

THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. If you are in any doubt about the contents of this document, you should consult a person authorised under the Financial Services and Markets Act 2000 who specialises in advising on the acquisition of shares and other securities.

Application has been made for the Ordinary Shares, both issued and to be issued pursuant to the UK Placing and US Private Placement, and the Warrants to be admitted to trading on AIM, a market operated by the London Stock Exchange ("AIM"). The Ordinary Shares and the Warrants are not dealt on any other recognised investment exchange and no application has been or is being made for the Ordinary Shares and Warrants to be admitted to any such exchange.

AIM is a market designed primarily for emerging or smaller companies to which a higher investment risk tends to be attached than to larger or more established companies. AIM securities are not admitted to the Official List of the United Kingdom Listing Authority. A prospective investor should be aware of the risks of investing in such companies and should make the decision to invest only after careful consideration and, if appropriate, consultation with an independent financial adviser. Further it is emphasised that no application is being made for the admission of the Ordinary Shares and Warrants to the Official List of the United Kingdom Listing Authority. Neither the London Stock Exchange nor the UK Listing Authority has itself examined or approved the contents of this document. It is expected that dealings in the Ordinary Shares and Warrants will commence on 12 August 2005.

Prospective investors should read the whole text of this document and should be aware that an investment in the Company is speculative and involves a higher than normal degree of risk. The attention of prospective investors is drawn in particular to the section entitled "Risk Factors" set out in Part 4 of this document. All statements regarding the Company's business, financial position and prospects should be viewed in light of these risk factors.

The directors of the Company, whose names appear on page 3 of this document, accept responsibility for the information contained in this document including individual and collective responsibility for compliance with the AIM Rules. To the best of the knowledge and belief of the Directors (who have taken all reasonable care to ensure that such is the case), the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information. In connection with this document and/or the invitation contained in it, no person is authorised to give any information or make any representation other than as contained in this document.

ReNeuron Group plc

(Incorporated in England and Wales under number 5474163)

Placing and private placement of 38,000,000 new Ordinary Shares of 10p each at 25p per share and 1 Warrant for every 2 new Ordinary Shares

Admission to trading on AIM

Nominated Adviser and Broker Collins Stewart Limited

EXPECTED SHARE CAPITAL (immediately following Admission)

Authorised			Issued and fully paid	
Amount	Number		Amount	Number
£13,000,000	130,000,000	Ordinary Shares of 10p each	£9,354,793.2	93,547,932

The New Ordinary Shares will rank in full for all dividends or other distributions hereafter declared, made or paid on the ordinary share capital of the Company and will rank *pari passu* in all respects with all other Ordinary Shares which will be in issue on completion of the UK Placing and US Private Placement.

Collins Stewart is regulated in the United Kingdom by the Financial Services Authority and is acting exclusively for ReNeuron Group plc and no-one else in connection with the UK Placing and Admission. Collins Stewart will not regard any other person (whether or not a recipient of this document) as its customer or be responsible to any other person for providing the protections afforded to customers of Collins Stewart nor for providing advice in relation to the transactions and arrangements detailed in this document. Collins Stewart is not making any representation or warranty, express or implied, as to the contents of this document.

Collins Stewart has been appointed as nominated adviser and UK broker to the Company. In accordance with the AIM Rules, Collins Stewart has confirmed to the London Stock Exchange that it has satisfied itself that the Directors have received advice and guidance as to the nature of their responsibilities and obligations to ensure compliance by the Company with the AIM Rules and that, in its opinion and to the best of its knowledge and belief, all relevant requirements of the AIM Rules have been complied with. No liability whatsoever is accepted by Collins Stewart for the accuracy of any information or opinions contained in this document or for the omission of any material information, for which it is not responsible.

This document comprises an admission document prepared in accordance with the AIM Rules. It does not constitute a prospectus for the purposes of the Prospectus Rules of the Financial Services Authority and has not been delivered to the Registrar of Companies in England and Wales. Copies of this document will be available free of charge during normal business hours on any weekday (except Saturdays, Sundays and public holidays) at the offices of Collins Stewart, 9th Floor, 88 Wood Street, London EC2V 7QR from the date of this document for the period of one month from Admission.

This document does not constitute an offer to issue or sell or the solicitation of an offer to buy securities in any jurisdiction in which such an offer or solicitation is unlawful. The Ordinary Shares, the Warrants and any Ordinary Shares that may be issued pursuant to the Warrants have not been and will not be registered under the US Securities Act of 1933, as amended (the "Securities Act") or under the applicable state securities laws of the United States or under the applicable securities laws of Canada, Japan, the Republic of Ireland or Australia. Accordingly, subject to certain exceptions, the Ordinary Shares, the Warrants and any Ordinary Shares that may be issued pursuant to the Warrants may not be offered or sold or subscribed, directly or indirectly, within the United States, Canada, Japan, the Republic of Ireland or Australia or to or by any US Person (as such term is defined in Regulation S promulgated under the Securities Act) or any national, resident or citizen of Canada, Japan, the Republic of Ireland or Australia or any corporation, partnership or other entity created or organised under the laws thereof. This document should not be distributed to persons with addresses in the United States, Canada, Japan, the Republic of Ireland or Australia or to any corporation, partnership or other entity created or organised under the laws thereof, where such distribution may lead to breach of any law or regulatory requirements.

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DIRECTORS, SECRETARY AND ADVISERS

Directors	Professor Trevor Mervyn Jones <i>Non-executive Chairman</i> Michael Elliott Hunt <i>Chief Executive Officer</i> Dr John David Sinden <i>Chief Scientific Officer</i> Mark James Docherty <i>Non-executive Director</i> Dr Paul Bernard Harper <i>Non-executive Director</i>
Company Secretary	Michael Hunt
Registered Office	10 Nugent Road Surrey Research Park Guildford Surrey GU2 7AF
Nominated Adviser and UK Broker to the Company	Collins Stewart Limited 9th Floor 88 Wood Street London EC2V 7QR
US Private Placement Agent	Harris Nesbitt Corp. 3 Times Square New York, NY 10036
Auditors and Reporting Accountants	PricewaterhouseCoopers LLP Abacus House Castle Park Cambridge CB3 0AN
Solicitors to the Company	Morrison & Foerster MNP City Point One Ropemaker Street London EC2Y 9AW
Solicitors to the Nominated Adviser and UK Broker and the US Private Placement Agent	Ashurst Broadwalk House 5 Appold Street London EC2A 2HA
Patent Agents	Gill Jennings & Every Broadgate House 7 Eldon Street London EC2M 7LH
Experts	Wood Mackenzie Kintore House 74-77 Queen Street Edinburgh EH2 4NS
Bankers	Barclays Bank plc PO Box 326 28 Chesterton Road Cambridge CB4 3UT
Financial PR Consultants	Financial Dynamics Holborn Gate 26 Southampton Buildings London WC2A 1PB
Registrars	Computershare Services plc PO Box 82 The Pavilions Bridgwater Road Bristol BS99 7NH

DEFINITIONS

The following definitions apply throughout this document, unless the context otherwise requires:

“Act”	the Companies Act 1985 (as amended);
“Admission”	the admission of the Ordinary Shares, issued and to be issued pursuant to the UK Placing and US Private Placement, and the Warrants to trading on AIM becoming effective in accordance with the AIM Rules;
“AIM”	a market operated by the London Stock Exchange;
“AIM Rules”	the rules for AIM companies and their nominated advisers issued by the London Stock Exchange;
“Audit Committee”	the audit committee of the Board;
“Board” or “Directors”	the board of directors of the Company from time to time;
“Business”	the business of the Group;
“Cil Biotec”	Cil Biotec S.A.;
“Collins Stewart”	Collins Stewart Limited of 9th Floor, 88 Wood Street, London EC2V 7QR;
“Combined Code”	the Combined Code on Corporate Governance issued by the Financial Reporting Council;
“Committed Shares”	the 6,000,000 Ordinary Shares to be subscribed by Merlin Biosciences immediately prior to Admission at a price per share equal to the Placing Price;
“Company” or “ReNeuron”	ReNeuron Group plc;
“Contractual Options”	the contractual options granted to certain employees of the Group, as described in paragraph 7.3 of Part 10 of this document;
“CREST”	the system of paperless settlement of trades and the holding of uncertificated securities administered by CRESTCo Limited;
“Executive Directors”	the executive directors of the Company, namely, Dr. John Sinden and Michael Hunt;
“Financial Services Authority” or “FSA”	the Financial Services Authority of the UK in its capacity as the competent authority for the purposes of FSMA;
“FSMA”	the Financial Services and Markets Act 2000 of England and Wales, as amended;
“First Merlin Loan”	a loan facility agreement between Merlin Biosciences and ReNeuron Holdings Limited dated 29 November 2004, further details of which can be found in paragraph 9.2 of Part 10 of this document;
“Group” or “ReNeuron Group”	the Company and its Subsidiaries;
“Harris Nesbitt”	Harris Nesbitt Corp.;
“Listing Rules”	the rules relating to admission to the Official List;
“London Stock Exchange”	London Stock Exchange plc;
“Merlin Biosciences”	Merlin Biosciences Fund L.P. and Merlin Biosciences Fund GbR, acting by their general partner and managing partner (respectively), Merlin General Partner II Limited;

“Merlin Fee Arrangement”	the arrangement pursuant to which the Merlin Fund will accept the issue of new ordinary shares in ReNeuron Limited in settlement of a fee payable to the Merlin Fund and agree to exchange those shares for 67,068 fully paid Ordinary Shares, further details of which can be found in paragraph 9.1 of Part 10 of this document;
“Merlin Fund”	The Merlin Fund L.P., acting by its general partner, Merlin General Partner Limited;
“Merlin Loans”	the First Merlin Loan and the Second Merlin Loan;
“Merlin Warrants”	the 3,000,000 Warrants to be issued to Merlin Biosciences immediately prior to Admission pursuant to the Subscription Deed;
“Model Code”	the model code on directors dealings in AIM securities as set out in Annex 1 to Listing Rule 9 of the Listing Rules;
“New Articles”	the Articles of Association of the Company adopted conditional, <i>inter alia</i> , upon Admission becoming effective on or before 15 October 2005, by special resolution of the shareholders of the Company passed at an extraordinary general meeting on 1 August 2005;
“New Ordinary Shares”	the 27,200,000 new Ordinary Shares to be allotted pursuant to the UK Placing and 4,800,000 new Ordinary Shares to be allotted pursuant to the US Private Placement (excluding, for the avoidance of doubt, the Committed Shares), in each case such allotment being conditional on Admission;
“New Share Option Scheme”	the Employee Share Option Scheme to be adopted conditionally upon Admission, further details of which can be found in paragraph 7.2 of Part 10 of this document;
“Nominated Adviser and Broker Agreement”	the agreement dated 4 August 2005 between the Company and Collins Stewart relating to Collins Stewart acting as nominated adviser and UK broker to the Company, further details of which are set out in Part 10 of this document;
“Nominations Committee”	the nominations committee of the Board;
“Non-executive Directors”	the non-executive directors of the Company, namely Professor Trevor Jones, Mark Docherty and Dr Paul Harper;
“Official List”	the official list of the UK Listing Authority;
“Old Share Scheme”	the ReNeuron Holdings Limited Unapproved Share Option Scheme adopted on 23 June 2004, further details of which can be found in paragraph 7.1 of Part 10 of this document;
“Ordinary Shares”	ordinary shares of 10p each in the capital of the Company;
“Placing”	the UK Placing and the US Private Placement;
“Placing Price”	25p per Ordinary Share payable under the UK Placing, US Private Placement and the subscription for the Committed Shares;
“Prospectus Rules”	the rules made for the purposes of Part VI of FSMA in relation to offers of securities to the public and admission of securities to trading on a regulated market;
“Remuneration Committee”	the remuneration committee of the Board;
“Replacement Options”	means options over 2,321,680 Ordinary Shares to be granted to certain employees and consultants of the ReNeuron Group pursuant to its New Share Option Scheme, further details of which are set out in paragraph 7.2.3 of Part 10 of this document;

“Reporting Accountants”	PricewaterhouseCoopers LLP of Abacus House, Castle Park, Cambridge CB3 0AN;
“Second Merlin Loan”	a loan facility agreement between Merlin Biosciences and ReNeuron Holdings Limited dated 28 April 2005, further details of which can be found in paragraph 9.3 of Part 10 of this document;
“Shareholders”	holders of Ordinary Shares;
“Share Option Schemes”	the Old Share Scheme and the New Share Scheme;
“StemCells Agreement”	the subscription and share exchange agreement between the Company, ReNeuron Limited, ReNeuron (UK) Limited, the existing shareholders of the Company and StemCells, Inc. dated 1 July 2005, further details of which can be found in paragraph 9.5 of Part 10 of this document;
“Subscription Deed”	the subscription deed dated 4 August 2005 between the Company and Merlin Biosciences, further details of which are set out in paragraph 9.7 of Part 10 of this document;
“Subsidiary”	as defined in sections 736 and 736A of the Act;
“UK” or “United Kingdom”	the United Kingdom of Great Britain and Northern Ireland;
“UK Placing”	the conditional placing of the New Ordinary Shares and Warrants pursuant to the UK Placing Agreement;
“UK Placing Agreement”	the conditional agreement dated 4 August 2005 between Collins Stewart, the Company and the Directors, relating to the UK Placing, further details of which are set out in Part 3 and paragraph 8.1 of Part 10 of this document;
“US” or “United States”	the United States of America, its territories and possessions, any state of the United States of America and the district of Columbia;
“US Placement Agent Engagement Letter”	the engagement letter dated 4 August 2005 between Harris Nesbitt and the Company relating to the US Private Placement, further details of which are set out in paragraph 8.4 of Part 10 of this document, as amended;
“US Private Placement”	the conditional private placement in the US of 4,800,000 New Ordinary Shares and Warrants at the Placing Price pursuant to the US Purchase Agreements
“US Purchase Agreements”	the securities purchase agreements each dated 4 August 2005 pursuant to which certain institutional “accredited investors” within the meaning of Rule 501(a)(1), (2), (3) or (7) under the US Securities Act of 1933, as amended, in the US Private Placement have, subject to certain conditions, entered into binding commitments with the Company to subscribe for New Ordinary Shares and Warrants, further details of which are set out in paragraph 8.5 of Part 10 of this document;
“VCT”	Venture Capital Trusts; and
“Warrants”	warrants to subscribe for Ordinary Shares, the particulars of which appear in Part 9 of this document.

GLOSSARY

The following terms apply throughout this document, unless the context otherwise requires:

accessory cells	Cells that support photoreceptors in the retina
adventitious	Occurring spontaneously or accidentally in an area other than where it usually occurs
age-related macular degeneration ('AMD')	A retinal degenerative disease causing progressive loss of central vision
allogeneic	Being derived from a different individual (different genes), but from the same species
assay	A specific test designed to measure a response to a test substance or the concentration or effectiveness of the test substance
autologous	Being derived from the same organism
basal ganglia	Grey matter near the base of the cerebral hemispheres, involved in the subconscious regulation of voluntary movement
Batten disease	A fatal, inherited disorder of the nervous system that begins in childhood
CBER	Center for Biologics Evaluation and Research, FDA
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	A continuous growing cell culture that is stable. Usually clonal or derived from a single cell
Cerebral hemispheres	The respective halves of the upper part of the brain
CNS	Central nervous system
cortex	The outer surface of the brain referred to as the "grey matter"
diabetes	A disease characterised by absolute or relative insulin insufficiency and high blood sugar
differentiation	The maturation of a stem cell into a functional cell
dopamine	A chemical which carries signals from one nerve cell to another in the brain, including in those regions where movement is controlled
dopaminergic neurons	Nerve cells releasing dopamine. Loss of dopaminergic neurons is a feature of Parkinson's disease
drug screening	The process by which large numbers of compounds are evaluated in assay systems to choose the most promising for further development
DTI	Department of Trade and Industry
electrophysiology	The Study of the electrical conductivity of a cell
endogenous	Developing or originating within the organism or arising from causes within the organism
FDA	Food and Drug Administration

Framework 5	Sets out priorities for EU funded research, technological development and demonstration activities
glycaemic	The effect of different foods on blood sugar levels over a period of time
GLP	Good Laboratory Practice, a system of guidelines to ensure quality in the pre-clinical work
GMP	Good Manufacturing Practice, a system of guidelines to ensure manufacturing quality
growth factor	A specific substance that must be present in the organism's tissues (when <i>in vivo</i>) or growth medium (when <i>in vitro</i>) in order for the growth-factor-specific cells to grow/multiply
hepatocytes	The main functional cell type of the liver
high-throughput application	Technology which allows for chemical testing of samples in a rapid fashion
Huntington's disease	An inherited adult-onset disease of the brain characterised by dementia and involuntary movements. The disease is progressive and there is currently no known cure
immortalisation	The ability of a cell line to reproduce indefinitely
immunosuppressive	A drug that lowers the body's resistance to infection and other foreign bodies by suppressing the immune system
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
infarction	The changes in an organ when an artery is suddenly blocked, leading to the formation of a dense mass of dead tissue in the part of the organ supplied by the artery
ischaemia	Lack of blood and therefore oxygen in a part of the body, due to contraction, spasm, constriction or blocking of the arteries
islet cells	Insulin producing cells in the pancreas
<i>in vitro</i>	Within a glass, observable in a test tube, in an artificial environment
<i>in vivo</i>	Within the living body
karyotype	The ordering of chromosomes in a cell
MHRA	Medicines and Healthcare products Regulatory Agency
MI	Myocardial Infarction
molecule	The result of two or more atoms combining by chemical bonding
neuroepithelial	Derived from neuroepithelium
neuroepithelium	The early stages of development of the brain
neuropathies	Diseases or conditions of the nerve cells
neurotoxicology	The science that investigates the relationship between exposures to chemical or physical agents and adverse effects in the nervous system
neural stem cells/brain stem cells	Cells within the brain which can both make more of themselves and mature into neurons and glia (supporting cells)

neurodegenerative	A varied assortment of CNS disorders characterised by gradual and progressive loss of neural tissue
neurons	A nervous system cell able to conduct electrical impulses
oncogene	A gene that can release a cell from the normal restraints of its growth and which may play a role in the development of cancer
organoids	An organisation of cells into an organ-like structure. Organoids can be generated in culture. They are also found in certain tumours
Orphan Drug status	Status granted by the FDA or other relevant regulatory authority which provides certain development, registration and marketing incentives, for development of treatments of small (under 200,000 per annum in the United States) incidence conditions
Parkinson's disease	A progressive neurological disease of older people characterised by tremor, difficulty in movement and speech
peptide	An organic compound consisting of a chain of two or more amino acids linked together by peptide bonds
Phase I	The assessment of the safety of a biologically active substance in volunteers
Phase II	The assessment in patients of a drug to determine dose range and preliminary efficacy
photoreceptors	A nerve ending, cell, or group of cells specialised to sense or receive light
pluripotent	Stem cells which can develop into any of the three major tissue types
polymer	A molecule possessing regular, repeating, covalently bonded smaller units called monomers
pre-clinical tests	Tests carried out on a candidate drug or therapy, manufactured to meet regulatory guidelines, to ensure product safety and quality prior to commencing studies in humans
proof-of-concept	Pre-clinical or clinical (eg Phase I or Phase II) results demonstrating that a candidate drug or therapy is effective
protein	An organic polymer consisting of many linked amino acids
regenerative medicine	Medical therapies designed to fully or partially restore damaged parts of the human organism and to support the regeneration of damaged organs. The goal is to support and activate the natural healing resources of the body in order to achieve a full restoration of health by means of a one-time treatment
retinitis pigmentosa ('RP')	A group of inherited eye diseases causing the degeneration of photoreceptor cells in the retina
scalability	The ability to expand cell numbers to large quantities
somatic	Pertaining to or characteristic of the soma or body

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
thrombolytic agents	Compounds with the property of breaking up blood clots in the circulatory system
T-lymphocytes	A category of cells involved in the body's immune system
tissue engineering	The application of principles and methods of engineering and life sciences toward fundamental understanding and development of biological substitutes to restore, maintain and improve tissue functions. A sub-discipline of Regenerative Medicine
toxicology	The scientific study of the chemistry, effects, and treatment of poisonous substances
Type1 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
validation	Establishing documented evidence which provides a high degree of assurance that a specific process will consistently produce a product meeting pre-determined specifications and quality characteristics
ventral mesencephalon	The surface of the small section of the brain stem linking the hindbrain to the forebrain

PLACING STATISTICS

Placing Price per New Ordinary Share and per Committed Share	25p
Number of Ordinary Shares in issue prior ⁽¹⁾ to the UK Placing, US Private Placement and subscription for Committed Shares	55,547,932
Number of New Ordinary Shares	32,000,000
Number of Committed Shares	6,000,000
Number of Ordinary Shares in issue immediately following Admission ⁽¹⁾	93,547,932
Number of Warrants in issue immediately following Admission	19,000,000
Estimated net proceeds of the UK Placing, US Private Placement and subscription for the Committed Shares ⁽²⁾	£8.3 million
Proportion of enlarged issued ordinary share capital being placed pursuant to the UK Placing and the US Private Placement and being subscribed for in the way of the Committed Shares	40.6 per cent.
Market capitalisation at the Placing Price on Admission ⁽¹⁾	£23.4 million

EXPECTED TIMETABLE OF PRINCIPAL EVENTS

Publication of this document	4 August 2005
Admission and commencement of dealings in the Ordinary Shares on AIM	12 August 2005
CREST accounts credited in respect of the New Ordinary Shares and Warrants	12 August 2005
Despatch of definitive share and warrant certificates (where applicable)	19 August 2005

(1) Includes the 5,165,000 Ordinary Shares to be issued to StemCells, Inc. pursuant to the terms of the StemCells Agreement described at paragraph 9.5 of Part 10 of this document.

(2) Estimated net proceeds of the UK Placing, US Private Placement and subscription for Committed Shares are after deduction of the expenses.

KEY INFORMATION

Introduction

The ReNeuron Group is a leading, UK-based adult stem cell therapy business. The Group is applying its novel stem cell platform technologies in the development of ground-breaking stem cell therapies to serve significant and unmet or poorly-met clinical needs.

Stem cells have significant potential beyond their use in cell therapy treatments for disease. The Directors believe that the use of the Group's stem cell lines in these areas will provide key advantages over other cell types currently used. The potential market for stem cell and tissue engineering is estimated to exceed \$10 billion by 2013¹.

Strategy & Business Model

The Group's primary goal is to build a leading stem cell therapy business by applying its platform technology in the development of both therapeutic and non-therapeutic products. To achieve this aim, the Group's business strategy seeks to derive maximum value from the Group's technology assets and resources whilst reducing business risk.

The strategy has the following key elements:

- The development of therapeutic products based on the Group's stem cell technologies, targeted at diseases such as stroke where these technologies have the greatest chance of delivering clinical benefit; and
- The development of sustainable near-term revenue streams through the exploitation of the Group's technologies in non-therapeutic drug discovery/screening applications.

The Group operates a business model, which supports out-sourcing much of its development work to contract manufacturing and clinical research organisations. Given the nature of the diseases concerned, the Group intends to seek fast-track regulatory status for its therapies wherever possible. The Group intends to out-license its therapeutic programmes to commercial development partners at clinical proof-of-concept or earlier, in exchange for up-front, milestone and royalty payments as the therapy concerned progresses through to market. Early-stage research and development collaborations with academic and commercial partners also form a critical part of the Group's overall strategy.

The Group is looking to derive near-term revenue from licensing its stem cell lines in non-therapeutic applications (its *ReNcell* product), both to provide endorsement of the Group's technologies as well as to contribute to the funding of the therapeutic programmes. The Group will also seek to maximise the revenue potential of its technology platforms by out-licensing, where appropriate, the use of these platforms in therapeutic applications outside the Group's areas of focus.

