	1 July 2009
IAS 39 Amendment to Financial instruments: Recognition and Measurement	1 July 2009
IFRIC 14 Amendment to Prepayments of a Minimum Funding Requirement	1 January 2011
IFRIC 17 Distributions of Non-cash Assets to Owners	1 July 2009
IFRIC 18 Transfers of Assets from Customers	1 July 2009
IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments	1 July 2010

IFRS 9, IAS 24, amendments to IFRS 2, IFRIC 19 and amendments to IFRS 1 are not yet adopted by the European Union.

The Group does not anticipate that the adoption of these standards and interpretations will have a material impact on the Group's financial statements on adoption.

VALIRX PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2009

2 Segmental information

The Directors are of the opinion that under IAS 14 - 'Segmental information' the Group operates in one primary business segment, being drug development.

The secondary segment is geographic and the Group's revenues and net assets by geographical segment are shown below. The Group's geographical segments are determined by location of operations.

Geographical market

Revenue	2009 £	2008 £
UK	7,969	30,748
Europe	21,357	-
	<u>29,326</u>	<u>30,748</u>
Loss before taxation	2009 £	2008 £
UK	(1,260,201)	(1,609,562)
Europe	(346,312)	(278,225)
	<u>(1,606,513)</u>	<u>(1,887,787)</u>
Net assets	2009 £	2008 £
UK	1,632,159	1,702,286
Europe	(724,811)	(329,874)
	<u>907,348</u>	<u>1,372,412</u>

VALIRX PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2009

3 Operating loss

	2008	2007
	£	£
Operating loss is stated after charging:		
Amortisation of intangible assets	20,422	14,158
Depreciation of tangible assets	5,148	4,589
Loss on foreign exchange transactions	32,068	62,856
Research and development	72,865	145,882
Auditors remuneration		
Fees payable to Company auditor for the audit of the Company and consolidated accounts	10,000	15,000
- The audit of company's subsidiaries pursuant to legislation	9,000	2,500
- Auditor's fees for review of interim accounts	1,270	1,270

4 Finance income

	2008	2007
	£	£
Bank interest	55	5,092

5 Finance costs

	2009	2008
	£	£
On bank loans and overdrafts	2,241	2,274
Hire purchase interest	68	193
On overdue tax	440	258
Other interest	431	-

VALIRX PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2009

6 Taxation

	2009	2008
	£	£
Domestic current year tax		
Tax credits on research and development - current year	(69,605)	-
Tax credits on research and development - prior years	(93,818)	-
	<u>(163,423)</u>	<u>-</u>
Current tax charge	<u>(163,423)</u>	<u>-</u>
Factors affecting the tax charge for the year		
Loss on ordinary activities before taxation	(1,606,514)	(1,887,787)
	<u>(1,606,514)</u>	<u>(1,887,787)</u>
Loss on ordinary activities before taxation multiplied by standard rate of UK corporation tax of 28.00% (2008 - 21.00%)	(449,824)	(396,435)
	<u>(449,824)</u>	<u>(396,435)</u>
Effects of:		
Non deductible expenses	31,125	13,026
Capital allowances for the year in deficit/(excess) of depreciation and amortisation	(221)	245
Tax losses not utilised	355,962	238,945
Research and development expenditure	(59,596)	-
Adjustment for prior year	(93,818)	-
Impairment charge	67,406	139,490
Other tax adjustments	(14,457)	4,729
	<u>286,401</u>	<u>396,435</u>
Current tax charge	<u>(163,423)</u>	<u>-</u>

No corporation tax arises on the results for the year ended 31 December 2009 due to the loss incurred.

The deferred tax asset, arising from tax losses, of £1,019,683 (2008 - £712,400) carried forward has not been recognised but would become recoverable against future trading profits.

7 Earnings per ordinary share

The earnings and number of shares used in the calculation of earnings per ordinary share are set out below:

	2009	2008
Basic:		
Loss for the financial period	1,443,091	1,855,897
Weighted average number of shares	127,071,384	44,965,094
Loss per share	<u>1.14p</u>	<u>4.13p</u>

There was no dilutive effect from the share options outstanding during the year (note 15).

