# ReNeuron Group plc

**Registered number 5474163**

Report and Accounts 2008



*ReNeuron*

*pioneering stem cell therapeutics*

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# ReNeuron in Summary

- We are a leading, UK-based stem cell company. Our primary objective is the development of stem cell therapies targeting areas of significant unmet or poorly met medical need

- We are filing for approval to commence initial clinical studies with our lead ReN001 stem cell therapy for disabled stroke patients. In addition to our stroke programme, we are developing stem cell therapies for a number of neurodegenerative diseases and other conditions, including Parkinson's disease, Type 1 diabetes and diseases of the retina.

- We have also developed a range of stem cell lines for non-therapeutic applications, our *ReNcell®* products for use in academic and commercial research. Our *ReNcell® CX* and *ReNcell® VM* neural cell lines are marketed worldwide under licence by US-based Millipore Corporation

- ReNeuron's shares are traded on the London AIM market under the symbol RENE.L. Further information on ReNeuron and its products can be found on our website at www reneuron com

# Operational Highlights

- ReN001 stem cell therapy for stroke
  - Discussions held with UK and Australian regulatory authorities ahead of initial clinical trial applications for ReN001 in those territories
  - Studies ongoing in support of IND application to commence initial clinical trial in the US with ReN001
  - Approval to commence initial clinical trial expected within 6 to 9 months
  - Pre-clinical studies underway to enhance method of administration of ReN001 therapy in broader stroke patient populations
- Other therapeutic programmes re-prioritised to enable at least two further clinical trial applications over the next two years
  - Positive early pre-clinical data announced for ReN002 (diabetes), ReN003 (retinal) and ReN005 (Huntington s disease) programmes
  - ReN001 cortical cell line to be tested in other conditions beyond stroke
- Business restructured to substantially reduce underlying cost base

# Financial Highlights

- Share placing to raise £1 5 million before expenses in the year, and £2 5 million convertible loan facility secured post year end
- Loss for the year of £6 6 million (2007 £5 2 million)
- Net cash outflow from operating activities £6 1 million (2007 £5 5 million)
- Cash and cash equivalents at 31 March 2008 of £2 8 million (2007 £7 7 million)

## Contents:

# Chairman's and Chief Executive

## *Review of operations*

***ReN001 stem cell therapy for stroke***

During the year, we have continued the process of seeking regulatory approval to commence an initial clinical trial for ReN001, ReNeuron s cell therapy programme targeting disabled stroke patients Our Investigational New Drug (IND) application to the US Food and Drug Administration (FDA) remains on clinical hold In February of this year, we met with the FDA to discuss and clarify the necessary steps to enable approval of the IND to commence initial clinical trials in the US with ReN001 Subsequent to that meeting, we are progressing a number of additional studies that we believe will satisfactorily address the FDA s requirements

In the meantime, we have accelerated our pre-existing strategy to make clinical trial applications for ReN001 in certain other territories beyond the US with established and recognised regulatory frameworks Specifically, we have in recent weeks taken further encouraging pre-application meetings with regulatory authorities in the UK and Australia, following meetings held with these authorities in the latter part of 2007 Principal Investigators and hospitals to undertake the initial clinical study with ReN001 have been identified in these territories, and the required respective technology transfer processes are underway to enable local preparation of the ReN001 cells prior to administration to patients

Over the last couple of years, we have learnt much about the respective approaches and attitudes of various regulators to reviewing pioneering stem cell therapy programmes such as our ReN001 therapy We have identified clear differences in the way that these regulators view such programmes and their specific areas of comfort and concern often vary quite considerably We have drawn significant encouragement from these observations in terms of our ability to obtain regulatory approval to take ReN001 into the clinic, especially given the extremely comprehensive pre-clinical safety, efficacy and manufacturing data package we have continued to build for ReN001 over this period It is important to reiterate, however, that we are operating in a very exciting but largely unproven field of medicine at the clinical level, and we must therefore expect the regulatory authorities to take a particularly cautious view, reflected in the time taken for them to ultimately give approval for commencement of clinical trials

On the basis of the above and subject to successful completion of all remaining studies and local cell preparation processes, we intend to make further clinical trial applications beyond the US for ReN001 during the remainder of this year Subject to the precise review process and timings to be adopted for ReN001 by the regulators concerned, we expect to gain regulatory approval to commence an initial clinical study with ReN001 in at least one of the targeted territories (UK, US or Australia) within the next six to nine months

# Officer's Joint Statement

***Other therapeutic and non-therapeutic programmes***

During the year under review, and subsequent to it, we have undertaken a full review of the Company s activities We are clearly mindful of the increasingly difficult funding environment for companies such as ours, and the need to reassess project priorities and objectives to take account of these conditions As a result of this review, we have refocused the business, reset our project objectives and taken steps to conserve the cash resources available to us These initiatives can be summarised as follows

1) For the time being, we will continue to pursue all of our existing therapeutic programmes beyond ReN001 that involve distinct cell lines, notably ReN002 for diabetes, ReN003 for retinal diseases, ReN004 for Parkinson s disease and ReN005 for Huntington s disease During the year under review, and subsequently, we announced early positive pre-clinical data in the ReN002, ReN003 and ReN005 programmes and we will shortly announce recent data regarding the ReN004 programme However, the ongoing resources to be made available to each of these programmes will vary, depending on their stage of development and speed to the clinic Programmes which entail a longer pre-clinical pathway, and which cannot otherwise be funded through grants and/or collaborations with academic or corporate partners, will be de-emphasised or suspended We are in the process of discussing certain of these programmes with existing and potential collaborators, and we will make further decisions regarding the programmes based on the results of these discussions

2) Given the significant investment already made in the pre-clinical development of the ReN001 cortical cell line for stroke, we are evaluating the potential of this cell line in other conditions such as traumatic brain injury, Alzheimer s disease and peripheral ischaemia We believe the cortical cell line may have potential utility in these other conditions and its utilisation in this way will accelerate the time to clinic due to the extensive manufacturing scale-up work and safety profile already generated for this cell line Again, we are currently in discussions with clinicians and potential scientific collaborators who have experience in the respective conditions we are targeting

3) Also building on the investment made in ReN001, and in collaboration with US researchers at the University of South Florida, we are exploring more straightforward modes of administration for the ReN001 stroke therapy in other categories of stroke patient Pre-clinical studies are in progress examining ReN001 administered intravenously (rather than by direct injection into the brain) in models of sub-acute stroke (that is, treatment administered a number of days after the stroke event but before a steady-state behavioural deficit has been reached)

4) We acquired alginate-based cell encapsulation technology as part of ReNeuron s acquisition of the AmCyte, Inc technology in August 2007 Although this technology is being used primarily in our ReN002 programme for Type 1 diabetes (the potential of the capsules has already been clinically tested by AmCyte in early trials in two diabetes patients), we are also exploring the potential of the technology in other settings, including the brain There are potential advantages to the use of encapsulated cells when delivered into the brain, and we are therefore testing the compatibility of a range of our neural cell lines with the encapsulation technology

5) We have out-licensed a range of neural stem cell lines for non-therapeutic applications, our ReNcell® range of cell lines, to US-based Millipore Corporation for world-wide distribution through that company s catalogue However, the non-therapeutic use of our cell lines is peripheral to our core therapeutic objectives Consequently, we have suspended development of any further non-therapeutic cell lines

6) We have initiated steps to reduce our headcount by approximately 60 per cent, including the closure of our US facility On completion of this process in August of this year, we will employ 17 full time equivalents operating from the Surrey laboratories

As a result of the above initiatives, we have set a key objective (beyond our lead ReN001 stroke programme) to file at least two further clinical trial applications across these other programmes within the next two years We are also actively exploring opportunities to bring external cell therapy programmes into the business on a fully-funded basis that complement ReNeuron s existing programmes, that are in or near the clinic, and that, by virtue of target indication or cell type, carry an acceptable risk profile from both a regulatory and investment standpoint

### *Funding*

In June 2008, we secured interim funding from our existing principal investors in the form of a £2 5 million convertible loan facility Given current market sentiment and ReNeuron s relatively low share price at the current time, our objective was to secure a modest and minimally dilutive interim financing that provided sufficient funds to allow us, first and foremost, to secure regulatory approval to commence initial clinical trials with our ReN001 stroke therapy over the coming months We believe that the size and structure of the loan facility meets this financing objective Once we have secured regulatory approval to commence clinical studies with ReN001, we will look to complete a larger fundraising sufficient to take ReN001 through an initial clinical trial and to achieve our key objective for ReNeuron s other therapeutic programmes, as described above

## *Summary of results*

The Group s full year financial statements have been prepared under International Financial Reporting Standards (IFRS), as adopted by the European Union, for the first time, the transition date for IFRS being 1 April 2006 The comparative results for the year to 31 March 2007 have been restated accordingly The impact of IFRS on the Group s accounting policies and financial statements are detailed in the notes to these financial statements

In the year ended 31 March 2008, turnover was £27,000 (2007 £49,000), representing income from the Group s non-therapeutic licensing activities

Net operating expenses increased in the year to £7 2 million (2007 £6 3 million) Of the total increase of £0 9 million in the year, £0 7 million relates to an increase in research and development expenditure, the balance of the increase relating to general and administrative costs These increases, which are in line with internal forecasts, are principally accounted for by the addition of the Group s US operation, included in the consolidated financial statements from 1 August 2007 The Group has subsequently taken steps to reduce its overall cost base, including the closure of its US operation Consequently, total operating expenses for the year to 31 March 2009 are forecast to be significantly lower that that for the year to 31 March 2008

Other operating income increased slightly in the year to £309,000 (2007 £263,000) and interest received increased to £0 3 million (2007 £0 2 million), reflecting higher average cash balances over the year

The Group has not booked a research and development tax credit in the year (2007 £0 5 million) The current share ownership of the Company may preclude the Group from being able to make such a claim It is therefore deemed appropriate not to accrue a tax credit in the year, subject to confirmation as to the Group s entitlement to claim The resulting net loss for the year increased to £6 6 million (2007 £5 2 million)

Net cash outflow from operating activities increased in the year to £6 1 million (2007 £5 5 million) This increase was largely due to the increase in operating expenses in the year, partially offset by the effect of a £0 5 million decrease in payable balances in the prior year compared with a £0 1 million decrease in payable balances in the year to 31 March 2008 During the year, the Group acquired the business assets of AmCyte Inc , financed by a placing of new ordinary shares raising US$4 0 million for the AmCyte vendors In conjunction with the acquisition, the Group raised a further £1 5 million before expenses, by way of a placing of new ordinary shares As a result of the above operational and financing activities, cash and cash equivalents decreased by £4 9 million in the year (2007 £2 5 million increase)

The cell encapsulation technology acquired from AmCyte is to be transferred to the Group s UK operation for subsequent development Consequently, the fair value of this intangible asset has been retained at £2 1 million in the balance sheet at 31 March 2008

As at 31 March 2008, the Group had cash and cash equivalents totalling £2 8 million (2007 £7 7 million) Subsequent to the year end, the Group has secured a £2 5 million convertible loan facility with certain of its existing investors The directors estimate that the Group s current cash resources, taking into account the convertible loan facility, are sufficient to meet expenditure requirements into the first quarter of 2009 The directors are confident of raising further funds sufficient for the needs of the business from equity issues and other sources based on anticipated progress across the Group s programmes during the intervening period Consequently, and as explained in Note 3 to the financial statements, the going concern basis has been adopted in the preparation of these financial statements

## *Summary and outlook*

Our principal objective remains to obtain regulatory approval to commence an initial clinical trial with our ReN001 stroke therapy During the year under review, we have continued to build what was already an extremely comprehensive pre-clinical data package for this therapy, demonstrating its safety, efficacy and manufacturing quality characteristics However, being mindful of the unique regulatory challenges a therapy such as ReN001 raises, we have accelerated our interactions with regulatory authorities beyond the USA during the year to ensure that we have the best possible chance of securing clinical trial approval for ReN001 in an appropriately regulated territory

Beyond ReN001, our other therapeutic programmes continue to make progress and we have re-prioritised these programmes to focus resources on those that provide the greatest chance of reaching the clinic in the quickest possible time We have also restructured and taken significant cost out of the business during the year, and subsequently, to ensure we can make the requisite progress in what remains an extremely challenging investment environment for relatively early-stage biotechnology businesses such as ours We have secured interim finance for the business to provide the financial resources necessary to achieve our near-term objectives

We believe ReNeuron has some of the strongest technology and therapeutic programme offerings in the cell therapy field, protected by a very broad and multi-layered patent estate We remain determined to see ReNeuron realise the full potential of these assets

On Page 54 of this document is the notice of the 2008 Annual General Meeting (the AGM) to be held at 10 00 am on 19 September 2008 A short explanation of the resolutions to be proposed at the AGM is set out on page 57 The Directors recommend that you vote in favour of the resolutions to be proposed at the AGM, as they intend to do in respect of their own beneficial holdings of ordinary shares At the end of this document is a form of proxy for use in connection with the AGM which, if you wish to vote by way of proxy at the meeting, should be completed and returned to the Company s registrars in accordance with the instructions set out therein so as to be received not less than 48 hours prior to the AGM

**Professor Trevor Jones**
Chairman
8 July 2008

**Michael Hunt**
Chief Executive Officer

# *The potential of stem cell therapy*

Stem cell therapy has the potential to revolutionise the treatment of a variety of human conditions Rather than addressing the symptoms of a particular disease or condition, stem cell therapy seeks to address the cause of the condition, to effect repair or reversal of the disease state through the regeneration of the affected tissue ReNeuron s development programmes seek to exploit the potential of stem cell therapy

The ageing process, the onset of disease and the stresses of modern life all contribute to cell death within major organs of the body, including the brain Cell degeneration or malfunction is one of the primary causes of serious diseases such as Parkinson s disease, Alzheimer's disease, diabetes, blindness and heart disease Within the field of regenerative medicine, cell therapy involves replacing these dead or non-functioning cells with healthy, functioning cells of the equivalent or complementary type

Cell therapy has been in existence for many decades and is a proven curative medicine The most common example of stem cell therapy is the transplantation of bone marrow cells in leukaemia patients Less well-known treatments include the transplantation of islet (insulin-producing) cells for the treatment of Type 1 diabetes and the transplantation of bone and cartilage cell grafts for the treatment of severe broken bones or for the rebuilding of joints

These cell therapy treatments rely for the most part on the transplantation of healthy, mature cells, taken from the patient's own body, from donor relatives or from donated organs However, mature, or fully differentiated, cells usually lose the ability to regenerate themselves For this reason, mature cells from the brain or other specialised organs cannot be grown successfully in the laboratory beyond a small number of cell divisions Consequently, cell therapy treatments using mature cells have not been successfully developed for large-scale clinical applications because of the limitations on the number of suitable cells available

Stem cells offer the potential to overcome the technical difficulties associated with existing cell therapy treatments Stem cells are the primitive undifferentiated cells that have the ability to give rise to the many different specialised types of cells (differentiated cells) that make up the organs and tissues in the human body They can be made to grow in the laboratory and retain the ability to differentiate into the particular specialised cell type required In animal studies, stem cells have also been shown to migrate from the point of implant and home into areas of disease or damage, sometimes over considerable distances

In most cases, stem cell transplantation treatments involve relatively straightforward surgical procedures Cells can and have been transplanted into the human brain, for example, in procedures that are performed under local anaesthetic and require at most a short hospital stay Similar approaches would apply where other organs are being treated

Stem cell therapy offers particular potential in areas of significant unmet, or poorly met, medical need Diseases of the brain, such as stroke and Parkinson s disease, can dramatically reduce quality of life They consequently represent major healthcare costs, particularly in terms of long-term care There are no treatments that effectively address the causes of these diseases Stem cell transplantation therapy offers the potential to alleviate the symptoms of, or cure, these diseases and many others

# Business Review

## *ReNeuron's stem cell technologies and therapeutic applications*

**Platform technologies**

ReNeuron s stem cell products are derived from non-embryonic human tissue sources Our stem cell therapy programmes have been built around our unique and highly efficient stem cell expansion technology, *c-mycER* This platform enables, from a single tissue sample, the growth of selected human stem cells into banks of quality-assured stem cell lines These stem cell lines contain enough stem cells to treat many thousands of potential patients This capability has enabled us to focus on developing non-patient-specific, or allogeneic, stem cell treatments addressing diseases with large patient populations The stem cell expansion process is fully regulated by way of a chemically

*Our c-mycER technology is fully regulated by way of a chemically induced safety switch The c-mycER construct is introduced into the cell, but remains inactive until 4-hydroxy tamoxifen (4-OHT) is introduced into the cell media The protein then becomes active, promoting cell division while protecting the genetic stability of the cells Once the 4-OHT is removed from the growth media, cell division ceases and the cell lines so produced can be drawn up and cryo-preserved in vials for subsequent implantation This ability of c-mycER to both promote and also fully control the cell division process, while preserving the cells genetic make-up, is a key safety characteristic of the technology from a regulatory perspective*

induced safety switch so that cell growth can be arrested before implantation of the stem cells into the patient

Using the *c-mycER* cell expansion technology, we are able to readily scale-up our stem cell lines for clinical and commercial use without the need to re-derive those cell lines from an earlier, non-quality assured prototype This gives ReNeuron a significant competitive advantage in terms of the time and expense in moving a potential stem cell therapy through a clinical development programme

We have also developed a unique screening platform using our *c-mycER* technology that enables the selection of optimal stem cell lines for further development as a treatment for the relevant disease Selection criteria during cell screening include cell phenotype, ability to expand into large-scale culture, and capacity to engraft in the relevant disease model with minimal immune rejection by the host