Finally, the Group is also looking at the possibility of providing cell scale-up and supply services for other stem cell companies, which would leverage the Group's technology, expertise and contacts in this area, and provides further revenue opportunities in the medium term.

The Group's internal management team is supported by an experienced Clinical Advisory Board and a number of consultants who bring specific and vital expertise to the Group.

Product Pipeline

The Group has five therapeutic products in development, as follows:

<i>Product</i>	<i>Lead Indication</i>	<i>Status</i>
ReN001	Stroke	Late pre-clinical
ReN005	Huntington's Disease	Pre-clinical
ReN002	Type 1 Diabetes	Research
ReN003	Retinal Diseases	Research
ReN004	Parkinson's Disease	Research

¹"Tissue Engineering and Stem Cell Technology Report 2003 – 2013" by Visiongain

ReN001

Based on pre-clinical proof-of-concept data, the Group is taking its lead stem cell line forward towards clinical trials as a treatment for patients suffering chronic disability post-stroke. The Group hopes to generate sufficient data to support an application for fast track status, allowing as early a market launch as possible. This programme is in late pre-clinical testing, and following a positive review by the US FDA of its pre-IND development plan, the Group intends to file for approval to commence clinical trials in the first half of 2006, a potential milestone event in the field.

ReN005

Huntington's disease is an uncommon, inherited and fatal neurodegenerative disorder. Due to the relatively small patient population, the Group intends to target its cell therapy treatment for Huntington's disease exclusively as an Orphan Drug status treatment, leading to a more rapid development process. The cell line being taken forward in the ReN005 programme shows pre-clinical efficacy in models of both stroke and Huntington's disease, and therefore also serves as a back-up cell line for the ReN001 stroke programme. This programme is in pre-clinical development, with initial UK clinical trials planned within the next two years.

ReN002

Type 1 diabetes, which accounts for 15 per cent. of all diagnosed cases of diabetes, currently requires obligatory daily insulin injections. The Group is working with a European technology partner, Cil BioTech, to develop a treatment consisting of pancreatic stem cell aggregates, or 'organoids', suitable for implantation into Type 1 diabetes patients. Once implanted, it is hoped that these organoids will secrete insulin and restore normal glycaemic function, offering a potential one-off cure for the disease. This programme is at the research stage, and the Group expects to obtain pre-clinical proof-of-concept data with ReN002 in the first half of 2006.

ReN003

Retinal degenerative diseases, such as retinitis pigmentosa and age-related macular degeneration are a major cause of blindness in the Western world. In conjunction with the Institute of Ophthalmology, the Group is developing novel retinal stem cell lines to clinical standard as a potential cell therapy treatment for degenerative diseases of the retina. The Group's academic partners have already demonstrated the viability of this programme in early experimental work on a CNS sourced cell line. The Group is currently deriving its own human retinal stem cell lines ahead of pre-clinical efficacy testing, the results of which are expected (at the earliest) in the first half of 2006.

ReN004

Parkinson's disease is a progressive neurodegenerative disease of the brain associated with a deficiency of the chemical dopamine in the brain. The Group intends to take a dopaminergic stem cell line into development as a cell therapy treatment for patients with advanced disease who are no longer responding to drug therapy. The Group has developed candidate stem cell lines that can be induced by a proprietary process to generate highly enriched dopaminergic neurons. The Group is working with a UK technology partner, RegenTec Limited, to develop that company's scaffold platform as a novel cell delivery system to enhance dopaminergic cell survival and differentiation *in vivo*. This programme is at the research stage, with pre-clinical efficacy data expected at the earliest in the first half of 2006.

Non-therapeutic products

The Group has developed and is marketing two of its neural stem cell lines, *ReNcell VM* and *ReNcell CX*, as assay tools in drug discovery applications. These cell lines exhibit electrophysiological and other characteristics which the Directors believe give them a unique competitive edge when compared with existing cell lines typically used in drug discovery applications. The Group has developed a unique human liver cell line, *ReNcell HEP*, for use in the pharmaceutical industry as a toxicology screening tool.

Progress to date

The Group has applied its novel platform technologies in therapeutic and non-therapeutic applications. The ReN001 stroke programme has the potential to be the first clinical stage neural stem cell programme addressing a major CNS indication.

The Group has secured a number of key commercial and academic partnerships and pipeline agreements to provide the necessary expertise to drive the programmes forward, and has been awarded a number of grants, most recently a £2.2 million consortium grant under the DTI Technology Programme.

The Group has secured a key collaborative, cross-licence agreement with StemCells, Inc. ("SCI"), a leading publicly-quoted US adult stem cell company. This collaboration gives the Group exclusive access to SCI's pioneering and extensive neural stem cell patent portfolio for use in the Group's areas of therapeutic focus, and gives SCI exclusive access to the Group's stem cell platform technology for use in SCI's areas of therapeutic focus, which are different from those of the Group.

The Group's *ReNcell* lines are currently under evaluation for various *in vitro* uses by a number of commercial and academic organisations, and the Group is in late-stage discussions with a leading US reagent supplier with a view to a worldwide distribution licence to these products.

Details of the Placing

The UK Placing, which is being underwritten and the US Private Placement, which is not being underwritten, and the subscription for the Committed Shares, which is not being underwritten, will raise approximately £8.3 million, net of expenses, for the Group. The net proceeds will be used to fund late pre-clinical development and the initial costs of the first clinical trials with respect to the ReN001 stroke programme, ongoing research and/or pre-clinical development of the Group's other therapeutic programmes, and other working capital requirements.

Summary trading record and prospects for the Group

The Directors' primary goal is to use the funds raised at IPO to take the Group's lead stem cell programme for stroke into clinical trials in 2006, aiming to gain clinical data by mid to late 2007. In parallel the Company will push forward with the pre-clinical development of its other therapeutic pipeline products targeting treatment of Huntington's disease, Type 1 diabetes, retinal disease and Parkinsons disease.

The Directors believe that it is also possible to develop near term revenues through the sale or out-license of the Group's *ReNcell* lines for drug discovery and other non-therapeutic applications.

To date, no dividends have been declared or paid by the Company. The current intention of the Directors is that any earnings will be retained in the Company.

PART 1

INFORMATION ON THE GROUP

INTRODUCTION

The ReNeuron Group is a leading UK-based adult stem cell therapy business. The Group is applying its novel stem cell technologies in the development of ground-breaking stem cell therapies to serve significant and unmet or poorly-met clinical needs.

The Company is a newly incorporated company which has been formed for the purpose of acquiring the ReNeuron group of companies and to seek admission to trading on AIM. The Company has never traded or carried on any activities save that on 21 June 2005 the Company agreed to acquire all of the shares in ReNeuron Holdings Limited by way of a share-for-share exchange.

BACKGROUND TO 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. The Group'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 in one form is a proven curative medicine. It has actually been in existence for many decades. The most common example is bone marrow cell therapy in leukaemia patients. Less well-known treatments include the transplantation of islet (insulin-producing) cells for diabetes, and bone and cartilage cell grafts for 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 or 'doublings'. Consequently, cell therapy treatments using mature cells have not been successfully developed for large-scale clinical applications because of the consequential 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 cells that give rise to other types of cells. 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. Stem cells can and have been transplanted into the human brain, for example, using stereotactic injection methods, which are performed under local anaesthetic and require at most a short hospital stay. Similar approaches would apply where other organs are being treated.

MARKET OPPORTUNITY

The potential market for stem cell and tissue engineering is estimated to exceed \$10 billion by 2013¹.

¹ "Tissue Engineering and Stem Cell Technology Report 2003-2013" by Visiongain.

Stem cell therapy offers 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 the quality of life in sufferers. They consequently represent major healthcare costs, particularly in terms of long-term social care. There are no treatments that effectively address the causes of these diseases.

Type I diabetes represents 15 per cent. of the diabetes patient population. The disease affects young people and leads to the progressive destruction of the pancreas, with complications such as blindness, neuropathies, kidney and liver problems. Treatment consists of insulin replacement therapy and diet management. There is no effective cure.

Degenerative diseases of the retina, such as age-related macular degeneration (AMD) and retinitis pigmentosa (RP), represent some of the most common causes of blindness. Again, there is no effective treatment which will regenerate the damaged retina.

Stem cell transplantation therapy offers the potential of cures for these diseases and many others. The Directors believe that the Group is positioned to play a leading role in developing treatments to realise this potential.

TECHNOLOGY

The Group is developing a stem cell platform technology with the intention of generating human stem cell lines for therapeutic and non-therapeutic applications.

The Group also has a unique proprietary and highly efficient stem cell expansion technology, *c-mycER^{TAM}*. This platform enables, from a single tissue sample, the growth of selected human stem cells into banks of stable stem cell lines. The *c-mycER^{TAM}* platform has multi-national patent protection, including in the most commercially significant countries, and is fully regulated by way of a chemically-induced safety switch. Cell growth can therefore be completely arrested prior to *in vivo* implantation.

In conjunction with the *c-mycER^{TAM}* platform, the Group has developed a unique screening platform that enables the selection of optimal stem cell lines for further development in the relevant disease indication. Selection criteria include cell phenotype, ability to expand into large-scale culture, and capacity to engraft, with minimal immune rejection by the host, in the relevant disease model.

The Group produces its stem cell lines to quality assured standards, such that scale-up for clinical use can occur without the need for re-derivation of those lines. The Group's stem cell lines can be frozen and thawed with very high viability, providing the basis for a dosage form for use in a clinical setting.

The Group has tested a number of its neural stem cell lines in a series of validated rodent efficacy models of stroke and Huntington's disease, with positive results. The efficacy data are being prepared for publication in leading peer-reviewed journals and were presented at the Society of Neuroscience and American Neurological Association meetings in October 2004. To the best of the Directors' knowledge, this was the first disclosure of positive animal model data using stable, expanded neural stem cells, thus providing evidence of the Group's strong competitive position in the field.

The Group is applying its *c-mycER^{TAM}* platform in the generation of stem cell lines relevant to the diseases the Group has targeted for its stem cell therapies. These programmes are described in the section titled 'Therapeutic Product Portfolio and Pipeline' below.

Stem cells have significant potential beyond their use in cell therapy treatments for disease. They can, for instance, be used in the drug discovery process as a screening tool against which drug candidates can be screened for toxicity. The Group has generated data demonstrating that certain of its stem cell lines exhibit the unique characteristics necessary for them to perform a key role in these non-therapeutic applications. The Directors believe that the use of the Company's stem cell lines in these areas will provide certain key advantages over other cell types currently used. The Group's activities in this area are described in the section titled 'Non-therapeutic Activities' below.

CORPORATE STRATEGY

The Group's primary goal is to build a leading stem cell therapy business by applying its platform technology in the development of both therapeutic and non-therapeutic products.

The Group is operating in a frontier area of medical science with immense clinical and commercial potential but also considerable risk. The Directors believe that the Group is well-placed to exploit this potential despite being at a relatively early stage in its development. Also working to the Group's advantage is the fact that, as a UK-based enterprise, it operates in one of the world's most supportive regulatory environments in which to conduct stem cell research and development.

The Group's business development strategy has therefore been formulated in view of the above factors and which seeks to exploit the Group's competitive advantages to derive maximum value whilst reducing business risk.

The strategy has the following key elements:

- The development of therapeutic products based on the Group's stem cell technologies, targeted at diseases such as stroke where these technologies have the greatest chance of delivering clinical benefit; and
- The development of sustainable near-term revenue streams through the exploitation of the Group's technologies in non-therapeutic drug discovery/screening applications.

The Directors have allocated resource to the Group's therapeutic programmes in a way that recognises the relative risk associated with each programme and in a way that will derive maximum technology validation and value enhancement in the near term. Therefore, the ReN001 stem cell programme for stroke is being heavily resourced through late pre-clinical development as a lead programme based on positive pre-clinical proof-of-concept data in this indication.

Recognising its limited internal resources in these areas, the Group intends to out-source scale-up, manufacture, and late pre-clinical development of its therapeutic products. Relationships with contract manufacturing and contract research organisations have already been established with respect to the Group's lead stem cell programmes.

In common with many small biopharmaceutical companies, the Group intends to adopt a risk-sharing approach by out-licensing its therapeutic programmes to development partners at clinical proof-of-concept or earlier, depending upon the programme concerned. Final decisions on out-licensing strategy for the Group's therapeutic programmes will be taken nearer the points at which pre-clinical or clinical proof-of-concept are expected, and will be dependent upon available funds at the time, success to date with the particular programme concerned and level of interest from potential commercial partners. The Group's therapeutic programmes have already attracted early interest from a number of pharmaceutical companies.

The Group is looking to derive near-term revenue from licensing its stem cell lines in non-therapeutic applications (its *ReNcell* product), and is in late-stage discussions with a leading US reagent supplier in this respect. Adoption of the Group's non-therapeutic products by commercial organisations and academia will provide endorsement of its technologies as well as contribute to the funding of the therapeutic programmes.

The Group will also seek to maximise the revenue potential of its technology platforms by out-licensing, where appropriate, the use of these platforms in therapeutic applications outside the Group's areas of focus. A cross-licence deal has been secured with StemCells, Inc. ('SCI'), a leading US stem cell player, giving SCI access to the Group's *c-mycER^{TAM}* platform for use in SCI's areas of therapeutic focus, which differ from those of the Group.

Finally, the Group is also looking at the possibility of providing cell scale-up and supply services for other stem cell companies, which would leverage the company's technology, expertise and contacts in this area, and provides further revenue opportunities in the medium term.

The Group will also seek project-specific funding in the form of grants where available. The Group has benefited in the past from grants from both UK (DTI) and European (Framework 5) sources. The Group was most recently awarded a share of a £2.2 million consortium grant under the DTI Technology Programme.

The Group will also pursue acquisition, joint-venture or in-licensing opportunities as they arise, to accelerate progress towards its strategic goals.

THERAPEUTIC PRODUCT PORTFOLIO AND PIPELINE

The Group's therapeutic product pipeline consists of five programmes, summarised in the table below:

<i>Product</i>	<i>Lead Indication</i>	<i>Status</i>
ReN001	Stroke	Late pre-clinical
ReN005	Huntington's Disease	Pre-clinical
ReN002	Type 1 Diabetes	Research
ReN003	Retinal Diseases	Research
ReN004	Parkinson's Disease	Research

Stroke (ReN001)

Based on positive pre-clinical proof-of-concept data, the Group is taking its lead stem cell line forward towards clinical trials as a treatment, ReN001, initially for patients suffering chronic disability post-stroke. It is envisaged that these patients would be treated between 3 and 12 months after the stroke event by the implantation of these stem cells into the damaged area of their brain so as to regenerate it. The Group hopes to generate sufficient data to support an application for fast track status, allowing as early a market launch as possible. It is anticipated that late-stage clinical development and marketing would be out-licensed to a development partner.

The Directors believe that ReN001 could represent the first clinical-stage neural stem cell therapy project for a significant CNS disease. One reason for the importance of this programme from the Group's perspective is that it will set the major regulatory precedents for the programmes that follow.

Development Status

ReN001 is the Group's most advanced stem cell therapy programme. The lead cell line for ReN001 has been banked at the Group's selected contract manufacturing organisation, and the late pre-clinical toxicology/safety programme has commenced.

The Group has commenced discussions with the CBER division of the FDA concerning the pre-clinical programme for ReN001. These discussions have been encouraging and have enabled the pre-clinical programme to be planned in detail with high confidence of acceptance by the regulators. A formal pre-IND meeting with the FDA was held in July 2005 at which no significant deviations from the current plan or its timetable arose. The Group is planning meetings with the equivalent European regulatory authorities.

Dependent upon the results of late pre-clinical testing and the ongoing regulatory process, the Group expects to file for approval to commence clinical trials with ReN001 in the first half of 2006, with initial Phase I/II clinical trials commencing by the end of that year if approval is given. However, due to the ground-breaking nature of the treatment, both from a medical and regulatory perspective, it is difficult to predict accurately the timelines associated either with this programme or indeed the Group's other therapeutic programmes. However, the Directors believe that the Group's predicted programme timelines are realistic.

Market Opportunity

There are an estimated 50 million¹ survivors of stroke worldwide with the number of new cases in these markets growing at 7 per cent. per annum due principally to an aging population. Approximately 30 per cent. of stroke patients require ongoing nursing care, estimated to cost between \$40 billion² per annum in the US alone.

¹ Scrip 2001, 2653, 20

² National Stroke Association Press Release, 1 August 2001

The Company estimates that of the stroke survivors, 20 per cent. are potential candidates for stem cell transplantation therapy. Existing drug treatments serving these patients are limited and seek to address the effects rather than the cause of the condition.

Huntington's Disease (ReN005)

Due to the relatively small patient population, the Group intends to target its cell therapy treatment for Huntington's disease, ReN005, exclusively as an Orphan Drug status treatment, which would lead to a more rapid marketing approval.

The cell line being taken forward in the ReN005 programme shows pre-clinical efficacy in models of both stroke and Huntington's disease, and therefore also serves as a back-up cell line for the ReN001 stroke programme.

Development Status

The Group has already generated positive functional efficacy data in rodent models of Huntington's disease. In conjunction with its consortium partners under the recently awarded UK DTI Technology Programme grant, the Group is currently pursuing cell banking and further pre-clinical development of ReN005. UK-based academics are currently being approached with a view to undertaking a funded clinical trial for ReN005 within the next two years. The Directors envisage that further clinical and commercial development would be undertaken by a licensing partner.

Assuming Orphan Drug status is granted for ReN005 and dependent upon pre-clinical and clinical data, the Group could have an approved stem cell therapy treatment available for Huntington's disease patients within five years. This stem cell line may also have the potential to be taken into development for other conditions such as traumatic brain injury and motor neurone disease.

Market Opportunity

Huntington's disease is an uncommon, inherited, progressive and fatal neurodegenerative disorder. In the US, approximately 20,000 to 30,000 patients show overt signs of the disease, with a further 80,000 genetically at risk.¹ There are no existing treatments for the cause of the disease.

Type 1 Diabetes (ReN002)

Type 1, or early onset, insulin-dependent diabetes currently requires obligatory daily insulin injections, leading to further complications such as blindness, neuropathies and kidney or liver problems.

The Group is working with a Belgian biotechnology company, Cil Biotech, to develop a treatment, ReN002, consisting of pancreatic stem cell aggregates, or 'organoids', which will be suitable for implantation into Type 1 diabetes patients. Once implanted, these organoids are designed to secrete insulin and restore normal glycaemic function, offering a potential one-off cure for the disease.

A joint development programme has been developed with Cil Biotech to validate the combined technology and take ReN002 forward to pre-clinical proof-of-concept. The Directors intend that the programme would be out-licensed to a larger development partner at clinical proof-of-concept stage, ahead of late stage clinical testing and full market approval for ReN002 as a cell therapy treatment for Type 1 diabetes.

Development status

Cil Biotech has demonstrated pre-clinical efficacy with the organoid technology using porcine (pig) pancreatic cells. The Group has now derived human pancreatic cell lines under quality assured standards consistent with GLP standards, and these cells show the required functional features of islet cells, such as pro-insulin (a pre-cursor to insulin) secretion. The Group is also working with a leading academic group in the field at Kings College London in order to fully characterise the cells using the appropriate functional assays.

¹ Stem cell and Progenitor Cell Therapy, March 2002 (page 93)

Pre-clinical proof-of-concept data with ReN002 is expected in the first half of 2006. The pre-clinical programme for ReN002 is likely to be more extensive than that for the ReN001 stroke programme because the disease is not typically life-threatening and treatments exist to manage, if not cure, the disease. The risk-benefit analysis used by the regulatory agencies will therefore be different than that for stroke: as there are more treatment alternatives, more data is likely to be required before entering initial clinical trials.

Market Opportunity

Type 1 diabetes accounts for 15 per cent.¹ of all diagnosed cases of diabetes. In the US alone, there are estimated to be approximately one million sufferers, with 35,000 to 50,000 new cases diagnosed each year.

Recombinant insulin injection is the principal current treatment. A small number of patients receive pancreas transplants but donor organ supply is low and the immunosuppressant drug regimen required is problematic. Current islet cell transplant treatments performed under the Edmonton Protocol suffer from similar problems regarding donor cell supply and the immunosuppressive regimes involved.

Retinal Diseases (ReN003)

Retinal degenerative diseases, such as retinitis pigmentosa (RP) and age-related macular degeneration (AMD), are a major cause of blindness in the Western world. The use of stem cell technology in such diseases is especially attractive as it provides the potential not only to slow disease progression but also to reverse the loss of function through replacement of lost photoreceptors and accessory cells.

In conjunction with its academic partner, the Institute of Ophthalmology in London, the Group is pursuing a development programme, ReN003, to develop novel retinal stem cell lines to clinical standard as a potential cell therapy treatment for degenerative diseases of the retina. This programme is currently at the research stage. The Group intends that the ReN003 programme be out-licensed at entry to the clinic if interest from potential development partners can be secured at this stage. The commercial development partner would undertake all clinical testing ahead of full market approval of the treatment.

Development Status

The Group's academic partners have already demonstrated the viability of this programme in early experimental work on a CNS sourced cell line. The Group is currently deriving its own human retinal stem cell lines to its in-house quality system standards ahead of pre-clinical efficacy testing of ReN003, the results of which are expected in the first half of 2006.

The pre-clinical and clinical development programmes for ReN003 have yet to be fully evaluated. However, there are parallels with the ReN001 stroke programme in that AMD is seriously debilitating and as yet there is no cure. The risk/benefit analysis from the point of view of the regulators might therefore favour early access to patients. It has been assumed that the development programme will therefore be similar to that for stroke and similar timelines and costs have been assumed.

Market Opportunity

Patients blinded through disease have become one of the largest areas of unmet medical need; there are more than 45 million blind people worldwide.

AMD is the main cause of blindness in the elderly in the Western world, with 30 per cent. of the over-seventies in the US suffering AMD to varying degrees. Worldwide incidence of AMD is estimated at 25-30 million patients.² RP is one of the most common inherited causes of blindness in people aged between 20 and 60, affecting 1.6 million people worldwide.³

1 Aventis press release, August 2002

2 AMD Alliance Web page, 13 February 2002

3 Stem cell and Progenitor Cell Therapy, March 2002 (page 104)

There are currently no established treatments for retinal degenerative diseases, with existing therapies focussed on preventing further degeneration using antioxidants or vitamins. Experimental cell and gene therapies have been in existence for some time, however. Eye surgery is commonplace today, and surgeons in the field believe that cell transplantation therapies may be no more difficult than more conventional surgical treatments.

Parkinson's Disease (ReN004)

Parkinson's disease is a progressive neurodegenerative disease of the basal ganglia region of the brain, with tremor, rigidity and difficulty initiating movement being the most common symptoms.

The condition is associated with a deficiency of the chemical dopamine in the brain. The appropriate cell therapy treatment of patients suffering from Parkinson's disease is the introduction of purified dopamine-producing neurons into the patient's brain.

The Group intends to take a dopaminergic stem cell line into development as a cell therapy treatment, ReN004, for Parkinson's disease, targeted at those patients with advanced disease who are no longer responding to drug therapy. The Directors intend to apply for fast track or equivalent accelerated status for ReN004, with full clinical development being undertaken by a commercial development partner.

Development Status

The Group has developed candidate stem cell lines that can be induced by a proprietary process to generate highly enriched, physiologically active dopaminergic neurons. The Directors are not aware of any other group that has generated dopamine-producing cells at these concentrations.

Although neurons from these cell lines have been successfully grafted into rodent models, it is possible that a delivery system will ultimately be required for this project due to the low yield of dopaminergic neurons found in the grafts, a result that has been reported by other groups working in this area. In conjunction with its UK technology partner on this programme, RegenTec Limited, the Group is also developing a scaffold platform as a novel cell delivery system to enhance dopaminergic cell survival and differentiation *in vivo*.

The Group is deriving and selecting clinical grade candidate cell lines for efficacy testing in pre-clinical models of Parkinson's disease. Pre-clinical efficacy data with ReN004 is expected at the earliest in the first half of 2006, depending on whether a proprietary delivery system is indeed required.