VALIRX PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2009

8 Intangible fixed assets

	Patents £	Goodwill £	Brands £	Total £
Cost				
At 1 January 2008	203,208	423,574	-	626,782
Additions	80,590	743,268	-	823,858
At 31 December 2008	283,798	1,166,842	-	1,450,640
Additions	50,512	-	15,000	65,512
At 31 December 2009	334,310	1,166,842	15,000	1,516,152
Amortisation				
At 1 January 2008	15,275	-	-	15,275
Charge for the year	14,158	-	-	14,158
At 31 December 2008	29,433	-	-	29,433
Charge for the year	20,005	-	417	20,422
At 31 December 2009	49,438	-	417	49,855
Net book value				
At 31 December 2009	284,872	1,166,842	14,583	1,466,297
At 31 December 2008	254,365	1,166,842	-	1,421,207

The goodwill arising on the acquisition of Valirx Bioinnovation Limited and Valipharma Limited is not being amortised but reviewed on an annual basis for impairment, or more frequently if there are indications that goodwill might be impaired. The impairment review comprises a comparison of the carrying amount of the goodwill with its recoverable amount (the higher of fair value less costs to sell and value in use).

VALIRX PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2009

9 Property, plant and equipment

	Plant and machinery £
Cost	
At 1 January 2008	12,883
Additions	6,118
	<hr/>
At 1 January 2009	19,001
Exchange differences	(651)
Additions	3,990
	<hr/>
At 31 December 2009	22,340
	<hr/>
Depreciation	
At 1 January 2008	4,091
Charge for the period	5,302
	<hr/>
At 1 January 2009	9,393
Exchange differences	(240)
Charge for the year	5,148
	<hr/>
At 31 December 2009	14,301
	<hr/>
Net book value	
At 31 December 2009	8,039
	<hr/> <hr/>
At 31 December 2008	9,608
	<hr/> <hr/>
Included above are assets held under finance leases or hire purchase contracts as follows:	
	£
Net book values	
At 31 December 2009	1,183
	<hr/> <hr/>
At 31 December 2008	2,165
	<hr/> <hr/>
Depreciation charge for the year	
At 31 December 2009	982
	<hr/> <hr/>
At 31 December 2008	782
	<hr/> <hr/>

VALIRX PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2009

10 Financial assets - available-for-sale investments

	Unlisted investments £
Cost	
At 1 January 2009 & at 31 December 2009	1,333,770
Provisions for diminution in value	
At 1 January 2009	1,093,033
Charge for the year	240,737
At 31 December 2009	1,333,770
Net book value	
At 31 December 2009	-
At 31 December 2008	240,737

The Group owns 8.517% (on a fully diluted basis) of the issued share capital of Morphogenesis Inc., a company incorporated in USA. Morphogenesis Inc. is a private company in which Valirx Plc holds a minority interest. The carrying value of the investment was revalued at 31 December 2009 to reflect the diminution in the market value which at 31 December 2009 was £nil (2008 - £240,737).

11 Stocks	2009 £	2008 £
Finished goods and goods for resale	15,659	-

12 Trade and other receivables	2009 £	2008 £
Trade receivables	18,432	23,547
Tax recoverable	69,605	-
Called up share capital not paid	40	26
Other receivables	59,237	32,628
Prepayments and accrued income	12,565	37,958
	159,879	94,159

In the directors opinion the carrying amount of receivables is considered a reasonable approximation of fair value.

VALIRX PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2009

13 Trade and other payables	2009	2008
	£	£
Trade payables	306,448	289,196
Taxes and social security costs	46,122	36,884
Directors' current accounts	39,360	19,177
Other payables	90,686	26,093
Accruals and deferred income	229,638	17,500
	<u>712,254</u>	<u>388,850</u>

In the directors opinion the carrying amount of payables is considered a reasonable approximation of fair value.