Our recently-acquired *micmac*® cell encapsulation technology provides a method of protecting cells when transplanted, as well as reducing or eliminating the host immune response that might otherwise occur post-transplantation in certain clinical settings This cell encapsulation platform has already been shown to be effective clinically, when *micmac*® encapsulated, insulin-producing primary islet cells were implanted into patients suffering from Type 1 diabetes We are currently testing the potential of this platform when combined with our own cell lines generated using the *c-mycER* platform, both pancreatic and neural

We have a strong patent position covering our platform technologies and the cell lines we have developed from them Overall, we have written or exclusively licensed over 75 issued patents and over 70 further patent applications Of these, over 50 patents have been issued in the key European and US territories

**Cell therapy programmes**

ReN001 is our most advanced stem cell therapy programme, targeting disabled stroke patients There are an estimated 50 million survivors of stroke worldwide with the number of new cases in these markets growing at 7% per annum, due principally to an ageing population

Our *micmac*® cell encapsulation technology has been developed to prevent the subject's immune system from attacking the encapsulated cells, thus maintaining cell function following transplantation The capsule's protective membrane is formulated to be biocompatible without immune suppression of the subject, and allows selective diffusion of nutrients, signalling factors and other beneficial molecules through the capsule Micro-capsules are surrounded by a macro-capsule which completes the insulation of the cellular material from the host environment The capsules can be transplanted surgically and can be readily retrieved

Approximately one half of stroke survivors are left with permanent disabilities and it is this patient sub-group that we are targeting with ReN001 The annual health and social costs of caring for these patients is estimated to be in excess of £5 billion in the UK and in excess of US$50 billion in the US

We have filed for approval to commence initial clinical studies with ReN001, targeting either the US, UK or Australia as the territory in which the initial clinical study will be undertaken The proposed Phase I study with ReN001 is a safety study in a small number of disabled stroke patients The study will provide a read-out on the safety of the ReN001 therapy but will also provide some early indications of potential efficacy

Our other cell therapy programmes are at the research or pre-clinical stages of development, and can be categorised as follows

- programmes which utilise the same *CTX* cortical cell line as that used for the ReN001 stroke therapy, and,
- programmes which each utilise separately-derived cell lines, depending on the nature of the disease targeted

The *CTX* cortical cell line is being evaluated in a number of other conditions, such as traumatic brain injury, Alzheimer s disease and peripheral ischaemia We have developed a full pre-clinical safety package for the *CTX* cell line, and it has already been scaled up to cGMP manufacturing standards We therefore intend to leverage the investment made in this cell line by applying it to other conditions where we believe it may have a beneficial effect as a cell-based therapy The pre-clinical development pathway for the *CTX* cell line in these additional indications should be faster and less costly, given the data package already generated for the cell line as part of the ReN001 stroke programme

We are also developing stem cell therapies for a number of neurodegenerative diseases and other conditions, based on distinct cell lines generated from the region of the brain or body appropriate to the disease in question Over the last year, we have announced early positive pre-clinical data in three of these programmes, namely our ReN002 programme for Type 1 diabetes, our ReN003 programme for diseases of the retina and our ReN005 programme for Huntington s disease Further pre-clinical data concerning our ReN004 programme for Parkinson's disease are due to be announced shortly

We have set a key objective to file at least two further clinical trial applications beyond ReN001 within the next two years, drawn from the above cell therapy programmes The degree to which each of these programmes is resourced and progressed will depend on the relative strength of pre-clinical data emerging, and the relative speed with which each programme can be progressed to the clinic Much of the ongoing development work in these programmes is being undertaken in collaboration with leading international academic institutions, such as the Schepens Eye Research Institute (Harvard Medical School) in respect of our ReN003 retinal cell therapy programme

Ultimately, we expect to realise value by out-licensing our stem cell therapies to commercial development partners at the appropriate points in their respective development programmes

*Data Sources UK Stroke Association, American Stroke Association*

**ReNeuron's *ReNcell®* products for non-therapeutic applications**

Stem cells have significant potential beyond their use in cell therapy treatments for disease For example, they are being increasingly used in the drug discovery process as a screening tool against which drug candidates can be screened for toxicity We have developed a range of cell lines for non-therapeutic applications in academic or commercial research, our *ReNcell®* products

*ReNcell® VM* is a neural cell line derived from the ventral mesencephalon region of the brain, and *ReNcell® CX* is derived from the cerebral cortex A series of specifications have been developed describing the ability of these cell lines to grow and
derived neurons to show physiological properties indicative of mature neurons

We have licensed the *ReNcell® VM* and *ReNcell® CX* cell lines exclusively to Millipore Corporation, a leading US-based reagent distributor for manufacture and worldwide distribution through their research reagent catalogue Since market launch in late 2006 further data illustrating the potential of these cell lines in various non-therapeutic applications have been published by leading academic groups in two peer-reviewed scientific journals

# Stroke and ReNeuron's ReN001 stem cell therapy

A stroke occurs when blood flow leading to, or in, the brain is blocked (ischaemic stroke) or a blood vessel in the brain ruptures (haemorrhagic stroke), which can result in damage to the nerve cells in the brain and a loss of bodily functions

Stroke is the single largest cause of adult disability in the developed world Over 130,000 people suffer a stroke each year in the UK, and over 700,000 people in the US Approximately 80% of these strokes are ischaemic in nature Our ReN001 stem cell therapy seeks initially to treat those patients who have suffered an ischaemic stroke and have been left disabled by it These patients constitute approximately one half of stroke survivors

The annual health and social costs of caring for disabled stroke patients is estimated to be in excess of £5 billion in the UK, with stroke patients occupying 25 per cent of long term hospital beds In the US, the annual direct and indirect costs of stroke are estimated to be in excess of US$50 billion

The type of stroke treatment a patient should receive depends on the stage of disease Generally there are three treatment stages of stroke

1 Prevention – treatments to prevent a first or recurrent stroke are based on treating associated risk factors, e g high cholesterol, smoking and diabetes,

2 Treatment immediately after the stroke – acute-phase stroke treatments attempt to arrest a stroke whilst it is happening by dissolving the blood clot that has caused the infarct, and

3 Post stroke rehabilitation – the aim of post stroke rehabilitation is to improve both functional and cognitive recovery in the patient some weeks or months after the stroke event

It is this third treatment stage that our ReN001 stem cell therapy will address in initial clinical trials A number of treatments exist or are in development to treat stroke patients in the acute phase However, there are currently no therapies available for patients who have a stable and fixed neurological deficit following a stroke The aim of our ReN001 therapy is to engender a measure of functional recovery in these patients, thus enabling them to lead more independent lives and be less reliant on health and social care systems

The aim of the initial Phase I clinical trial with ReN001 is to evaluate the safety of the implantation technique and to establish the side effect profile associated with the implantation of ReN001 stem cells in patients who have suffered an ischemic stroke Additionally, we aim to collect preliminary efficacy data by evaluating any improvement reported in stroke-specific assessments that will be made regarding neurological function on an on-going basis throughout the study

The actual surgical technique that will be used in the ReN001 clinical trials, known as stereotactic injection, is a well-established and relatively straightforward procedure in neurosurgery With the aid of a stereotactic co-ordinate frame in place around the patient s head, the neurosurgeon will use a special cannula to implant the ReN001 cells directly into the target brain region through a single, small craniostomy burr hole in the skull The implantation procedure takes between one and two hours, depending on the cell dose administered The patient will remain in the hospital overnight and will normally be discharged the morning after surgery

Patients in the Phase I trial will be followed up over an initial one year period to evaluate the safety of the ReN001 therapy and any potential improvement in neurological function These clinical assessments will involve scoring against several stroke-specific scales as well as a battery of other tests designed to evaluate both motor and cognitive function over time Ongoing monitoring of the patients will also continue in the longer term following the one year end-point

In collaboration with US researchers at the University of South Florida, we are exploring more straightforward modes of administration for the ReN001 stroke therapy in other categories of stroke patient Pre-clinical studies are in progress examining ReN001administered intravenously (rather than by direct injection into the brain) in models of sub-acute stroke (that is, treatment administered a number of days after the stroke event but before a steady-state behavioural deficit has been reached)

# Directors and Advisers

### Directors

Professor Trevor Jones, Non-executive Chairman
Michael Hunt, Chief Executive Officer
Dr John Sinden, Chief Scientific Officer
Dr Paul Harper, Non-executive Director
Mark Docherty, Non-executive Director

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# *Board of Directors*

**Professor Trevor Jones CBE Ph D. DSc FKC FPS FRSC Hon FRCP FBPharmcolS, Non-executive Chairman+**

Professor Jones is the Non-executive Chairman, having been Chairman of the ReNeuron Group since February 1999 He recently retired as Director General of the Association of the British Pharmaceutical Industry (ABPI) and was, until 1994, Research and Development ( R&D ) Director at Wellcome plc He has been awarded honorary doctorates from five universities, he has Fellowships from Kings College London, the Royal Society of Chemistry, the Royal Pharmaceutical Society of Great Britain, the British Pharmacological Society and the Royal College of Physicians and its Faculty of Pharmaceutical Medicine of the Royal College of Physicians He is a founder member of the Geneva-based public/private partnership Medicines for Malaria and in 2004 he was appointed to the World Innovation and Public Health Organisation Commission on Intellectual Property Rights Health He sits on the Boards of Allergan, Inc and NextPharma and is a senior R&D adviser to Esteve SA Aged 65

**Michael Hunt BSc ACA, Chief Executive Officer+***

Michael Hunt is the Chief Executive Officer, having been a director of the ReNeuron Group since January 2001 He joined ReNeuron as Chief Financial Officer and was appointed Chief Operating Officer in September 2003 and Chief Executive Officer in July 2005 Prior to ReNeuron, he spent six years at Biocompatibles International plc where he held a number of senior financial and general management positions His early industrial career was spent at Bunzl plc He read economics at University College London and qualified as a chartered accountant with Ernst & Young in London Aged 45

**Dr John Sinden BA MA Ph.D., Chief Scientific Officer+***

Dr Sinden is the Chief Scientific Officer, having been a director of the ReNeuron Group since October 1998 Dr Sinden is a scientific co-founder of ReNeuron Prior to joining ReNeuron as Chief Scientific Officer in October 1998, he was Reader in Neurobiology of Behaviour at the Institute of Psychiatry at Kings College London He graduated in Psychology from the University of Sydney and completed a Ph D in Neuroscience from the University of Paris at the College de France He subsequently held post-doctoral appointments at Oxford University and the Institute of Psychiatry prior to joining the permanent staff of the Institute in 1987 Aged 57

**Mark Docherty BEng ACA, Non-executive Director+**

Mark Docherty was appointed to the Board in March 2003 He is a chartered accountant and holds a BEng in Mechanical Engineering from Sheffield University He was a founding director of Merlin Biosciences Limited and was actively involved in the structuring and financing of many of the Merlin portfolio companies Previously, he was a Manager in the Corporate Finance Group of Arthur Andersen He is also a non-executive director of Plethora Solutions Holdings plc, Onyvax Limited and Decon Sciences Limited Aged 44

**Dr Paul Harper BSc Ph D., Non-executive Director+***

Dr Harper is a graduate of Leeds University (Microbiology/Virology) He initially pursued a career in drug discovery and development with Glaxo Group Research as Head of Antimicrobial Chemotherapy, Johnson & Johnson Limited as Director of R&D and with Unipath plc This was followed by work in a number of start-up companies and SMEs as Chief Executive Officer or adviser These included, as CEO, preparing Cambridge Antibody Technology PLC for flotation on the London Stock Exchange and founding Provensis Limited to develop a drug device product
Aged 62

+ denotes member of Board of Directors

* denotes member of Management Committee

# *Senior Management*

**Dr. Kenny Pollock BSc Ph.D., Head of Cell Development***

Dr Pollock joined ReNeuron Limited in September 2001 as Head of Molecular Pharmacology In 2002 he took over management of the Cell Biology group and joined the Management Committee in January 2004 As a graduate and post-graduate of Glasgow University (Department of Pharmacology), his core research interests for the last twenty years have been in cell signalling and cell biology Following post-doctoral posts at the University of Cambridge and with AstraZeneca plc, he worked for eleven years in drug discovery research with Aventis Pharmaceuticals, Inc Prior to joining ReNeuron, he worked as a project manager with Incyte Corporation developing pharmacogenomics databases He now manages all internal and external development cell biology projects

**Dr. Erik Miljan BSc Ph.D , Head of Stem Cell Research***

Dr Miljan carried out his graduate studies at the University of Western Ontario, Canada, and completed his post-graduate studies at the University of Hong Kong, with a research focus on protein and glycolipid biochemistry of signal transduction He completed a post-doctoral fellowship position at the Children s Brain Tumor Research Institute, Children s Memorial Hospital, Chicago He joined ReNeuron in August 2002 to study signal transduction into stem cells, and now manages early stage cell biology to proof-of-concept as well as external discovery science collaborations

**Dr Paul Stroemer BSc Ph D., Head of Pre-clinical Research***

Dr Stroemer joined ReNeuron in September 1998 as a researcher and since 2004 has been responsible for managing both in-house and contracted pre-clinical development programmes He completed a Ph D at the University of Texas Medical Branch in Galveston, developing pharmacotherapies in the promotion of behavioural recovery and anatomical plasticity after stroke Prior to joining ReNeuron, he undertook post-doctoral research at the University of Manchester examining the neuroprotective effects of reducing inflammatory responses in the brain after stroke He now manages both internal and external pre-clinical projects

**Professor Jack Price BA Ph.D., Principal Scientific Consultant***

Professor Price is Professor of Developmental Neurobiology and Head of the Centre for the Cellular Basis of Behaviour at the Institute of Psychiatry, Kings College London He obtained a Ph D in Neuroscience from University College London before a period of post-doctoral research at the Massachusetts Institute of Technology He then directed a research group at the National Institute for Medical Research, Mill Hill He moved to SmithKline Beecham Pharmaceuticals in 1994, where he became Director for Molecular Neurobiology Since 1998, he has been on the permanent staff of the Institute of Psychiatry and Consultant to ReNeuron Limited

# *Clinical Advisory Board*

We have established a Clinical Advisory Board (CAB) whose principal objectives are to advise the Company on the clinical development of our stem cell therapies, to review and monitor progress with our therapeutic programmes and to provide a rigorous critique of our programme strategy going forward It is envisaged that the constitution of the CAB will evolve as our therapeutic programmes advance further, dependent upon the particular scientific and medical expertise required

**Dr Sid Gilman MD, FRCP – Chairman**

Dr Gilman is the William J Herdman Distinguished University Professor, Dept of Neurology, University of Michigan He has held academic positions at Harvard University, Columbia University and the University of Michigan since 1965, and is editor-in-chief of two neuroscience journals Amongst his advisory committee roles, he was a member of the FDA Peripheral and Central Nervous System Advisory Committee for 17 years, chaired the committee for 4 years, and remains appointed as an FDA consultant

**Dr Louis Caplan MD**

Dr Caplan is Chief, Cerebrovascular and Stroke Division, Beth Israel Deaconess Medical Center and Professor of Neurology, Harvard Medical School, Boston Dr Caplan is a renowned expert in cerebrovascular disease including stroke and has authored numerous articles and books on stroke and stroke care He was involved in an early cell therapy clinical trial for stroke patients using Diacrin Inc s porcine tissue

**Dr Douglas Kondziolka MD, MSc, FRCS, FACS**

Dr Kondziolka is the Peter J Jannetta Professor and Vice Chairman of Neurological Surgery and Professor of Radiation Oncology, University of Pittsburgh He is President, Congress of Neurological Surgeons and past President, International Stereotactic Radiosurgery Society and American Society for Stereotactic and Functional Neurosurgery Dr Kondziolka has pioneered a number of neurological techniques and conducted the groundbreaking initial clinical trials of a cryopreserved cell therapy product, Layton Bioscience Inc 's LBS Neurons, in stroke patients

**Dr Paul Sanberg Ph.D. DSc**

Dr Sanberg is Distinguished University Professor and Director, Center for Aging and Brain Repair, University of South Florida Dr Sanberg has extensive experience in bringing neural transplantation therapies from the laboratory to the clinic He served as the first Scientific Director for Cellular Transplant Inc , which became publicly traded as CytoTherapeutics Inc (now StemCells, Inc ) He has also served as the Chief Scientific Officer for Layton BioScience Inc He is founder and President of Saneron CCEL Therapeutics Inc , a spin-out company from the University of South Florida

**Professor Philip Bath BSc, MB, BS, MD, FRCPath, FRCP, FESC**

Professor Bath is the Stroke Association Professor of Stroke Medicine at the University of Nottingham He is an expert in pharmaceutical studies in stroke at both pre-clinical and clinical level

# Directors' report for the year ended 31 March 2008

**Principal activities, business review and future prospects**

A review of the business and its prospects is contained within the joint Chairman's and Chief Executive Officer's statement and Business Review The principal activities of the Group are the research, development and commercial exploitation of stem cell technologies for therapeutic and non-therapeutic applications

In common with other small biotechnology companies, the Group is subject to a number of risks and uncertainties, which include

- the early stage of development of the business,
- the safety and effectiveness of its technologies,
- its history of operating losses,
- availability and terms of capital needed for the business,
- its ability to receive regulatory approvals,
- the uncertainty that clinical trials will succeed or lead to commercially viable products,
- competition from other companies and market acceptance of its products,
- its reliance on consultants, contractors and personnel at third-party research institutions,
- intellectual property infringement claims by others and the ability to protect its intellectual property,
- the ability to attract and retain qualified personnel, and
- pricing pressures and actions by governmental health administration authorities