Market Opportunity

The worldwide market for Parkinson's disease is currently worth approximately \$2 billion¹ and is dominated by drugs that raise the level of dopamine in the brain. In the US alone, some 500,000 to 1,500,000 patients² are affected and 50,000 new patients are added annually due to an ageing population.

NON-THERAPEUTIC ACTIVITIES

The Group is applying its technologies in non-therapeutic applications with the intention of generating near-term revenue streams which will contribute towards the funding of its therapeutic programmes.

ReNcell Lines for Drug Discovery & other Non-therapeutic Applications

The Group has developed and is marketing two of its neural stem cell lines as assay tools in drug discovery. The two lines have been designated *ReNcell VM*, derived from the ventral mesencephalon region of the brain, and *ReNcell CX*, derived from the cortex.

¹ Scrip's Yearbook 2002, 48

² Therapeutic Advances in Neurodegenerative Diseases, 2001 (page 127)

A series of specifications have been developed describing the ability of these lines to grow and retain stability after culturing, to differentiate readily into neurons, and for the derived neurons to show physiological properties indicative of mature neurons. The Directors believe these characteristics give the cell lines a unique competitive edge when compared with existing cell lines typically used in drug discovery applications. The lines are suitable for a range of cell-based electrophysiology, gene and protein expression, neurotoxicology and high-throughput or high-content applications within pharmaceutical discovery and screening operations.

The Group has developed a process for generating a high content of dopamine neurons from the *ReNcell VM* line, enabling its use in the development of dopamine neuronal assays specifically to test compounds being developed for Parkinson's disease. The results of this work were presented at the International Society for Stem Cell Research in Boston in July 2004.

The Group's *ReNcell* lines are currently under evaluation for various *in vitro* uses by a number of commercial and academic organisations, and the Group is in late-stage discussions with a leading US reagent supplier with a view to a worldwide distribution licence to these products.

Under a DTI-funded collaboration with the University of Surrey, the Group has also generated human hepatocyte (liver) cell lines showing functional metabolic markers, designated *ReNcell HEP*. The Group presented the first demonstration of its functional hepatocyte cell lines at the International Toxicology meeting in Tampere Finland in July 2004, and a patent has recently been filed in the UK.

To the best of the Directors' knowledge, a liver cell line with appropriate adult metabolic phenotypes is not currently available elsewhere and the Directors believe this product would be important to the pharmaceutical industry because of the essential requirement for liver drug metabolism and toxicology screening for all lead drug compounds.

The Group is also developing a version of its pancreatic cell lines for non-therapeutic applications, designated *ReNcell PILS*.

The characteristics of ReNeuron's *ReNcell* lines make them well suited for testing as an alternative to rodent primary cultures on biosensor chips. An evaluation programme using *ReNcell* lines is currently underway with a German biosensor chip developer, Bionas GmbH.

COMPETITION

Players within the cell therapy field consist largely of a number of smaller and mainly private companies, using either human embryonic stem cells or non-embryonic (adult) stem cells derived from bone marrow, umbilical cord blood or other human tissue. Certain cell therapies using donated, fully mature cells, such as islet cells, have reached clinical trials. However, the Directors are not aware of any pure stem cell treatments that have yet reached the clinic in the indications targeted by the Group.

Of the companies developing allogeneic (as opposed to autologous, or patient-specific) stem cell therapies, the Directors believe that it is the Group's approach, using its particular cell expansion technology, that offers the most effective and reliable route to the production of a consistent, stable, safe and efficacious stem cell product.

The Group's principal stem cell therapy competitors are listed below:

<i>Company</i>	<i>Cells</i>	<i>Targeted Indications</i>
Amcyte, Inc. (US)	Islet cells/adult pancreatic stem cells	Diabetes
CyThera, Inc.(US)	Embryonic stem cells	Diabetes, liver disease, Parkinson's disease, stroke, AMD
ES Cell International Pte Ltd (Singapore)	Embryonic stem cells	Parkinson's disease, diabetes

<i>Company</i>	<i>Cells</i>	<i>Targeted Indications</i>
Geron, Inc.(US)	Embryonic stem cells	Spinal cord injury, Parkinson's disease, heart disease, diabetes
NeuroNova AB (Sweden)	Adult stem cells	Parkinson's, spinal cord
Neuronyx, Inc. (US)	Adult stem cells	MI, spinal cord, stroke
NS Gene A/S (Denmark)	Adult stem cells	Parkinson's disease
StemCells, Inc. (US)	Adult stem cells	CNS diseases, liver disease, diabetes

As mentioned above, there are companies pursuing more conventional cell therapy treatments using donated, fully mature cells such as islet cells, rather than stem cells. Titan Pharmaceutical, Inc.'s clinical-stage Spheramine product for Parkinson's disease is an example of this. The Directors believe, however, that the Group's technologies offer potentially greater commercial potential than these alternative approaches, through the use of well-characterised clonal stem cell lines which can be selected and grown up to commercially viable quantities for large scale clinical use.

There are also a number of small molecule drugs and biologics in research and development to treat the disorders the Group is targeting. The markets concerned are significant and growing. Consequently, many of the large pharmaceutical companies have invested in programmes addressing one or more of these diseases.

However, these more conventional approaches generally address only the symptoms of the disease. The great promise of stem cell therapy is to reverse the effects of the disease and effectively cure the patient.

COLLABORATIONS

Collaborative arrangements with commercial and academic partners represent a critical part of the Group's activities, both currently and in the longer term. The Directors regard such collaborative activity as a critical part of the Group's strategy, both in terms of accessing and optimising technology approaches in the research phase, and in the subsequent commercial development of those technologies.

In terms of its research activities, the Group has long-standing research collaborative arrangements with the Kings College London and the Ludwig Institute for Cancer Research, giving it access to certain intellectual property arising at those institutions concerning the immortalisation and transplantation of human neuroepithelial and other cell types. The Group has further stem cell research collaborations through Medical Research Council funded studentship arrangements with Imperial College London and the University of Durham.

Within its development programmes, the Group has secured a key collaborative agreement with StemCells, Inc. ("SCI"), a leading publicly-quoted US adult stem cell company. This collaboration gives the Group exclusive access to SCI's pioneering and extensive neural stem cell patent portfolio for use in the Group's areas of therapeutic focus, and a well-resourced strategic partner based in California, US. California is highly supportive of stem cell research in the US and is likely to become an even more important scientific and commercial centre in the field. SCI gains a European collaborative partner and exclusive access to the Group's *c-mycER^{TAM}* technology for use in SCI's areas of therapeutic focus, different from those of the Group's. The financial milestones and royalties associated with this cross-licence arrangement are reciprocal. Further details of the collaborative agreement with SCI can be found in the Risk Factors section at Part 4 of this document or in the Additional Information section – "Material contracts" at Part 10 of this document.

The Group also has a collaborative agreement with Cil Biotech. The Group's pancreatic stem cells are being tested in Cil Biotech's microcarrier delivery system to produce the resultant pancreatic cell aggregates or organoids for implantation, the basis of the group's ReN002 therapy for Type 1 diabetes. In the ReN003 retinal disease programme, the Group is collaborating with the Institute of Ophthalmology in London, who are establishing the necessary assays and pre-clinical models in which the Group's retinal stem cell lines will be tested.

Within its non-therapeutic activities, the Group has a DTI funded collaboration with the University of Surrey to develop its *ReNcell HEP* hepatocyte cell lines.

Finally, the Group is the recipient and co-ordinator of the £2.2 million DTI Technology Programme bioprocessing grant involving Kings College London, RegenTec Limited and Angel Biotechnology Limited. Each collaborator on the grant brings specific expertise to the project, which seeks to develop stem cell scale-up methodologies, validated assays for stem cell identity and potency, novel stem cell delivery systems and surrogate markers of disease progression and stem cell-mediated efficacy.

DIRECTORS, CLINICAL ADVISORY BOARD AND EMPLOYEES

Directors

*Professor Trevor Jones CBE PhD DSc FKC FPS FRSC Hon FRCP FBPharmacoS (aged 62), 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, R&D Director at Wellcome plc. 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.

Michael Hunt BSc ACA (aged 42), Chief Executive Officer+*

Mr Hunt is the Chief Executive Officer, having been a director of the ReNeuron Group since January 2001. He joined ReNeuron Limited as Chief Financial Officer and was appointed Chief Operating Officer in September 2003 in addition to his duties as Finance Director. Prior to ReNeuron Limited, 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 studied economics at University College London and qualified as a chartered accountant with Ernst and Young. Mr Hunt will also, for the time being, maintain responsibility for the Group's financial operations.

Dr John Sinden BA MA PhD (aged 54), 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 Limited and lead investor of its platform technology. Prior to joining ReNeuron Limited 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 PhD 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.

*Mark Docherty BEng ACA (aged 41), 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 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 a non-executive director of four other biotechnology companies

Dr Paul Harper BSc PhD (aged 59), 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 Ltd to develop a drug device product.

Clinical Advisory Board

The Group has established a Clinical Advisory Board (“CAB”) whose principal objective is to advise management and monitor progress regarding the Group’s ReN001 stroke programme. It is envisaged that the constitution of the CAB will evolve as the Group’s other 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 Professor, Dept of Neurology, University of Michigan. He has held professional positions at Columbia University and the University of Michigan since 1970, and has held numerous editorial board positions on a range of Neurology journals. Amongst his advisory committee roles, he is the past Chairman of the FDA Peripheral and Central Nervous System Advisory Committee.

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 Thomas Freeman MD, FACS

Dr Freeman is Medical Director, Center for Aging and Brain Repair and Professor, Dept of Neurosurgery & Dept of Pharmacology and Experimental Therapeutics, University of South Florida. Dr Freeman has consulted for CBER in the design of clinical transplantation trials for neurological diseases and has led neurosurgical teams in a number of clinical trials involving cell transplantation for Parkinson’s and Huntington’s diseases.

Dr Douglas Kondziolka MD, MSc, FRCS, FACS

Dr Kondziolka is Professor and Vice Chairman, Dept of Neurological Surgery, University of Pittsburgh, Treasurer, Congress of Neurological Surgeons and President, International Stereotactic Radiosurgery Society. Dr Kondziolka has pioneered a number of neurological techniques and conducted the ground-breaking initial clinical trials of a cryopreserved cell therapy product, Layton Bioscience Inc.’s LBS Neurons, in stroke patients.

Dr Paul Sanberg PhD DSc

Dr Sanberg is Associate VP & Associate Dean, Biotechnology Development 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.

Senior Research and Development Management

Dr Kenny Pollock BSc PhD, Head of Cell Biology+

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.

Professor Jack Price BA PhD, 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, King's College London. He obtained a PhD 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.

Senior Scientific Staff

Dr Sara Patel BSc MSc PhD, Head of Histology

Dr Patel joined ReNeuron in September 1998 as Head of the Neuroimaging Department. She has 26 years of experience in Neuroscience (histology, MRI, electrophysiology and neuroanatomy), including 17 years in the Pharmaceutical and Biotechnology industries. Prior to joining ReNeuron, she was a senior scientist at SmithKline Beecham Pharmaceuticals. She graduated from Leeds with a degree in Pharmacology, and from Oxford with a Masters in Neuroscience, completed a PhD in Physiology at King's College, London and was a fellow at INSERM, Bordeaux, France.

Dr Paul Stroemer BSc PhD, 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 programs. He completed a PhD 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.

Dr Erik Miljan BSc PhD, Head of Biochemistry

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 apply his biochemical understanding of signal transduction to stem cells.

Dr Lara Stevanato BSc PhD, Head of Molecular Biology

Dr Stevanato obtained her PhD in Biotechnology from the University of Ferrara, Italy, where she also undertook post-doctoral research. Her core research interests were in gene therapy technologies for brain cancer. She joined ReNeuron in 2001 as a scientist investigator. She is currently project leader of the ReN002 diabetes programme.

Dr Andrew Hope BSc PhD, Head of Process Development

Dr Hope joined ReNeuron in September 2004. He was formerly a GLP study director at BioProducts Laboratory. Prior to joining ReNeuron, he obtained a PhD in Neuroscience from University College London before a post-doctoral research fellowship at the Department on Neuroscience at the Mayo Clinic, Jacksonville, Florida.

* denotes member of Board

+ denotes member of Management Committee

Employees

The Group currently employs 21 permanent employees, including the Executive Directors. In addition, the Group also uses the services of the CAB and a number of consultants. As the business develops, the Directors intend to recruit additional staff with appropriate research and development or commercial experience.

EMPLOYEE SHARE OPTION SCHEMES

The Directors recognise the vital role of its staff in contributing to the overall success of the Group and the importance of the Group's ability to incentivise and motivate its employees. Therefore, the Directors believe that employees should be given the opportunity to participate and take a financial interest in the success of the ReNeuron Group.

Details of options to be granted to the Executive Directors and a summary of the New Share Option Scheme and the Non-Executive Share Option Scheme are set out in paragraphs 7.2 and 7.4 of Part 10 of this document.

CORPORATE GOVERNANCE

The Directors support high standards of corporate governance and confirm that following Admission the Company intends, where practicable and having regard to the current stage of development of the Company, to comply with the main provisions of the principles of the Combined Code. The Company will adopt and operate a share dealing code for Directors and senior employees on substantially the same terms as the Model Code.

The Board has established an Audit Committee, Remuneration Committee and Nominations Committee with formally delegated duties and responsibilities. Upon Admission all of the Non-executive Directors will be members of these committees. Dr Paul Harper will chair the Audit Committee, Professor Trevor Jones will chair the Remuneration Committee and Mark Docherty will chair the Nominations Committee.

The Audit Committee will normally meet twice a year and has responsibility for, amongst other things, planning and reviewing the Group's annual report and accounts and interim statements and involve, where appropriate, the Group's auditors. The Committee will focus particularly 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 accounts and interim statement remains with the Board.

The Remuneration Committee, which will meet 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 Schemes and sets performance conditions which must be satisfied before options granted under the New Share Option Scheme can be exercised.

The Nominations Committee will have 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.

The latest edition of the Combined Code, issued by the Financial Reporting Council, (the "Combined Code") states that the board of directors of a UK public company should include a balance of executive and non-executive directors. Smaller UK public companies (being one that is below the FTSE 350 throughout the year immediately prior to the reporting year) should have at least two independent non-executive directors and one of those independent directors shall be appointed the senior non-executive director. The Board do not consider that any of the existing non-executive directors are independent for the purposes of the Combined Code. The Combined Code further provides that a majority of non-executive directors should be independent of management and free from any business or other relationship, which could materially interfere with the exercise of their independent judgement. The Group following Admission intends to appoint at least one independent non-executive director who will also act as the senior non-executive director.

INTELLECTUAL PROPERTY AND PATENTS

The Directors place great emphasis on the development and protection of the Group's intellectual property; an independent report on the Group's patents and patent applications is set out in Part 6 of this document.

The Group's patenting strategy is focussed on obtaining broad protection for its technologies, extension of patent life and territorial coverage. As part of this strategy, the Group has claimed composition of matter and method of treatment or therapeutic use of new stem cell lines as they are selected for, and progress to, clinical development and/or show functional features for non-therapeutic applications. Applications are focused on the US, Europe, Japan, Australia and Canada, as well as some smaller biotechnology-focused territories.

Importantly, the Group's cross-licence arrangement with StemCells, Inc. gives it exclusive access to that company's neural stem cell patent portfolio, acknowledged as one of the broadest in the field, with over 20 US patents/patent applications and over 120 patents/patent applications worldwide.

The Group has an interest in a number of patents regarding novel methods of human somatic cell immortalisation, developed through its joint research collaboration with the Ludwig Institute of Cancer Research (LICR). These patents do not relate to technologies being exploited under the Group's current strategy, but the Group hopes to derive near-term income from these patents by virtue of a licence arrangement between the LICR and the US reagent company, Cambrex Corporation.

MANUFACTURING

The Group itself has no manufacturing facilities and therefore is and will be dependent upon third parties for the scale-up and manufacture of its products to GMP standards.

PART 2

FINANCIAL INFORMATION, CURRENT TRADING AND PROSPECTS

Trading record of ReNeuron Holdings Limited

The following table, which has been extracted without material adjustment from the Accountants' Report contained in Part 8 of this document comprises financial information on ReNeuron Holdings Limited for the three years ended 31 March 2005. Prospective investors should read the whole of this document and should not rely solely on this summary.

	2003 £'000	2004 £'000	2005 £'000
Turnover	19	1	3
Cost of sales	—	—	—
Gross profit	19	1	3
Net operating expenses excluding exceptional items	(5,077)	(3,237)	(3,382)
Exceptional operating items	(330)	1,881	—
Net operating expenses including exceptional items	(5,407)	(1,356)	(3,382)
Other operating income	236	102	43
Operating loss	(5,152)	(1,253)	(3,336)
Interest receivable	271	112	53
Interest payable	—	—	(250)
Loss on ordinary activities before taxation	(4,881)	(1,141)	(3,533)
Tax credit on loss on ordinary activities	446	328	319
Loss on ordinary activities after taxation	(4,435)	(813)	(3,214)
Equity minority interests	—	1	—
Loss for the financial year	<u>(4,435)</u>	<u>(812)</u>	<u>(3,214)</u>
Loss per 10p ordinary share			
Basic and fully diluted	<u>(12.4)p</u>	<u>(2.3)p</u>	<u>(9.0)p</u>

Further financial information on the Group is set out in Parts 7 and 8 of this document.

Current trading and prospects

The Directors' primary goal is to use the funds raised at IPO to take the Company's lead stem cell programme for stroke into clinical trials in 2006, aiming to gain clinical data by mid to late 2007. In parallel the Company will push forward with the pre-clinical development of its other therapeutic pipeline products targeting treatment of Huntington's Disease, Type 1 Diabetes, Retinal and Parkinsons Disease.

The Directors believe that it is also possible to develop near term revenues through the sale or out-license of the Company *ReNcell* lines for drug discovery and other non-therapeutic applications.

To date, no dividends have been declared or paid by the Company. The current intention of the Directors is that any earnings will be retained in the Company.

Dividend policy

The Group has neither declared nor paid any dividends to date. The Board intends to commence the payment of dividends when it is commercially prudent to do so and subject to the availability of distributable reserves. The Board considers that during a period of growth, it is likely to be more prudent to retain cash generated to fund the expansion of the Group. The Directors do not anticipate that the Company will be paying dividends for the foreseeable future and certainly not until the Company's ability to generate cash is established and distributable reserves created to allow such payments.

PART 3

THE PLACING AND RELATED MATTERS

Reasons for the Placing and use of proceeds

The UK Placing, which is being underwritten, the US Private Placement, which is not being underwritten, and the subscription for Committed Shares, which is not being underwritten, will raise approximately £8.3 million, net of expenses, for the Company. The net proceeds will be used to fund ongoing pre-clinical work and the initial costs of the first clinical trials with respect to the ReN001 stroke programme, ongoing research and in pre-clinical development of the Group's other therapeutic programmes, and other working capital requirements.

The Directors believe that the Admission and raising of new funds is an important step in achieving the Group's objective in building a leading, clinical-stage stem cell therapy business.

In addition, the Directors believe that Admission will provide the Group with the ability to incentivise its employees through its Share Option Schemes, which will assist the Group in continuing to attract, retain and motivate high calibre employees.

Details of the UK Placing and US Private Placement

The Company is issuing New Ordinary Shares by way of the UK Placing and US Private Placement to institutional investors, together with the subscription for Committed Shares by Merlin Biosciences, to raise approximately £8.3 million net of expenses and will grant to each placee (and Merlin Biosciences in respect of the Committed Shares) a warrant to subscribe for 1 Ordinary Share for every 2 New Ordinary Shares subscribed for at a price of 30p per Ordinary Share. Further details of the Warrants are set out in Part 9 of this document. The New Ordinary Shares will represent approximately 34 per cent. of the enlarged issued share capital of the Company subsequent to the UK Placing, US Placing and subscription for the Committed Shares.

Further details of the UK Placing Agreement and the agreements relating to the US Private Placement are set out in paragraph 8 of Part 10 of this document.

The interests of the Directors and persons connected with them following Admission will amount, in aggregate, to 1.51 per cent. of the Company's issued ordinary share capital.

The New Ordinary Shares and Committed Shares will be issued fully paid and will, on issue, rank *pari passu* with the Ordinary Shares already in issue, including the right to receive, in full, all dividends and other distributions thereafter declared, made or paid.

Admission

It is expected that Admission will commence on 12 August 2005 and that definitive certificates in respect of the New Ordinary Shares and Warrants will be despatched on or before 19 August 2005.

Lock-in/Orderly market arrangements

The Directors Merlin Biosciences, Merlin Equity Limited, Merlin Ventures Limited, Helen Hodges, John Sinden, Michael Hunt, Martin Edwards, Paul Harper and Trevor Jones have entered into lock-in agreements with Collins Stewart in respect of 46,773,064 Ordinary Shares representing 50 per cent. of the issued share capital following the UK Placing, US Private Placement and subscription for the Committed Shares preventing such shareholders, subject to certain limited exceptions, making or attempting to make a disposal of shares (excluding any Committed Shares) held by them in the Company (or enter into a transaction with the same economic effect) until a period 12 months after Admission save with the prior written consent of the Company and Collins Stewart. After this time they will be required for a period of 6 months to trade in the shares of the Company (excluding any Committed Shares) through Collins Stewart (or the Company's then broker) for the purpose of preserving an orderly market in the shares of the Company. The Committed Shares are not subject to any lock-in or orderly market arrangements.

Future funding of the Group

The Group's future funding requirements to continue the development of its therapeutic programmes and to undertake and complete the clinical trials and commercialisation of its product candidates will be substantial and may require additional equity issues.

Under the UK institutional Pre-emption Guidelines, before issuing more than 5 per cent. of its issued ordinary share capital for cash other than on a pro-rata basis to existing shareholders, a UK company traded on AIM is required first to seek the consent of existing shareholders. This means companies must make pre-emptive offers such as rights issues and placings and open offers which, particularly following the implementation of the Prospectus Directive on 1 July 2005, are more time consuming and expensive than straight cash placings.

Having carefully considered the recommendations contained in the Myners' Report on pre-emption rights published in February 2005 (commissioned following representations from the biotechnology industry on ways to encourage industry growth), in order to maintain as much flexibility as possible to issue shares without further recourse to shareholders, the Board has obtained shareholders' authority to issue up to 10 per cent. of the issued share capital of the Company (following Admission) for cash on a non pre-emptive, non pro-rata basis. Further details of this authority can be found in paragraph 2.2.4 of Part 10.

CREST

CREST is a paperless settlement procedure enabling securities to be evidenced otherwise than by a certificate and transferred otherwise than by a written instrument in accordance with the Uncertificated Securities Regulations 2001. The articles of association of the Company permit the holding of Ordinary Shares and Warrants under the CREST system. All the Ordinary Shares and Warrants will be in registered form and no temporary documents of title will be issued. The Company has applied for the Ordinary Shares and Warrants to be admitted to CREST and it is expected that the Ordinary Shares and Warrants will be so admitted and accordingly enabled for settlement in CREST on the date of Admission. It is expected that Admission will become effective and dealings in Ordinary Shares and Warrants will commence on 12 August 2005. Accordingly, settlement of transactions in Ordinary Shares and Warrants following Admission may take place within the CREST system if any holder so wishes.

CREST is a voluntary system and holders of the Ordinary Shares and Warrants who wish to receive and retain certificates will be able to do so.

Taxation

Further information regarding United Kingdom taxation is set out in paragraph 10 of Part 10 of this document. If you are in any doubt as to your tax position, you should contact your professional adviser immediately.

Application has been made to the Inland Revenue for clearance that the Company is qualifying company for the purposes of the Venture Capital Trust ("VCT") legislation. The Company has received provisional confirmation to this effect. However, investors should note that the Company does not make any representations as to whether any investment in the Company will be one in respect of which tax relief under VCT will be available or that any such tax relief will not subsequently be withdrawn by virtue of the Company's future actions.