14 Borrowings	2009	2008
	£	£
Bank loans and overdrafts	44,569	16,909
Net obligations under hire purchase contracts	1,615	3,262
	<u>46,184</u>	<u>20,171</u>

VALIRX PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2009

15 Share-based payments

At 31 December 2009 outstanding awards to subscribe for ordinary shares of 1p each in the company, granted in accordance with the rules of the Valirx share option schemes, were as follows:

Exercise or vesting date	Exercise price	At 1 January 2009	Granted	At 31 December 2009
November 2007 - November 2017	1p	512,000	-	512,000
August 2008 - August 2018	4p	200,000	-	200,000
September 2009 - September 2019	1p	-	4,750,000	4,750,000
		<u>712,000</u>	<u>4,750,000</u>	<u>5,462,000</u>

No options were exercised or lapsed during the year.

The fair value of remaining share options has been calculated using the Black Scholes model. The assumptions used in the calculation of the fair value of the share options outstanding during the year are as follows:

	Share options	Share options	Share options
Grant date	23 November 2007	15 May 2008	17 September 2009
Exercise period	November 2007 - November 2017	August 2008 - August 2018	September 2009 - September 2019
Share price at date of grant	1.05p	4.8p	2.1p
Exercise price	1.05p	6p	1p
Shares under option	512,000	200,000	4,750,000
Expected volatility	35%	35%	40%
Expected life (years)	3.5	4	4
Risk-free rate	4.36%	4.40%	2.50%
Expected dividend yield	0.00%	0.00%	0.00%
Fair value per option	<u>1.55p</u>	<u>0.55p</u>	<u>0.72p</u>

VALIRX PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2009

16 Share capital	2009 Number	2008 Number	2009 £	2008 £
Authorised				
Ordinary shares of 1p each	218,108,175	-	2,181,082	-
Ordinary shares of 6p each	-	85,000,000	-	5,100,000
Deferred shares of 5p each	58,378,365	-	2,918,918	-
			<u>5,100,000</u>	<u>5,100,000</u>
Allotted, called up and fully paid				
Ordinary shares of 1p each	153,145,030	-	1,531,450	-
Ordinary shares of 6p each	-	57,999,764	-	3,479,986
Deferred shares of 5p each	58,378,365	-	2,918,918	-
			<u>4,450,368</u>	<u>3,479,986</u>

Following approval at a General Meeting of the company held on 13 February 2009, the company reorganised its share capital by subdividing each issued Existing Ordinary Share of 6p into one New Ordinary Share of 1p each and one Deferred Share of 5p each and by subdividing each of the unissued Existing Ordinary Shares of 6p each into six New Ordinary Shares of 1p each.

During the year the company placed the following shares in order to raise working capital:

Date	Number of shares placed	Amount raised (before expenses) £
3 April 2009	58,000,000	580,000
9 April 2009	19,900,000	199,000
5 May 2009	16,666,665	200,000
		<u>979,000</u>

During the year, the company issued the following shares in satisfaction of expenses incurred:

Date	Number of shares issued	Expenses satisfied £
5 January 2009	378,606	23,618
27 April 2009	200,000	2,000
		<u>25,618</u>

VALIRX PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2009

17 Reconciliation of movement in shareholders' funds	2009	2008
	£	£
Opening shareholders' equity	1,372,412	1,669,227
Loss for the financial year	(1,443,091)	(1,887,787)
Minority interest share of loss	-	31,890
Currency translation differences on foreign currency net investments	-	47,604
Issue of ordinary share capital	970,382	1,583,200
Cost of shares issued charged to share premium account	(2)	(74,523)
Share option reserve	7,646	2,801
	<hr/>	<hr/>
Closing shareholders' equity	907,347	1,372,412

Merger reserve

The merger reserve of £637,500 exists as a result of the acquisition of Valirx Bioinnovation Limited. The merger reserve represents the difference between the nominal value of the share capital issued by the company and the fair value of Valirx Bioinnovation Limited at 3 October 2006, the date of acquisition.