A number of specific committees exist in the Group which meet regularly to review progress and agree actions encompassing research activities, development programmes, and wider business and commercial issues Through these committees, and through formal Board meetings, the directors are able to continuously monitor, evaluate and mitigate the potential impact of the principal risks facing the Group as it develops

The ongoing performance of the Group is managed and monitored using a number of key performance indicators, both financial and qualitative In terms of financial performance, the Group does not currently generate profits or net cash from its operational activities The forecasting and monitoring of the Group's cash resources is therefore critical in terms of the efficient allocation of those resources and in predicting future cash requirements A key feature of the Group's internal management reporting systems is therefore the emphasis placed on operational cash spend by category and against forecast, which is monitored at both Management Committee and Board level on a monthly basis The Group's net cash outflow from operating activities for the year ended 31 March 2008 was £6,079,000 (2007 £5,529,000) Cash flow forecasts are adjusted on a regular basis to take account of changing circumstances in the business In this way, the Group's forward cash requirements can be predicted with a high degree of accuracy

In terms of the Group's wider performance, each research or development programme is managed by a project manager who reports progress against key qualitative milestones on a monthly basis to the Management Committee The more detailed aspects of these programmes are also discussed and monitored through separate Project Review or Development Committees Research and Development programmes are planned and executed against identified milestones, and together these programmes constitute the Group's product pipeline

**Financial risks**

The financial risks faced by the Group include interest rate risk, foreign currency risk and liquidity risk The Board reviews and agrees policies for managing each of these risks The Group's main objectives in using financial instruments are the maximisation of returns from funds held on deposit The Group does not enter into forward currency contracts Due to the nature of the Group's activities, the directors do not currently consider it necessary to use derivative financial instruments to hedge the Group's exposure to fluctuations in interest rates as these exposures are not considered significant A summary of the Group's financial instruments is set out in Note 23 to the financial statements

# Directors' report for the year ended 31 March 2008

**Presentation of financial statements**
The consolidated financial statements include the financial statements of the Company and its subsidiary undertakings, made up to 31 March 2008

**Results and dividends**
The results for the year are given in the Consolidated Income Statement set out on page 22 The directors do not recommend the payment of a dividend (2007 £nil)

**Research and development**
During the year the Group charged research and development costs of £5,166,000 (2007 £4,418,000) to the income statement Details of the research and development activities carried out in the year are set out in the Business Review

**Donations**
The Group made donations of £111 (2007 £150) during the year to national and local charities

**Directors and directors' interests**
The directors who held office during the year, and up to the signing of the financial statements, are listed below
Professor Trevor Jones, Chairman
Mr Michael Hunt, Chief Executive Officer
Dr John Sinden, Chief Scientific Officer
Mr Mark Docherty
Dr Paul Harper

The directors held the following interests in the shares of the Company

| | | 2008 Number | 2007 Number |
|---|---|---|---|
| Professor Trevor Jones | Ordinary shares of 1p each | **111,200** | 83,200 |
| Mr Michael Hunt | Ordinary shares of 1p each | **237,113** | 204,113 |
| Dr John Sinden | Ordinary shares of 1p each | **1,395,993** | 1,367,585 |
| Mr Mark Docherty | Ordinary shares of 1p each | **174,400** | 146,400 |
| Dr Paul Harper | Ordinary shares of 1p each | **110,800** | 83,200 |

The directors held the following interests in options over shares of the Company

**Professor Trevor Jones**

| | Note | At 1 April 2007 Number | Exercised during the year Number | Granted during the year Number | At 31 March 2008 Number | Exercise Price | Exercise Period |
|---|---|---|---|---|---|---|---|
| Options – unapproved | 1 | 100,000 | - | | **100,000** | 10p | August 2005 – July 2014 |
| Options – unapproved | 2 | 50,000 | - | - | **50,000** | 25p | August 2008 – August 2015 |
| Options – unapproved | 2 | 50,000 | - | - | **50,000** | 10p | August 2009 – August 2016 |
| Options – unapproved | 3 | - | - | 150,000 | **150,000** | 31p | August 2010 – August 2017 |
| | | 200,000 | - | 150,000 | **350,000** | | |

**Michael Hunt**

| | Note | At 1 April 2007 Number | Exercised during the year Number | Granted during the year Number | At 31 March 2008 Number | Exercise Price | Exercise Period |
|---|---|---|---|---|---|---|---|
| Options – approved | 1 | 408,160 | - | - | **408,160** | 10p | August 2005 – July 2014 |
| Options – unapproved | 1 | 491,840 | - | - | **491,840** | 10p | August 2005 – July 2014 |
| Options – unapproved | 2 | 1,000,000 | - | - | **1,000,000** | 25p | August 2008 – August 2015 |
| Options – unapproved | 2 | 250,000 | - | - | **250,000** | 10p | August 2009 – August 2016 |
| Options – unapproved | 2 | 250,000 | - | - | **250,000** | 15p | August 2009 – August 2016 |
| Options – unapproved | 3 | - | - | 500,000 | **500,000** | 21p | August 2010 – August 2017 |
| Options – unapproved | 3 | - | - | 500,000 | **500,000** | 37 5p | August 2010 – August 2017 |
| | | 2,400,000 | | 1,000,000 | **3,400,000** | | |

# Directors' report for the year ended 31 March 2008

### Dr John Sinden

| | Note | At 1 April 2007 Number | Exercised during the year Number | Granted during the year Number | At 31 March 2008 Number | Exercise Price | Exercise Period |
|---|---|---|---|---|---|---|---|
| Options – approved | 1 | 408,160 | - | - | **408,160** | 10p | August 2005 – July 2014 |
| Options – unapproved | 1 | 488,520 | - | - | **488,520** | 10p | August 2005 – July 2014 |
| Options – unapproved | 2 | 1,000,000 | - | - | **1,000,000** | 25p | August 2008 – August 2015 |
| Options – unapproved | 2 | 250,000 | - | - | **250,000** | 10p | August 2009 – August 2016 |
| Options – unapproved | 2 | 250,000 | - | - | **250,000** | 15p | August 2009 – August 2016 |
| Options – unapproved | 3 | - | - | 500,000 | **500,000** | 21p | August 2010 – August 2017 |
| Options – unapproved | 3 | - | - | 500,000 | **500,000** | 37 5p | August 2010 – August 2017 |
| | | 2,396,680 | - | 1,000,000 | **3,396,680** | | |

### Dr Paul Harper

| | Note | At 1 April 2007 Number | Exercised during the year Number | Granted during the year Number | At 31 March 2008 Number | Exercise Price | Exercise Period |
|---|---|---|---|---|---|---|---|
| Options – unapproved | 2 | 50,000 | - | - | **50,000** | 25p | August 2008 – August 2015 |
| Options – unapproved | 2 | 50,000 | - | - | **50,000** | 10p | August 2009 – August 2016 |
| Options – unapproved | 3 | - | - | 150,000 | **150,000** | 21p | August 2010 – August 2017 |
| | | 100,000 | - | 150,000 | **250,000** | | |

### Mr Mark Docherty

| | Note | At 1 April 2007 Number | Exercised during the year Number | Granted during the year Number | At 31 March 2008 Number | Exercise Price | Exercise Period |
|---|---|---|---|---|---|---|---|
| Options – unapproved | 3 | - | - | 150,000 | **150,000** | 21p | August 2010 – August 2017 |
| | | - | - | 150,000 | **150,000** | | |

**Note 1**
These options were issued in August 2005 following the Group s Admission to the AIM market The new share options replaced those previously held under an earlier share option scheme, which have now lapsed The options were issued through a combination of an Inland Revenue approved EMI scheme and an unapproved scheme and are exercisable from the date of grant as the relevant performance condition has been satisfied being the Admission of the Ordinary Shares in the Company In agreement between the Company and Dr Sinden the exercise period on 246 680 of these share options due to lapse on 19 January 2008 was extended during the year to 23 July 2014

**Note 2**
These options have been issued under the Group s Share Option Scheme Subject to the satisfaction of a performance condition, being the first patient administered with a ReNeuron cell therapy in Phase I/II trials the options are exercisable in whole or in part at any time between the third anniversary and the tenth anniversary of the date on which the option was granted If not exercised by the tenth anniversary of the date of grant, the option will lapse

**Note 3**
These options have been issued under the Group s Share Option Scheme Subject to the satisfaction of a performance condition, being the successful completion of an initial trial of a ReNeuron cell therapy, the options are exercisable in whole or in part at any time between the third anniversary and the tenth anniversary of the date on which the option was granted If not exercised by the tenth anniversary of the date of grant the option will lapse

### Qualifying third party indemnity

Certain directors benefited from qualifying third party indemnity provisions in place during the year and at the date of this report

# Directors' report for the year ended 31 March 2008

**Policy and practice on payment of creditors**
It is the Group's policy, in respect of all suppliers, to agree payment terms in advance of the supply of goods and services and to adhere to those payment terms Trade creditors of the Group at the year end as a proportion of amounts invoiced by suppliers during the year represent 20 days (2007 32 days) Trade creditors of the Company at the year end as a proportion of amounts invoiced by suppliers during the year represent 7 days (2007 38 days)

**Corporate Governance**
As an AIM-listed Company, ReNeuron is not required to comply with the 2006 Combined Code, a set of recommended corporate governance principles for UK public companies issued by the Financial Reporting Council However, the directors support high standards of Corporate Governance and have established a set of corporate governance principles which they regard as appropriate for the stage of development of the Group For example, the Company has adopted a share dealing code for directors and senior employees on substantially the same terms as AIM's model code on directors' dealings in company shares

The Board has established an Audit Committee, Remuneration Committee and Nominations Committee with formally delegated duties and responsibilities All of the Non-executive Directors are members of these committees Dr Paul Harper chairs the Audit Committee, Professor Trevor Jones chairs the Remuneration Committee and Mark Docherty chairs the Nominations Committee

The Audit Committee normally meets twice a year and has responsibility for, amongst other things, planning and reviewing the annual report and accounts and interim statements and involving, where appropriate, the external auditors The Committee also approves external auditors' fees and ensures auditor independence as well as focusing on compliance with legal requirements and accounting standards It is also responsible for ensuring that an effective system of internal controls is maintained The ultimate responsibility for reviewing and approving the annual financial statements and interim statements remains with the Board

The Remuneration Committee, which meets as required, but at least once a year, has responsibility for making recommendations to the Board on the compensation of senior executives and determining, within agreed terms of reference, the specific remuneration packages for each of the executive directors It also operates the Share Option Scheme and sets performance conditions which must be satisfied before options granted under the Share Option Scheme can be exercised

The Nominations Committee has responsibility for reviewing the size and composition of the Board and appointment of replacement and/or additional directors and making appropriate recommendations to the Board

**Communications**
The Group places a high priority on regular communications with its various stakeholder groups, and aims to ensure that all communications concerning the Group's activities are clear, fair and accurate The Group maintains a regularly updated website, where users can register to be alerted when announcements or details of presentations and events are posted onto the website

Beyond the Annual General Meeting, the Chief Executive Officer and Chief Scientific Officer meet regularly with investors and analysts to provide them with updates on the Group's business and to obtain feedback regarding the market's expectations of the Group The Chief Executive Officer responds personally to correspondence from investors, both institutional and private

**Employees**
The Group regards the expertise of its employees as critical to its future success Many of the Group's employees have been recruited from beyond the UK, and the Group is committed to an equal opportunities policy in respect of its recruitment and employment practices

The Group's aim is to pay competitive salaries, which are benchmarked against peer group comparators on an annual basis All employees are eligible to be members of the Group's Share Option Scheme and staff bonus scheme and all are eligible for life assurance and long term disability cover, and membership of the Group's pension scheme

The Group carries out both annual and interim staff appraisals, where individual objectives are set and monitored, and which are aligned with the broader business objectives of the Group Bonuses are payable

# Directors' report for the year ended 31 March 2008

based on performance against both personal and corporate objectives for the year

The Group holds regular staff meetings and other events in order to keep staff up-to-date with developments in the business The Group complies with all relevant employment legislation, as reflected in the Group's Staff Manual which also contains guidance on standards of conduct and other matters pertinent to staff working in the Group

**Health and safety and the environment**
The Group is committed to providing a safe environment for its staff and all other parties for which the Group has a legal or moral responsibility in this area The Group operates a Health and Safety Committee which meets monthly to monitor, review and make decisions concerning health and safety matters The Group's health and safety policies and procedures are enshrined in the Group's documented quality systems which encompass all aspects of the Group's day-to-day operations

The Group is aware of its corporate responsibilities concerning the impact of its activities on the environment, and seeks to minimise this impact wherever possible Through the various procedures and systems it operates, the Group ensures full compliance with health and safety and environmental legislation relevant to its activities

**BIA Code**
The Group is a member of the Bioindustry Association (BIA), the trade association for biotechnology companies in the UK The Group adheres to the BIA's Best Practice Guideline on Financial & Corporate Communications

**Statement of directors' responsibilities in respect of the Annual Report and the financial statements**
The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year Under that law the directors have prepared the Group and Parent Company financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union In preparing these financial statements the directors have also elected to comply with IFRSs, issued by the International Accounting Standards Board (IASB) The financial statements are required by law to give a true and fair view of the state of affairs of the Company and Group and of the Profit or Loss of the Group for that year

In preparing those 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 that the financial statements comply with IFRSs as adopted by the European Union,
- prepare the financial statements on the going concern basis (as explained in Note 3 to the financial statements) unless it is inappropriate to presume that the company will continue in business, in which case there should be supporting assumptions or qualifications as necessary

The directors confirm that they have complied with the above requirements in preparing the financial statements

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and the Group and to enable them to ensure that the financial statements comply with the Companies Act 1985 and, as regards the Group financial statements, article 4 of the IAS Regulation 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

# Directors' report for the year ended 31 March 2008

The directors are responsible for the maintenance and integrity of the Group website www reneuron com Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions

**Directors' statement on disclosure of information to Auditors**
In accordance with Section 234ZA of the Companies Act, in the case of each of the persons who are directors at the time of when the report is approved, the following applies

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

**Auditors**
The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office and a resolution concerning their re-appointment will be proposed at the Annual General Meeting

**Annual General Meeting**
The Annual General Meeting of the Company will be held at the offices of Morrison & Foerster MNP, City Point, One Ropemaker Street, London, WC2A 1PB on 19 September 2008 at 10 00am The notice of the 2008 Annual General Meeting is enclosed on page 54 of this document

By order of the Board

**Michael Hunt**
Company Secretary

# Independent auditors' report to the members of ReNeuron Group plc

We have audited the group and parent company financial statements (the "financial statements") of ReNeuron Group Plc for the year ended 31 March 2008 which comprise Consolidated Income Statement, the Group and Parent Company Balance Sheets, the Group and Parent Company Statements of Changes in Equity the Group and Parent Company Cash Flow Statements and the related notes These financial statements have been prepared under the accounting policies set out therein

**Respective responsibilities of directors and auditors**
The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the Statement of Directors' Responsibilities

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland) This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 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

We report to you our opinion as to whether the financial statements give a true and fair view and have been properly prepared in accordance with the Companies Act 1985 We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements The information given in the Directors' Report includes that specific information presented in the Chairman's and Chief Executive Officer's Joint Statement and Business Review that is cross referred from the Principal activities, business review and future prospects and the Research and development section of the Directors' Report

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

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements The other information comprises only the Highlights, the Chairman's and Chief Executive Officer's Joint Statement, the Business Review and the Directors' Report We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements Our responsibilities do not extend to any other information

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

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

**Material uncertainty – going concern**
In forming our opinion, we have considered the adequacy of the disclosures made in the financial statements concerning the basis of preparation The financial statements have been prepared on a going concern basis and, as described in Note 3, the validity of this depends on the Group successfully obtaining adequate additional funds to continue its activities The financial statements do not include any adjustments that would result from a failure to secure such funds Details of the circumstances relating to this material uncertainty are described in Note 3 In view of the significance of this uncertainty we consider it should be drawn to your attention but our opinion is not qualified in this respect

**Opinion**
In our opinion

- the group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the group's affairs as at 31 March 2008 and of the group's loss and cash flows for the year then ended,
- the parent company financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Act 1985, of the state of the parent company's affairs as at 31 March 2008 and cash flows for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' Report is consistent with the financial statements

PricewaterhouseCoopers LLP

**PricewaterhouseCoopers LLP**
**Chartered Accountants and Registered Auditors**
Reading

8 July 2008

# Consolidated income statement for the year ended 31 March 2008

| | Note | Year ended 31 March 2008 £'000 | Year ended 31 March 2007 £ 000 |
|---|---|---|---|
| Revenue | 5 | **27** | 49 |
| Research and development costs | 7 | **(5,166)** | (4,418) |
| General and administrative costs | 7 | **(2,059)** | (1,858) |
| Other operating income grants receivable | | **309** | 263 |
| **Operating loss** | | **(6,889)** | (5,964) |
| Finance income | 8 | **318** | 192 |
| Finance costs | 8 | **(1)** | – |
| **Loss before income taxes** | | **(6,572)** | (5,772) |
| Tax credit on loss on ordinary activities | 11 | **–** | 523 |
| **Loss for the financial year** | 12 | **(6,572)** | (5,249) |
| **Loss per ordinary share** | | | |
| Basic and diluted | 13 | **(4 4p)** | (4 9p) |