Further Information

Your attention is drawn to the further information set out in Parts 4 to 10 of this document.

PART 4

RISK FACTORS

An investment in the Ordinary Shares and Warrants is subject to a number of risks. The investment offered in this document may not be suitable for all of its recipients. An investment in the Group is only suitable for investors who are capable of evaluating the risks and merits of such investments and who have sufficient resources to bear any loss which might result from such investment. The risks described below may not be the only ones faced by the Group and in particular should be read in conjunction with the remainder of this admission document. Additional risks which are not presently known or are currently deemed immaterial may also impair the Group's business, financial condition or results of operations, and its prospects could suffer, in which case investors could lose all or part of their investment.

Unproven technology

The Group's technology is at an early stage of development. Additionally, stem cell transplantation treatments are largely unproven treatments for human disorders. As a result, the safety and effectiveness of the Group's technologies for the treatment of human disorders has not yet been established and its research and development activities may not result in commercially viable products, whether for many years or at all. This may be for a number of reasons, including that:

- these technologies may not prove to be safe and effective in pre-clinical or clinical trials;
- they may not be granted, or maintain, relevant regulatory approvals in a timely fashion or at all;
- the Group may not be able to secure and maintain sufficient intellectual property protection for them, and challenges may be made against the Group's relevant intellectual property;
- competitors may develop more attractive alternative products; and
- any products that are approved may not be accepted in the marketplace.

Product testing and regulatory approval

The clinical evaluation, manufacturing and marketing of the Group's products will be subject to regulation by government and regulatory agencies in all the countries in which it intends to test or market them, of particular importance is the requirement to obtain and maintain approval for all these products from the applicable regulatory authorities to enable them to be marketed. Such approval requires the clinical evaluation of data relating to the safety, quality and efficacy of a product. Many countries, including the United States and the United Kingdom, have very high standards of technical appraisal. Accordingly, this clinical trials process, and the obtaining of regulatory approval, are, in most cases, costly and very lengthy, and the time necessary to obtain regulatory approval, which varies among products and between countries, is affected by numerous factors, most of which are beyond the Group's control.

There can be no assurance that any of the Group's products will complete the required clinical trials process successfully or that regulatory approvals to manufacture and market its products will be obtained in a timely manner or at all; clinical trials have a high risk of failure and negative advanced clinical trial results can occur even after promising results in earlier trials. Furthermore, if regulatory approval is obtained, the relevant product, and its manufacture, will be subject to continual review and there can be no assurance that required approvals will not be withdrawn or restricted. Even if the Group receives regulatory approvals, once marketed its products may exhibit adverse effects that limit or prevent their widespread use or that cause the products to lose their approvals and force them to be withdrawn from the market. This risk may be increased where a product had been granted Orphan Drug status as a result of the more limited clinical

testing which may be conducted prior to marketing approval being granted, further post-clinical marketing studies for these products may be required and there can be no guarantee that such studies will corroborate the results of earlier trials. Furthermore, the market use of such products may show different safety and efficacy profiles to those demonstrated in the trials on which marketing approval was based. Such circumstances could lead to the withdrawal or suspension of marketing approval for affected products.

The Group faces additional risk in the commercialisation of its stem cell technology as no company has yet taken a stem cell therapy to the market place and many of the regulatory processes required for this commercialisation are undefined and still being explored by various committees and bodies. The exact regulatory requirements with respect to obtaining regulatory approval for stem cell technologies are largely unknown, such that the Group may be required to undertake especially substantial and costly work in this regard, which may be beyond its means. Political controversy also still surrounds the use of embryonic stem cells, which may have a knock-on effect for the Group despite its use of non-embryonic stem cells. Being a political issue, legislation may change over time and there can be no assurance that regulatory authorities will enable the Group's products to be approved and allow them to come to market. Changes in legislation or regulatory policies regarding a product or its manufacture may result in the imposition of restrictions on that product or its manufacture, even if previously approved, or may otherwise have an adverse effect on the Group's business.

There can also be no guarantee that the facilities at which the Group's products are manufactured or tested will achieve compliance with required standards to enable their use in trials or their approval for sale. In addition, there can be no guarantee that the regulations or policies applied by the regulatory authorities will not change and any such change may require the Group to undertake additional work, which may not be successful in complying with revised standards.

Use of stem cell tissue

The Group's research efforts involve, and are facilitated by, the immortalisation by the Group of human adult stem cell tissue. The Group currently receives tissue from a foetal tissue bank in California, USA. Continued receipt and use of this tissue depends on its continuing availability. If, for any reason, such availability ceased, the Group's business and research would be likely to suffer disruption in terms of the creation of new immortalised cell lines and the production of second generation products. Legislative changes could also affect the Group's exploitation of its existing cell lines.

Competition and market acceptance

The Group expects competition for those of its products and technologies which are under development currently. Competition may come from companies which have greater research, development, marketing, financial and personnel resources than the Group. Competitors may precede the Group in development and receiving regulatory approval or may succeed in developing products that are more effective or economically viable than products developed by the Group. Such activities could render the Group's technology or products obsolete and/or otherwise uncompetitive.

The success of the Group will also depend on the market acceptance of its products and there can be no guarantee that this acceptance will be forthcoming. Notwithstanding the technical merits of a product developed by the Group, there can be no assurance that medical practitioners will adopt such products as a standard means of medical practice or that the medical procedures at which the Group's products are targeted will maintain market acceptance. Even if the Group's products achieve market acceptance, the market may not be large enough to allow it to generate significant revenues. The failure of the Group's products to achieve market acceptance would prevent it from ever generating meaningful product revenues.

Your attention is drawn to the Experts' Report contained in Part 5 of this document.

Manufacturing

The Group's proposed products must be manufactured in commercial quantities, in compliance with regulatory requirements and at acceptable cost. The Group intends to out source the manufacture of its proposed products and there can be no assurance that the facilities or raw material supplies will be adequate to supply future demand for the Group's products.

Collaboration agreements

A key part of the Group's strategy is to establish drug development collaboration arrangements and marketing arrangements with third parties. If the Group is unable to enter into such arrangements at all or on terms acceptable to the Group, the Group will be unable to carry out its present business strategy.

The collaboration arrangement with SCI (details of which are set out in Part 1 of this document), will terminate if, prior to 1 October 2006, the Company does not raise at least £10 million (before expenses and including the gross proceeds of the UK Placing, US Private Placement and the subscription for Committed Shares), by the issue of further Ordinary Shares. The Directors believe that either through the exercise of Warrants or through further new investment that this provision will be satisfied. If the provision was not satisfied and the collaboration arrangement with SCI terminated it could have an adverse impact on the Group. The collaboration with SCI may also be terminated by either party on a change of control (defined by reference to person(s) obtaining direct or indirect control of more than 50 per cent. of voting security) of the other party.

Protection of patents and proprietary rights

The Group's ability to compete effectively with other companies depends, *inter alia*, on its generation, maintenance, protection and exploitation of its technology and its intellectual property relevant to that technology. However, competitors may have already developed, or may develop, substantially equivalent information or techniques, or otherwise gain access, to the Group's technology, or otherwise exploit its intellectual property.

The Group's patent applications now pending, or which may be applied for in the future, may not lead to patents being granted, and patents already granted, or which may be granted in the future, in respect of the Group's technology may not be sufficiently broad in their scope to provide protection for the Group against third party competition.

There cannot be any assurance as to the ownership, validity or scope of any patents which have been, or may in the future be, issued to the Group, or of its patent applications, or that the claims of its patents and patent applications will not be contested by other parties or that they will not be revoked or refused. Despite the efforts the Group may make to enforce its intellectual property, third parties may attempt to infringe, and succeed in infringing, it or to obtain and use information which the Group considers proprietary (it is likely to be very difficult, if not impossible, for the Group to police unauthorised use of its intellectual property). Substantial costs may be incurred, and resources divided, if the Group challenges the proprietary rights of others or is required to defend its own proprietary rights.

The commercial success of the Group will also depend upon its not infringing the intellectual property of third parties who may have filed applications, or who have obtained or may obtain patents, which might inhibit the Group's ability to develop or exploit its own technology or products. In particular, the Group may have to obtain alternative technology, or reach commercial terms, on the exploitation of other parties' intellectual property rights. There can be no assurance that the Group will be able to obtain alternative technology or, if any licences are required, that the Group will be able to obtain any such licence on terms acceptable to the Group, if at all, such that it may have to cease the development or use of affected technologies or expend significant resources in developing or acquiring alternative technologies. This could have a material adverse effect on the business of the Group. The Group may also have to pay significant damages and legal and other costs if it infringes third party intellectual property. Defending allegations of intellectual property infringement may also be extremely protracted and expensive, even if ultimately not proven.

Certain of the Group's proprietary technology is protected as confidential know-how. Whilst the Group endeavours to maintain the confidentiality of such information, there can be no guarantee that it will not be disclosed and thereby become available for use by competitors, or that competitors will not independently develop similar technology.

Your attention is drawn to the Patent Agents' Report in Part 6 of this document.

History of operating losses and accumulated deficit

The Group has a history of operating losses. The Company has not traded since its incorporation. As at 31 March 2005, ReNeuron Holdings Limited's operating losses as extracted from the Accountants' Report of ReNeuron Holdings Limited set out in Part 8 of this document were in excess of £10 million. The Group expects to incur further substantial operating losses for the foreseeable future as its research and development activities continue and increase. There can be no assurance that the Group will ever achieve significant revenues or profitability.

Product and environmental liability and insurance

The nature of the Group's business means that the Group may be exposed to potentially substantial liability for damages in the event of product failure or side effects. Any such liability could have a material adverse effect on the Group's business and financial condition. There can be no assurance that future necessary insurance cover will be available to the Group at an acceptable cost, if at all, nor that in the event of any claim, the level of insurance carried by the Group now or in the future will be adequate or that a product liability or other claim would not materially and adversely affect the business of the Group.

The Group's operations are also subject to environmental and safety laws and regulations, including those governing use of hazardous materials, such as biological materials. The cost of compliance with these and similar future regulations could be substantial and the risk of accidental contamination or injury from the biological and other hazardous materials with which it works cannot be eliminated. If an accident or contamination occurred, the Group would likely incur significant costs associated with civil damages and penalties or criminal fines, and in complying with environmental laws and regulations. The Group's insurance may not be adequate to cover the damages, penalties and fines that could result from an accident or contamination and the Group may not be able to obtain adequate insurance at an acceptable cost or at all.

AIM

The value of the Ordinary Shares and Warrants may go down as well as up. Furthermore, an investment in a share or other security that is traded on AIM is likely to carry a higher risk than an investment in a share or other security listed on the Official List.

The market price of the Ordinary Shares and Warrants may not reflect the underlying value of the assets of the Group. The market in the Ordinary Shares and Warrants may be illiquid or subject to sudden or large fluctuations and it may be difficult for investors to sell their Ordinary Shares and Warrants and they may receive less than the amount originally invested.

Share volatility and liquidity

The share price of publicly traded biotechnology companies can be highly volatile. The price at which the Ordinary Shares and Warrants will be quoted and the price which investors may realise for their Ordinary Shares and Warrants will be influenced by a large number of factors, some specific to the Group and its operations and some which may affect the quoted healthcare and pharmaceutical sector, or quoted companies generally. These factors could include the performance of the Group's research and development programmes, large purchases or sales of the securities, legislative changes in the healthcare environment and general economic conditions.

Admission should not be taken as implying that there will be a liquid market for the Ordinary Shares and Warrants. It may be more difficult for an investor to realise his investment on AIM than to realise an investment in a company whose shares or the securities are quoted on the Official List.

Pharmaceutical pricing environment

In common with other pharmaceutical companies, the ability of the Group and its partners to market its products successfully depends in part on the extent to which reimbursement for the cost of such products and related treatment will be available from government health administration authorities (including the US Medicaid and Medicare programs and the UK National Health Service), private health coverage insurers and other organisations. There is uncertainty as to the reimbursement status of newly approved healthcare products, and there is no assurance that adequate health administration or third party coverage will be available for the Group or its licensees to obtain satisfactory price levels to realise an appropriate return on its investment. In addition, there is increasing pressure by certain governments to contain health care costs by limiting both coverage and the level of reimbursement for new therapeutic products, and by refusing in some cases to provide coverage for uses of products for disease conditions for which the relevant regulatory agency has not granted marketing approval.

Requirement for additional funds

The Directors believe that the net proceeds of the UK Placing, US Private Placement and subscription for the Committed Shares will meet the Group's current funding requirements, that is for at least the next twelve months. However, the Group's future capital requirements to continue the development of its therapeutic programmes and to undertake and complete the clinical trials and commercialisation of its products will be substantial and may require additional equity issues. There can be no guarantee that the necessary funds will be available at the relevant time. If additional funds should be raised by issuing equity securities, dilution to the then existing shareholders may result.

Attraction and retention of key employees

Whilst the Group has entered into employment and/or consulting arrangements with each of its key personnel with the aim of securing their services, the retention of their services cannot be guaranteed. The loss of any member of the Group's senior management or key consultants could harm or delay the plans of the business either whilst management time is directed to finding suitable replacements or if no suitable replacement is available to the Group. In either case, this may have a material adverse effect on the future of the Group's business.

Currency risk

The Group expects to present its financial information in Sterling although part of its business will be conducted in US Dollars. As a result, it will be subject to foreign currency exchange risk due to exchange rate movements which will affect the Group's transaction costs and the translation of its results. The Directors intend minimising such risks, where appropriate, through the use of hedging or other financial instruments. However, there can be no guarantee that suitable arrangements will be available to the Group at an appropriate cost.

International Financial Reporting Standards

On 12 October 2004, AIM changed its regulatory status and it is now regulated by London Stock Exchange. Therefore, it is no longer a regulated market under European Union regulations. On 7 October 2004, London Stock Exchange issued guidance to Rule 17 of the AIM rules which states that London Stock Exchange intends to mandate International Financial Reporting Standards ("IFRS") for all AIM companies for financial years commencing on or after 1 January 2007. AIM companies are encouraged to prepare for this change well in advance of this date.

It is expected that there will be significant continuing developments in IFRS between now and the date of adoption of IFRS by the Company and consequently there is uncertainty about exactly what IFRS will require at that time.

In the meantime, the UK Accounting Standards Board is adopting a phased transition to the conversion of existing UK financial reporting standards ("UK FRS") to IFRS and as a result is in the process of issuing a number of new standards or revisions to existing standards over the next two years. However, it is likely that, by the IFRS implementation date set by London Stock

Exchange, UK FRS will not be fully aligned with IFRS. Therefore the transition of UK FRS to IFRS and/or the adoption of IFRS may have a material impact on the Group's financial position and reported results, although it is not possible for the Directors to quantify the impact at this time.

Restrictions on transfer of US Shares

All of the New Ordinary Shares and Warrants that are the subject of the US Private Placement have been conditionally subscribed for in transactions believed to be exempt from the registration requirements of the US Securities Act of 1933, as amended. The New Ordinary Shares and Warrants acquired in the US Private Placement together with the Ordinary Shares that may be issued pursuant to the Warrants will be subject to restrictions on transfer in the US and, with certain exceptions, may not be (and are not hereby being) reoffered or resold within the US.

US Private Placement not underwritten

The US Private Placement is not being underwritten by the US Private Placement Agent. Although the US Purchase Agreements are binding commitments with the Company to subscribe for New Ordinary Shares and Warrants, subject to certain conditions, in the event that a potential purchaser defaults on its commitments the Company may not be able to enforce such obligations without incurring significant expense.

PART 5
EXPERTS' REPORT

The following is the full text of a report from Wood Mackenzie:



The Directors
ReNeuron Group plc
10 Nugent Road
Surrey Research Park
Guildford
Surrey
GU2 7AF

The Directors
Collins Stewart Limited
9th Floor
88 Wood Street
London
EC2V 7QR

4 August 2005

Dear Sirs,

1. Background

Wood Mackenzie Limited ("Wood Mackenzie"), is a global consulting firm with a team specialising in pharmaceutical / biotechnology industry analysis. Company, product, and technology analysis are integral components of Wood Mackenzie's skill base and are recognised as key strengths of the team as a whole. Those skills have been applied in various consulting projects including technology assessments, selection of acquisition or licensing partners and due diligence undertakings associated with mergers, acquisitions and other transactions.

Wood Mackenzie has been instructed by Collins Stewart Limited and ReNeuron Group plc to undertake and prepare an independent expert's report covering:

- How successfully the stem cell technology of ReNeuron Group plc's subsidiary, ReNeuron Limited ("ReNeuron" or "the Company") functions or might be expected to function;
- ReNeuron's business plan for specific products, including the critical path and time scale to commercial exploitation and early indications of the market potential; and
- Risk factors that might affect ReNeuron's business plan

In preparing this report, Wood Mackenzie has conducted interviews with key managerial, commercial and technical personnel at ReNeuron. Wood Mackenzie has also visited ReNeuron's offices in Guildford and has reviewed relevant documentation prepared by the Company, including technical reports and business plans, and has assessed these with reference to our own knowledge base. In addition, Wood Mackenzie has consulted with acknowledged experts in the relevant technologies and markets.

This report has been prepared with due diligence based in part on information provided to Wood Mackenzie by ReNeuron. Wood Mackenzie has no reason to doubt the veracity of such information but has not otherwise independently verified it and cannot warrant that changes in circumstances will not subsequently render such information invalid. The report is limited specifically to the matters set out above and is not advising on the merits of an investment in ReNeuron. Wood Mackenzie is a consulting firm specialising in industry analysis and is not a registered investment advisor.

2. Introduction

The US National Institute of Health defines stem cells as “unspecialised cells which have not yet differentiated into any specific type of tissue.” Such cells, in being the basic foundation cells of the human body, have a potentially wide variety of therapeutic and drug discovery related potential applications and the field has seen significant progress since the report in 1998 by Shamblo *et al* describing the establishment of stable pluripotent stem cell lines. ReNeuron aims to offer therapies based on its stem cell technology platforms that have benefits over the shortfalls of more typical approaches. The Company’s technology, whilst being highly innovative and forward thinking, is also highly risky since no products based on such technology have yet reached the market.

A typical pharmaceutical approach, such as insulin therapy for diabetes or anti-inflammatory drugs for rheumatoid arthritis, acts on the symptoms and modifies the causes of disease, rather than producing a cure. Drug therapy is often chronic and at the expense of undesired side effects. Additionally, there are still many unmet needs in the medical field that pharmaceuticals have not, and possibly cannot, cure.

The potential of stem cells and cell therapy is to replace dead or dysfunctioning cells with healthy, functioning cells of an equivalent or complementary type. Generally speaking, mature, differentiated cells have lost their ability to regenerate themselves and so are unsuitable for the flexibility and scale required for clinical applications. In contrast, stem cells potentially offer the ability to replicate and subsequently be made to differentiate into the type of cells required for a particular application. Additionally, in bone marrow transplants and in animal studies, somatic stem cells have been shown to migrate from the point of implant and ‘home’ into areas of need, where cells are unhealthy or damaged.

ReNeuron has a history of expertise, through the keystone research undertaken by Dr John Sinden, in the use of stem cells in both therapeutics and drug discovery.

The Company has formed its stem cell technology around human somatic stem cells, using cells derived from specific human tissues as sources. Wood Mackenzie believes these cells offer a number of advantages over other types of stem cells:

- Multipotency – they can differentiate into the variety of cell types appropriate to the organ from which they originated;
- Quality – the cells are free of adventitious virus contamination since they do not come into contact with cells derived from other animals;
- Safety – somatic stem cells are less likely to form tumours than, for example, embryonic stem cells.

In Wood Mackenzie’s opinion ReNeuron’s recently announced cross-licensing deal with StemCells, Inc. both validates ReNeuron’s technological approach and sets in place a working relationship that could give both parties synergies and a competitive edge.

Over the past few years there have been notable attempts by a number of organisations at cell transplantation into the human brain for diseases such as stroke, Parkinson’s disease and Huntington’s disease. The direct applicability and unmet need in these areas originally encouraged ReNeuron to build its key stem cell project in stroke and through further cutting edge research and development, combined with a commercially-minded management team, ReNeuron has built a long-term pipeline of cell-based therapeutics for a range of indications.

The nature of stem cell technology, being very innovative but without clinical proof-of-concept, means that there is a significant risk that ReNeuron’s therapeutic stem cell-based products may not reach the market at all. Wood Mackenzie believes that an approved product, however, could be of significant commercial value.

Wood Mackenzie understands that much of the Company’s resources will be focused on the significant development issues surrounding stem cell technology. ReNeuron has combined what Wood Mackenzie views as a sensible approach incorporating relatively low-risk drug discovery

tool product offerings with relatively high-risk (and potentially higher value) stem cell therapeutics.

3. Strategic Overview

3.1 Management and Track Record

ReNeuron's management team has the skills which Wood Mackenzie believes are necessary to manage an emerging life sciences company. Members of the team have demonstrated their ability to steer the Company successfully through significant technical hurdles and to deliver commercial deals.

The stem cell operations of the Company have been guided through some significant scientific issues. The regulatory development of such therapies is not clearly defined and ReNeuron's management have invested significant time in discussing with relevant regulatory authorities the requirements for approval.

Some three years ago the stem cell research programme encountered a major biological problem concerning the karyotype stability of the cell lines. The current management team focused on resolving the scientific issues, in-licensing technology which enabled them to overcome them, in Wood Mackenzie's opinion, while continuing the development of several research avenues which have culminated in the current pipeline. The team has shown its ability to manage several research and development relationships and also to execute deals where appropriate, which Wood Mackenzie views as an important strength for a company of this size.

3.2 Clinical Advisory Board

ReNeuron has established a Clinical Advisory Board (CAB) which plays an important role in guiding the progress of the existing development programmes within the Company's portfolio. Importantly, in Wood Mackenzie's opinion, several members of the CAB have also worked with stem cells and/or are or have been advisors to regulatory authorities.

The CAB currently consists of: Dr Sid Gilman (Chairman), Dr Tom Freeman, Dr Paul Sanberg, Dr Douglas Kondziolka and Dr Louis Caplan. CAB members are paid as external consultants to the Company.

In Wood Mackenzie's opinion ReNeuron has put together a strong and experienced CAB that will provide the appropriate advice from both a clinical and regulatory perspective for the Company's development programmes.

3.3 Commercial Strategy

In Wood Mackenzie's opinion, ReNeuron has a well-defined commercial strategy that involves three main strands, in terms of priority:

- the first strand is to develop therapeutic products based on its stem cell technologies, initially for stroke, and to attract a partner for these products;
- the second strand is to develop more complex therapeutic products encompassing the Company's stem cell technologies and a delivery vehicle, for example, protective means of delivery;
- the third strand is to commercialise its stem cell technologies by developing specific cell lines for use in drug discovery and/or drug screening.

Wood Mackenzie believes this is an appropriate commercialisation for the Company's technology platforms, in terms of providing an earlier steady revenue stream from drug discovery/drug screening whilst allowing the Company to focus on bringing its therapeutic products to market in an efficient, stepwise manner.

The Company will execute its commercial strategy with the primary aim of establishing relationships with appropriate industry players and intends the main target for partnering negotiations to be pharmaceutical and biotechnology companies. Also, the Company does not intend to manufacture its products and will seek to outsource or partner this requirement. Wood

Mackenzie is of the opinion that this is a very appropriate strategy for a company heavily geared towards research and development and will allow the Company to be more flexible and cost effective.

For the purposes of regulatory approval, ReNeuron intends to focus its efforts on the US regulatory body, the FDA, whilst holding similar discussions with selected European countries' local regulatory bodies in parallel. Wood Mackenzie believes this strategy is appropriate and it will allow the Company to focus and gear its efforts to its key market, the US, whilst gaining knowledge and establishing relationships with the more progressive European regulators. This is discussed in more detail in Section 7.1.