Reverse acquisition reserve

The reverse acquisition reserve exists as a result of the method of accounting for the acquisition of Valirx Bioinnovation Limited and Valipharma Limited

18 Directors' emoluments

	2009	2008
	£	£
Emoluments for qualifying services	349,499	339,275
Company pension contributions to money purchase schemes	3,000	3,000
	<hr/>	<hr/>
	352,499	342,275

The number of directors for whom retirement benefits are accruing under money purchase pension schemes amounted to 3 (2008 - 3).

Emoluments disclosed above include the following amounts paid to the highest paid director:

Emoluments for qualifying services	<u>99,000</u>	<u>99,000</u>
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VALIRX PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2009

19 Employees

Number of employees

The average monthly number of employees (including directors) during the year was:

	2009	2008
	Number	Number
Administration	12	10

Employment costs

	2009	2008
	£	£
Wages and salaries	570,090	442,262
Social security costs	49,408	49,577
Other pension costs	3,000	3,138
Costs of share option scheme	7,646	2,801
	<u>630,144</u>	<u>497,778</u>

20 Related party transactions

During the year the director, G. Desler, provided the company with bookkeeping and fund raising services totalling £9,000 and £10,000 respectively.

During the year the director, K. Alexander, provided the company with legal services totalling £16,060.

During the year the wife of one of the directors provided the company with translation services totalling £5,000.

At the year end, the amounts owed to directors were as follows:

	2009	2008
	£	£
G Morris	-	4,711
J Micallef	-	4,855
S Vainikka	-	5,649
N Hardman	8,523	1,375
K Alexander	686	1,049
N Thorniley	1,355	1,538
G Desler	<u>28,796</u>	<u>-</u>

VALIRX PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2009

21 Post balance sheet events

At a General Meeting of the company held on 21 April 2010, the company re-organised its share capital by subdividing each issued Existing Ordinary Share of 1p each into one New Ordinary Share of 0.1p each and one Deferred Share of 0.9p each and by subdividing each of the unissued Existing Ordinary Shares of 1p each into ten New Ordinary Shares of 0.1p each.

In April 2010, the company raised £500,000, before expenses, by placing 142,857,143 New Ordinary Shares of 0.1p each at a price of 0.35p per share.

Since the year end, the company has issued a total of 4,800,000 New Ordinary Shares to satisfy expenses totalling £15,860.

VALIRX PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2009

22 Financial instruments

The group's principal financial assets are cash at bank and trade and other receivables

Cash and cash equivalents comprise cash held by the group and short-term bank deposits. The carrying amount of these assets approximates their fair value. Cash at bank and in hand, including short-term bank deposits, at 31 December 2009 amounted to £15,911 (2008 - £15,722).

The directors consider that the carrying amount of the trade and other receivables approximate their fair value.

Financial risk management

The Group's activities expose it to a variety of risks including market risk (foreign currency risk and interest rate risk), credit risk and liquidity risk. The Group manages these risks through an effective risk management programme and through this programme, the Board seeks to minimise potential adverse effects on the Group's financial performance.

The Board provides written objectives, policies and procedures with regards to managing currency and interest risk exposures, liquidity and credit risk including guidance on the use of certain derivative and non derivative financial instruments

Credit risk

The Group's credit risk is primarily attributable to its receivables. The amounts presented in the balance sheet are net of allowances for doubtful receivables. The credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

Interest rate and liquidity risk

The Group is principally funded by equity and invests in short-term deposits, having access to these funds at short notice. The group's policy throughout the period has been to minimise interest rate risk by placing funds in risk free cash deposits but also to maximise the return on funds placed on deposit.

All cash deposits attract a floating rate of interest. The benchmark rate for determining interest receivable and floating rate assets is linked to the UK base rate.

Foreign currency risk

The Group has an entity which operates in Europe and is therefore exposed to foreign exchange risk arising from currency exposure to the Euro. The Group is exposed to foreign currency risk arising from recognised assets and liabilities. Although the countries that the Group trades with have relatively stable economies, management has set up a policy which requires group companies to manage their foreign exchange risk against their functional currency, and where necessary, by entering into forward exchange contracts with highly reputable counterparties.

Fair value

There were no material differences between the book value of financial instruments and their fair value at 31 December 2009 or 31 December 2008.