All revenues and expenses above were generated from continuing operations

# Group and Parent Company balance sheets as at 31 March 2008

| | Note | Group 31 March 2008 £'000 | Group 31 March 2007 £ 000 | Company 31 March 2008 £'000 | Company 31 March 2007 £ 000 |
|---|---|---|---|---|---|
| **Non-current assets** | | | | | |
| Property, plant and equipment | 15 | **1,003** | 1,044 | **–** | – |
| Intangible assets | 16 | **3,419** | 1,272 | **–** | – |
| Financial assets | 17 | **–** | – | **9,625** | 7,397 |
| Trade and other receivables | 18 | **135** | 125 | **17,143** | 11,277 |
| | | **4,557** | 2,441 | **26,768** | 18,674 |
| **Current assets** | | | | | |
| Trade and other receivables | 18 | **411** | 879 | **19** | 42 |
| Cash and cash equivalents | 19 | **2,791** | 7,676 | **2,754** | 7,634 |
| | | **3,202** | 8,555 | **2,773** | 7,676 |
| **Current liabilities** | | | | | |
| Trade and other payables | 20 | **(765)** | (813) | **(5)** | (20) |
| Financial liabilities finance leases | 21 | **(54)** | (2) | **–** | – |
| | | **(819)** | (815) | **(5)** | (20) |
| **Net current assets** | | **2,383** | 7,740 | **2,768** | 7,656 |
| **Non current liabilities** | | | | | |
| Trade and other payables | 22 | **–** | – | **(5,484)** | (5,484) |
| **Net assets** | | **6,940** | 10,181 | **24,052** | 20,846 |
| **Shareholders' equity** | | | | | |
| Ordinary shares | 26 | **1,542** | 1,377 | **1,542** | 1,377 |
| Share premium | | **14,358** | 13,213 | **14,358** | 13,213 |
| Capital redemption reserve | | **8,964** | 8,964 | **8,964** | 8,964 |
| Merger reserve | | **2,223** | 365 | **1,858** | – |
| Warrant reserve | | **113** | 113 | **113** | 113 |
| Share-based credit reserve | | **329** | 166 | **329** | 166 |
| Retained deficit | | **(20,589)** | (14,017) | **(3,112)** | (2,987) |
| **Capital and reserves attributable to the Group's equity shareholders** | | **6,940** | 10,181 | **24,052** | 20,846 |

The financial statements comprising the Group income statement, and the Group and Company balance sheets, statements of changes in equity and cash flow statements, and related notes, were approved by the Board of Directors on 8 July 2008 and were signed on their behalf by

**Michael Hunt**
**Director**

# Group and Parent Company statements of changes in equity

**Group**

| | Share capital £'000 | Share premium account £ 000 | Capital redemption reserve £'000 | Merger Reserve £'000 | Warrant reserve £'000 | Share-based credit reserve £'000 | Retained Deficit £'000 | Total Equity £'000 |
|---|---|---|---|---|---|---|---|---|
| **As at 1 April 2006** | **9,355** | **5,472** | **–** | **365** | **436** | **56** | **(8,768)** | **6,916** |
| Issue of new ordinary shares | 986 | 7,498 | – | – | – | – | – | 8,484 |
| Costs of share issue | – | (193) | – | – | – | – | – | (193) |
| Sub-division of ordinary shares | (8,964) | – | 8,964 | – | – | – | – | – |
| Exercise of warrants | – | 436 | – | – | (436) | – | – | – |
| Issue of warrants | – | – | – | – | 113 | – | – | 113 |
| Share-based credit | – | – | – | – | – | 110 | – | 110 |
| Loss for the year | – | – | – | – | – | – | (5,249) | (5,249) |
| **As at 31 March 2007** | **1,377** | **13,213** | **8,964** | **365** | **113** | **166** | **(14,017)** | **10,181** |
| Shares issued for acquisition | 93 | – | – | 1,858 | – | – | – | 1,951 |
| Issue of new ordinary shares | 72 | 1,437 | – | – | – | – | – | 1,509 |
| Costs of share issue | – | (292) | – | – | – | – | – | (292) |
| Share-based credit | – | – | – | – | – | 163 | – | 163 |
| Loss for the year | – | – | – | – | – | – | (6,572) | (6,572) |
| **As at 31 March 2008** | **1,542** | **14,358** | **8,964** | **2,223** | **113** | **329** | **(20,589)** | **6,940** |

**Company**

| | Share capital £'000 | Share premium account £'000 | Capital redemption reserve £'000 | Merger Reserve £'000 | Warrant reserve £'000 | Share-based credit reserve £'000 | Retained Deficit £'000 | Total Equity £'000 |
|---|---|---|---|---|---|---|---|---|
| **As at 1 April 2006** | **9,355** | **5,472** | **–** | **–** | **436** | **56** | **(2,629)** | **12,690** |
| Issue of new ordinary shares | 986 | 7,498 | – | – | – | – | – | 8,484 |
| Costs of share issue | – | (193) | – | – | – | – | – | (193) |
| Sub-division of ordinary shares | (8,964) | – | 8,964 | – | – | – | – | – |
| Exercise of warrants | – | 436 | – | – | (436) | – | – | – |
| Issue of warrants | – | – | – | – | 113 | – | – | 113 |
| Share-based credit | – | – | – | – | – | 75 | – | 75 |
| Equity granted to employees of subsidiary | – | – | – | – | – | 35 | – | 35 |
| Loss for the year | – | – | – | – | – | – | (358) | (358) |
| **As at 31 March 2007** | **1,377** | **13,213** | **8,964** | **–** | **113** | **166** | **(2,987)** | **20,846** |
| Shares issued for acquisition | 93 | – | – | 1,858 | – | – | – | 1,951 |
| Issue of new ordinary shares | 72 | 1,437 | – | – | – | – | – | 1,509 |
| Costs of share issue | – | (292) | – | – | – | – | – | (292) |
| Share-based credit | – | – | – | – | – | 103 | – | 103 |
| Equity granted to employees of subsidiary | – | – | – | – | – | 60 | – | 60 |
| Loss for the year | – | – | – | – | – | – | (125) | (125) |
| **As at 31 March 2008** | **1,542** | **14,358** | **8,964** | **1,858** | **113** | **329** | **(3,112)** | **24,052** |

# Group and Parent Company cash flow statements

for the year ended 31 March 2008

| | Note | Group 31 March 2008 £ 000 | Group 31 March 2007 £ 000 | Company 31 March 2008 £'000 | Company 31 March 2007 £'000 |
|---|---|---|---|---|---|
| **Cash consumed by operations** | 29 | **(6,601)** | (6,032) | **(316)** | (372) |
| Interest paid | | **(1)** | – | **–** | – |
| Income tax credit received | | **523** | 503 | **–** | – |
| **Cash outflow from operating activities** | | **(6,079)** | (5,529) | **(316)** | (372) |
| **Cash flows from investing activities** | | | | | |
| Capital expenditure | | **(120)** | (32) | – | – |
| Purchase of business | 14 | **(217)** | – | **(217)** | – |
| Loans with subsidiaries | | **–** | – | **(5,865)** | (87) |
| Interest received | | **318** | 192 | **301** | 180 |
| **Net cash (used)/generated in investing activities** | | **(19)** | 160 | **(5,781)** | 93 |
| **Cash flows from financing activities** | | | | | |
| Finance lease principal payments | | **(4)** | (2) | – | – |
| Proceeds from issuance ordinary shares | | **1,217** | 7,913 | **1,217** | 7,913 |
| **Net cash generated by financing activities** | | **1,213** | 7,911 | **1,217** | 7,913 |
| **Net (decrease)/increase in cash and cash equivalents** | | **(4,885)** | 2,542 | **(4,880)** | 7,634 |
| Cash and cash equivalents at the beginning of year | | **7,676** | 5,134 | **7,634** | – |
| **Cash and cash equivalents at the end of year** | | **2,791** | 7,676 | **2,754** | 7,634 |

# Notes to the financial statements for the year ended 31 March 2008

**1 General information**
ReNeuron Group plc ("the Company") and its subsidiaries (together "the Group") research and develop therapies using stem cells The Company is a public limited company incorporated and domiciled in England with registered number 05474163 and its shares are listed on the AIM stock market

**2 Accounting policies and basis of preparation**
The principal accounting policies adopted in the preparation of these statements are set out below These policies have been consistently applied to all of the financial years presented, unless otherwise stated, to the consolidated results and those for the Company

**2 1 Basis of preparation**
These financial statements have been prepared in accordance with the European Union endorsed International Financial Reporting Standards (IFRS), the interpretations of International Financial Reporting Interpretations Committee (IFRIC) and the Companies Act 1985 applicable to companies reporting under IFRS

These financial statements have been prepared on a historical cost basis

**2 2 New accounting policies on adoption of IFRS**
These consolidated financial statements for ReNeuron Group plc have been prepared in accordance with International Accounting Standards and are covered by IFRS 1, "First-time Adoption of IFRS"

The accounting policies have changed from the previous year when the financial statements were prepared under applicable United Kingdom Generally Accepted Accounting Principles (UK GAAP) The comparative information has been adjusted in line with IFRS The new accounting policies are set out in full below An analysis and reconciliation of the effects of the transition to IFRS are provided in note 35

The accounting policies that have been applied in the opening balance sheet have also been applied throughout all years presented in these financial statements

When preparing the Group's IFRS balance sheet at 1 April 2006, the date of transition, the following optional exemption from full retrospective application of IFRS accounting policies has been adopted

IFRS 3, "Business combinations"

The accounting policies following adoption of IFRS are set out below

**Basis of consolidation**
The consolidated financial statements include the financial statements of the Company and its subsidiary undertakings, made up to 31 March 2008

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement

**2 2 New accounting policies on adoption of IFRS (continued)**
Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated Unrealised losses are also eliminated but considered an impairment indicator of the asset transferred Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group

The Group have elected not to apply IFRS 3 'Business combinations' retrospectively to business combinations which took place prior to 1 April 2006 that have been accounted for by the merger accounting method

**Significant accounting judgements, estimates and assumptions**
The key areas that require management to make difficult, subjective or complex judgements about matters that are inherently uncertain are

Impairment of non-financial assets The Group has significant intangible assets arising as a result of acquisitions of businesses Under IFRS, intangible assets, other than goodwill, that are in use are amortised over their estimated useful life and charged to cost of sales in the income statement and are only tested for impairment when there is an indication of the balance sheet carrying value not being recoverable Intangible assets that are not yet in use are not amortised, but are tested annually for impairment

The determination relating to the recoverability of intangible assets is subjective and requires the exercise of considerable judgement Any changes in key assumptions about the Group's business and prospects, including those arising from measures taken by the directors to conserve cash resources, or changes in market conditions, could result in a future impairment charge

The Group assesses whether there are any indicators of impairment for all non-financial assets at each reporting date Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable

The stage of development of the technologies used in the Group is early enough for there to be little data on the value in use of the intangible assets Management has reviewed the carrying value of assets exchanged at fair values, and has not found any indications of impairment

**Foreign currency transactions**
The consolidated financial statements are presented in pounds sterling ('£'), which is the Company's functional and presentational currency Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement

**Revenue**
Revenue is measured at the fair value of the consideration received from the provision of services net of Value Added Tax Revenue from services is recognised as revenue when the conditions in the contract for services have been satisfied Revenue also includes income received under licensing and from collaborations with third parties Differences between cash received and amounts recognised are included as deferred revenue where cash received exceeds revenue recognised and as accrued revenue where revenue has yet to be billed to the customer

**Development expenditure**
Expenditure on product development is capitalised as an intangible asset and amortised over the expected useful life of the product concerned Capitalisation commences from the point at which technical feasibility and commercial viability of the product can be demonstrated and the Group is satisfied that it is probable that future economic benefits will result from the product once completed Capitalisation ceases when the product receives regulatory approval for launch No such costs have been capitalised to date

**Notes to the financial statements for the year ended 31 March 2008 continued**

**2 2 New accounting policies on adoption of IFRS (continued)**
Expenditure on research activities and development activities that do not meet the above criteria, including ongoing costs associated with acquired intellectual property rights and intellectual property rights generated internally by the Group, is charged to the income statement as incurred

**Employee benefits**
The Group operates a defined contribution pension scheme Contributions payable for the year are charged to the income statement Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the balance sheet

**Leases**
Leasing arrangements which transfer to the Group substantially all the benefits and risks of ownership of assets are treated as finance leases, as if the asset had been purchased outright The assets are included within the relevant category of fixed assets and the capital elements of the leasing commitments are shown as obligations under finance leases Assets held under finance leases are depreciated on a basis consistent with similar owned assets or the lease term if shorter The interest element of the lease rental is included in the income statement

All other leases are considered operating leases, the costs of which are charged to the profit and loss account on a straight-line basis over the lease term Benefits such as rent-free periods, and amounts received or receivable as incentives to take on operating leases, are spread on a straight-line basis over the lease term

**Government and other grants**
Revenue grants are credited to the profit and loss account on a case-by-case basis, assessed by the level of expenditure incurred on the specific grant project, when it is reasonably certain that amounts will not need to be repaid

**Share-based payments**
The Group has applied the requirements of IFRS 2 "Share-based Payment" In accordance with the transitional provisions, IFRS 2 has been applied to all grants of equity-settled awards after 7 November 2002 that were unvested at 1 April 2006

The Group operates a number of equity-settled, share-based compensation plans The fair value of share-based payments under such schemes is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest and adjusted for the effect of non market-based vesting conditions Fair value is determined by use of the Black-Scholes Option Pricing Model at the date of grant, as adjusted based on management's best estimate for the effects of share liquidity and behavioural considerations

For equity settled share-based payments where employees of subsidiary undertakings are rewarded with shares issued by the parent company, the expense associated with the services provided is recognised in the employing company's accounts and a capital contribution is made in the Company's accounts

**Warrants**
Where warrants have been issued together with ordinary shares, the proportion of the proceeds received that relates to the warrants is determined by reference to the relative market values of the warrants The proportion of the proceeds that relates to the warrants is credited to a warrant reserve within shareholders' funds

Where warrants have been issued as recompense for services supplied these are considered equity settled share based payments and are accounted for in accordance with IFRS 2 The fair value of warrants, calculated using the Black-Scholes model, is charged to the profit and loss account and corresponding credit is made to the warrant reserve

**2 2 New accounting policies on adoption of IFRS (continued)**

**Intangible assets**

Intangible fixed assets, relating to intellectual property rights acquired through licensing or assigning patents and know-how are carried at historic cost less accumulated amortisation, where the useful life of the asset is finite and the asset is likely to generate economic benefits exceeding costs Where a finite useful life of the acquired intangible asset cannot be determined, the asset is not subject to amortisation but is tested annually for impairment No amortisation has been charged to date, as the products underpinned by the intellectual property rights are not yet available for commercial use

**Property, plant and equipment**

Property, plant and equipment is stated as cost, net of depreciation and any provision for impairment Depreciation is calculated so as to write off the cost less their estimated residual values, on a straight-line basis over the expected useful economic lives of the assets concerned The principal annual rates used for this purpose are

| | |
|---|---|
| Leasehold improvements | Term of the lease |
| Plant and equipment | 3-8 years |
| Computers | 5 years |
| Computer software | 3 years |

**Capital work in progress**

Expenditure on projects related to property, plant and equipment, which has not been commissioned at the year end, is identified as capital work in progress Depreciation is not charged until the asset is brought into use

**Investments**

Investments are shown at cost less any provision for impairment

**Goodwill**

Purchased goodwill (representing the excess of the fair value of the consideration given over the fair value of the separable net assets acquired) is not amortised, but is regularly reviewed for impairment Determining whether goodwill is impaired requires an estimation of the value in use, which is calculated by estimating the future cash flow expected to arise from the cash generating unit, discounted by a suitable discount rate in order to calculate the present value No provision for impairment was made in the year

Negative goodwill arose on the acquisition of ReNeuron (UK) Limited as the cost of the acquisition was less than the fair value of the identifiable assets and liabilities of the acquired entities In accordance with IFRS 3, negative goodwill is recognised in the profit and loss account in the period in which it occurs

**Deferred tax**

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 consolidated financial statements However, deferred tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss Deferred tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled

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

**Notes to the financial statements for the year ended 31 March 2008 continued**

**2 2 New accounting policies on adoption of IFRS (continued)**
Deferred tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future

**Cash and cash equivalents**
Cash and cash equivalents in the balance sheet comprise cash at bank and in hand and deposits with immediate access

**Segment reporting**
A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments A geographical business segment is engaged in providing goods or services within an economic environment that are subject to risks and returns that are different from those of segments operating in other operating environments

**Standards, amendments and interpretations effective up to 31 March 2008**
IFRS 7, 'Financial instruments Disclosures', and the complementary amendment to IAS 1, 'Presentation of financial statements – Capital disclosures', introduces new disclosures relating to financial instruments and does not have any impact on the classification and valuation of the Group's financial instruments, or the disclosures relating to taxation and trade and other payables

IFRIC 8, 'Scope of IFRS 2', requires consideration of transactions involving the issuance of equity instruments, where the identifiable consideration received is less than the fair value of the equity instruments issued in order to establish whether or not they fall within the scope of IFRS 2 This standard does not have any impact on the Group's financial statements

IFRIC 10, 'Interim financial reporting and impairment', prohibits the impairment losses recognised in an interim period on goodwill and investments in equity instruments and in financial assets carried at cost to be reversed at a subsequent balance sheet date This standard does not have any impact on the Group's financial statements

IFRIC 11, 'IFRS 2 – Group and treasury share transactions', was early adopted in 2007 IFRIC 11 provides guidance on whether share-based transactions involving treasury shares or involving Group entities (for example, options over a parent's shares) should be accounted for as equity settled or cash-settled share-based payment transactions in the stand-alone accounts of the parent and Group companies This interpretation does not have an impact on the Group's financial statements

**Standards, amendments and interpretations effective up to 31 March 2008 but not relevant**
The following standards, amendments and interpretations to published standards are mandatory for accounting periods beginning on or after 1 January 2007 but they are not relevant to the Group's operations