3.4 Partnering Strategy

Since the Company's main revenue generation is intended to be from partnering, ReNeuron has begun to establish relationships with a number of pharmaceutical companies through contacts of members of the Board and from serendipitous approaches. The Company has been holding initial discussions with potential partners for its range of drug discovery cell products.

Wood Mackenzie is of the view that moving forward the Company should look to increase its business development capacity in order to broaden its reach for selling its range of drug discovery cell products (driving the bottom line in the short-term) and showcasing its vision for its range of cell therapy products (creating more value for the long-term). In doing so at what is an early stage, we believe ReNeuron will more accurately position its technology for partnering in the future, could benefit from a more dominant position in partnering negotiations (through a wider range of potential partners) and be in a better position to execute negotiations quickly.

ReNeuron has aimed to establish partnerships with leading academic and contract research organisations to advance the development of its technologies where it does not have the resource or expertise in-house. Wood Mackenzie believes the Company has carried out this strategy very appropriately, allowing the Company to maintain its focus, remain flexible and not over commit its internal resources, whilst benefiting from external viewpoints and expertise.

In terms of partnering its clinical programmes, Wood Mackenzie cautions that large pharmaceutical companies commonly view biologics for therapeutic purposes as high risk and, in our opinion, these companies have consequently been reticent to enter into high risk relationships with biologics companies, particularly where the technology is without clinical proof-of-concept. Wood Mackenzie believes there are signs that this attitude may now be changing. A further option for ReNeuron, which Wood Mackenzie believes would be viable and possibly more appropriate, would be to enter into relationships with larger biotechnology and mid-size pharmaceutical companies that are generally more enthusiastic about high-risk projects. Indeed, many new technologies now in common use as therapeutics, such as antibodies and recombinant proteins, were initially spearheaded by the biotechnology sector.

4. Research Overview

4.1 Overview of ReNeuron's Stem Cell Platform

Previous generations of stem cell technology of a variety of types suffered from problems with regenerating themselves, uncontrolled growth and characterisation. By securing an exclusive licence to a *c-myc* oncogene technology platform from Amrad Developments Pty Ltd ("Amrad"), the Company gained access to a successful and cost-effective method of growing human stem cells into banks of cell lines for clinical therapeutic use. The technology platform has been developed into a controllable gene switch variant, named *c-mycER^{TAM}*. This platform allows for enhanced, controllable growth of cell lines, through the *c-myc* gene and its switch, the presence of 4-hydroxy tamoxifen. Upon removal of growth factors and 4-hydroxy tamoxifen, growth arrest and differentiation of the cells occur, and the cells can then be stored in vials. Wood Mackenzie is of the view that this technology places ReNeuron in an excellent position compared with its competitors, an opinion validated by the recently agreed cross-licensing deal with StemCells, Inc. granting them access to *c-mycER^{TAM}* technology.

ReNeuron has established a well-defined chemistry, manufacturing and controls package (CMC) for the purposes of its regulatory submission to the FDA that fully outlines its processes from cell procurement, genetic processing, creation of a master cell bank and subsequently the working cell bank, drug substance and drug product. This has been developed in close co-operation with the FDA's Centre for Biologics Evaluation and Research (CBER), the body that will ultimately make the approval decision for ReNeuron's product for human therapeutic use.

In coordination with its partners, the Company has a variety of documented testing and quality control methods. Wood Mackenzie has reviewed this package of information and believes it to be comprehensive. The Company has its first formal meeting ('pre-IND') with CBER and initial feedback is that the existing information and the proposed development programme were broadly acceptable to the FDA. Formal confirmation of the output of the meeting is expected shortly. This is discussed in more depth in Sections 5.1.2 and 7.1.

The foremost benefits of ReNeuron's technology, over the technologies of others working in stem cells, are the scalability and stability of its stem cell lines, in terms of their genotype and phenotype. To the best of Wood Mackenzie's knowledge, ReNeuron's competitors have been unable to demonstrate stability of their stem cell lines. Regulatory authorities are likely to view a stable product much more favourably than one that cannot be as easily characterised and ReNeuron has developed a screening process in order to fully characterise each line. Initial discussions with highly experienced regulatory consultants viewed ReNeuron's current screening process favourably.

The nature of ReNeuron's research base is such that its established processes can be adapted to other types of cells as required for different diseases. For example, the Company's diabetes programme has been adapted from the CNS-based protocols to produce a line of insulin-producing cells from pancreatic stem cells that can be used for drug discovery and can be further adapted for use as a therapeutic.

ReNeuron has implemented a strategy of focusing on indications where there is a particularly great unmet need because, for example, traditional pharmaceutical therapeutic approaches have proven inadequate. Wood Mackenzie believes this is a very appropriate strategy for realising the potential of the technology and focusing on gaining approval for a marketable product at an earlier stage than might be possible for indications of less unmet need; we believe that future value remains in the wide range of remaining potential indications. The Company is using its research collaborations and partnerships to maximise flexibility and cost effectiveness, from aspects of research such as cell line characterisation, laboratory models to banking and testing of its cell lines.

ReNeuron's scientists use a number of different pre-clinical testing methodologies in its laboratory models to investigate the therapeutic effects of its cell lines. By using a variety of tests, Wood Mackenzie believes the Company gathers not only a broader view regarding the therapeutic effects but also avoids over-reliance on a measure that may not be preferred by regulators.

4.2 Overview of ReNeuron's Drug Discovery and Toxicity Platform

ReNeuron aims to fill the need in the pharmaceutical industry for toxicity testing and cell-based disease models that can be utilised at an early stage of the drug discovery process with the overall aim of reducing costs and maximising throughput. Research and development groups employ a variety of screening and testing methods to evaluate potential pharmaceuticals, some at the molecule-receptor level, up to the cellular and tissue levels. Each method has its own advantages and disadvantages, and several are often employed in parallel to ensure the optimum characterisation. Nevertheless, improvements can be made, in toxicity testing in particular, to alert the groups to issues at an early stage of development in order to maximise efficiency down the line.

The Company's stem cell technologies are being developed into tissue testing platforms that have the same genotype and phenotype as human tissues, which therefore have superior properties to existing cell lines which often differ substantially (albeit in a well characterised fashion) from their human counterparts. This technology is being applied to various tissue types and partners and vendors are in the process of evaluating the technology for commercial use.

4.3 Research Collaborations

The Company has a number of collaborations with academic and contract research organisations:

- StemCells, Inc. and ReNeuron recently agreed to a cross-licensing deal providing StemCells, Inc. with access to ReNeuron's technology in StemCells, Inc.'s field of interest and providing ReNeuron with a more certain freedom to operate by means of a licence to the broad patent portfolio of StemCells, Inc. In Wood Mackenzie's opinion, whilst the cross-licensing agreement has milestone and royalty implications for each party, it both validates ReNeuron's technological approach and sets in place a working relationship that could give both parties synergies and a competitive edge;
- The Company collaborates with Jack Price, Professor of Developmental Neurobiology at the Centre for the Cellular Basis of Behaviour at the Institute of Psychiatry at King's College London. Professor Price's laboratory is assisting with the characterisation of ReNeuron's ReN005 cell line for Huntington's disease and is establishing the pre-clinical and clinical programmes;
- Amrad Corporation Limited has licensed its *c-myc* technology to ReNeuron in exchange for an up-front payment, annual licence fee, milestones and royalties on therapeutic and drug discovery products. Wood Mackenzie notes that provisions exist for sub-licensing of this technology;
- In order to gain the expertise and facilities to manufacture cell aggregates for the purposes of ReN002, ReNeuron is planning shortly to commence a collaboration with Cil Biotech S.A., based in Mons, Belgium, with the possibility of extending this to a joint venture. This company has considerable experience in the manufacture of organ-specific cell aggregates and has applied for a repayable grant from its regional government for this project;
- A contract manufacturing company provides ReNeuron with the expertise and facilities to maintain its cell banking, testing and manufacturing, most recently up to cGMP standard;
- A contract research company has been contracted by ReNeuron to carry out testing using its advanced laboratory models for determining safety and efficacy of the Company's programmes;
- The Institute of Ophthalmology, London is working with the Company on its retinal cell programme, by which ReNeuron can take advantage of the Institute's work on a separately sourced cell line;
- Bionas GmbH is working with the Company to develop a biosensor chip incorporating cells;
- ReNeuron is collaborating with a number of organisations, including RegenTec Ltd (based in Nottingham, UK) and Angel Biotechnology Ltd (based in Northumberland, UK), as part of a DTI grant, which is outlined in Section 4.4.

4.4 Manufacturing

ReNeuron depends on the expertise and facilities of one company for the banking and manufacturing of its cell lines. Wood Mackenzie believes that whilst there is some risk in relying on only one provider, ReNeuron has investigated other providers and found them to be substandard. For the purposes of its early stage programmes, Wood Mackenzie would view this to be a low risk, although we would strongly recommend for a backup manufacturer to be in place for later stages of development.

A consortium of organisations, which includes ReNeuron, RegenTec Ltd and Angel Biotechnology Ltd was recently awarded a £2.2m DTI Bioprocessing grant to develop and manufacture stem cell therapies incorporating cell scaffolds for clinical development and for subsequent commercial application in neurodegenerative diseases. Contained within this programme is work to establish the capacity to manufacture stem cell banks to cGMP standards. It is anticipated that the programme will take three years, however this programme may address the issue of a second site of manufacture.

4.5 Direct Competition

Wood Mackenzie views ReNeuron's direct competitors to be other companies in the stem cell field (numbering over 80). In our view, many of the competitors in this diverse and quickly evolving field are at an early stage and susceptible to change their strategy over time, however, we believe the key competitors to currently be:

- StemCells, Inc. – one of the more renowned stem cell players, based in California. The company's lead product, a non-embryonic stem cell therapy for the niche indication, Batten disease, is the subject of an IND that is currently on hold whilst the FDA and the company discuss supporting information for the Phase I trial. Wood Mackenzie believes this illustrates the FDA's intention to monitor clinical trials closely in this area and as such we believe ReNeuron's comprehensive and collaborative approach with the agency (discussed in detail in Sections 5.1.2 and 7.1) to be beneficial in what is likely to be a difficult path to approval. StemCells, Inc. and ReNeuron recently agreed to a cross-licensing deal (described in Section 4.3), making it an unlikely direct competitor for ReNeuron's current programmes, although Wood Mackenzie considers it a competitor in terms of its presence in the stem cell field;
- Geron, Inc. – a Californian company developing therapeutics for spinal cord injury, Parkinson's disease, heart disease, diabetes, osteoporosis and osteoarthritis. The company's technology is based on human embryonic stem cells and a broad patent base. It also has a number of other small molecule based R&D activities;
- Neuralstem, Inc. – a Maryland, US company (moving to California) with differentiated human neural stem cells for research and therapeutic purposes. Its therapeutic cells are genetically modified with the Nurr1 gene to promote differentiation into dopamine secreting cells for use in Parkinson's disease. According to the company's CEO, an IND is planned for late 2005;
- Neurogeneration – a company based in California focused on the use of autologous neural stem cells that undergo differentiation *ex vivo* for the treatment of Parkinson's disease. The company reports it is currently carrying out a Phase II clinical trial;
- Bioheart, Inc. – this Florida, US-based company's MyoCell programme uses autologous skeletal muscle, cultured in proprietary media *ex vivo* for reimplantation to the heart to regenerate areas of need. It is currently in a Phase I/II trial in Europe;
- Macropore Biosurgery, Inc. – a Californian-based organisation focused on the use of autologous adipose (fat) tissue as the source of regenerative cells for use in cardiovascular indications;
- Osiris Therapeutics, Inc. – a Maryland-based company developing therapeutics based on adult bone marrow tissue, with a number of the programmes in the clinic. Target indications include GVHD, meniscus of the knee and heart muscle;
- ES Cell International Pte. Ltd. – a company based in Singapore investigating embryonic stem cells in order to derive research tools and therapeutic products. The company's short- and medium-term revenues are being derived from the sale of research reagents and differentiated cells for research and development purposes and it is therefore a competitor to the ReNcell product line.

4.6 Indirect Competition

ReNeuron will, of course, not only be competing with other stem cell companies. Its products will be competing against existing and future therapies that may well be cheaper, more conventional, better established, easier and cheaper to develop, easier to administer, more marketable to patients or physicians and follow a more conventional regulatory route. The Company's stem cell Parkinson's treatment, for example, will compete with pharmaceutical therapies and non-pharmaceutical techniques such as deep-brain stimulation.

The companies behind such indirectly competing products, such as large multinational pharmaceutical companies in their present business model, have much to lose from 'one-time' therapies such as those to be offered by ReNeuron and are likely, therefore, to put up an extremely competitive front, since they rely heavily on treating symptoms with chronic daily treatments. Nevertheless, Wood Mackenzie is of the opinion that over the long term, pharmaceutical companies will need to adapt to incorporate innovative technologies such as cell therapies, therapeutic vaccines and gene therapy to offer more patient-orientated solutions. We highlight as an example the innovative Schering AG and Titan Pharmaceuticals, Inc. (non-stem) cell therapy product, Spheramine, which is currently in Phase II for Parkinson's disease. This product is showing early signs of attracting key opinion leaders' attention, particularly as it meets the unmet needs of the market – by treating the underlying condition rather than the symptoms.

5. Product portfolio

<i>Product</i>	<i>(Lead) Indication</i>	<i>Status</i>
ReN001	Stroke	Late pre-clinical
ReN005	Huntington's Disease	Pre-clinical
ReN002	Diabetes	Research
ReN003	Retinal Diseases	Research
ReN004	Parkinson's Disease	Research
ReNcell	Research tool	Launched

5.1 *ReN001*

5.1.1 *Pre-clinical Rationale*

Pre-clinical proof of concept studies have been conducted and efficacy has been achieved by administering REN001 stem cell line using a simple stereotaxic procedure. The REN001 cells show long-term stability and the lead cell lines have been banked for GMP scale up. Suitable non-human primate pre-clinical models for stroke, as yet, are not available. Thus, long-term pre-clinical studies are being conducted in the most appropriate models to assess toxicology and other safety issues.

5.1.2 *Programme Status*

Wood Mackenzie understands that ReNeuron has worked closely with the CBER division of the FDA regarding the requirements to support the filing of an investigational new drug application (IND) and initial discussions with regulators have been positive.

ReNeuron recently submitted its pre-IND document and held a face-to-face discussion with the CBER. It will also submit this information to the MHRA (the UK regulatory body) in the next few months and plans to conduct discussions with both these bodies in parallel. Phase I trials in the US are scheduled for the second half of 2006 assuming a successful outcome of the pre-IND meeting is confirmed and the FDA accepts ReNeuron's proposed programme. Wood Mackenzie believes these immediate time-lines are realistic, although recognises that progress through clinical trials, even assuming strong therapeutic evidence of efficacy, will be significantly influenced by external factors (such as regulatory issues, discussed in more detail in Section 7).

Initial Phase I clinical development, based on the IND, will be targeted towards patients whose deficit has stabilised post stroke and where further rehabilitation therapy is unlikely to offer additional benefits. Patients selected will have clinically relevant (i.e. moderate to severe) functional deficits. We understand that ReNeuron initially intends to conduct a six patient randomised, open-label clinical trial. This low-dose trial will be followed by a further, high-dose trial.

Wood Mackenzie believes that this is an appropriate approach that will enable ReNeuron primarily to gather safety data, but also to monitor functional recovery efficacy endpoints ideally based on a recognised objective system such as the NIH stroke scale. The final battery of cognitive tests is still to be confirmed. At this "proof-of-concept" point, we understand that ReNeuron intends to open negotiations with potential licensees. This approach will help to maximise the licensing terms for ReNeuron, in addition to sharing the risk of the later stage clinical trial programme.

5.1.3 Commercial Potential

No pharmaceutical treatment is currently available for the chronic treatment of disability associated with stroke. Currently, the thrombolytic agent alteplase is approved for acute use in the treatment of stroke administered within three hours of a cerebral infarction. Thus, use of thrombolytics helps to reduce longer term incidence of disability with stroke; however, only a small sub-set of patients receive treatment due both to the problem of administering thrombolytic within the narrow treatment window as well as specific patient recruitment criteria.

The incidence of acute ischaemic stroke is estimated at 0.2 per cent. of the population – thus an estimated 1.5 million ischaemic strokes occur in the US, Western Europe and Japan annually. Approximately only 3 to 5 per cent. of stroke patients currently receive thrombolytic therapy. We believe this low current treatment rate principally reflects the variability of systems across North America and Europe to transfer patients to hospital, perform the necessary evaluation and administer thrombolytic within the strict time window.

ReNeuron's intention to treat patients primarily within a 3 to 12 month period post-stroke overcomes the practical considerations of treating patients in the hyper-acute phase in the initial hours immediately post-stroke. Wood Mackenzie estimates conservatively that around 20 per cent. of patients fulfil eligibility criteria for aggressive stroke management (i.e. non recurrent patients having survived moderate to severe stroke, lack of accompanying co-morbidities, suitable age range etc.). Therefore, the potential annual market for cell therapy treatment conducted 3 to 12 months after stroke is currently estimated at around 300,000 patients. Growth of the potential patient population is being driven principally as a result of the ageing of society.

Further upside potential exists in the annual cost of treatment (number of procedures, market by market variations) and in the treatment of patients with appropriate deficit for treatment but who do not present within the 3 to 12 month time horizon.

5.1.4 Programme Risks

The lack of a good, universally accepted primate pre-clinical model for ischaemic stroke is a significant factor in the assessment of REN001 in pre-clinical trials, which restricts optimum pre-clinical understanding of the product's likely therapeutic profile. However, after reviewing correspondence between ReNeuron and the CBER division of the FDA, Wood Mackenzie believes that ReNeuron correctly anticipates the pre-clinical requirements prior to the IND filing and commencement of the clinical programme.

Successful development of pharmaceuticals for the treatment of disability associated with stroke has historically proven difficult. Only the "clot-busting" thrombolytic approach has been successful (but within a narrower time window than the six hours that was initially sought). Other approaches using "neuroprotective" agents, as yet, have not been successful. On the positive side, a significant gap remains in the market for an effective treatment for the post-acute management of disability associated with stroke.

Reflecting the complexities of patient recruitment and medical management, cost of stroke trials is relatively high compared to other diseases. Wood Mackenzie has reviewed the planned cost of patient recruitment for stroke (£50,000 per patient) and believes this to be realistic.

Wood Mackenzie believes selecting the optimum time window post-stroke for cell therapy implants will be critical. Stroke patients receive aggressive holistic care in the early months post infarct in an attempt to improve the physical deficits that occur as a result of the event. For clinical development, ReNeuron plans to select patients in whom little additional improvement in deficit is likely to occur from non-pharmacological care. It is conceivable however that patients may experience most benefit from cell therapy treatment relatively soon after the event. Thus, successful clinical development may depend on selecting appropriate patients most likely to benefit but where the patients' baseline deficits are considered relatively stable and unlikely to affect the clinical trial results.

Appropriate patient selection should also encompass relatively strict eligibility criteria. ReNeuron must balance the risks of including a broad patient population in clinical trials with a narrower group using appropriate selection criteria such as severity of stroke, age, existing drug therapy and concomitant conditions.

In terms of development progression, Wood Mackenzie believes ReNeuron is the lead company developing stem cell therapy for stroke. We would note that Layton Biosciences, Inc. has discontinued development of human neuronal cell therapy for stroke. A Phase II trial was initiated in 2001 in patients who had experienced stroke in the basal ganglia region of the brain between one and six years of the implant. The failure of Layton Biosciences, Inc. to progress its programme emphasises the high risk associated with the future development of stem cell therapy stroke treatments.

The current market size for treatment of disability associated with stroke (i.e. alteplase) is estimated at less than \$100m, although Wood Mackenzie notes that the narrow treatment window is the major current market limiting feature. Thus, one of the major issues for ReNeuron (and partner) may be to develop a nascent market. The ultimate cost of stem cell therapy will depend on factors such as therapeutic profile, cost effective analysis and market by market reimbursement conditions; however, as a benchmark, bone marrow stem cell procedures in the US (the likely major market for stem cell therapy) are believed to cost in the region of \$100K to \$250K. Depending on the success of clinical trials and the availability of cost effective analyses, Wood Mackenzie believes it is possible that a treatment cost in this range could be achieved.

5.1.5 *Conclusions*

In Wood Mackenzie's opinion, ReNeuron is targeting, in an appropriate manner, a large and well defined patient population of those suffering from moderate to severe disability post acute management of stroke. This patient population has a high unmet need where traditional pharmaceuticals offer only symptomatic benefits.

As the lead company developing stem cell therapy for a relatively large indication, ReNeuron will potentially face significant regulatory and clinical hurdles to advance the product's development even up to a clinical proof of concept stage. However, Wood Mackenzie believes that taking REN001 to the clinical proof of concept stage is an appropriate balanced strategy to attract a suitable licensing partner whilst maximising future commercial return.

5.2 *ReN005*

5.2.1 *Pre-clinical Rationale*

Huntington's disease is an inherited, progressive and fatal neurodegenerative disorder where damage to the nerve cells occurs in certain areas of the brain including the basal ganglia and cerebral cortex. Current pharmacological therapy treats the symptoms associated with the condition, such as involuntary movement, depression and mood swings, but no treatment of the underlying condition is available. ReN005 is a neural cell line that has been selected with the aim of regenerating damaged tissue.

5.2.2 *Programme Status*

The ReN005 cell line has demonstrated early functional efficacy in limited pre-clinical models of Huntington's disease. Wood Mackenzie understands that currently available pre-clinical models of Huntington's disease are not well established and this situation is unlikely to change in the medium term. We believe that ReNeuron has taken an appropriate strategy of working with the limitations of the models that are available, in collaboration with (and as advised by) experts in the field. It is Wood Mackenzie's opinion therefore that pre-clinical work gained in this programme will be less predictive of clinical efficacy than for an indication with an established pre-clinical model.

Further development work is required on this project and will be funded by a DTI grant as part of a consortium to undertake cell banking and pre-clinical work, described in Sections 4.3 and 4.4. The cell line being employed in the ReN005 programme has also demonstrated pre-clinical efficacy in stroke models and therefore serves as a back-up to the stroke cell line.

As a core product for ReNeuron, the Company plans to complete pre-clinical work and progress development to the early clinical stage as part of a collaboration with Professor Price's team at the Institute of Psychiatry at King's College London. Thereafter, a licensing partner will be sought for later stage clinical trials and commercialisation. In the meantime, early discussions with the MHRA/EMA are scheduled to take place in the second half of 2005, which are likely to influence the development programme for ReN005 and thus provide a better indication of the timelines of this project.

5.2.3 Commercial Potential

Approximately 35,000 people show overt signs of the disease in the US and, with a prevalence of around 5 to 7 individuals per 100,000, a treatment for Huntington's disease should qualify for Orphan Drug status in the US, Europe and Japan.

5.2.4 Conclusions

Wood Mackenzie agrees that pursuing the Huntington's disease programme is an appropriate strategy for ReNeuron. Not only does it act as a back-up to the stroke cell line, but its anticipated Orphan Drug status will allow the product to be pursued relatively rapidly through development. Therefore, assuming funding is made available, the development of ReN005 could ultimately help to smooth the development path for the larger stroke indication.

Further potential for ReN005 lies in its use in the treatment of traumatic brain injury and motor neurone disease as secondary or backup indications. Thus, "proof-of-concept" of ReN005 for Huntington's disease could help to progress the development of the cell line for these additional areas of high unmet need.

5.3 ReN002

5.3.1 Pre-clinical Rationale

Type I diabetes (insulin dependent diabetes), currently managed by frequent injections of insulin, is the result of the death of islet cells in the pancreas. Current thinking amongst prominent researchers in this field, interviewed by Wood Mackenzie, is that if the islet cells could be replaced, the inconvenience, drawbacks and shortcomings of chronic insulin therapy, amongst those with severe diabetes, could be vastly reduced or even ceased. Longer-term, this type of therapy may also be considered for Type II diabetes, which is non-insulin dependent.