VALIRX PLC

BALANCE SHEET

AS AT 31 DECEMBER 2009

	Notes	2009		2008	
		£	£	£	£
Fixed assets					
Tangible assets	2		2,835		2,041
Investments	3		2,678,965		2,678,964
			<u>2,681,800</u>		<u>2,681,005</u>
Current assets					
Debtors	4	1,434,879		707,086	
Cash at bank and in hand		15,009		15,017	
		<u>1,449,888</u>		<u>722,103</u>	
Creditors: amounts falling due within one year	5	<u>(865,596)</u>		<u>(565,019)</u>	
Net current assets			<u>584,292</u>		<u>157,084</u>
Total assets less current liabilities			<u>3,266,092</u>		<u>2,838,089</u>
Capital and reserves					
Called up share capital	8		4,450,368		3,479,986
Share premium account	9		71,118		71,120
Merger reserves	9		637,500		637,500
Share option reserve	9		10,447		2,801
Profit and loss account	9		(1,903,341)		(1,353,318)
Shareholders' funds	10		<u>3,266,092</u>		<u>2,838,089</u>

Approved by the Board and authorised for issue on 3 June 2010

S Vainikka
Director

G Morris
Director

VALIRX PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

1 Accounting policies

1.1 Accounting convention

The balance sheet and the associated notes have been prepared under the historical cost convention in accordance with the provisions of the Companies Act 2006 and applicable United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Under Financial Reporting Standard 1 the company is exempt from the requirement to prepare a cash flow statement on the grounds that a parent undertaking includes the company in its own published consolidated financial statements.

The company is also exempt from FRS 22 'Earnings per share' as this information is produced in the consolidated accounts.

1.2 Compliance with accounting standards

The financial statements are prepared in accordance with applicable United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), which have been applied consistently (except as otherwise stated).

1.3 Turnover

Turnover represents amounts receivable for goods and services net of VAT and trade discounts.

1.4 Research and development

Research expenditure is written off to the profit and loss account in the year in which it is incurred. Development expenditure is written off in the same way unless the directors are satisfied as to the technical, commercial and financial viability of individual projects. In this situation, the expenditure is deferred and amortised over the period during which the company is expected to benefit.

1.5 Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost less depreciation. Depreciation is provided at rates calculated to write off the cost less estimated residual value of each asset over its expected useful life, as follows:

Computer equipment	33% per annum straight line
--------------------	-----------------------------

1.6 Investments

Fixed asset investments are stated at cost less provision for diminution in value.

1.7 Pensions

The company operates a defined contribution scheme for the benefit of its employees. Contributions payable are charged to the profit and loss account in the year they are payable.

VALIRX PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2009

1 Accounting policies

(continued)

1.8 Deferred taxation

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

Deferred tax is measured on a non-discounted basis. A deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be taxable profits from which the future reversal of the underlying timing differences can be deducted.

1.9 Foreign currency translation

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

1.10 Government grants

Grants are credited to deferred revenue. Grants towards capital expenditure are released to the profit and loss account over the expected useful life of the assets. Grants towards revenue expenditure are released to the profit and loss account as the related expenditure is incurred.

1.11 Profit and loss account

The directors have taken advantage of the exemption available under Section 408 of the Companies Act 2006 and have not presented a profit and loss account for the company alone. A loss of £550,023 is attributable to shareholders for the financial year ended 31 December 2009 (2008 - £743,637).

1.12 Financial instruments

Full details of the company's policy in relation to financial instruments and management of financial risk are set out in Note 21 to the group financial statements. The company does not hold any derivatives and there is no material difference in the fair value and carrying value of any financial instruments held by the company.

1.13 Share based payments

FRS 20 "Share-based payments" requires that the fair value of options awarded to employees is charged to the profit and loss account over the period during which the employees become unconditionally entitled to the options.