IFRS 4, 'Insurance contracts',

IFRIC 7, 'Applying the restatement approach under IAS 29, Financial reporting in hyperinflationary economies', and

IFRIC 9, 'Re-assessment of embedded derivatives'

**2 2 New accounting policies on adoption of IFRS (continued)**

**Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group**

The following standards, amendments and interpretations to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after 1 April 2008 or later periods, but the Group has not early adopted them

IAS 23 (Amendment), 'Borrowing costs' (effective from 1 January 2009) The amendment to the standard is still subject to endorsement by the European Union It requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset The option of immediately expensing those borrowing costs will be removed The Group will apply IAS 23 (Amended) from 1 April 2009 if the amendment is endorsed but it is currently not applicable to the Group as there are no qualifying assets

IFRS 8, 'Operating segments ' (effective from 1 January 2009) IFRS 8 replaces IAS 14 and aligns segment reporting with the requirements of the US standard SFAS 131, 'Disclosure about segments of an enterprise and related information' The new standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes The Group will apply IFRS 8 from 1 April 2009 The expected impact is still being assessed in detail by management, but it appears likely that there will be some changes to the manner in which reportable segments are reported , which will be consistent with the internal reporting provided to the chief operating decision-maker As goodwill is allocated to groups of cash-generating units based on segment level, the change will also require management to reallocate goodwill to the newly identified operating segments Management does not anticipate that this will result in any material impairment to the goodwill balance

IFRS 3 (Revised) – Business combinations The IASB published a revised IFRS 3, 'Business combinations', on 10 January 2008 The standard continues to apply the acquisition method to business combinations, with some significant changes The standard is applicable to business combinations occurring in accounting periods beginning on or after 1 July 2009, with earlier application permitted

IAS 27 (Revised) – Consolidated and Separate Financial Statements The standard addresses the accounting for subsidiaries in consolidated financial statements and in accounting for investments in the separate financial statements of a parent, venturer or investor The amended standard must be applied for annual periods beginning on or after 1 July 2009 Earlier application is permitted However, an entity must not apply the amendments for annual periods beginning before 1 July 2009 unless it also applies IFRS 3 (as revised in 2008)

**Interpretations to existing standards that are not yet effective and not relevant for the Group's operations**

The following interpretations to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2008 or later periods but are not relevant for the Group's operations

IFRIC 12, 'Service concession arrangements' (effective from 1 January 2008)

IFRIC 13, 'Customer loyalty programmes' (effective from 1 July 2008)

IFRIC 14, 'IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction' (effective from 1 January 2008)

**3 Going concern**

The Group is developing its technologies for the marketplace and as such consumes cash until sufficient funds from either licensing or products sold are generated The directors estimate that the cash held by the Group will not be sufficient to support the current level of activities for the next twelve months However, the directors are confident of raising further funds by the issue of equity or other financial instruments within the next twelve months Consequently, the directors have adopted the going concern basis in the preparation of the financial statements If further funds were not to be raised, adjustments would have to be made to revise the balance sheet value of assets to their realisable amounts and to provide for further liabilities that may arise

**Notes to the financial statements for the year ended 31 March 2008 continued**

## 4 Segment analysis

For management purposes the Group is currently organised into one business segment, which is the development of cell-based therapies The Group has a US subsidiary which is involved in research and development within this single business segment Since this is the only primary reporting segment no further information is included

The secondary reporting segment analysis is geographical

## 5 Revenue

Revenue from royalty agreements has been generated from customers in the following geographical areas

| | 2008 £'000 | 2007 £ 000 |
|---|---|---|
| **Geographical analysis by origination** | | |
| UK | **5** | – |
| Europe | **5** | 2 |
| United States of America | **17** | 47 |
| | **27** | 49 |

## 6 Net operating expenses

All research and development costs incurred in the year have been charged directly to the income statement

## 7 Expenses by nature

| | 2008 £'000 | 2007 £ 000 |
|---|---|---|
| **Loss on ordinary activities before taxation is stated after charging/ (crediting)** | | |
| Employee benefits (note 10) | **2,147** | 1,541 |
| Depreciation of tangible fixed assets | **181** | 198 |
| Operating lease charges | | |
| – land and buildings | **243** | 243 |
| – plant and machinery | **22** | 6 |
| Gains or losses on exchange | **(7)** | (14) |
| Other expenses | **4,639** | 4,302 |
| Total research and development costs and general and administrative costs | **7,225** | 6,276 |

During the year the Group (including its US subsidiary) obtained services from the Group's auditor and its associates as detailed below

| | Group | | Company | |
|---|---|---|---|---|
| **Services provided by the Group's auditor** | **2008 £ 000** | 2007 £ 000 | **2008 £ 000** | 2007 £ 000 |
| Fees payable to the Company's auditor for the audit of the parent company and consolidated financial statements | **16** | 9 | **16** | 9 |
| Fees payable to the Company's auditor and its associates for other services | | | | |
| – The audit of the Company's subsidiaries pursuant to legislation | **35** | 21 | – | – |
| – Other services pursuant to legislation | **15** | 2 | **5** | 1 |
| – Tax compliance and advisory services | **14** | 5 | **4** | 1 |
| – Other | **4** | 6 | – | 1 |
| **Total** | **84** | 43 | **25** | 12 |

## 8 Finance income and costs

| Group | 2008 £'000 | 2007 £ 000 |
|---|---|---|
| Interest receivable on short term bank deposits | **318** | 192 |
| Finance lease interest | **(1)** | – |
| **Total** | **317** | 192 |

## 9 Directors' emoluments

The directors are the key management personnel for the Group

| | 2008 £'000 | 2007 £ 000 |
|---|---|---|
| Salaries and other short-term employee benefits | **378** | 377 |
| Post employment benefits | **29** | 28 |
| Share-based payments | **127** | 79 |
| | **534** | 484 |

| | 2008 £'000 | 2007 £ 000 |
|---|---|---|
| **Aggregate emoluments** | | |
| Emoluments in respect of qualifying services | **378** | 377 |
| Pension contributions | **29** | 28 |
| | **407** | 405 |

| | 2008 £ 000 | 2007 £'000 |
|---|---|---|
| **Highest paid director** | | |
| Emoluments in respect of qualifying services | **180** | 181 |
| Pension contributions | **15** | 14 |
| | **195** | 195 |

Two directors (2007 two) had retirement benefits accruing to them under defined contribution pension schemes in respect of qualifying services

None of the directors exercised share options during the year (2007 none)

Directors' emoluments include the following amounts payable to third parties

£15,000 (2007 £15,000) payable to Merlin Biosciences Limited in respect of directors' fees for Mark Docherty, and £20,000 (2007 £18,333) payable to Dr Paul Harper, trading as BioMedicon, in respect of directors' fees for Dr Paul Harper

**Notes to the financial statements for the year ended 31 March 2008 continued**

## 10 Employee information

The average monthly number of persons (including executive directors) employed by the Group during the year was

| | 2008 Number | 2007 Number |
|---|---|---|
| **By activity** | | |
| Research and development | **33** | 21 |
| Administration | **6** | 4 |
| | **39** | 25 |

| Group | 2008 £'000 | 2007 £ 000 |
|---|---|---|
| **Staff costs** | | |
| Wages and salaries | **1,695** | 1,210 |
| Social security costs | **186** | 139 |
| Share based payment charge | **163** | 110 |
| Pension costs (see note 25) | **103** | 82 |
| | **2,147** | 1,541 |

The average monthly number of persons (including executive directors) employed by the Company during the year was

| | 2008 Number | 2007 Number |
|---|---|---|
| **By activity** | | |
| Research and development | 1 | 1 |
| Administration | 3 | 3 |
| | 4 | 4 |

| Company | 2008 £'000 | 2007 £'000 |
|---|---|---|
| **Staff costs** | | |
| Wages and salaries | **123** | 113 |
| Social security costs | **16** | 14 |
| Share based payment charge | **102** | 75 |
| Pension costs | **9** | 8 |
| | **250** | 210 |

**11 Tax credit on loss on ordinary activities**

| | 2008 £'000 | 2007 £'000 |
|---|---|---|
| **United Kingdom research and development tax credit at 16% (2007 16%)** | | |
| Current year | – | (523) |
| | – | (523) |

No corporation tax liability arises on the results for the year due to the loss incurred No deferred tax asset has been identified as there are currently no foreseeable profits

At 31 March 2008, there were tax losses available for carry forward of approximately £34 million subject to agreement with the Inland Revenue (2007 £32 million)

| | 2008 £'000 | 2007 £'000 |
|---|---|---|
| Loss on ordinary activities before tax | **6,572** | 5,772 |
| Loss on ordinary activies multiplied by the UK standard rate for research and development tax credits of 20% (2007 16%) | **1,314** | 924 |
| Effects of | | |
| – difference between depreciation and capital allowances | **55** | 29 |
| – expenses not deductible for tax purposes | **(37)** | 806 |
| – losses not recognised | **(1,299)** | (1,218) |
| – other short term timing differences | **(33)** | (18) |
| | – | 523 |

No tax credit has been allowed for in the current year as the expectation is that the Group may no longer qualify

**12 Loss for the financial year**

As permitted by Section 230 of the Companies Act 1985, the parent company's profit and loss account for the current year has not been presented in these financial statements The parent company's loss for the financial year was £125,000 (2007 £358,000)

**13 Basic and diluted loss per ordinary share**

The basic and diluted loss per share is calculated by dividing the loss for the financial year of £6,572,000 (2007 £5,249,000) by 148,675,471 shares (2007 106,455,554 shares), being the weighted average number of ordinary 10p or 1p shares in issue during the year

Potential ordinary shares are not treated as dilutive as the entity is loss making

**Notes to the financial statements for the year ended 31 March 2008 continued**

**14 Acquisition**

On 27 July 2007, the Group entered into arrangements to purchase the business assets of AmCyte, Inc and AmCyte Diabetes, Inc (together "AmCyte"), based in Santa Monica, California This was effected by the transfer of the assets into a new company, ReNeuron, Inc , a company registered in Delaware, USA in consideration of the issue of shares in ReNeuron, Inc to AmCyte ReNeuron Group plc then acquired 100% of the share capital of ReNeuron, Inc from AmCyte in consideration of the issue of 9,291,521 ordinary shares in ReNeuron Group plc, which shares were placed with investors raising $4 0 million for the AmCyte vendors

The acquired business contributed no revenue and a loss of £672,000 in the period from 1 August 2007 to 31 March 2008 There is no information available to quantify the effect on the Group's results of the acquisition occurring on 1 April 2007

Details of net assets acquired and goodwill as in the Group financial statements are as follows

| | £ 000 |
|---|---|
| **Purchase consideration** | |
| Shares issued | 1,951 |
| Direct costs relating to the acquisition | 217 |
| Total purchase consideration | 2,168 |
| **Fair value of assets acquired** | |
| Property, plant and equipment | 21 |
| Intangible assets | 2,147 |
| | 2,168 |
| Goodwill | Nil |

No goodwill has been recognised on the acquisition of the AmCyte business assets

The transaction was not settled in cash and no cash was received into the Group as a result of the acquisition

The value of the acquired assets, as stated in the accounts of ReNeuron, Inc were as follows

| | £'000 |
|---|---|
| **Property, plant and equipment** | **21** |

## 15 Property, plant and equipment

| Group | Leasehold improvements £ 000 | Plant and equipment £'000 | Computer Equipment £'000 | Capital Work in progress £ 000 | Total £'000 |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| At 1 April 2006 | 1,628 | 1,225 | 117 | – | 2,970 |
| Additions | – | 22 | 10 | – | 32 |
| Disposals | – | (106) | (8) | – | (114) |
| **At 31 March 2007** | **1,628** | **1,141** | **119** | – | **2,888** |
| **Accumulated depreciation** | | | | | |
| At 1 April 2006 | 562 | 1,118 | 78 | – | 1,758 |
| Charge for the year | 120 | 59 | 21 | – | 200 |
| Disposals | – | (106) | (8) | – | (114) |
| **At 31 March 2007** | **682** | **1,071** | **91** | **–** | **1,844** |
| **Net book amount** | | | | | |
| **At 31 March 2007** | **946** | **70** | **28** | – | **1,044** |
| **Cost** | | | | | |
| At 1 April 2007 | 1,628 | 1,141 | 119 | – | 2,888 |
| Additions through business combinations | – | 17 | 4 | – | 21 |
| Other additions | 32 | 73 | 11 | 4 | 120 |
| Disposals | – | (95) | (15) | – | (110) |
| **At 31 March 2008** | **1,660** | **1,136** | **119** | **4** | **2,919** |
| **Accumulated depreciation** | | | | | |
| At 1 April 2007 | 682 | 1,071 | 91 | – | 1,844 |
| Charge for the year | 120 | 40 | 21 | – | 181 |
| Disposals | – | (94) | (15) | – | (109) |
| **At 31 March 2008** | **802** | **1,017** | **97** | **–** | **1,916** |
| **Net book amount** | | | | | |
| **At 31 March 2008** | **858** | **119** | **22** | **4** | **1,003** |
| At 31 March 2007 | 946 | 70 | 28 | – | 1,044 |

**Notes to the financial statements for the year ended 31 March 2008 continued**

**15 Property, plant and equipment (continued)**

The figures stated above include assets held under finance leases as follows

| | Plant and equipment £'000 |
|---|---|
| **Net book amount as at 1 April 2006** | **4** |
| Year to 31 March 2007 | |
| Depreciation | (2) |
| **Net book amount as at 31 March 2007** | **2** |
| Year to 31 March 2008 | |
| Additions | 55 |
| Depreciation | (4) |
| **Net book amount as at 31 March 2008** | **53** |

The Company had no property, plant or equipment at 31 March 2008 (2007 £nil)

## 16 Intangible assets

| Group | Licence fees £'000 | Intellectual property rights £'000 | Total £'000 |
|---|---|---|---|
| **Cost** | | | |
| At 1 April 2006 | 1,884 | 3,299 | 5,183 |
| Additions | – | 378 | 378 |
| **At 31 March 2007** | **1,884** | **3,677** | **5,561** |
| **Accumulated Amortisation** | | | |
| At 1 April 2006 | 1,884 | 2,405 | 4,289 |
| Impairment charge | – | – | – |
| **At 31 March 2007** | **1,884** | **2,405** | **4,289** |
| **Net book amount** | | | |
| **At 31 March 2007** | **–** | **1,272** | **1,272** |
| **Cost** | | | |
| At 1 April 2007 | 1,884 | 3,677 | 5,561 |
| Additions – through business combination (note 14) | – | 2,147 | 2,147 |
| **At 31 March 2008** | **1,884** | **5,824** | **7,708** |
| Accumulated Amortisation | | | |
| At 1 April 2007 | 1,884 | 2,405 | 4,289 |
| Impairment charge | – | – | – |
| **At 31 March 2008** | **1,884** | **2,405** | **4,289** |
| **Net book amount** | | | |
| **At 31 March 2008** | **–** | **3,419** | **3,419** |
| At 31 March 2007 | – | 1,272 | 1,272 |

Intellectual property rights acquired in the year comprise the fair value of cell encapsulation patents, forming part of the business assets of AmCyte, Inc The value of those intellectual property rights has been reviewed for impairment and, as the technology covered by those rights continues to be developed in line with expectations at the time of the acquisition, has not been impaired

Impairment of intangibles will be reviewed on an annual basis, with consideration given to both internal and external impairment factors

The Company holds no intangible assets

**Notes to the financial statements for the year ended 31 March 2008 continued**

## 17 Financial Assets

Investments in subsidiary companies

| Company | 2008 £'000 | 2007 £ 000 |
|---|---|---|
| **Cost and net book value** | | |
| At start of year | **7,397** | 6,984 |
| Initial investments in subsidiaries | **2,168** | – |
| Additions | **–** | 378 |
| Capital contribution arising from IFRS 2 charge | **60** | 35 |
| **At 31 March** | **9,625** | 7,397 |

During the year, the Company acquired the share capital of ReNeuron, Inc – see note 14

Where options over the Company's shares have been issued to the employees of subsidiary undertakings, the fair value of employee services performed (equal to the IFRS 2 charge) has been recorded as a capital contribution

The Company's investments comprise interests in Group undertakings, details of which are shown below

| Name of undertaking | Country of incorporation | Description of shares held | Proportion of nominal value of shares held by the Company | Nature of Business |
|---|---|---|---|---|
| ReNeuron Holdings Limited | England and Wales | £0 10 ordinary shares | 100% | Holding |
| ReNeuron Limited | England and Wales | £0 001 ordinary shares | 100% | Pharma |
| | | £0 10 A ordinary shares | 100% | |
| ReNeuron (UK) Limited | England and Wales | £0 10 ordinary shares | 100% | Holding |
| ReNeuron, Inc | Delaware, USA | $0 001 common stock | 100% | Pharma |

ReNeuron Limited, ReNeuron Holdings Limited and ReNeuron, Inc , are held directly by ReNeuron Group plc ReNeuron (UK) Limited is held directly by ReNeuron Holdings Limited

The principal activity of Reneuron Holdings Limited was to act as holding company for ReNeuron Limited prior to the reconstruction of the Group in the prior year Following the group reconstruction that company no longer trades ReNeuron Limited and ReNeuron, Inc , are the main trading companies in the Group ReNeuron (UK) Limited is a non-trading company