Through the ReN002 programme, ReNeuron has aimed to develop a cell line that can be used to produce fully functional islet organelles that can be implanted into patients. The cells will need to produce proinsulin and have the capability of being manufactured at scale.

5.3.2 Programme Status

Pre-clinical work has demonstrated that the ReN002 cell line can produce the proinsulin essential for functional cells. ReNeuron has proposed a joint venture agreement with Cil Biotech S.A. ("Cil Biotech") in Mons, Belgium to progress the programme should initial results from the project deem this a suitable strategy. Cil Biotech has also applied for a repayable grant covering the collaborative part of the project from its regional government. Cil Biotech has considerable expertise in the manufacture and laboratory testing of organ-specific cell aggregates, hence is well placed to provide expertise and facilities in producing islet organelles using the ReN002 cell line.

The next steps for the programme will include full characterisation of the cells in comparison to adult pancreatic islets as part of a proposed project carried out in conjunction with Professor Peter Jones and his group at the School of Biomedical Sciences, King's College London. The cells are currently produced using an off-the-shelf 3-dimensional synthetic scaffold and Cil Biotech will be evaluating several approaches to developing the programme.

Prior to entering humans in clinical trials, Wood Mackenzie understands that substantial pre-clinical efficacy and safety studies must be carried out to satisfy regulatory and ethical bodies, although some limited pre-clinical data has been produced to test the concept. Since, in general, diabetes can be controlled by pharmaceuticals, both ReNeuron and Wood Mackenzie are of the opinion that the regulatory aspects of this programme will require more stringent supportive data than that of other programmes. In particular, the FDA has already expressed its interest in long-term safety data based on its experience of islet transplantation from donors, whereby incidents of liver damage have been reported.

5.3.3 Commercial Potential

Islet cell transplantation, using pancreas cells from donors, has been performed for decades using the Edmonton Protocol, developed in Canada. This protocol is still in the research phase and has many drawbacks, including the immunosuppressive regimes needed, the complicated surgical techniques employed and the general lack of donors. Additionally, the results last only between one and seven years and patients generally still require some supplemental insulin management therapy. As such, the technique is indicated only for patients aged between 20 and 50 who have very poorly controlled diabetes or at least two secondary complications (e.g. hypertension, dyslipidaemia, neuropathy etc). Regardless of their eligibility, very few patients are currently receiving implants, primarily due to a lack of donor tissue; moreover, the therapy's impact on secondary complications is a matter of debate. Some physicians are therefore awaiting the result of long-term studies before backing the technology, whereas others believe that with more research the therapy could be a very viable option.

Wood Mackenzie believes that ReN002 will initially be well placed to take advantage of the early "proof-of-concept" these advances have provided, so long as the product can be manufactured at scale to meet demand. The initial expectation is that an immunosuppressive regime will be required with ReN002 treatment, with the inherent drawbacks of risk of infection, neutropenia, kidney failure and cost of therapy. Wood Mackenzie estimates it is likely that the product will gain a restrictive indication, possibly similar to the guidance for donor islet cell transplantation, until further evidence can be gathered post-approval to support its more widespread use and/or the reduced need for immunosuppressive regimes.

5.3.4 Conclusions

The market for insulin therapy was worth \$6.7 billion in 2004, with an estimated compounded growth of 11 per cent. to 2009 (*Source: Wood Mackenzie's ProductView*). Type 1 diabetes affects approximately 2.5 million people in the major markets, with almost all of these patients being diagnosed and treated with insulin. Wood Mackenzie believes that the vast majority of these patients will continue to manage their diabetes with insulin, although there is a proportion who would be suitable for ReN002, based on their unresponsiveness to insulin and additional complications. Whilst patients seem particularly responsive to this type of therapy, physicians and regulatory bodies are behaving more cautiously and Wood Mackenzie's view is that this product will be well suited to a market niche for diabetics disabled by their hypoglycaemia. However, we also believe that this is a long-term project and would not anticipate launch within ten years.

5.4 ReN003

5.4.1 Pre-clinical Rationale

Degenerative retinal diseases such as age-related macular degeneration (AMD) and retinitis pigmentosa (RP) are the leading cause of blindness in the elderly. Current treatments go some way to improving vision but typically only slow progression of the disease and it is thought that stem cell therapy may be able to regenerate the affected area through the restoration of photoreceptors and accessory cells.

5.4.2 Programme Status

The programme is currently at the early research stage; a cell line has been isolated but further work remains to be done on the growth potential of the cell line. The programme is being run as less of a priority than other programmes and initial work is being carried out in collaboration with the Institute of Ophthalmology at University College London. Pre-clinical and clinical development programmes have yet to be planned and ReNeuron aims to secure a partner for this programme. Pharmaceutical companies have expressed early interest.

5.4.3 Commercial Potential

Current pharmaceutical therapies for 'wet' AMD, representing 15 per cent. of the total AMD patient pool but 80 per cent. of those suffering from severe vision loss, achieved sales of \$448 million and are forecast to reach \$1,259 million in 2009 (*Source: Wood Mackenzie's*

ProductView). Eye surgery is also common in treating both AMD and RP, meaning cell therapy could fit with surgeons' current tools. However, Wood Mackenzie would note the initial struggle for Novartis AG and QLT Therapeutics, Inc in gaining reimbursement in the US and UK for the small molecule Visudyne (verteporfin), which may indicate that cost constraints could be placed on a stem cell therapy when it reaches the market.

5.4.4 Conclusions

Wood Mackenzie is of the view that ReN003 represents a novel approach to degenerative retinal diseases and will be of particular interest if it can be demonstrated that it improves vision rather than merely slowing disease progression. However, the programme is at a very early stage and efficacy in pre-clinical models has yet to be demonstrated. Wood Mackenzie believes ReNeuron has taken the right strategy to lower this programme's priority until partner backing is found.

5.5 ReN004

5.5.1 Pre-clinical Rationale

Parkinson's Disease is a progressive neurological disease characterised by abnormal movements such as bradykinesia, muscular rigidity, resting tremor and abnormalities of posture and gait. The disease manifests as a result of degeneration of the dopaminergic neurones in the nigrostriatal pathway in the brain. The ultimate goal of therapy is to restrict the loss of dopaminergic neurons. This can either be achieved with neuroprotective agents to slow disease progression or resolved with neuronal implants designed to maintain a suitable dopaminergic supply.

5.5.2 Programme Status

Initial pre-clinical studies have been undertaken with dopaminergic neurons induced using ReNeuron's proprietary process via candidate stem cell lines. These pre-clinical surgical grafts suggest a relatively low yield of dopaminergic neurons. This finding is in line with previous work conducted by other groups in the area. To assess these findings, ReNeuron has collaborated with academic groups to determine whether cell death or de-differentiation has occurred. Wood Mackenzie believes this assessment is an appropriate tactic and will help to determine whether the use of a cell delivery scaffold will be required to determine efficacy in pre-clinical trials by enhancing dopaminergic cell survival and differentiation *in vivo*.

After re-deriving the dopaminergic cell line to GLP standards, pre-clinical efficacy data will then be sought. Achieving this data by the anticipated time-line of the first half of 2006 will, as acknowledged by the Company, be heavily dependent on whether a cell scaffold system will be required, which could be provided as part of the DTI grant consortium programme, detailed in Sections 4.3 and 4.4.

Wood Mackenzie understands that ReNeuron considers this a core programme and, assuming sufficient funds are available, intends to take the product to clinical "proof-of-concept" stage at which point a licensing partner will be sought for further clinical development. We believe this is an appropriate strategy given the clinical hurdles that will need to be overcome to take a dopamine producing cell therapy to market. These include the need to control dopaminergic modulation, a major limiting factor of existing treatment which leads to drug induced adverse effects such as dyskinesias. Wood Mackenzie would not anticipate launch within ten years.

5.5.3 Commercial Potential

Parkinson's Disease prevalence increases markedly with age – few cases are observed before age 40 and prevalence steadily increases reaching around 1 per cent. by age 60 and up to 3 per cent. by age 75. As a result of the ageing of society, prevalence of Parkinson's disease in Western Europe and the US is expected to increase from 2.5 million to 3.5 million patients by 2020.

Pharmaceutical management, accounting for sales estimated at some \$2.2 billion in 2004 (*Source: Wood Mackenzie's Productview*) focuses on delivery of dopamine and modulation of remaining dopamine receptors. Dopamine agonists and levodopa are the mainstay treatments and, as the disease progresses, additional drugs can be added which help to prolong the duration of dopaminergic therapy and control symptoms.

In terms of development agents, currently Titan/Schering's Spheramine is considered the lead cell therapy for Parkinson's disease having reached Phase II clinical development. This product delivers dopamine secreting retinal epithelial cells, contained within inert microcarriers, direct to the striatum via a stereotactic injection. ReN004 is expected by Wood Mackenzie to have benefits over this product due to its homogeneous and reproducible source of dopaminergic neurons. This would help to avoid the delivery of non-dopaminergic neurons and ensure product consistency. ReNeuron also has the potential to develop ReN004 using a cell delivery scaffold which may allow the addition of neuroprotective growth factors and other supporting molecules which could help to control overall dopaminergic modulation.

5.5.4 Programme Risks

ReNeuron's ReN004 programme requires, prior to transplantation, the differentiation of cells into those of a specific phenotype and genotype that secrete dopamine. However, it is possible that, in doing this, the cells will lack the dopamine secretion regulation of normal cells, with the potential of unregulated dopamine release and subsequent adverse effects.

Market dynamics which could affect the uptake of a stem cell therapy treatment for Parkinson's include the introduction of effective neuroprotectant therapies which help to delay the progression of symptoms and restrict the patient population progressing to moderate and severe disease. However, Wood Mackenzie believe this goal remains a long way off and cell therapy (potentially in conjunction with neuroprotective growth factors) appears most likely to become the first therapeutic option that will effectively treat the underlying cause of the disease.

5.5.5 Conclusions

Wood Mackenzie believes that results from ReNeuron's initial pre-clinical studies highlight further work required to assess the mechanisms leading to dopaminergic differentiation and control within the striatum. Wood Mackenzie believes, however, that ReNeuron's homogeneous source and reproducible cell line will prove a major advantage over alternative cell therapy approaches both in terms of smoothing the regulatory process and potentially minimising adverse effects. Moreover, the potential of developing a product using a scaffold technology could help to optimise the dopaminergic therapy and enhance the administration procedure.

5.6 Non-Therapeutic Applications

5.6.1 Rationale

ReNeuron intends to exploit its stem cell technology in non-therapeutic applications with the aim to generate near term revenues and reduce cash burn. These non-therapeutic products cover the following areas:

- **ReNcell Neural Lines** – neural stem cell lines marketed as assay tools in drug discovery. These lines, with the ability to demonstrate properties akin to mature neurons, have broad utility in drug discovery applications. For example, the dopamine neuronal cell line, *ReNcell VM* line, has utility specifically in the area of Parkinson's disease drug discovery assays;
- **ReNcell Metabolic Applications** – ReNcell HEP is a liver cell line displaying adult metabolic phenotypes. Such a product would provide a characterised source of liver cells that obviates the need for human donor samples. This project may also be developed with a scaffold to produce a full complement of cell types to produce human-like liver tissue. Liver tissue is often employed in toxicity testing since this organ is a major component in drug toxicity. ReNeuron's aim is to produce a tissue system with identical liver enzyme characteristics in order to allow this model to pre-empt more expensive laboratory toxicity testing and eventually human testing. Less advanced in development is ReNcell PILS, a version of pancreatic cell lines which would have utility in metabolic drug testing.

5.6.2 Programme Status

Wood Mackenzie understands that ReNeuron is in the process of evaluating the ReNcell lines with a number of collaborators and potential sales leads. For example, as an alternative to rodent primary cultures on biosensor chips, the Company is collaborating with Bionas GmbH, a German

biosensor chip developer. The Company is also in late-stage discussions with a reagent vendor in the US to supply its ReNcell lines. The recent agreement with StemCells, Inc. may provide for further collaborative opportunities in this area in the future.

5.6.3 Commercial Potential

Wood Mackenzie believes non-therapeutic applications will provide low level revenues with potential to offset cash burn. Benefits over existing products include reproducible cell lines and consistent availability (e.g. liver tissue in contrast is obtained from cadavers with clear implications for consistency and availability).

5.6.4 Programme Risks

A number of stem cell companies, such as ES Cell International Pte. Ltd., have targeted non-therapeutic applications and thus competition could be significant. However, Wood Mackenzie regards currently available cell lines to have major limitations; only a few are of a sufficiently high level of homogeneity and differentiation to be of suitable quality to use in routine screening studies. Thus, ReNeuron's reproducible and homogeneous cell lines have the potential to overcome this problem.

Specifically, Wood Mackenzie believes that competition for the liver cell line comes directly from the US stem cell company Geron Corporation in collaboration with the UK based CXR Biosciences Ltd who are developing methods to derive standardised functional hepatocytes (liver cells) from human embryonic stem cells. As with ReNeuron, these products are designed to predict metabolism, biodistribution and toxicity of drug development candidates.

5.6.5 Conclusions

In Wood Mackenzie's opinion, non-therapeutic stem cell applications have clear utility in drug testing and toxicology screening. We would note, however, the competition in the area from other stem cell developers and existing, more established, processes.

6. Business projections

As part of the due diligence process, Wood Mackenzie has discussed with ReNeuron the early business projections associated with its leading stem cell development projects, which both parties agree are to be viewed with a high level of uncertainty. Limited, early projections (tasks, timelines, costs, time to market) were formulated by ReNeuron's management with a view of the commercial character of each project, the stage of each project's development and to identify the factors that may be critical to ultimate success. The high level of uncertainty and long-term view (relative to conventional pharmaceuticals) for the Company's stem cell programmes has meant that detailed business projections have not been prepared by the Company. Whilst Wood Mackenzie recommends a more detailed 'working' business projection document relating to the stem cell programmes be put into practice, it acknowledges that the major influences on timescales and costs are largely those of external regulatory bodies, which are difficult to predict, and also the uncertainty attached to the technology itself, with regards to its lack of clinical data as yet.

Wood Mackenzie has independently reviewed short-term business projections (and underlying assumptions) for the Company's projects. There was broad, top-line agreement, a factor that, in Wood Mackenzie's opinion, is supportive of ReNeuron's strategy.

Many of the programmes are at an early stage and none have been tested in humans. Therefore Wood Mackenzie highlights again that there is a high degree of uncertainty as to how the therapeutic markets will transpire in the future and also how the programmes themselves will perform, when compared with, for example, later stage programmes at a pharmaceutical company. A summary of these risks are outlined in the following section.

7. Risk factors

There are a number of adverse factors facing all research-based companies operating in the healthcare arena. These factors relate to the risks associated with R&D and national controls

designed to protect the populace. In addition, however, ReNeuron faces additional risks associated specifically with the novelty of stem cell technology and also risks associated with the stage of development of the Company.

7.1 Regulatory Risk

Certainly the greatest risk with the commercialisation of this technology, once clinical evidence has been gathered, is in gaining approval from the regulatory authorities, particularly in the Company's key market, the US. So far, no company has taken a stem cell therapy to the marketplace and many of the regulatory processes required for commercialisation are undefined and still being explored by the various committees and bodies with a stake in approval of such therapies. In addition, regulatory authorities have, in the past, been more cautious about new technology such as stem cell therapy.

Reflecting its diligence on the subject for ReN001, ReNeuron has had a number of recent meetings with officials at the CBER division of the FDA as well as gaining advice from various consultants; the Company's pre-IND document and the initial formal meeting with the agency have now been concluded. The pre-IND document outlines the method of manufacturing, storing and controlling the substances used in the product; it also outlines the ongoing and planned pre-clinical studies performed and outlines the planned Phase I clinical studies. It was designed to initiate discussions with the agency in anticipation of the filing of the IND document, prior to gaining authorisation for the initiation of clinical trials. The meeting with CBER was held in mid-July and ReNeuron reports that no substantive issues with the proposed programme were identified. Confirmation of the output of the meeting is expected shortly in the form of a minute from the FDA.

Wood Mackenzie has reviewed meeting notes from some of ReNeuron's meetings regarding regulation and is aware of the points of interest the FDA has or is likely to have. We understand the specific issues to include the potential for uncontrolled cell growth, the potential for migration of cells to non-target sites, the potential for differentiation to unwanted cell types, the potential for adverse effects and the design of proposed pre-clinical studies. Wood Mackenzie believes that all of these points were addressed by ReNeuron in their pre-IND document, and at the Meeting. It is our view that ReNeuron has approached the issue of US regulation in a diligent and comprehensive manner and entered this first formal meeting in a strong position.

ReNeuron is focusing its regulatory efforts initially on the US market, which Wood Mackenzie believes to be a very prudent strategy since high value markets tend to be skewed towards this geography. We would caution, however, that political controversy still surrounds the use of embryonic stem cells, which may have a knock-on effect for ReNeuron's (non-embryonic) technology. Being a political issue, federal opinions may, of course, change over time and some states (e.g. California) have passed their own legislation allowing the use of embryonic stem cells.

The European Commission published a draft proposal in May regarding the regulation of human tissue engineering products (including cell therapies) and has proposed that all products be forced to use the centralised procedure (*Source: Tissue engineering and beyond: Consultation on a proposal for a Regulation on advanced therapies, European Commission, Enterprise and Industry DG*). The guidelines also recommended for a new body, named the Committee for Advanced Therapies, to be created at the European central regulator, the EMEA. ReNeuron has planned to discuss its approach in more detail with selected European regulators on a local basis that are likely to be receptive to cell therapies, in parallel with its discussions with the FDA. Wood Mackenzie believes that ReNeuron's current plans for European regulation are satisfactory, however, should the European Commission's proposals be implemented, the Company's proposed strategy would have to change, posing a greater risk since some European countries (as represented by members of the centralised committee) are not receptive to such therapies, the prime example being Italy.

7.2 R&D Risk

Any therapeutic programme is inherently risky, however, compared to chemical entities, biologicals have been found to have a more risky development process (*Source: Wood Mackenzie analysis*). Wood Mackenzie believes that because of the innovative nature of

ReNeuron's technology, the early stage of even its lead stem cell programmes (having not been tested in humans) and the lack of a stem cell route to market precedent, we would assume a high level of risk regarding its stem cell programmes.

Inherent with the controllable growth potential of ReNeuron's cells is the potential for tumour growth, since the technology is based on the *myc* oncogene. It is possible that an event could occur to the *c-MycER^{TAM}* gene, such as retroviral transduction, random insertion, or even activation by endogenous oestrogen that would eliminate or bypass the control mechanism, potentially leading to uncontrolled growth and cancer. The risk of this effect would be increased through the use of an immunosuppressive regimen, employed to prevent rejection of the transplanted cells. ReNeuron plans to investigate these issues, with regulatory needs in mind, through a programme of laboratory testing.

Conversely, previous generations of ReNeuron's technology have suffered from senescence, whereby the cells effectively stop dividing and so are unsuitable for manufacture. The *c-myc* technology was employed to bypass this effect and so Wood Mackenzie believes this risk is minimal.

A key concern of the regulators is the karyotype stability of the cell line with repeated cell division. ReNeuron has demonstrated stability through a number of growth cycles, however it is not known whether the stability is indefinite. Additionally, it is not yet known how long the implanted cells will live for, thereby potentially impacting the permanence of the therapy.

ReNeuron's technology has yet to be tested in humans and the pre-clinical models are inherently unable to provide a comprehensive view of efficacy and safety. Therefore, there is a risk that during human clinical trials the technology will behave very differently to that of the models it has been tested in at present. The laboratory models used for the stroke programme, for example, whilst being standard in this field, are known to have and should be expected to produce different results to those in humans in terms of efficacy. However, Wood Mackenzie is satisfied that ReNeuron has taken appropriate steps to reduce this risk by using a diverse range of models. It is also not yet known whether the human immune/inflammatory reaction will be as expected or adverse. Other, unforeseen, adverse events are also a potential risk.

ReNeuron intends to take the most time and cost effective route to market its products and Wood Mackenzie believes that the Company is taking a very commercial approach to what has been typically a very academic field. However, there are a number of issues regarding product characteristics and optimum dosing that remain to be fully defined, although we acknowledge ReNeuron's work to define these as much as possible at this stage. These include optimal timing of dosing post event (e.g. incidence of stroke), the most appropriate number of cells to administer, the optimal site of administration, the need for and duration of immunosuppressive regimes.

Wood Mackenzie believes that one of the virtues of the stem cell technology is its ability to 'home' in on areas of need. However, it is also possible that the implanted cells could migrate to non-target areas of the body, where the effects may not be advantageous. Additionally, the differentiation process may be suboptimal, producing cells other than that desired by the therapy, possibly causing an unwanted reaction.

7.3 Commercial Risk

In terms of commercial viability, it is possible, and arguably very likely in Wood Mackenzie's opinion, that ReNeuron's products will be 'one-time' therapies (which we would define as lasting several years). In this regard, they will enter healthcare markets which are typically geared to pricing and reimbursing products that, particularly for chronic diseases, require long-term treatment. For example, a patient with rheumatoid arthritis may be treated with Enbrel at a cost of \$12,000 a year. Over the course of the disease this cost would total a significant amount but should a pharmaceutical product be available to cure the disease, or negate the need for chronic treatment, Wood Mackenzie would expect it to be very unlikely to gain a price or reimbursement level comparable to this lifetime cost of treatment. Therefore, there is a risk that a 'one-time' therapy will not gain the value that could be more easily justified by a chronic therapy.

ReNeuron acknowledges that successful clinical development relies upon the attraction of an appropriate licensing partner. Such a partner will have to be committed to the cell therapy approach and have close relationships with the international regulatory authorities to ensure that clinical development plans progress effectively. While the clinical need for an effective treatment for disability associated with target diseases is evident, political factors associated with stem cell development could dampen potential licensees' enthusiasm towards the cell therapy approach. Any potential partnering deal will have to take into account the various milestone and royalty obligations that ReNeuron has with Amrad and StemCells, Inc.

Laboratory studies performed so far indicate that cell therapies, including those of ReNeuron, are unlikely to produce a 'Lazarus' effect, as proclaimed by the press and some advocates in the field. ReNeuron has been at pains to position its therapies as tissue regeneration to avoid misconceptions surrounding the potential efficacy of stem cells. Despite this, Wood Mackenzie feels that a risk remains that the products cannot meet the potentially unrealistic expectations of the healthcare market.

8. Conclusions

The science of regenerative medicine using stem cells is advancing rapidly. In Wood Mackenzie's opinion ReNeuron is among the leaders in the field and, subject to FDA approval, will be one of only a few companies to have progressed human stem cells into clinical trials. The area is not without significant risks, however, Wood Mackenzie believes that ReNeuron has taken a pragmatic and measured approach to developing its technology and, so far, has successfully overcome many technical and regulatory hurdles.

While the major driver of value is the sale of stem cells for therapeutic use, the timescale to the full commercialisation of the technology as a therapy is long. Wood Mackenzie believes that the ability to extract commercial value from its technologies earlier through sales for non-therapeutic uses provides for an element of risk reduction.

The Company has in place a business strategy which, in Wood Mackenzie's opinion, manages the risks inherent in the business and is appropriate to take the Company forward into the next phase of its development.

Yours faithfully

For and behalf of Wood Mackenzie

Gregg Karlberg
Head of Life Sciences

Paul Gregory
Chief Executive Officer

PART 6

PATENT AGENT'S REPORT

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4 August 2005

Dear Sirs

Gill Jennings & Every ("GJE") is a partnership of thirteen European Patent Attorneys, Chartered Patent Agents and Trade Mark Agents supported by another five qualified agents and a total of about 80 employees. The firm, which was founded in 1912, is based in London, with branch offices in Cambridge, Munich and Alicante. The firm advises on all aspects of intellectual property, including patent, design and trade mark rights, and copyright, and has a wide variety of clients, both in Britain and overseas, operating in all technical fields. GJE has acted for several clients, in connection with flotations on the London Stock Exchange and other markets.