VALIRX PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2009

2 Tangible fixed assets

	Computer equipment £
Cost	
At 1 January 2009	6,892
Additions	2,714
	<hr/>
At 31 December 2009	9,606
	<hr/>
Depreciation	
At 1 January 2009	4,851
Charge for the year	1,920
	<hr/>
At 31 December 2009	6,771
	<hr/>
Net book value	
At 31 December 2009	2,835
	<hr/> <hr/>
At 31 December 2008	2,041
	<hr/> <hr/>

VALIRX PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2009

3 Fixed Asset investments

	Shares in subsidiary undertakings £
Cost	
At 1 January 2009	2,678,964
Additions	1
	<hr/>
At 31 December 2009	2,678,965
	<hr/>
Net book value	
At 31 December 2009	2,678,965
	<hr/> <hr/>
At 31 December 2008	2,678,964
	<hr/> <hr/>

The principal subsidiary undertakings of the company are as follows:

Company	Country	% of shares held	Activity
Valirx Bioinnovation Limited	England and Wales	100.00	Holding company
Valipharma Limited	England and Wales	100.00 *	Therapeutic research and development
ValiBIO S.A.	Belgium	100.00	Oncology diagnostics company
Valimedix Limited	England and Wales	100.00	Medical diagnostics company

* 60.28% is owned by Valirx Bioinnovation Limited and 39.72% by the Company.

4 Debtors	2009 £	2008 £
Trade debtors	-	23,547
Amounts owed by subsidiary undertakings	1,302,742	600,123
Tax recoverable	69,605	-
Other debtors	49,967	47,167
Prepayments and accrued income	12,565	36,249
	<hr/>	<hr/>
	1,434,879	707,086
	<hr/> <hr/>	<hr/> <hr/>

VALIRX PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2009

5 Creditors: amounts falling due within one year	2009	2008
	£	£
Bank loans and overdrafts	40,450	1,370
Trade creditors	248,076	164,882
Amounts owed to subsidiary undertakings	300,670	300,670
Taxes and social security costs	20,813	36,884
Directors' current accounts	39,270	19,177
Other creditors	4,654	24,536
Accruals and deferred income	211,663	17,500
	<u>865,596</u>	<u>565,019</u>

6 Pension and other post-retirement benefit commitments

Defined contribution

The company operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the company in an independently administered fund. The pension cost charge represents contributions payable by the company to the fund.

	2009	2008
	£	£
Contributions payable by the company for the year	<u>3,000</u>	<u>3,000</u>

VALIRX PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2009

7 Share-based payments

At 31 December 2009 outstanding awards to subscribe for ordinary shares of 1p each in the company, granted in accordance with the rules of the Valirx share option schemes, were as follows:

Exercise or vesting date	Exercise price	At 1 January 2009	Granted	At 31 December 2009
November 2007 - November 2017	1p	512,000	-	512,000
August 2008 - August 2018	4p	200,000	-	200,000
September 2009 - September 2019	1p	-	4,750,000	4,750,000
		<u>712,000</u>	<u>4,750,000</u>	<u>5,462,000</u>

No options were exercised or lapsed during the year.

The fair value of remaining share options has been calculated using the Black Scholes model. The assumptions used in the calculation of the fair value of the share options outstanding during the year are as follows:

	Share options	Share options	Share options
Grant date	23 November 2007	15 May 2008	17 September 2009
Exercise period	November 2007 - November 2017	August 2008 - August 2018	September 2009 - September 2019
Share price at date of grant	1.05p	4.8p	2.1p
Exercise price	1.05p	6p	1p
Shares under option	512,000	200,000	4,750,000
Expected volatility	35%	35%	40%
Expected life (years)	3.5	4	4
Risk-free rate	4.36%	4.40%	2.50%
Expected dividend yield	0.00%	0.00%	0.00%
Fair value per option	<u>1.55p</u>	<u>0.55p</u>	<u>0.72p</u>