## 18 Trade and other receivables

| | Group | | Company | |
|---|---|---|---|---|
| | **2008 £'000** | 2007 £'000 | **2008 £'000** | 2007 £ 000 |
| **Amounts falling due after more than one year** | | | | |
| Lease deposit – repayable in 2015, at current value | **135** | 125 | **–** | – |
| Amounts due from Group undertakings | **–** | – | **17,143** | 11,277 |
| | **135** | 125 | **17,143** | 11,277 |
| **Amounts falling due within one year** | | | | |
| Net other receivables | **128** | 148 | 14 | 37 |
| Corporation tax receivable | **–** | 522 | **–** | – |
| Prepayments and accrued income | **283** | 209 | **5** | 5 |
| | **411** | 879 | **19** | 42 |
| **Total trade and other receivables** | **546** | 1,004 | **17,162** | 11,319 |

Amounts due from Group undertakings are not interest bearing and have no fixed repayment date

## 19 Cash and cash equivalents

| | Group | | Company | |
|---|---|---|---|---|
| | **2008 £'000** | 2007 £'000 | **2008 £'000** | 2007 £ 000 |
| Cash at bank and in hand | **2,791** | 7,676 | **2,754** | 7,634 |

The fair value of cash for the Group at 31 March 2008 is £2,791,000 The fair value of cash for the Company at 31 March 2008 is £2,754,000

## 20 Trade and other payables

| | Group | | Company | |
|---|---|---|---|---|
| | **2008 £'000** | 2007 £ 000 | **2008 £'000** | 2007 £ 000 |
| Trade payables | **345** | 396 | **5** | 20 |
| Other taxation and social security | **45** | 44 | **–** | – |
| Other payables | **7** | 7 | **–** | – |
| Accruals and deferred income | **368** | 366 | **–** | – |
| **Total payables falling due within one year** | **765** | 813 | **5** | 20 |

## 21 Financial liabilities

| | Group | | Company | |
|---|---|---|---|---|
| | **2008 £ 000** | 2007 £ 000 | **2008 £ 000** | 2007 £'000 |
| Net finance lease liabilities – minimum lease payments | | | | |
| No later than 1 year | **11** | 2 | **–** | – |
| Later than 1 year and no later than 5 years | **43** | – | **–** | – |
| | **54** | 2 | – | – |

**Notes to the financial statements for the year ended 31 March 2008 continued**

## 22 Total trade and other payables amounts falling due after more than one year

| | Group | | Company | |
|---|---|---|---|---|
| | **2008 £'000** | 2007 £'000 | **2008 £'000** | 2007 £ 000 |
| Amounts owed to Group undertakings | – | – | **5,484** | 5,484 |
| **Total trade and other payables falling due after more than one year** | – | – | **5,484** | 5,484 |

Amounts owed to Group undertakings are not interest bearing and have no fixed repayment date The directors confirm that no repayments will be made in the next 12 months

## 23 Financial instruments

The financial risks faced by the Group include interest rate risk, foreign currency risk and liquidity risk The Board reviews and agrees policies for managing each of these risks

The Group's main objectives in using financial instruments are the maximisation of returns from funds held on deposit and to facilitate the funding of the Group in certain circumstances The Group does not enter into forward currency contracts

Due to the nature of the Group's activities, the directors do not currently consider it necessary to use derivative financial instruments to hedge the Group's exposure to fluctuations in interest rates as these exposures are not considered significant

The balance sheet positions at 31 March 2008 and 31 March 2007 are not representative of the positions throughout the year as cash and short term investments fluctuate considerably depending on when fund raising activities have occurred

Short term receivables and payables have been excluded from all of the following disclosures, as permitted by IFRS 7 "Financial instruments- disclosures"

### Ageing risk profile of the Group's financial liabilities

The Group's financial liabilities consist only of short term creditors and finance leases, shown below

| | Group | | Company | |
|---|---|---|---|---|
| | **2008 £'000** | 2007 £ 000 | **2008 £'000** | 2007 £ 000 |
| **Finance leases – gross payments** | | | | |
| Due in one year or less | **16** | 2 | **–** | – |
| Due in over one year but less than two years | **17** | – | – | – |
| Due in more than two years but less than five years | **32** | – | – | – |
| Due in more than five years | **–** | – | **–** | – |
| | **65** | 2 | **–** | – |

**23 Financial instruments (continued)**
**Interest rate risk profile of the Group's financial assets**

| | 2008 | | | 2007 | | |
|---|---|---|---|---|---|---|
| Currency | Cash at bank and in hand £'000 | Short term deposits £ 000 | Total £'000 | Cash at bank and in hand £ 000 | Short term deposits £ 000 | Total £ 000 |
| Sterling | **2,782** | **–** | **2,782** | 7,676 | – | 7,676 |
| United States Dollar | **8** | **–** | **8** | – | – | – |
| Euro | **1** | – | **1** | – | – | – |
| Floating rate | **2,791** | **–** | **2,791** | 7,676 | – | 7,676 |
| **At 31 March** | **2,791** | **–** | **2,791** | 7,676 | – | 7,676 |

The Group maintains cash and bank balances in Sterling for UK based operating currencies, and US dollars for the operating subsidiary in the US None of the US dollar balances are interest earning In the current and prior years cash balances are held in current and deposit accounts at floating interest rates based on LIBOR

**Borrowing facilities**
The Group had no committed borrowing facilities available at 31 March 2008 (2007 £nil)

**Fair values of financial assets and financial liabilities**
The following table provides a comparison by category of the carrying amounts and the fair value of the Group's financial assets and liabilities at 31 March 2008 Fair value is the amount at which a financial instrument could be exchanged in an arm's length transaction between informed and willing parties, other than a forced or liquidation sale and excludes accrued interest

Primary financial instruments held or issued to finance the Group's operations

| | 2008 | | 2007 | |
|---|---|---|---|---|
| | Book value £'000 | Fair value £'000 | Book value £'000 | Fair value £ 000 |
| Cash at bank and in hand | **2,791** | **2,791** | 7,676 | 7,676 |
| | **2,791** | **2,791** | 7,676 | 7,676 |

Book values and fair values are the same because there is immediate access to the asset

**Currency risk profile**
The Group's functional currency is Sterling, and the majority of its expenditure is denominated in that currency

The only assets and liabilities denominated in currencies other than Sterling relate to currency accounts held in UK for bill payment, bank balances for the operating subsidiary in the US and the short term assets and liabilities denominated in Euros and US Dollars held by the Group

At 31 March 2008 these amounted to bank balances in the UK of Euros £1,000 (2007 £nil) and US dollars £nil (2007 £nil) and in US of £8,000 (2007 £nil) and net liabilities denominated in US Dollars of £26,658 and assets denominated in Euros of £nil (2007 US Dollar liabilities £22,400, Euro assets £838)

**Notes to the financial statements for the year ended 31 March 2008 continued**

## 24 Deferred taxation

The analysis of the potential deferred tax assets of the Group is as follows

| | Amount recognised 2008 £ 000 | Amount not recognised 2008 £'000 | Amount recognised 2007 £ 000 | Amount not recognised 2007 £ 000 |
|---|---|---|---|---|
| Tax effect of timing differences because of | | | | |
| Excess of capital allowances over depreciation | – | **21** | – | 1 |
| Other | – | **3** | – | 32 |
| Losses carried forward | – | **9,485** | – | 6,769 |
| | – | **9,509** | – | 6,802 |

The potential deferred tax assets have not been recognised in these financial statements as there is no immediate prospect of these being utilised

The analysis of the potential deferred tax assets of the Company is as follows

| | Amount recognised 2008 £ 000 | Amount not recognised 2008 £'000 | Amount recognised 2007 £ 000 | Amount not recognised 2007 £ 000 |
|---|---|---|---|---|
| Tax effect of timing differences because of | | | | |
| Other | – | **3** | – | 22 |
| Losses carried forward | – | **78** | – | 219 |
| | – | **81** | – | 241 |

The potential deferred tax assets have not been recognised in these financial statements as there is no immediate prospect of these being utilised

## 25 Pension scheme obligations

The Group operates defined contribution pension schemes for UK and US employees and directors The assets of the schemes are held in separate funds and are administered independently of the Group The total pension cost during the year was £103,000 (2007 £82,000) There were no prepaid or accrued contributions to the scheme at the year-end (2007 £nil)

## 26 Ordinary shares

| | 2008 £'000 | 2007 £ 000 |
|---|---|---|
| Authorised | | |
| 300,000,000 ordinary shares of 1p each (2007 300,000,000 shares of 1p) | **3,000** | 3,000 |
| Allotted, called up and fully paid | | |
| 154,167,534 ordinary shares of 1p each (2007 137,691,344 of 1p each) | **1,542** | 1,377 |

On 1 August 2007, the Company acquired the share capital of ReNeuron, Inc , in consideration for the issue of 9,291,521 ordinary shares of the Company to the vendors as stated in note 14 At the same time 7,184,669 shares were placed at a price of 21p, raising £1,509,000

## 27. Warrants

Warrants in issue have been valued as follows

| Date of Grant | Exercise price Pence | Share price at date of grant Pence | Risk free rate % | Assumed time to exercise Years | Assumed volatility % | Fair value per option Pence |
|---|---|---|---|---|---|---|
| February 2007 | 30 | 35 | 5 26% | 1 5 | 85 9% | 21 42 |

Volatility is taken from actual data following flotation and no assumption of dividend yield has been included

### Warrant instrument with Novavest Growth Fund Limited

Novavest Growth Fund Limited has the right to subscribe for 58,239 ReNeuron Limited ordinary shares at a price of £17 16 per ordinary share Pursuant to a put/call agreement dated 6 November 2000, on exercise of such warrant, shares acquired by Novavest in ReNeuron Limited will be exchanged for 582,390 ordinary shares of ReNeuron (UK) Limited The Company intends in due course to enter into an agreement with Novavest whereby if the warrant is exercised, the ReNeuron Limited shares acquired by Novavest are exchanged directly for 582,390 ordinary shares of the Company

## 28 Share options

The Group operates Share Option Schemes for directors and employees of group companies and specific consultants Options have been issued through a combination of an Inland Revenue approved EMI scheme and an unapproved scheme

Total options existing over ordinary 1p shares in companies in the Group as at 31 March 2008 are summarised below

| Date of Grant | Number of Shares | Forfeited during the year | As at 31 March 2008 | | Exercise price | Date from which exercisable | Date of expiry |
|---|---|---|---|---|---|---|---|
| August 2005 | 246,680 | – | **246,680** | Note 1 | 10p | August 2005 | July 2014 |
| August 2005 | 2,275,000 | – | **2,275,000** | Note 1 | 10p | August 2005 | July 2014 |
| August 2005 | 2,975,000 | – | **2,975,000** | Note 2 | 25p | August 2008 | August 2015 |
| August 2006 | 1,605,000 | (25,000) | **1,580,000** | Note 2 | 10p | August 2009 | August 2016 |
| August 2006 | 500,000 | – | **500,000** | Note 2 | 15p | August 2009 | August 2016 |
| August 2007 | 2,845,000 | – | **2,845,000** | Note 3 | 21p | August 2010 | August 2017 |
| August 2007 | 1,000,000 | – | **1,000,00** | Note 3 | 37 5p | August 2010 | August 2017 |
| December 2007 | 455,000 | – | **455,000** | Note 3 | 20 5p | December 2010 | December 2017 |

**Note 1**

These options were issued in August 2005 following the Group s Admission to the AIM market The new share options replaced those previously held under an earlier share option scheme which have now lapsed These options were issued through a combination of an Inland Revenue approved EMI scheme and an unapproved scheme and are exercisable from the date of grant as the relevant performance condition had been satisfied being the Admission of the Ordinary Shares in the Company In agreement between the Company and Dr John Sinden, a director and the share option holder the exercise period on 246 680 of these share options due to lapse on 19 January 2008 was extended to 23 July 2014

**Note 2**

These options have been issued under the Group s Share Option Scheme Subject to the satisfaction of a performance condition being the first patient administered with a ReNeuron cell therapy in Phase I/II trials, the options are exercisable in whole or in part at any time between the third anniversary and the tenth anniversary of the date on which the option was granted If not exercised by the tenth anniversary of the date of grant, the option will lapse

**Note 3**

These options have been issued under the Group s Share Option Scheme Subject to the satisfaction of a performance condition being the the successful completion of an initial clinical trial of a ReNeuron cell therapy the options are exercisable in whole or in part at any time between the third anniversary and the tenth anniversary of the date on which the option was granted If not exercised by the tenth anniversary of the date of grant, the option will lapse

**Notes to the financial statements for the year ended 31 March 2008 continued**

**28 Share options (continued)**

**Fair value charge**

As stated in Note 1, the Group has prepared fair value charges for options covered by Note 2 and 3 above The calculations have been estimated based on the Black-Scholes model Key data and assumptions used are

| Date of Grant | Exercise price Pence | Share price at date of grant Pence | Risk free rate % | Assumed time to exercise Years | Assumed volatility % | Fair value per option Pence |
|---|---|---|---|---|---|---|
| August 2005 | 25 | 24 5 | 4 21% | 5 | 43 2% | 10 53 |
| August 2006 | 10 | 9 3 | 4 63% | 5 | 33 5% | 3 20 |
| August 2006 | 15 | 9 3 | 4 63% | 5 | 33 5% | 1 91 |
| August 2007 | 21 | 20 75 | 5 13% | 5 | 79 4% | 13 8 |
| August 2007 | 37 5 | 20 75 | 5 13% | 5 | 79 4% | 11 6 |
| December 2007 | 20 5 | 20 5 | 4 65% | 5 | 78 9% | 13 6 |

The risk free rate is taken from the average yields on government gilt edged stock Volatility for August 2005 options was taken from analysis of peer groups, whereas volatilities for later options were taken from actual data following flotation No assumption of dividend yield has been included An attrition rate of 10% pa has been used in applying these values over the vesting period of 4 years

A reconciliation of option movements over the year to 31 March 2008 is shown below

| | 2008 | | 2007 | |
|---|---|---|---|---|
| | Number of options '000 | Weighted average exercise price pence | Number of options 000 | Weighted average exercise price pence |
| Outstanding at 1st April | **7,602** | **16 2** | 6,017 | 17 5 |
| Granted | **4,300** | **24 8** | 2,105 | 11 2 |
| Forfeited | **(25)** | **10 0** | (520) | 10 6 |
| Exercised | **–** | **–** | – | – |
| Outstanding at 31 March | **11,877** | **19 3** | 7,602 | 16 2 |
| Exercisable at 31 March | **2,522** | **10 0** | 2,522 | 10 0 |

The share price on 31 March 2008 was 11 25 pence No options expired in either year

**28 Share options (continued)**

The pattern of exercise price and life is shown below

| Range of exercise prices | 2008 Weighted average exercise price | 2008 Number of shares | 2008 Weighted average remaining life (years) Expected | 2008 Weighted average remaining life (years) Contractual | 2007 Weighted average exercise price | 2007 Number of shares | 2007 Weighted average remaining life (years) Expected | 2007 Weighted average remaining life (years) Contractual |
|---|---|---|---|---|---|---|---|---|
| Up to 10p | **10 0p** | **1,580,000** | **3.42** | **8 42** | 10p | 1,605,000 | 4 42 | 9 42 |
| 10p to 20p | **15 0p** | **500,000** | **3 42** | **8 42** | 15p | 500,000 | 4 42 | 9 42 |
| 20p to 30p | **22 9p** | **6,275,000** | **3 47** | **8 47** | 25p | 2,975,000 | 3 44 | 8 44 |
| 30p to 40p | **37 5p** | **1,000,000** | **4 35** | **9 35** | | | | |

**29 Cash from operations**

| | Group Year ended 31 March 2008 £ 000 | Group Year ended 31 March 2007 £ 000 | Company Year ended 31 March 2008 £'000 | Company Year ended 31 March 2007 £ 000 |
|---|---|---|---|---|
| **Operating loss** | **(6,889)** | (5,964) | **(426)** | (538) |
| Adjustments for | | | | |
| Depreciation | **181** | 200 | – | – |
| Provisions | **53** | – | – | – |
| Share-based payment charge | **163** | 223 | **103** | 188 |
| Loss on sale of fixed assets | **1** | – | – | – |
| Changes in working capital | | | | |
| Receivables | **(117)** | 43 | **23** | (42) |
| Payables | **7** | (534) | **(16)** | 20 |
| **Cash consumed by operations** | **(6,601)** | (6,032) | **(316)** | (372) |

The principal non-cash transaction is the issue of shares as consideration for the acquisition as disclosed in note 14

**30 Operating lease commitments – minimum lease payments**

The future aggregate minimum lease payments under non-cancellable operating leases are as follows

| | 2008 Land and buildings £'000 | 2008 Other £'000 | 2007 Land and buildings £ 000 | 2007 Other £ 000 |
|---|---|---|---|---|
| Not later than one year | **337** | **18** | 243 | 20 |
| Later than one year and not later than five years | **986** | **6** | 970 | 24 |
| Later than five years | **485** | **–** | 727 | – |
| **Total lease commitments** | **1,808** | **24** | 1,940 | 44 |

The Company had no financial commitments at 31 March 2008 (2007 £nil)

**31 Contingent liabilities and capital commitments**

There were no contingent liabilities at 31 March 2008 or at 31 March 2007 The Group had commitments of £21,000 for capital expenditure for plant and equipment not provided in the financial statements at 31 March 2008 (2007 £nil)

**Notes to the financial statements for the year ended 31 March 2008 continued**

## 32 Related party disclosures

### Transactions with Merlin Biosciences Limited

Merlin Biosciences Limited, as investment advisor to Merlin General Partner Limited and Merlin General Partner II Limited, both substantial shareholders in the Company, recharged directors' fees of £15,000 (2007 £15,000) in the year, in respect of services provided by Mark Docherty