GJE has acted as intellectual property advisers to ReNeuron Limited ("the Company" or "ReNeuron"), since its foundation in 1997. Throughout this period, GJE has been represented by Mr Robert Perry and Mr John Jappy, each of whom has considerable experience in pharmaceuticals and biotechnology. Mr Perry has been a Chartered Patent Agent and European Patent Attorney since 1978 and a partner of GJE since 1980. Mr Jappy has been a Chartered Patent Agent and European Patent Attorney since 2001 and a partner of GJE since 2003. Mr Jappy has prepared this report.

GJE holds the files containing all the material information about the IP portfolio of ReNeuron. Annuity payments to keep the Company's granted patents and pending applications in force are handled by the specialist firm of Computer Patent Annuities Limited Partnership ("CPA") in Jersey, the Channel Islands, of which partnership the partners of GJE are also partners.

GJE has been asked by Collins Stewart Limited to provide a report on the Company's intellectual property strategy and portfolio, for inclusion in the prospectus for the proposed admission to the Alternative Investment Market of the London Stock Exchange of ReNeuron's holding company, ReNeuron Group Plc. The following is our report.

This report has the following sections:

1. The Patent System;
2. ReNeuron's IP strategy;

3. ReNeuron' present portfolio of intellectual property rights; and
4. Relevant third party rights.

1. The Patent System

- 1.1 A patent is a national right, enforceable by its proprietor, to prevent others commercially practising an invention. The intention underlying the grant of patents is to reward and encourage innovation. The invention to which any patent relates must be clearly and completely disclosed in the patent specification and meet the requirements for patentability established by legislation in the country in which the patent is granted.
- 1.2 The precise criteria of patentability differ in detail from country to country but enjoy a large measure of harmonisation. In particular, the following four major criteria are common to all countries:
 - 1.2.1 **Novelty** – The patented invention must not have been disclosed, by the inventor or by anyone else, prior to the filing of the application for the patent. In the United States, the novelty of an invention may be judged as of the date of invention, rather than the date of filing a patent application.
 - 1.2.2 **Inventive Step** – The invention must involve an “inventive step” or, in other words, be “non-obvious”. Essentially, to be patentable, an invention must not be within the grasp of someone of ordinary skill in the relevant art, at the date the patent application is filed. In the United States, the relevant date may be the date of invention.
 - 1.2.3 **Industrial Applicability/Utility** – The invention must be useful and not be excluded from patentability by the relevant legislation. The most relevant exclusion for ReNeuron in the United Kingdom and the other signatory states of the European Patent Convention (“EPC”), of which more detail is provided below, defines methods of treatment of the human or animal body by surgery or therapy, but not substances used in such methods, as being inherently incapable of industrial application. In practice, as discussed later, this is unlikely to pose any significant problem for ReNeuron.
 - 1.2.4 **Patentable Subject Matter** – There are various categories of invention which are defined as not being patentable as a matter of statute law. In the United Kingdom and other countries where the EPC applies, these include plant and animal varieties and essentially biological processes for the production of plants and animals. Certain potential inventions, such as computer programs and mathematical and business methods, are currently also not considered to be inventions for the purposes of patent law in the United Kingdom and other European countries, unless they have a “technical effect”.
- 1.3 Even if an invention fulfils the above criteria, the patent specification must contain a sufficiently clear and complete disclosure of the claimed invention to enable people skilled in the art to put it into effect; and the claims, which are the legal definition of the monopoly sought to be protected, must be clear, concise and supported by the specification.
- 1.4 Although, as has been stated above, patents are national rights, there is a large measure of international co-operation, which means that it is not necessary for a prospective patent applicant to file applications at the outset in all of the countries in which patent protection is desired. Firstly, the Convention of Paris for the Protection of Industrialised Property (Stockholm text) (“the Paris Convention”) provides essentially that, where a patent application has been filed in one of the contracting states to the Paris Convention (which includes most industrialised countries of the world), further applications for the same invention may be filed up to one year later in other contracting states and, providing that certain formalities are complied with, those later applications are treated for most purposes as if they were filed on the date of the first application. This system of establishing a so-called priority date, and filing world-wide within one year of that priority date (i.e. the date of the first filing), is of great importance to users of the patent system generally. One of the main attractions is that it enables the filing of a single application, which for an applicant

based in the United Kingdom will usually be made in the United Kingdom, so that the applicant can consider, over the course of the next 12 months, in which countries to pursue patent protection.

- 1.5 Usually, a patent is granted in a given country further to a patent application filed in that country, and is effective in that country. An important exception is where an application is filed at the European Patent Office (“EPO”), which can designate one or more countries party to the EPC. A European patent application is processed centrally and, if ultimately successful, matures into a granted European patent. The term “European patent” is in some ways a misnomer, as it actually constitutes a bundle of national patents, each of which can be enforced separately through the relevant national Courts against infringers, and the validity of which can likewise be challenged separately in those national Courts.
- 1.6 Although there are different routes to patent protection, in order to seek protection on an international scale in the most efficient manner, ReNeuron has filed patent applications under the Patent Co-operation Treaty (“PCT”). Such an application will usually be filed 12 months after the national application from which it claims priority (in ReNeuron’s case, usually a United Kingdom application filed in English, designating the countries in which patent protection is sought). Many countries, and all those generally considered to be commercially important, are party to the PCT, including the United States, Japan, China and also the European Patent Office (which relates to countries listed in paragraph 1.8, below). Once filed, a PCT application is searched by a designated International Searching Authority which, in ReNeuron’s cases, will be the European Patent Office. On request, a Patent Office Examiner conducts an international preliminary examination, which effectively acts as a dress rehearsal for patent examination in the various designated countries. It is important to note that a successful international preliminary examination does not guarantee that a patent will be granted, but it can provide a useful pointer to the types of issues that will have to be addressed subsequently. It may also identify potentially conflicting third party rights. The international application itself cannot mature into anything approaching an “international patent”, but rather it fragments into a series of national patent applications (or regional patent applications, such as a European patent application) which themselves enter the relevant national and regional examination processes towards grant. This “ex-PCT” process begins at the end of a period of 30 months from the priority date of the relevant international application. The PCT system therefore delays expense and allows savings where applications are abandoned within the first two and a half years, before they have entered the national or regional application phase.
- 1.7 After the international phase of a PCT application is over, a “family” of related patent applications for the same invention arises for examination before the patent authorities of the chosen countries or regions. Examination comprises a dialogue between the patent examiner and the applicant’s patent attorney in each of those jurisdictions. Each objection to the grant of a patent raised by the examiner has to be addressed, either by argument or by appropriate amendment, or both, before a patent can be granted. The fact that a patent application is pending is no guarantee that a patent will be granted or that its scope will be broad enough to provide the protection sought or exclude competitors with similar technology.
- 1.8 At the date of this document, 31 states have ratified the EPC. A European patent application made now can designate, and lead to patent rights, in each. Of these states, Turkey’s ratification became effective in November 2000, and Bulgaria, Czech Republic, Estonia, Hungary, Iceland, Lithuania, Poland, Romania, Slovak Republic, Slovenia and Latvia have ratified more recently. Patent applications were made by ReNeuron in respect of certain technologies before November 2000; indicated below as families 1,2,3 and 5. Therefore, the European patent applications in respect of these technologies designate all of the following states:

Austria	Greece	Monaco
Belgium	Spain	Netherlands
Cyprus	Ireland	Portugal
Denmark	Finland	Sweden
France	Italy	Switzerland/Liechtenstein
Germany	Luxembourg	United Kingdom

A European patent application can also be “extended” to certain other jurisdictions which are not full signatories to the EPC, so that patent protection for the relevant invention can be obtained there as well, based on the filing at the EPO. These “extension states” are currently Albania, Latvia, Lithuania and Macedonia. Slovenia and Romania were also extension states, at the date of filing the European applications on ReNeuron’s earlier technologies, but were not included in those applications, being, we understand, of low commercial importance.

- 1.9 Another supra-national organisation analogous to the EPO, is the African Regional Intellectual Property Organisation (ARIPO). The present contracting states are Botswana, Gambia, Ghana, Kenya, Lesotho, Malawi, Mozambique, Sierra Leone, Somalia, Sudan, Swaziland, Uganda, Tanzania, Zambia and Zimbabwe.
- 1.10 The patent examination process typically takes from two to five years from filing, depending on the jurisdiction and the nature of the issues raised. However, it is possible to defer the beginning of the examination process in some countries under certain circumstances; for example, Japanese law allows the filing of a request for examination to be deferred for up to three years (this period was seven years until recently, and that applies to many of ReNeuron’s Japanese applications). For cost reasons, and in order to take advantage of the experience of examination at the EPO and US Patent Offices, ReNeuron has always chosen to defer examination by 7 years, where possible. Therefore, it may be up to 10 years from filing before a Japanese patent is obtained.
- 1.11 Once a patent has been granted, it is not immune from challenge. The validity of patents can be called into question either in specific proceedings for that purpose or as part of an infringement action undertaken against a third party, depending on the jurisdiction. During the nine months following the grant of a European patent (see paragraph 1.5), there is the opportunity for third parties to “oppose” grant centrally, at the EPO. Thereafter, any challenge to a European patent has to be brought in the Patent Offices or Courts of the countries in which national patent rights have been obtained. Any such challenge in one of those countries will not necessarily affect the national patents within the same family in any other country.
- 1.12 Generally speaking, patents can last for up to 20 years, calculated from the application date (usually the PCT filing date) in each country, providing that any renewal fees necessary to maintain the patent in force are paid in due time (annually in most countries). The right to enforce a patent against a third party exists as from the date of grant, in certain jurisdictions back damages can be claimed if there has been infringement of a valid claim in the application, from its publication.
- 1.13 Some countries provide an effective extension of patent terms in certain circumstances. One of the commonest is where the launch of a pharmaceutical product has been delayed in satisfying the requirements of regulatory authorities responsible for the safety of such products and for granting permission for them to be marketed. Such protection will be available for many of ReNeuron’s current projects, in particular those relating to the development of cells for transplantation. The effective extension of patent term is usually for 5 years post expiry of the patent, and in any case cannot be more than 5 years.

2. IP Strategy

2.1 Background

The Directors of ReNeuron have clearly understood the importance of protecting the inventions which represent the most important part of the Company’s assets. Regular meetings are held, usually attended by Dr John Sinden of ReNeuron and Mr Jappy of GJE. These meetings are convened to discuss new developments, patent filing and prosecution programmes and commercial implications.

We have recommended and received assurances that the employment contracts of any employee involved in research and development make clear the employee’s obligations in respect to the Company’s intellectual property and confirm the general statutory position that such employee’s inventions automatically belong to the Company.

We have also explained that all research work carried out for ReNeuron should be recorded in fixed-leaf notebooks and the notebooks countersigned at regular intervals by a collaborating worker. This is particularly important in establishing dates of inventions in support of US applications where the date of invention may be a determining factor. Generally, in other countries, the date of first filing is the significant factor. We have received an assurance that this practice is carried out.

2.2 *Patent Filing Procedure used by ReNeuron*

When instructed by ReNeuron to seek protection for inventions owned by ReNeuron, priority has generally been established by filing a basic patent application at the United Kingdom Patent Office. Then, within 12 months, for those cases where it is decided to pursue patent protection, and not to keep the inventions secret, the provisions of the PCT are utilised, by the filing of an international patent application. As indicated above, the PCT system allows a single application to be filed designating any of the PCT signatory states, currently over 100 in number, which include the commercially important countries in the world. ReNeuron's international applications are searched by the EPO in its capacity as a designated PCT International Searching Authority to identify relevant prior art. The international applications have then been published 18 months after the earliest priority date, following which, in all existing cases of sufficient age, ReNeuron has requested that international preliminary examination is conducted by the EPO.

In taking advantage of the PCT system, ReNeuron has, on each occasion, initially designated all possible states. Subsequently, the number of states has been cut down to a greater or lesser extent, depending upon ReNeuron's perception of the importance of the invention, but in all cases the EPO has been used for pursuing protection in member countries of the EPC.

We consider that the strategy outlined above is appropriate.

2.3 *Searching*

Where ReNeuron has considered it appropriate, further to our advice, we have commissioned novelty and infringement clearance searches, and searches into the patent portfolios of known and potential competitors and potential collaborators. ReNeuron maintains a regular watch of patent publications emanating from competitors and potential competitors.

In general, for novelty searches, we rely on those conducted by the EPO and US Patent Office in particular, complemented by the relevant inventors' knowledge of the art. For infringement searches, certain information is provided by novelty searches and the regular watch. We also conduct complementary searches if a project has reached a point where commercial development has a defined product specification, as otherwise such searches are unlikely to produce meaningful results. No search can be comprehensive, and the results depend on the chosen search criteria and the classifications that are used to index patent documents. Therefore, although we conduct searches, and select our search criteria and classifications, with due diligence, the results of those searches, as reported here, are not necessarily conclusive.

In view of the age and size of the Company, we consider that the strategy outlined above is appropriate.

3. **The Present Portfolio**

3.1 *Ownership*

We consider that ReNeuron is entitled to sole (or, where indicated, joint) ownership of all the intellectual property of Families 1 to 10, discussed below. ReNeuron's ownership of intellectual property is by virtue of its having employed the inventor(s) thereof at the time the inventions were made or by specific assignment from the inventor(s) or their successor in title. In addition, the Company has an exclusive licence under intellectual property relating to the use of the c-myc oncogene owned by a third party, Amrad Corporation Limited, and an exclusive licence, within a defined field of use, to intellectual property owned by StemCells, Inc.

3.2 Practice

As is typical practice, ReNeuron's patent applications are usually filed with the broadest scope which we and the Company deem to be sensible, with a view to obtaining protection extending to method or products which are broader than the preferred method or product, but which incorporate the same inventive concept. This is to prevent competitors from avoiding patent infringement by a simple modification. However, the scope of the claims of many applications may have to be restricted during prosecution, for instance to distinguish the claims from prior art discovered by the Patent Office Examiners. It must also be appreciated that a granted patent is not inviolable and the validity of a granted patent can be attacked in opposition or revocation proceedings. For example, opposition proceedings at the EPO must be commenced within nine months of grant.

According to our current knowledge and belief, the patent portfolio of ReNeuron includes applications that, when granted, will give enforceable protection for their key technologies.

Several patent applications have been filed within the last 18 months, and have not yet been published, although details of these are provided below. Further patent applications are under consideration.

3.3 Summary of Patent Cases

ReNeuron's business is based on technology relating to stem cell transplantation.

For the purposes of this report, inventions and the corresponding patent applications made by ReNeuron will be identified chronologically by family. Any one family may include more than one invention, which means that division of the applications (without loss of priority) may be required, in order to protect the inventions. The details of the individual cases in the ReNeuron portfolio as of 1 June 2005 are as follows:

TRANSPLANTATION TECHNOLOGY

Family 1

Title: Neural Transplantation Using Pluripotent Neuroepithelial Cells

Inventors: Sinden, J; Gray, JA; Hodges, H; Kershaw, T; Rashid-Doubell, F.

Owner: ReNeuron Limited

<i>Country</i>	<i>Status</i>	<i>Application No.</i>	<i>Patent No.</i>
US	Pending	09/760274	
Europe*	Granted		0850298
Hong Kong	Granted		1009154
Australia	Granted		711563
Canada	Pending	2231436	
Czech Republic	Pending	PV558/98	
Japan	Pending	9-511756	
Norway	Pending	981072	
Poland	Granted		186777
Russian Federation	Granted		2185833
Singapore	Granted		51739
Slovak Republic	Pending	PV306-98	

* the grant formalities for the European patent have been completed in Austria, Belgium, Switzerland, Denmark, Spain, Finland, France, Germany, Greece, Italy, Ireland, Liechtenstein, Luxembourg, Monaco, Netherlands, Portugal, Sweden and the United Kingdom.

This invention is based on the discovery that conditionally immortal pluripotent neuroepithelial stem cells can be used to treat various forms of brain damage. Surprisingly, it has been found that, on transplantation, the stem cells have the ability to migrate to the area of damage and differentiate into the phenotype of the damaged cells. The first filing on this invention was made in the UK in September 1995, by the Institute of Psychiatry. A PCT application was filed in September 1996. Subsequently, and following assignment of the PCT application to ReNeuron (recorded in February 1998), ex-PCT filings have been made in the territories shown in the above Table.

This invention is protected by claims defining a method of therapeutic use in the treatment of brain damage/disorders using conditionally immortal neuroepithelial cells that are pluripotent. There are also claims to such cells and compositions comprising them suitable for use in the methods although these claims, being broader, may be more difficult to obtain.

This family has now been examined in many territories, including Europe and the US. The European patent was granted on 4 June 2004, with broad claims to the use of conditionally immortal neuroepithelial cells in therapy.

The US Patent Office raised an initial objection that there were several inventions, and in response ReNeuron chose those claims directed to a method of treating brain damage. In the first Office Action on the merits, the Examiner raised objections to novelty and inventive step and lack of enablement (i.e. that not all aspects of the invention had been adequately demonstrated). A response to this was filed, together with a Declaration from Dr. John Sinden, addressing those issues.

Subsequent Office Actions were issued with the Examiner maintaining his allegations that the claims lacked novelty and that not all aspects of the technology had been adequately demonstrated. The submissions in response to the Office Actions have been successful in overcoming the novelty and inventive step objections. However, the Examiner has maintained that the specification does not adequately demonstrate all aspects of the invention. We consider that the allegations raised by the Examiner are based on a misunderstanding of the teaching in documents relied upon by the Examiner and can be overcome. In order to progress the prosecution of the application, an Appeal has now been filed, with an extensive submission refuting the Examiner's allegations.

We remain confident that valuable patent protection can be obtained in all of the listed territories, which will be sufficiently broad to protect the commercial applications of the invention.

In the event that no US patent is obtained, or in addition, GJE has advised ReNeuron that patent protection for the company's products used in therapy may be obtained by applying for patents to protect the cell lines that are produced.

Subject to the payment of renewal fees, these patents can be maintained until 2016. During that period, we consider that potential competitors using the same technology can be excluded, although this may require legal action whose outcome cannot be predicted. Patent protection will be complemented by regulatory approval that may be obtained for the cells that are defined in the patent. It should also be possible to apply for additional protection for the approved product, as outlined in section 1.13.

Family 2

Title: Transplantation of Haematopoietic Cells

Inventor: Price, J.

Owner: ReNeuron Limited

<i>Countries</i>	<i>Status</i>	<i>Application No.</i>	<i>Patent No.</i>
Europe*	Granted		1161521
Australia	Granted		762763
Canada	Pending	2361401	
Hong Kong	Granted		1041284
Japan	Pending	2000-601132	
Norway	Pending	2001-4091	
Russian Federation	Granted		216336
Singapore	Granted		82210
US	Pending	09/913443	

* the grant formalities for the European patent have been completed in Austria, Belgium, Switzerland, Cyprus, Germany, Denmark, Spain, Finland, France, Greece, Ireland, Italy, Luxembourg, Monaco, Netherlands and the United Kingdom.

This Family is based on the surprising finding that haematopoietic stem cells, which are the progenitor cells for all the blood cells, appear to respond to signals from the damaged or diseased brain by taking up a phenotype that is able to replace or compensate for functional deficits associated with brain damage (i.e. assume brain-cell like function).

This Family was first filed in the UK in February 1999, by ReNeuron. A European Patent Office search was also requested. Several documents were indicated as relevant to novelty and inventive step. We have advised that there does not appear to be any prior disclosure of the use of undifferentiated haematopoietic cells for transplantation into a damaged brain, which might affect this invention's novelty or inventive step, and several applications in this Family have now proceeded to grant, including as a European patent.

The US Patent Office raised an initial objection that the claims lacked adequate support as it would require undue experimentation to use the claimed invention. A response was submitted showing that subsequently published articles supported ReNeuron's position and that therefore there was adequate support in the specification to carry out the invention. Although the response was partially successful, the Examiner has in subsequent Office Actions maintained the allegation of lack of adequate support. A telephone interview with the Examiner indicated that claims to the cells may be more readily allowable, and a response has recently been filed with claims to the cells.

We remain confident that valuable patent protection can be obtained in all of the listed territories, which will be sufficient to cover the commercial applications of the invention.

Subject to the payment of renewal fees, patent protection can be maintained in the US (when granted) and Europe at least until 2020. It should also be possible to apply for additional protection for the approved product, as outlined in section 1.13.

Family 3

Title: Genetic Constructs

Inventors: Jat, P.

Owners: ReNeuron Limited + Ludwig Institute for Cancer Research

<i>Countries</i>	<i>Status</i>	<i>Application No.</i>	<i>Patent No.</i>
Europe*	Pending	1212420	
Australia	Granted		757816
Canada	Pending	2383253	
Israel	Pending	148008	
India	Pending	2002/00378/DEL	
Japan	Pending	2001-525348	
Korea (Rep of)	Pending	2002-7003495	
Singapore	Granted		86708
US	Granted		6399384

* European application proceeding to grant in Austria, Belgium, Switzerland, Germany, Denmark, Spain, Italy, Ireland, France, Netherlands and the United Kingdom.

This Family is based on improvements in the production of conditionally immortal neuroepithelial stem cells and stem cells from other body systems, for transplantation. In Family 1, the neuroepithelial stem cells were conditionally immortalised using a temperature-sensitive oncogene. It has been found that immortalising the cells with a temperature-sensitive oncogene in combination with the catalytic portion of telomerase increases the doubling rate and may allow immortalisation of cells which cannot be immortalised with telomerase alone, and retain conditionality.

A European patent application was first filed in September 1999, with ReNeuron and the Ludwig Institute as co-applicants. Corresponding PCT and US applications were filed subsequently.

The European application has been allowed and is now proceeding to grant. The US Patent was granted in 2002. Each has broad claims covering the invention.

The patents and patent applications have claims to recombinant mammalian cells comprising a conditionally-inducible oncogene and an exogenous polynucleotide encoding the catalytic sub-unit of the telomerase complex. This combination allows the cells to achieve a high level of stability.

We remain confident that valuable patent protection can be obtained in all of the listed territories, to protect the commercial applications of the invention.

Subject to the payment of renewal fees, patent protection can be maintained in the US and Europe at least until 2020. It should also be possible to apply for additional protection for the approved product, as outlined in section 1.13.

Family 4

Title: Treatment of Brain Damage

Inventor: Hodges, H.

Owner: ReNeuron Limited

<i>Countries</i>	<i>Status</i>	<i>Application No.</i>	<i>Patent No.</i>
US	Granted		6569421
US (Continuation)	Pending	10/342692	

The invention is the finding that pluripotent cells can successfully repair damage when administered into a site contra-lateral to the site of damage.

This Family was first filed in the UK in March 1999. A US application was filed in March 2000, claiming priority from the earlier British application. Protection for this invention is now only being sought in the US. The reason for this is that the invention is based on a method of treatment, which is patentable subject matter in the US, but not in any other commercially important territory. No product claim can be made, since the cells used are already disclosed in Family 1.

The granted patent has claims to a method for treating a cognitive disorder in a mammal comprising administering pluripotent cells into a damaged mammalian brain, with administration occurring in the hemisphere contra-lateral to that with the damage. The claims are restricted to the use of hippocampal mouse cells comprising a specific immortalising oncogene.

A continuation application has been filed to pursue broader claims without restriction to the type of cells being administered. The application has not yet been examined by the US Patent Office. We consider that valuable patent protection covering the invention can be obtained.

Subject to the payment of renewal fees, patent protection can be maintained in the US until 2020.

Family 5

Title: Identification of Cells for Transplantation

Inventors: Price, J; Uwanogho, D.