VALIRX PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2009

8 Share capital	2009	2008
	£	£
Authorised		
218,108,175 Ordinary shares of 1p each	2,181,082	-
- (2008: 85,000,000) Ordinary shares of 6p each	-	5,100,000
58,378,365 Deferred shares of 5p each	2,918,918	-
	<u>5,100,000</u>	<u>5,100,000</u>
	<u><u>5,100,000</u></u>	<u><u>5,100,000</u></u>
Allotted, called up and fully paid		
153,145,030 Ordinary shares of 1p each	1,531,450	-
- (2008: 57,999,759) Ordinary shares of 6p each	-	3,479,986
58,378,365 Deferred shares of 5p each	2,918,918	-
	<u>4,450,368</u>	<u>3,479,986</u>
	<u><u>4,450,368</u></u>	<u><u>3,479,986</u></u>

On 5 January 2009, the company issued 378,606 New Ordinary Shares of 6p each to certain of its creditors to satisfy, in total £23,618 of their outstanding fees by the issue of the new ordinary shares.

Following approval at a General Meeting of the company held on 13 February 2009, the company reorganised its share capital by subdividing each issued Existing Ordinary Share of 6p into one New Ordinary Share of 1p each and one Deferred Share of 5p each and by subdividing each of the unissued Existing Ordinary Shares of 6p each into six New Ordinary Shares of 1p each.

On 3 April 2009, the company issued 58,000,000 New Ordinary Shares of 1p each at par, raising £580,000 before expenses, to provide additional working capital for the company.

On 9 April 2009, the company issued 19,900,000 New Ordinary Shares of 1p each at par raising £199,000 before expenses, to provide additional working capital for the company.

On 27 April 2009, the company issued 200,000 New Ordinary Shares of 1p each at par to satisfy outstanding fees.

On 5 May 2009, the company issued 16,666,665 New Ordinary Shares of 1p each at 1.2p per share, raising £200,000 before expenses, to provide additional working capital.

VALIRX PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2009

9 Statement of movements on reserves

	Share premium account £	Other reserves (see below) £	Profit and loss account £
Balance at 1 January 2009	71,120	640,301	(1,353,318)
Loss for the year	-	-	(550,023)
Share premium - other movements	(2)	-	-
Movement during the year	-	7,646	-
Balance at 31 December 2009	<u>71,118</u>	<u>647,947</u>	<u>(1,903,341)</u>
Share option reserve			
Balance at 1 January 2009		2,801	
Share option reserve movement		7,646	
Balance at 31 December 2009		<u>10,447</u>	
Merger reserve			
Balance at 1 January 2009 & at 31 December 2009		<u>637,500</u>	

10 Reconciliation of movements in shareholders' funds

	2009 £	2008 £
Loss for the financial year	(550,023)	(743,637)
Shares issued	970,382	1,583,200
Cost of share issue written off to share premium account	(2)	(74,523)
Other reserves movement	7,646	2,801
Net addition to shareholders' funds	<u>428,003</u>	<u>767,841</u>
Opening shareholders' funds	<u>2,838,089</u>	<u>2,070,248</u>
Closing shareholders' funds	<u>3,266,092</u>	<u>2,838,089</u>

VALIRX PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2009

11 Related party transactions

During the year the director, G. Desler, provided the company with bookkeeping and fund raising services totalling £9,000 and £10,000 respectively.

During the year the director, K. Alexander, provided the company with legal services totalling £16,060.

During the year the wife of one of the directors provided the company with translation services totalling £5,000.

At the year end, the amounts owed to directors were as follows:

	2009 £	2008 £
G Morris	-	4,711
J Micallef	-	4,855
S Vainikka	-	5,649
N Hardman	8,523	1,375
K Alexander	686	1,049
N Thorniley	1,355	1,538
G Desler	28,706	-

12 Post balance sheet events

At a General Meeting of the company held on 21 April 2010, the company re-organised its share capital by subdividing each issued Existing Ordinary Share of 1p each into one New Ordinary Share of 0.1p each and one Deferred Share of 0.9p each and by subdividing each of the unissued Existing Ordinary Shares of 1p each into ten New Ordinary Shares of 0.1p each.

In April 2010, the company raised £500,000, before expenses, by placing 142,857,143 New Ordinary Shares of 0.1p each at a price of 0.35p per share.

Since the year end, the company has issued a total of 4,800,000 New Ordinary Shares to satisfy expenses totalling £15,860.