### Transactions with Biomedicon

Dr Paul Harper, trading as Biomedicon, recharged consultancy fees of £83,000 (2007 £96,000) in the year in respect of services provided, in accordance with a consultancy agreement between ReNeuron Limited and Dr Paul Harper, dated 4 August 2005

### Parent Company and subsidiaries

The Parent Company is responsible for financing and setting Group strategy ReNeuron Limited carries out the Group strategy, employs all the UK staff including the Directors, and owns and manages all of the Group's intellectual property The proceeds of the issue of shares by the parent are passed when required to ReNeuron Limited as a loan, and ReNeuron Limited makes payments, including the expenses of the Parent Company

| Company transactions with subsidiaries | 2008 £'000 | 2007 £'000 |
|---|---|---|
| **Purchases and Staff** | | |
| Parent company expenses paid by subsidiary | **303** | 339 |
| **Transactions involving Parent Company shares** | | |
| Share options | **60** | 35 |
| **Cash management** | | |
| Loans to subsidiary | **5,866** | 87 |

| Company Year end balance of loan | 2008 £'000 | 2007 £ 000 |
|---|---|---|
| **Loan to subsidiary** | **17,143** | 11,277 |

## 33 Ultimate controlling party

The directors consider that at 31 March 2008 no one single party had immediate or ultimate control over ReNeuron Group plc

## 34 Post balance sheet events

Subsequent to the year end, the Group has instigated a restructuring plan to reduce the Group's ongoing cost base This restructuring is expected to be completed by August 2008 The costs associated with the restructuring exercise are not expected to be material, and largely constitute staff redundancy costs

Also subsequent to the year end, the Group secured a £2 5 million convertible loan facility with certain of its existing investors The loan facility is repayable after 3 years if not converted

## 35 Impact of conversion to IFRS

The adjustments necessary to comply with IFRS 1, "First-time adoption of IFRS" are set out below

### Reconciliation of Equity at Transition Date, 1 April 2006

| | Note | UK GAAP £ 000 | IFRS Adjustments £ 000 | IFRS £'000 |
|---|---|---|---|---|
| **Non-current assets** | | | | |
| Negative goodwill | a | (1,421) | 1,421 | – |
| Intangible fixed assets | b | – | 894 | 894 |
| Property, plant and equipment | c | 1,208 | 4 | 1,212 |
| Financial assets | d | – | 81 | 81 |
| | | **(213)** | **2,400** | **2,187** |
| **Current assets** | | | | |
| Debtors – due after more than one year | d | 81 | (81) | – |
| Trade and other receivables | | 946 | – | 946 |
| Cash and cash equivalents | | 5,134 | – | 5,134 |
| | | **6,161** | **(81)** | **6,080** |
| **Current liabilities** | | | | |
| Trade and other payables | e, f | (1,320) | (27) | (1,347) |
| Financial liabilities | c | – | (2) | (2) |
| | | **(1,320)** | **(29)** | **(1,349)** |
| **Net current assets** | | **4,841** | **(110)** | **4,731** |
| **Non current liabilities** | | | | |
| Financial liabilities | c | – | (2) | (2) |
| **Net assets** | | **4,628** | **2,288** | **6,916** |
| **Shareholders' equity** | | | | |
| Ordinary shares | | 9,355 | – | 9,355 |
| Share premium account | | 5,472 | – | 5,472 |
| Capital redemption reserve | | – | – | – |
| Merger reserve | | 365 | – | 365 |
| Warrant reserve | | 436 | – | 436 |
| Share-based credit reserve | g | – | 56 | 56 |
| Retained deficit | a, b, e, g | (11,000) | 2,232 | (8,768) |
| **Capital and reserves attributable to the Group's equity shareholders** | | **4,628** | **2,288** | **6,916** |

**Notes to the financial statements for the year ended 31 March 2008 continued**

**35 Impact of conversion to IFRS (continued)**

**Reconciliation of Income Statement for year ended 31 March 2007**

| | Note | UK GAAP £ 000 | IFRS Adjustments £ 000 | IFRS £ 000 |
|---|---|---|---|---|
| Revenue | | 49 | – | 49 |
| Net operating expenses | a, b, e, f | (6,223) | (53) | (6,276) |
| Other operating income | | 263 | – | 263 |
| **Operating loss** | | **(5,911)** | **(53)** | **(5,964)** |
| Finance income | | 192 | – | 192 |
| **Loss before income taxes** | | **(5,719)** | **(53)** | **(5,772)** |
| Tax credit on loss on ordinary activities | | 523 | – | 523 |
| **Loss for the year** | | **(5,196)** | **(53)** | **(5,249)** |

**35 Impact of conversion to IFRS (continued)**
**Reconciliation of Equity at 31 March 2007**

| | Note | UK GAAP £ 000 | IFRS Adjustments £ 000 | IFRS £'000 |
|---|---|---|---|---|
| **Non-current assets** | | | | |
| Negative goodwill | a | (1,233) | 1,233 | – |
| Intangible fixed assets | b | – | 1,272 | 1,272 |
| Property, plant and equipment | c | 1,042 | 2 | 1,044 |
| Financial assets | d | – | 125 | 125 |
| | | **(191)** | **2,632** | **2,441** |
| **Current assets** | | | | |
| Debtors – due after more than one year | d | 125 | (125) | – |
| Trade and other receivables | | 879 | – | 879 |
| Cash and cash equivalents | | 7,676 | – | 7,676 |
| | | **8,680** | **(125)** | **8,555** |
| **Current liabilities** | | | | |
| Trade and other payables | e, f | (782) | (31) | (813) |
| Financial liabilities | c | – | (2) | (2) |
| | | **(782)** | **(33)** | **(815)** |
| **Net current assets** | | **7,898** | **(158)** | **7,740** |
| **Non current liabilities** | | | | |
| Financial liabilities | c | – | – | – |
| **Net assets** | | **7,707** | **2,474** | **10,181** |
| **Shareholders' equity** | | | | |
| Ordinary shares | | 1,377 | – | 1,377 |
| Share premium account | b | 12,974 | 239 | 13,213 |
| Capital redemption reserve | | 8,964 | – | 8,964 |
| Merger reserve | | 365 | – | 365 |
| Warrant reserve | | 113 | – | 113 |
| Share-based credit reserve | | – | 166 | 166 |
| Retained deficit | a, b ,e, f, g | (16,086) | 2,069 | (14,017) |
| **Capital and reserves attributable to the Group's equity shareholders** | | **7,707** | **2,474** | **10,181** |

**Notes to the financial statements for the year ended 31 March 2008 continued**

## 35 Impact of conversion to IFRS (continued)

### Summary of notes to IFRS reconciliations

| Note | Reason for adjustment | To Balance Sheet 1 April 2006 £'000 | To Income Statement 12 months to 31 March 2007 £'000 | To Balance Sheet 31 March 2007 £ 000 |
|---|---|---|---|---|
| a | Negative goodwill release (see further comment below) | 1,421 | (188) | 1,233 |
| b | Share issues to StemCells, Inc (see further comment below) | | | |
| | Intangible assets | 894 | | 1,272 |
| | Provision for intangibles | | 139 | |
| c | Restatement of an operating lease as a finance lease | | | |
| | Fixed assets – net book value | 4 | | 2 |
| | Finance lease creditor | (4) | | (2) |
| | Depreciation | | (2) | |
| | Rentals expense | | 2 | |
| d | Landlord deposit at fair value Restated as a non-current financial asset (no change to total equity) | | | |
| e | Accrual for holiday pay | (15) | (2) | (17) |
| f | Accrual for employee bonuses | (12) | (2) | (14) |
| g | Separate recognition of share-based credit reserve from retained deficit (no change to total equity) | | | |

**Note a Negative goodwill release**

Negative goodwill was previously amortised in accordance with UK GAAP Under IFRS negative goodwill is not permitted to be held on the balance sheet but is recognised in the profit and loss account in the period it arises The balance on the transition date and subsequent charges made under UK GAAP have therefore been reversed

**Note b Share issues to StemCells, Inc**

Ordinary shares have been issued to StemCells Inc under licence and subscription and share exchange agreements The shares issued were previously accounted for at a value of 10p The underlying intangible asset created was previously provided for in full Under IFRS the shares issued have been recognised at fair value at the time of issue being equivalent to the market value of the shares on the date of issue The related intangible asset has been held on the balance sheet in accordance with IFRS, the previous provision against this intangible asset having been reversed

# Glossary

**allogeneic** – Being derived from a genetically non-identical member of the same species

**Alzheimer's disease** – The most common cause of dementia A degenerative and terminal disease for which there is no known cure

**cannula** – A hollow tube that is used to guide the needle into the target tissue location during grafting of the cells

**cell banking** – A process for the controlled preparation of a cell therapy product, resulting in a large number of vials of frozen cells

**cell line** – Cells that can be sustained and grown in a laboratory culture medium Cell lines may comprise a family of cells isolated from a single tissue or organ or may be clonally derived from a single ancestor cell

**cell therapy** – A process by which healthy cells are introduced into a tissue or organ to reconstruct or promote regeneration in order to treat disease

**cortex** – The outer surface of the brain referred to as the "grey matter"

**conditionally immortal stem cells** – Stem cells that, through modification, are capable of dividing indefinitely *in vitro* to produce stem cell lines, but whose division can be fully arrested by various means, such as removal of certain constituents present in the cell culture media

**craniostomy** – Surgical procedure of drilling the skull

**diabetes** – A disease characterized by absolute or relative insulin insufficiency and high blood sugar

**differentiation** – The maturation of a stem cell into a functional cell

**FDA** – Food and Drug Administration

**GMP** – Good Manufacturing Practice, formal standards for a facility's cleanliness, quality controls and documentation set out and regularly monitored by the regulators and "cGMP" is current Good Manufacturing Practice

**Huntington's disease** – An inherited adult-onset disease of the brain characterized by dementia and involuntary movements The disease is progressive and there is currently no known cure

**IND** – An investigational new drug application filed with the FDA prior to beginning clinical trials in humans, or comparable application

**indication** – The use for which a drug or therapy is intended

**infarct** – A non-functional area due to degeneration of a tissue affected by lack of oxygen

**islet cells** – Insulin producing cells found within the pancreas

**neural stem cells** – Cells found within the brain which can both make more of themselves and mature into neurons, oligodendrocytes and glia (supporting cells)

**neurodegenerative** – A varied assortment of CNS disorders characterized by gradual and progressive loss of neural tissue

**neurons** – A nervous system cell able to conduct electrical impulses

**Parkinson's disease** – A progressive neurological disease of older people characterized by tremor, difficulty in movement and speech

**peripheral ischaemia** – A condition in which reduced blood supply to the limbs causes cramping, chronic pain, and in extreme cases loss of limb The illness is common in diabetics and the elderly

**Phase I** – The assessment of the safety of a biologically active substance in volunteers

**phenotype** – The physical appearance of a cell

**photoreceptors** – A nerve ending, cell, or group of cells specialized to sense or receive light

**regenerative medicine** – A newer approach in medicine aimed at restoring function to damaged body organs and tissues

**retinal disease** – A general term which describes any damages to the light sensing membrane in the eye that can affect vision

**stem cell** – A cell that is both able to reproduce itself and, depending on its stage of development, to generate all or certain other cell types within the body or within the organ from which it is derived

**stroke** – Damage to a group of nerve cells in the brain due to interrupted blood flow, caused by a blood clot or blood vessel bursting Depending on the area of the brain that is damaged, a stroke can cause coma, paralysis, speech problems and dementia

**traumatic brain injury** – An acute physical injury sustained to the head that disrupts brain function Impairment may occur in one or more of the following areas speech, memory, attention, reasoning, judgment, problem solving, motor abilities, and psychosocial behavior

**Type 1 diabetes** – A condition in which the pancreas makes so little insulin that the body can't use blood glucose as energy Type 1 diabetes most often occurs in people younger than age 30 and must be controlled with daily insulin injections

**ventral mesencephalon** – The surface of the small section of the brain stem linking the hindbrain to the forebrain

# RENEURON GROUP PLC

*(Incorporated and registered in England and Wales under the Companies Act 1985 with registered no 5474163)*

## (the "Company")

## NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the Annual General Meeting of the Company will be held at the offices of Morrison & Foerster, CityPoint, One Ropemaker Street, London EC2Y 9AW, on 19 September 2008 at 10 00 a m for the purpose of considering and, if thought fit, passing the following resolutions, of which the Resolutions 1 to 7 will be proposed as ordinary resolutions and Resolutions 8 and 9 will be proposed as special resolutions

**Ordinary Business**

1 To receive and adopt the Company's Annual Report and Accounts for the financial year ended 31 March 2008 and the Report of the Independent Auditors on those accounts

2 To reappoint as a Director Dr Paul Bernard Harper who is retiring by rotation in accordance with article 122 of the Company's articles of association and who being eligible is offering himself for reappointment

3 To reappoint as a Director Mark James Docherty who is retiring by rotation in accordance with article 122 of the Company's articles of association and who being eligible is offering himself for reappointment

4 To reappoint PricewaterhouseCoopers LLP as auditors of the Company from the conclusion of the meeting until the conclusion of the next Annual General Meeting of the Company at which accounts are laid and to authorise the Directors to determine their remuneration

**Special Business**

5 That the US Share Incentive Plan be approved

6 That the authorised share capital of the Company be increased by £2,500,000 by the creation of 250,000,000 new Ordinary Shares of 1 pence each in nominal value

7 That in substitution for all existing authorities and subject to the passing of Resolution 6 above, the Directors of the Company be and are hereby generally and unconditionally authorised, pursuant to section 80 of the Companies Act 1985 (the "**Act**") to allot relevant securities (within the meaning of that section) up to an aggregate nominal amount of £3,958,324 66 provided that, other than (a) allotments made pursuant to the terms of the Existing Options, (b) allotments made pursuant to the terms of the CS Warrants, (c) allotments made in connection with the exercise of the RN Warrants, and (d) allotments made in accordance with the terms of the Loan Note Instrument in respect of the conversion of Loan Notes (together with interest thereon) ((a), (b), (c) and (d) together, the "**Permitted Allotments**"), such authority shall be limited to the allotment of relevant securities up to an aggregate nominal amount equal to £513,891 78 and provided that the authority shall expire on the date 15 months after the date of the passing of this resolution or, if earlier, at the conclusion of the next annual general meeting of the Company, save that the Directors may before such expiry make an offer or agreement which would or might require relevant securities to be allotted after such expiry and the Directors may allot relevant securities in pursuance of such offer or agreement as if the authority had not expired

8 That in substitution for all existing authorities and subject to the passing of Resolution 7 above, the Directors be and are hereby generally empowered pursuant to section 95 of the Act to allot equity securities (within the meaning of section 94(2) of the Act) pursuant to the general authority conferred on them for the purposes of section 80 of the Act by Resolution 7 above, as if section 89(1) of the Act did not apply to any such allotment provided that such power shall be limited to

(i) the Permitted Allotments,

(ii) the allotment of equity securities in connection with an issue to holders of Ordinary Shares (and, if so determined by the Directors, the holders of CS Warrants) (whether by way of a rights issue, open offer or otherwise) where such issue, offer or other allotment of equity securities to holders of Ordinary Shares (and, if so determined by the Directors, holders of CS Warrants) is proportionate (as nearly as may be) to the respective number of Ordinary Shares held by them (and, if so determined by the Directors, the number of Ordinary Shares as would be held by them if all outstanding CS Warrants then held by them were exercised in full and Ordinary Shares were then issued thereunder to such holders of CS Warrants) on a fixed record date (but subject to such exclusions or other arrangements as the Directors may deem necessary or expedient to deal with legal or practical problems under the laws of any overseas territory or the requirements of any regulatory body or any stock exchange in any territory or in relation to fractional entitlements or the terms of the CS Warrants),

(iii) the allotment of equity securities in connection with the grant of options over Ordinary Shares in the capital of the Company in accordance with the rules of the Share Option Scheme, Non-Executive Share Option Scheme and/or US Share Incentive Plan (or otherwise to the employees, consultants and/or directors of the Company and/or its subsidiaries) and having an aggregate nominal value of up to £154,167 53, and

(iv) the allotment (otherwise than pursuant to paragraphs (i) to (iii) (inclusive)) of equity securities having an aggregate nominal value of £308,335 06,

provided that such authority shall expire on the date 15 months after the date of the passing of this resolution or, if earlier, at the conclusion of the next annual general meeting of the Company, save that the Directors may before such expiry make an offer or agreement which would or might require such equity securities to be allotted after such expiry and the Directors may allot equity securities in pursuance of such offer or agreement as if the authority had not expired

9 That the articles of association of the Company be amended by

(i) inserting after article 212 5 a new article 212 6 as follows

212 6 The Company may also give notice to a member by placing such notice on a website provided that

212 6 1 the Company has first given notice to the members in the manner required by Article 212 2 of its intention to give notices in such manner, either in relation to all future notices or any particular notice that it proposes to place on a website, and

212 6 2 the member has agreed to receive notices in the manner specified in Article 212 6 1 or is deemed to have so agreed by virtue of his failure to respond to the notice referred to in that Article within 28 days of its being sent and the member has not subsequently revoked his agreement or deemed agreement, and

212 6 3 the Company has, in accordance with Article 212 2, notified the member of the presence of the notice on the relevant website together with the address of the website, the place on the website where the notice may be accessed and details of how to access the notice on the website "

(ii) making an addition to the end of article 215 as follows

"A notice given by being placed on a website shall be deemed to have been served on the date on which notification of the presence of the notice on the website was sent or, if later, the date on which the notice first appears on the website "

Dated 8 July 2008

*By Order of the Board*
**Michael Hunt**
Chief Executive Officer

*Registered office*
10 Nugent Road
Surrey Research Park
Guildford
Surrey GU2 7AF

**Notes**

(1) In this Notice the following defined terms shall have the following meanings

| | |
|---|---|
| **"CS Warrants"** | the 688,145 warrants to subscribe Ordinary Shares constituted by a warrant instrument dated 12 February 2007 and issued to Collins Stewart Ltd (as may be amended from time to time) |
| **"Existing Options"** | means (i) the 10 271,680 outstanding options granted pursuant to the terms of the Share Option Scheme (ii) the 750 000 outstanding options granted pursuant to the terms of the Non-Executive Share Option Scheme, (iii) the 400 000 outstanding contractual options granted by the Company over Ordinary Shares, and (iv) 455,000 outstanding options granted pursuant to the terms of the US Share Incentive Plan (subject to approval of such plan) |
| **"Loan Note Instrument'** | means the loan note instrument executed by the Company on 23 June 2008 (as may be amended from time to time in accordance with its terms) constituting up to £2,500,000 of secured loan notes |
| **"Loan Notes "** | means the loan notes (issued and to be issued) as constituted by the Loan Note Instrument |
| **"Non-Executive Share Option Scheme"** | the non-executive share option scheme operated by the Company |
| **"Ordinary Shares"** | the ordinary shares in the capital of the Company of 1 pence each in nominal value as at the date of this Notice |

| | |
|---|---|
| **"RN Warrants** | the warrants to subscribe 58,239 ordinary shares in the capital of ReNeuron Limited at £17 16 per share, and being the subject of a put/call agreement pursuant to which the shares so issued by ReNeuron Limited on exercise of such warrants would be exchanged for 582 390 ordinary shares in the capital of ReNeuron (UK) Limited (being less than 2% of the issued share capital of ReNeuron (UK) Limited) |
| **"Share Option Scheme"** | the employee share option scheme operated by the Company |
| **"US Share Incentive Plan"** | the 2007 US share incentive plan operated by the Company |

(2) A member entitled to attend and vote at the meeting is also entitled to appoint one or more proxies to attend, speak and vote on a show of hands and on a poll instead of him The proxy need not be a member of the Company Where a member appoints more than one proxy each proxy must be appointed in respect of different shares comprised in his shareholding which must be identified on the proxy form Each such proxy will have the right to vote on a poll in respect of the number of votes attaching to the number of shares in respect of which the proxy has been appointed Where more than one joint member purports to appoint a proxy in respect of the same shares only the appointment by the most senior member will be accepted and for this purpose seniority will be determined by the order in which the names stand in the register of members of the Company in respect of the relevant holding If you wish your proxy to speak at the meeting you should appoint a proxy other than the chairman of the meeting and give your instructions to that proxy

(3) To be effective the instrument appointing a proxy and any authority under which it is executed (or a notarially certified copy of such authority) must be deposited at the offices of Computershare Investor Services plc, PO Box 1075, The Pavilions, Bridgwater Road Bristol BS99 3FA not less than 48 hours before the time for holding the meeting A Form of Proxy is enclosed with this notice Completion and return of the Form of Proxy will not preclude ordinary shareholders from attending and voting in person at the meeting

(4) Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, the Company specifies that only those shareholders registered in the register of members at the time 48 hours before the time for holding the meeting (or, in the event of an adjournment the time which is 48 hours before the adjourned meeting) shall be entitled to attend or vote at the meeting in respect of the number of shares registered in their name at that time Changes to entries on the relevant register of securities after the time 48 hours before the time for holding the meeting (or in the event of an adjournment the time which is 48 hours before the adjourned meeting) shall be disregarded in determining the rights of any person to attend or vote at the meeting

(5) In the case of joint holders, the vote of the senior who tenders a vote whether in person or by proxy will be accepted to the exclusion of the votes of the other joint holders and for this purpose seniority will be determined by the order in which the names stand in the register of members of the Company in respect of the relevant holding

(6) A copy of the US Share Incentive Plan and copies of all Directors service contracts will be available for inspection at the offices of Morrison & Foerster CityPoint, One Ropemaker Street London EC2Y 9AW for at least 15 minutes prior to and at the meeting

(7) The register of the interests of the Directors (and their families) in the share capital of the Company shall be produced at the commencement of the meeting and remain open and accessible during the continuance of the meeting to any person attending the meeting

(8) In order to facilitate voting by corporate representatives at the meeting, arrangements will be put in place at the meeting so that (i) if a corporate shareholder has appointed the Chairman of the meeting as its corporate representative with instructions to vote on a poll in accordance with the directions of all the other corporate representatives for that shareholder at the meeting who have been appointed in respect of different parts of the holding of that corporate shareholder then on a poll those corporate representatives will give voting directions to the Chairman and the Chairman will vote (or withhold a vote) in respect of each different part of the shareholding as corporate representative in accordance with the directions he has received from such corporate representatives in relation to the respective parts of the shareholding in respect of which they are each appointed or (ii) if more than one corporate representative for the same corporate shareholder attends the meeting but the corporate shareholder has not appointed the Chairman of the meeting as its corporate representative, a designated corporate representative will be nominated, from those corporate representatives who attend, who will vote on a poll in accordance with the directions he receives from the other corporate representatives in respect of the parts of the corporate shareholders shareholding in respect of which such corporate representatives have each been appointed Corporate shareholders are referred to the guidance issued by the Institute of Chartered Secretaries and Administrators on proxies and corporate representatives – www.icsa.org.uk – for further details of this procedure The guidance includes a sample form of representation letter if the Chairman is being appointed as described in (i) above

## EXPLANATORY NOTES TO BUSINESS OF THE ANNUAL GENERAL MEETING

**Resolution 1** – The Directors' Report, Audited Accounts and Independent Auditors' Report for the financial year ended 31 March 2008 will be presented to shareholders for approval

**Resolutions 2 and 3** – In accordance with article 122 of the articles of association of the Company, which requires that at every annual general meeting at least one third of the directors for the time being retire from office by rotation, having so retired by rotation in accordance with article 122, each of the following directors is standing for re-election by the shareholders at the Annual General Meeting

- Dr Paul Bernard Harper, who is a Non-executive Director of the Company
- Mark James Docherty, who is a Non-executive Director of the Company

**Resolution 4** – At every general meeting at which accounts are presented to shareholders the Company is required to appoint auditors to serve until the next such meeting PricewaterhouseCoopers LLP have confirmed that they are willing to continue as the Company's auditors for the next financial year The Company's shareholders are asked to reappoint them and, following normal practice, to authorise the Directors to determine their remuneration, which will, in accordance with the Company's practice concerning good corporate governance, be subject to the recommendations of the Audit Committee

**Resolution 5** – This resolution approves the US Share Incentive Plan In December 2007 455,000 options were granted by the Board to certain US employees and consultants, subject to the approval of the US Share Incentive Plan by the Company's shareholders A summary of the terms of the US Share Incentive Plan is given below

**Resolution 6** – This resolution increases the authorised share capital of the Company by the creation of 250,000,000 new Ordinary Shares The increase in the authorised share capital is required so as to accommodate, amongst other matters, potential future issues of Ordinary Shares on conversion of Loan Notes in accordance with the terms of the Loan Note Instrument Loan Notes (and accrued interest thereon) are convertible into Ordinary Shares at the then prevailing market share price, capped at 8 25 pence per share No conversion is permitted unless, amongst other conditions, the approval of the Panel on Takeovers and Mergers has been obtained in accordance with the whitewash procedure set out in Appendix 1 to the Takeover Code (save where such conversion would not result in any person being required to make an offer under Rule 9 of the Takeover Code in any event)

**Resolution 7** – This resolution grants the Directors authority to allot shares, subject to the normal pre-emption rights reserved to shareholders contained in the Companies Act 1985 and limited (other than in respect of the Permitted Allotments) to an amount up to one third of the issued share capital of the Company

**Resolution 8** – This limits the ability of the Company to issue shares free of pre-emption rights Sub-paragraph (i) of Resolution 8 allows the disapplication of pre-emption rights in respect of the Permitted Allotments In addition, sub-paragraph (ii) of Resolution 8 allows the disapplication of pre-emption rights to allow the issue of shares to existing shareholders, for example, by way of a rights issue or open offer The limit imposed in respect of the grant of options pursuant to sub-paragraph (iii) of Resolution 8 represents 10% of the issued share capital of the Company The limit imposed in respect of the general disapplication pursuant to sub-paragraph (iv) of Resolution 8 represents 20% of the issued share capital of the Company The Directors consider it important that they have the authorities set out in sub-paragraphs (iii) and (iv), which would allow them to grant options and issue shares to incentivise employees, directors and consultants and to issue shares generally for other purposes

**Resolution 9** – Provisions of the Companies Act 2006 which are now in force enable companies to communicate with members electronically and/or by website communications This resolution will amend the articles of association of the Company to permit it to give notice to its members by way of website communication The Board believes that giving notice in this way will be cost effective and convenient for members who have access to the internet The ability of the Company to give notice to its members through placing notices on its website is subject to certain safeguards (i) There is nothing to compel the members to receive notices in this way The Company is required to give members notice of its intention to do so and if any members shall notify the Company within 28 days of the notice being sent that they object they will continue to receive notices in hard copy form by post or to such electronic address as such member may have supplied to the Company for such purpose However, those members who do not object within such 28 day period will be deemed to have consented to being sent notices by means of a website Should this Resolution 9 be passed the Company intends, as soon as reasonably practicable thereafter, to give notice concerning its providing future notices by way of website communication, (ii) On each occasion that the Company places a notice on its website it must notify all members of the presence of the notice on the website, the address of the website, the place on the website where it may be accessed ad details of how to access the notice Such notification must be given to each member in hard copy form by post or to such electronic address as such member may have supplied to the Company for such purpose, and (iii) a member may at any time revoke his or her agreement or deemed agreement to receive notice by means of website communication

**Summary of US Share Incentive Plan**

The US Share Incentive Plan was adopted by the Board in December 2007, subject to shareholder approval within 12 months from the date of its adoption, with the intention of enabling the Company to provide equity incentivisation arrangements to employees, consultants and directors of the Company and other members of the group, including in particular ReNeuron, Inc , who are located in the United States This summary is subject to the detailed terms of the US Share Incentive Plan which will be available for inspection as described in note 6 to the Notice of the 2008 Annual General Meeting

*(a) Limits on awards*

The US Share Incentive Plan contains the following limits on the number of new Ordinary Shares which may be issued as a result of options awarded under the US Share Incentive Plan

(i) The number of Ordinary Shares which may be placed under option under the US Share Incentive Plan and any other employees' share scheme in any 10 year period may not exceed 10 per cent of the Company's issued ordinary share capital

(ii) The number of Ordinary Shares which may be placed under option under the US Share Incentive Plan and any other employees' share scheme of the Company in any 10 year period may not exceed 5 per cent of the Company's issued ordinary share capital This 5 per cent limit may be extended (within the 10 per cent all schemes limit above) if the exercise of the option in question is dependent on the achievement of an appropriately stretching performance target

Options granted prior to admission of the Company to trading on the AIM market of the London Stock Exchange and certain replacement options granted in respect of option arrangements which existed prior to such admission (being 2,521,680 outstanding options in aggregate) are not included in any of the above limits

An individual employee may not on be granted options with an aggregate market value exceeding 200 per cent of his annual remuneration for the 12 months prior to the grant date In addition, the maximum aggregate number of options which may be awarded under the US Share Incentive Plan is limited to 7,000,000 options (with an additional individual limit of 3,000,000 options in respect of any individual)

*(b) Exercise price*

The exercise price payable for each Ordinary Share subject to an option shall be determined by the Remuneration Committee and may be any price but, shall not be less than the market value of an Ordinary Share at the date of grant and, in all cases, where the option will be satisfied by the issue of new shares, shall not be less than the nominal value of an Ordinary Share

*(c) Performance targets*

The award of options under the US Share Incentive Plan may be subject to performance targets as will be determined by the Remuneration Committee

*(d) Exercise of options*

Subject to the satisfaction of any performance target, options will normally be exercisable in whole or in part at any time between the third anniversary (or such later date specified in the option agreement) and the tenth anniversary of the date on which the option was granted and if not exercised by the tenth anniversary of the date of grant will lapse

If an option holder ceases to be engaged in continuous service within the ReNeuron group, in certain special termination circumstances, including disability, retirement, redundancy or the option holder being employed by a company or undertaking which ceases to be part of the ReNeuron group, he may exercise options in the six months (or such other period as determined by the Remuneration Committee and set out in the award agreement) after cessation of his service or, in the case of his death, 12 months thereafter (or such other period as determined by the Remuneration Committee and set out in the award agreement) If the option holder ceases to so engaged in continuous service within the ReNeuron group in any other circumstances, any options granted to him will lapse if not exercised within 30 days following the cessation of his service, subject to a discretion of the Remuneration Committee to allow for a longer exercise period

*(e) Change of control*

In the event of a takeover, reconstruction, amalgamation or voluntary winding up of the Company, option holders may exercise their options Unless the Remuneration Committee determines otherwise, options are only exercisable to the extent any performance-based vesting conditions attaching to the options have been satisfied Additionally, if an acquiring company so permits, option holders may release their options for equivalent options over shares in the acquiring company

*(f) Period and modification*

The US Share Incentive Plan shall continue for a period of 10 years (ending December 2017) The Board may at any time amend, suspend or terminate the US Share Incentive Plan, provided that no such amendment may be made without shareholder approval to the extent such approval is required by applicable laws

ReNeuron

*pioneering stem cell therapeutics*

# RENEURON GROUP PLC

## (the "Company")

## FORM OF PROXY

For use at an Annual General Meeting of the Company to be held at the offices of Morrison & Foerster, 7th Floor, CityPoint, One Ropemaker Street, London EC2Y 9AW, on 19 September 2008 at 10 00 a m

I/We (block capitals)

of

being (a) holder(s) of shares of £0 01 each in the capital of the Company, hereby appoint the Chairman of the meeting or

(note 1)

as my/our proxy to vote for me/us and on my/our behalf at the Annual General Meeting of the Company to be held on 19 September 2008 and at any adjournment thereof

I/We direct my/our proxy to vote in the manner indicated by an X in the appropriate column Unless otherwise indicated, or upon any matter properly put before the meeting but not referred to below, my/our proxy may exercise his discretion as to how he votes and whether or not he abstains from voting The proxy will be used only in the event of a poll being directed as demanded On a show of hands, only those shareholders present in person will be entitled to vote

| Summary of Resolutions | | For | Against |
|---|---|---|---|
| 1 | To receive Directors' Report, Audited Accounts and Independent Auditors' Report for the financial year ended 31 March 2008 | | |
| 2 | To reappoint Dr Paul Bernard Harper as a Director | | |
| 3 | To reappoint Mark James Docherty as a Director | | |
| 4 | To reappoint PricewaterhouseCoopers LLP as auditors of the Company and to authorise the Directors to determine their remuneration | | |
| 5 | To approve the US Share Incentive Plan | | |
| 6 | To increase the authorised share capital of the Company | | |
| 7 | Subject to the passing of Resolution 6, to authorise the Directors of the Company pursuant to section 80 of the Companies Act 1985 to allot relevant securities up to an aggregate nominal amount of £3,958,324 66 provided that, other the Permitted Allotments, such authority shall be limited to the allotment of relevant securities up to an aggregate nominal amount equal to £513,891 78 | | |
| 8 | Subject to the passing of Resolution 7, to authorise the Directors to allot equity securities as if section 89(1) of the Companies Act 1985 did not apply in relation to allotments representing (i) the Permitted Allotments, (ii) allotments to existing shareholders (and, if determined by the Directors, the holders of CS Warrants), (iii) up to 10% of the issued capital by way of options (or otherwise) to the employees, consultants and/or directors of the Company and/or its subsidiaries, and (iv) up to 20% of the issued capital for general purposes | | |
| 9 | To amend the articles of association in relation to website communications | | |

Dated 2008 Signature(s)

**Notes**

(1) If you wish to appoint a proxy other than the Chairman of the meeting insert his name in the space provided and delete "the Chairman of the meeting or A proxy need not be a member of the Company

(2) In the case of a corporation this proxy must be given under its common seal or signed on its behalf by a duly authorised officer or attorney

(3) To be effective this Form of Proxy and any authority under which it is executed (or a notarially certified copy of such authority) must be deposited at the offices of Computershare Investor Services plc, PO Box 1075 The Pavilions Bridgwater Road, Bristol BS99 3FA not less than 48 hours before the time for holding the meeting Completion and return of the Form of Proxy will not preclude shareholders from attending and voting in person at the meeting

(4) Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001 the Company specifies that only those shareholders registered in the register of members at the time 48 hours before the time for holding the meeting (or, in the event of an adjournment, the time which is 48 hours before the adjourned meeting) shall be entitled to attend or vote at the meeting in respect of the number of shares registered in their name at that time Changes to entries on the relevant register of securities after the time 48 hours before the time for holding the meeting (or in the event of an adjournment the time which is 48 hours before the adjourned meeting) shall be disregarded in determining the rights of any person to attend or vote at the meeting

(5) In the case of joint holders, the vote of the senior who tenders a vote whether in person or by proxy will be accepted to the exclusion of the votes of the other joint holders and for this purpose seniority will be determined by the order in which the names stand in the register of members of the Company in respect of the relevant holding

first fold

third fold and tuck in

BUSINESS REPLY SERVICE
LICENCE NO: SWB 1002

COMPUTERSHARE INVESTOR SERVICES PLC
PO BOX 1075
THE PAVILIONS
BRIDGWATER ROAD
BRISTOL
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# ReNeuron

*pioneering stem cell therapeutics*

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