Owner: ReNeuron Limited

<i>Countries</i>	<i>Status</i>	<i>Application No.</i>	<i>Patent No.</i>
Europe	Pending	00971573.1	
US	Granted		6465215

This invention relates to a method for identifying or selecting cells suitable for transplantation into a damaged brain. The invention is therefore of importance in the early stages of selecting cells which would be appropriate candidates for transplantation. We understand that such technology may be needed by other companies attempting to select a cell line that might compete with the commercial application of ReNeuron's technology.

This Family was first filed in the UK in October 1999 and a corresponding US provisional application was filed in December 1999. A corresponding European patent application is pending. The US patent was granted, but the claims were restricted to the identification of specific genes.

Subject to the payment of renewal fees, patent protection can be maintained until 2020.

Family 6

Title: Promoters to Control Cell Differentiation

Inventors: Sinden, J; Dong, Z.

Owner: ReNeuron Limited

<i>Countries</i>	<i>Status</i>	<i>Application No.</i>
Europe	Pending	02777445.4
Australia	Pending	2002339063
Canada	Pending	2464417
Japan	Pending	2003-538379
Singapore	Pending	200402381-8
US	Pending	10/493523

This invention relates to constructs for immortalising mammalian cells for therapeutic application.

This family was first filed in the UK in October 2001. A PCT application was filed in October 2002. Subsequently, ex-PCT applications were filed in the territories shown above. The European application has recently been examined with all claims considered to be novel and inventive. There was a minor objection to certain dependent claims on the grounds of clarity and a response was filed to overcome this. It is expected that this application will now be accepted for grant. We remain confident that valuable patent protection can be obtained in all of the listed territories.

If granted, and subject to the payment of renewal fees, patent protection can be maintained in the US and Europe at least until 2022. It should also be possible to apply for additional protection for the approved product, as outlined in section 1.13.

Family 7

Title: Cell Therapy

Inventors: Roberts, T; Gjoerup, O; Jat, P; Cotsiki, M.

Owner: ReNeuron Limited + Ludwig Institute for Cancer Research + Dana Faber Cancer Institute

<i>Countries</i>	<i>Status</i>	<i>Application No.</i>
PCT	Pending	PCT/GB04/03880

This invention relates to SV40 T antigen protein that lacks the ability to bind to the Bub1 protein, polynucleotides encoding the SV40 T antigen protein and cells containing the SV40 T antigen protein. The invention has considerable use in the preparation of cells that are to be used in transplantation therapy. The protein of the invention is believed to confer greater genetic stability to cells compared to conventional SV40 T antigen.

The Family was first filed in the US in September 2003, to establish an early date of invention in the US. A corresponding PCT application was filed in September 2004, claiming priority from the US application.

The PCT application has now been searched and the Search Report does not indicate any publication as being of particular relevance to the claims. The Written Opinion that issued with the Search Report indicated that certain claims (claims 24 to 26) are considered to lack support in the specification. We have advised that it should be possible to overcome these objections by submitting additional supporting data at the appropriate time and obtain patent protection covering the invention in all commercially significant countries.

If granted, and subject to the payment of renewal fees, patent protection can be maintained in USA and Europe at least until 2024. It should also be possible to apply for additional protection for the approved product, as outlined in section 1.13.

Family 8 (Not yet published)

Title: Hepatocyte

Inventors: Not yet named

Owner: ReNeuron Limited

<i>Countries</i>	<i>Status</i>	<i>Application No.</i>
UK	Pending	0420963.1

This invention relates to a specific hepatocyte comprising a genetic modification. The invention has use in therapy and as a research tool.

The family was first filed in the UK in September 2004. A decision on whether to proceed with the application will need to be taken by the due date of September 2005.

If granted, and subject to the payment of renewal fees, patent protection can be maintained in the US and Europe at least until 2025. It should also be possible to apply for additional protection for the approved product, as outlined in section 1.13.

Family 9

Title: Cell Lines

Inventors: Not yet named

Owner: ReNeuron Limited

<i>Countries</i>	<i>Status</i>	<i>Application No.</i>
UK	Pending	0427830.5

This invention relates to specific cell lines for use in therapy and as a research tool.

The UK application was filed in the UK in September 2004. A decision on whether to proceed with the application will need to be taken by the due date of September 2005.

If granted, and subject to the payment of renewal fees, patent protection can be maintained in the US and Europe at least until 2025. It should also be possible to apply for additional protection for the approved product, as outlined in section 1.13.

Family 10

Title: Cell Lines

Inventors: Not yet named

Owner: ReNeuron Limited

<i>Countries</i>	<i>Status</i>	<i>Application No.</i>
US	Pending	60/687153

This invention relates to specific cell lines for use in therapy and as a research tool.

The US application was filed in the US in June 2005. A decision on whether to proceed with the application will need to be taken by the due date of June 2006.

Further Inventions

Further patent applications are under consideration, and will be filed as justification arises.

LICENSED TECHNOLOGY

- I. As explained above, the Company has an exclusive licence to the following patents owned by Amrad Corporation Limited, for the use of the c-myc oncogene.

<i>Countries</i>	<i>Status</i>	<i>Patent No.</i>
US	Granted	US5580777
Europe	Granted	EP383804
Canada	Granted	1312839
New Zealand	Granted	226750
South Africa	Granted	88/8100

* The grant formalities for the European patent have been completed in Austria, Belgium, France, Germany, Italy, Luxembourg, Netherlands, Sweden, Switzerland and the United Kingdom.

These patents protect the use of the c-myc oncogene in mammalian neuroepithelial cells. ReNeuron utilises the c-myc oncogene in the preparation of its cell lines for transplantation, and therefore the patents provide valuable protection for the ReNeuron products.

Subject to the payment of renewal fees, the US patent can be maintained until 2013. The corresponding European patent can be maintained until October 2008. It may also be possible to apply for additional protection for the approved product, as outlined in section 1.13.

- II. ReNeuron have also signed an exclusive licence agreement with StemCells, Inc., providing access to the following patents owned by Stemcells Inc., within a defined field of use. StemCells, Inc. have confirmed their entitlement to the intellectual property to ReNeuron.

The patents and patent applications licensed by StemCells, Inc. relate generally to the preparation and use of undifferentiated neural cells, in particular their use in transplantation or in screening assays to evaluate therapeutic compounds. The patents and patent applications provide ReNeuron with greater freedom-to-operate for the transplantation-based commercial programmes.

Family (i)

Title: Cultures of Human CNS Neural Stem Cells

Inventor: Carpenter, M.

Owner: Stemcells Inc.

This patent family relates to a cell culture medium comprising multi-potent central nervous system(CNS) neural stem cells and predetermined growth factors, where the cells have a doubling rate faster than 30 days.

The claims define both the culture medium, methods of producing a culture of differentiated CNS neural cells and methods of determining the effect of a biological agent using the culture medium.

<i>Countries</i>	<i>Status</i>	<i>Application No.</i>	<i>Patent No.</i>	<i>Expected Expiry</i>
Europe	Pending	98945920.1		Sep 2018
Australia	Granted	93059/98	758270	Sep 2018
Canada	Pending	2302484		Sep 2018
Hong Kong	Pending	00108027.0		Sep 2018
Japan	Pending	2000-508770		Sep 2018
US	Granted	08/926313	5,968,829	Sep 2017
US	Granted	09/178035	6,103,530	Sep 2018
US	Granted	09/486303	6,498,018	Sep 2018
US	Granted	10/134234	6,777,233	Sep 2018
US	Pending	10/328644		Sep 2018

Various US patents have been granted and a continuation application is pending to pursue additional subject matter. The European patent application is pending.

Family (ii)

Title: Novel Growth Factor—Responsive Progenitor Cells Which Can Be Proliferated *In Vivo*

Inventor: Weiss, S.; Reynolds, B. A.

Owner: StemCells, Inc.

This patent family relates to the preparation of a population of mammalian neural cells enriched with multi-potent neural stem cells using defined culture conditions. Claims have been made to the method of producing the neural stem cells, and the use of the cells in transplantation therapies.

<i>Countries</i>	<i>Status</i>	<i>Application No.</i>	<i>Patent No.</i>	<i>Expected Expiry</i>
Europe*	Granted	92914286.7	0594669	July 2012
Australia	Granted	22425/92	665012	July 2012
Canada	Granted	2113118	2113118	July 2012
Finland	Pending	935929		July 2012
Japan	Pending	50-501862		July 2012
Norway	Pending	19940056		July 2012
Canada	Pending	2399589		July 2012
European(div)	Pending	03007791.1		July 2012
US	Granted	08/486307	5,980,885	Nov 2016
US	Pending	08/480172		**
US	Pending	08/479796		**
US	Granted	08/484203	6,399,369	June 2019

* the grant formalities for the European patent have been completed in Austria, Belgium, Denmark, France, Germany, Greece, Ireland, Italy, Liechtenstein, Luxembourg, Monaco, Netherlands, Portugal, Spain, Sweden, Switzerland and the United Kingdom.

** Expiry to be determined from date of grant.

Family (iii)

Title: Remyelination using Neural Stem Cells

Inventors: Weiss, S.; Reynolds, B. A.; Hammang, J. P.

Owner: StemCells, Inc.

This patent family relates to the use of neural stem cells to remyelinate a demyelinated axon *in vivo*, and to methods for the production of glial cells from neural stem cells.

<i>Countries</i>	<i>Status</i>	<i>Application No.</i>	<i>Patent No.</i>	<i>Expected Expiry</i>
Europe*	Granted	93922482.0	0664832	Oct 2013
Australia	Granted	51474/93	683023	Oct 2013
Canada	Granted	2147162	2147162	Oct 2013
Finland	Pending	951677		Oct 2013
Japan	Pending	6-509473		Oct 2013
Norway	Pending	19951378		Oct 2013

* the grant formalities for the European patent have been completed in Austria, Belgium, Denmark, France, Germany, Greece, Ireland, Italy, Liechtenstein, Luxembourg, Monaco, Netherlands, Portugal, Spain, Sweden, Switzerland and the United Kingdom.

Family (iv)

Title: Biological Factors and Neural Stem Cells

Inventors: Weiss, S.; Reynolds, B. A.; Hammang, J. P.;

Baetge, E.E.

Owner: StemCells, Inc.

This patent family relates to methods for the preparation of differentiated cells from mammalian neural stem cells, using defined culture conditions.

<i>Countries</i>	<i>Status</i>	<i>Application No.</i>	<i>Patent No.</i>	<i>Expected Expiry</i>
Europe*	Granted	93923994.3	0669973	Oct 2013
Europe (div)	Pending	02018736.5		Oct 2013
Canada	Allowed	2148138		Oct 2013
Finland	Pending	952022		Oct 2013
Japan	Pending	06-510503		Oct 2013
Norway	Pending	19951617		Oct 2013
Australia	Granted	49241/97	703729	Oct 2013
US	Granted	08/486648	5,851,832	June 2015
US	Granted	08/483122	5,750,376	June 2015
US	Granted	08/484406	6,294,346	Sep 2018
US	Granted	08/486313	6,497,872	Dec 2019
US	Pending	10/199918		July 2011
US	Pending	10/199830		July 2011
US	Pending	10/199189		July 2011
US	Pending	09/925911		July 2011

* the grant formalities for the European patent have been completed in Austria, Belgium, Denmark, France, Germany, Greece, Ireland, Italy, Liechtenstein, Luxembourg, Monaco, Netherlands, Portugal, Spain, Sweden, Switzerland and the United Kingdom.

A divisional European patent application has been filed to pursue additional subject matter. The application is pending.

Family (v)

Title: Genetic Modification of Neural Stem Cells

Inventors: Weiss, S.; Reynolds, B. A.; Hammang, J. P.

Owner: StemCells, Inc.

This patent family relates to methods for the production of non-tumorigenic genetically-modified multipotent CNS neural stem cells using a serum-free culture medium containing a growth factor.

<i>Countries</i>	<i>Status</i>	<i>Application No.</i>	<i>Patent No.</i>	<i>Expected Expiry</i>
Europe*	Granted	94907366.2	0681477	Jan 2014
Australia	Granted	60983/94	687785	Jan 2014
Canada	Granted	2155024	2,155,024	Jan 2014
Finland	Pending	953569		Jan 2014
Japan	Granted	6-510446	3583778	Jan 2014
Norway	Pending	19952985		
US	Granted	08/479795	6,071,889	June 2017

* the grant formalities for the European patent have been completed in Austria, Belgium, Denmark, France, Germany, Greece, Ireland, Italy, Luxembourg, Monaco, Netherlands, Portugal, Spain, Sweden, Switzerland and the United Kingdom.

Family (vi)

Title: In Vitro Production of Dopaminergic Cells

Inventors: Weiss, S.; Reynolds, B. A.

Owner: StemCells, Inc.

This patent family relates to the *in vitro* induction of dopaminergic cells by treating neural cells to express tyrosine hydroxylase.

<i>Countries</i>	<i>Status</i>	<i>Application No.</i>	<i>Patent No.</i>	<i>Expected Expiry</i>
Australia	Granted	38366/95	715246	Nov 2015
Canada	Pending	2204629		Nov 2015
Europe	Pending	95936392.0		Nov 2015
Finland	Pending	971955		Nov 2015
Japan	Pending	8-515599		Nov 2015
Norway	Pending	19972170		Nov 2015
US	Granted	08/482079	5,981,165	Nov 2016

There are claims to the methods for inducing the expression of tyrosine hydroxylase, to produce dopaminergic cells, and claims to the use of the dopaminergic cells in transplantation therapies and in screening assays.

Family (vii)

Title: Erythropoietin – Mediated Neurogenesis

Inventors: Weiss, S.; Sorokan, T. S.

Owner: StemCells, Inc.

This patent family relates to the production of neurons from a population of neural cells by culturing multipotent neural stem cells in the presence of erythropoietin, or for inducing differentiation of neural stem cells using hypoxic conditions.

<i>Countries</i>	<i>Status</i>	<i>Application No.</i>	<i>Patent No.</i>	<i>Expected Expiry</i>
US	Granted	09/175890	6,165,783	Oct 2018
US	Granted	09/742484	6,368,854	Oct 2018
US	Allowed	10/930115		Feb 2018
Canada	Pending	2307017		Oct 2018
Japan	Pending	2000-518058		Oct 2018

Two US patents have been granted. There is also a pending US continuation application, which was filed to pursue additional subject matter.

4. Third Party Rights

In the course of working for ReNeuron, we have investigated whether certain third party rights might be infringed by commercialisation of the inventions discussed above.

Various sources of information have been used, in order to identify whether there may be third party rights to be considered. These include the literature known to the employees of ReNeuron, from which the names of key workers in the field (McKay, Stringer, Weiss, Reynolds, Johe, Gage, Sah and Ray) can be identified; the names of companies known to be working in the same field (Neurospheres Ltd., StemCells, Inc., Layton Biosciences Inc., Cyto-Therapeutics Inc., California Institute of Technology, CellFactors Plc, Geron Corp., Signal Pharmaceuticals Inc., Hana Biologics Inc., Amrad Corporation Limited and Arch Development Corp.); and documents cited during the preparation of or prosecution of the patent Families 1 to 10 described above. Where appropriate, the relevant names have been used, to conduct searches using the Derwent databases, and patent documents revealed in the searches have been investigated, as appropriate. It is possible that other companies may have rights obtained by licence or other means, whose names cannot be assessed via any patent database. Where we have identified a US patent of potential relevance, we have sought advice as to its relevance from a US patent attorney.

The majority of the investigations have concerned matters which may be relevant to the technology described as Family 1. This is due in part to the importance of this core technology to ReNeuron and to its current stage of development.

In summary, although our opinions are confidential and privileged, we remain confident that the information reviewed so far will not prevent ReNeuron from commercialising this technology in any commercially significant jurisdiction.

We are aware of relevant intellectual property relating to the technology described under Family 3. In particular, we have reviewed granted patents relating to telomerase. Although we consider that there are significant doubts as to the validity of those patents, they could impact upon ReNeuron's exploitation of its technology. Non-infringing alternatives to this technology exist, and are under review.

Yours faithfully

GILL JENNINGS & EVERY
J W G Jappy (Partner)

PART 7

ACCOUNTANTS' REPORT ON THE COMPANY

The following is the text of the report on ReNeuron Group plc by PricewaterhouseCoopers LLP, Reporting Accountants:



PricewaterhouseCoopers LLP
Abacus House
Castle Park
Cambridge CB3 0AN

The Directors
ReNeuron Group plc
10 Nugent Road
Surrey Research Park
Guildford
Surrey GU2 7AF

Collins Stewart Limited
9th Floor
88 Wood Street
London EC2V 7QR

4 August 2005

Dear Sirs

ReNeuron Group plc

Introduction

We report on the financial information set out below. This financial information has been prepared for inclusion in the admission document dated 4 August 2005 (the "Admission Document") of ReNeuron Group plc (the "Company").

The Company was incorporated as MF59657 Limited on 7 June 2005 and re-registered as a public company on 22 June 2003. On 23 June 2005 it changed its name to ReNeuron Group plc. The Company has not yet commenced to trade, has prepared no financial statements for presentation to its members and has not declared or paid a dividend.

Basis of preparation

The financial information set out below is based on the financial records of the Company, to which no adjustment was considered necessary.

Responsibility

The financial records are the responsibility of the directors of the Company.

The directors of the Company are responsible for the contents of the Admission Document in which this report is included.

It is our responsibility to compile the financial information set out in our report from the financial records, to form an opinion on the financial information and to report our opinion to you.

Basis of opinion

We conducted our work in accordance with the Statements of Investment Circular Reporting Standards issued by the Auditing Practices Board. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. Our work also included an assessment of significant estimates and judgements made by those responsible for the preparation of the financial records underlying the financial information and whether the accounting policies are appropriate to the circumstances of the Company and adequately disclosed.

We planned and performed our work 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 information is free from material misstatement, whether caused by fraud or other irregularity or error.

Our work has not been carried out in accordance with auditing standards generally accepted in the United States of America and accordingly should not be relied upon as if it had been carried out in accordance with those standards.

Opinion

In our opinion, the financial information gives, for the purposes of the Admission Document, a true and fair view of the state of affairs of the Company as at the date stated.

Financial information

The balance sheet of the Company at 21 June 2005 was as follows:

	<i>Note</i>	<i>£'000</i>
Fixed assets		
Investments	2	3,587
Current assets		
Debtors		—
Net assets		<u>3,587</u>
Capital and reserves		
Called up share capital	3	<u>3,587</u>
Shareholders' funds		<u>3,587</u>

The Company has no recognised gains and losses and, other than as described in note 3 below, has not traded since incorporation.

Notes to the financial information

1. Accounting policies

The balance sheet has been prepared in accordance with the historical cost convention, the Companies Act 1985 and applicable accounting standards in the United Kingdom.

2. Investments

Investments comprise 100 per cent. of the ordinary share capital of ReNeuron Holdings Limited, a non-trading holding company incorporated in England and Wales. Investments are held at historic cost.

3. Share capital

The Company was incorporated on 7 June 2005 with an authorised share capital of 130,000,000 ordinary 10p shares of which 1 ordinary 10p share was issued and called up and fully paid.

On 21 June 2005, the Company issued 35,874,704 ordinary 10p shares to the then shareholders of ReNeuron Holdings Limited pursuant to a share-for-share exchange.

4. Post balance sheet events

On 1 July 2005, the Company issued 3,774,493 ordinary 10p shares to StemCells, Inc. pursuant to a subscription and share exchange agreement. StemCells, Inc. also has a right to be issued with further ordinary shares up to 7.5 per cent. of the fully diluted share capital of the Company subject to certain milestones being reached.

Yours faithfully

PricewaterhouseCoopers LLP
Chartered Accountants

PART 8

ACCOUNTANTS' REPORT ON ReNEURON HOLDINGS LIMITED

The following is the text of the report on ReNeuron Holdings Limited by PricewaterhouseCoopers LLP, Reporting Accountants:



PricewaterhouseCoopers LLP
Abacus House
Castle Park
Cambridge CB3 0AN

The Directors
ReNeuron Group plc
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Surrey Research Park
Guildford
Surrey GU2 7AF

Collins Stewart Limited
9th Floor
88 Wood Street
London EC2V 7QR

4 August 2005

Dear Sirs

ReNeuron Holdings Limited (the "Company")

Introduction

We report on the combined and consolidated financial information (the "Combined Financial Information") set out below. This Combined Financial Information has been prepared for inclusion in the admission document dated 4 August 2005 (the "Admission Document") of ReNeuron Group plc.

Background

The Company was incorporated on 13 March 2003 as St James's MGP Limited and changed its name to ReNeuron Holdings Limited ("RHL") on 14 June 2005.

On 1 April 2003, it was announced that agreement had been reached on a recommended cash offer by the Company for ReNeuron (UK) Limited (formerly ReNeuron Holdings plc) which, on 6 May 2003, was declared unconditional in all respects. ReNeuron (UK) Limited and its wholly owned subsidiary, ReNeuron Limited, are referred to as RUKL and RL respectively,

Basis of preparation

The Combined Financial Information set out below is based on the audited financial statements of the following companies to which no adjustments were considered necessary.

(a) *For the year ended 31 March 2003*

The Combined Financial Information is based on the audited consolidated financial statements of RUKL.

(b) *For the year ended 31 March 2004*

The Combined Financial Information is based on an aggregation of the audited financial statements of RHL for the 11 month period to 31 March 2004 and the audited consolidated financial statements of RUKL and RL for the year ended 31 March 2004.

(c) *For the year ended 31 March 2005*

The Combined Financial Information is based on the audited consolidated financial statements of RHL for the year ended 31 March 2005.

Responsibility

Such financial statements are the responsibility of the directors of the companies who approved their issue.

The directors of ReNeuron Group plc are responsible for the contents of the Admission Document in which this report is included.

It is our responsibility to compile the Combined Financial Information set out in our report from the financial statements, to form an opinion on the Combined Financial Information and to report our opinion to you.

Basis of opinion

We conducted our work in accordance with the Statements of Investment Circular Reporting Standards issued by the Auditing Practices Board. Our work included an assessment of evidence relevant to the amounts and disclosures in the Combined Financial Information. The evidence included that previously obtained by us relating to the audit of the financial statements underlying the Combined Financial Information. Our work also included an assessment of significant estimates and judgements made by those responsible for the preparation of the financial statements underlying the Combined Financial Information and whether the accounting policies are appropriate to the circumstances of the Company and adequately disclosed.

We planned and performed our work 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 information is free from material misstatement, whether caused by fraud or other irregularity or error.

Our work has not been carried out in accordance with auditing standards generally accepted in the United States of America and accordingly should not be relied upon as if it had been carried out in accordance with those standards.

Opinion

In our opinion, the Combined Financial Information gives, for the purposes of the Admission Document, a true and fair view of the state of affairs of the Group as at the dates stated and of its losses and cash flows for the periods then ended.

Combined and consolidated profit and loss accounts for the years ended 31 March

	Note	2003 £'000	2004 £'000	2005 £'000
Turnover	1	19	1	3
Cost of sales		—	—	—
Gross profit		19	1	3
Net operating expenses excluding exceptional items	2	(5,077)	(3,237)	(3,382)
Exceptional operating items	3	(330)	1,881	—
Net operating expenses including exceptional items	2	(5,407)	(1,356)	(3,382)
Other operating income	4	236	102	43
Operating loss		(5,152)	(1,253)	(3,336)
Interest receivable	5	271	112	53
Interest payable	6	—	—	(250)
Loss on ordinary activities before taxation	9	(4,881)	(1,141)	(3,533)
Tax credit on loss on ordinary activities	10	446	328	319
Loss on ordinary activities after taxation		(4,435)	(813)	(3,214)
Equity minority interests	35	—	1	—
Loss for the financial year	24,25	<u>(4,435)</u>	<u>(812)</u>	<u>(3,214)</u>
Loss per 10p ordinary share				
Basic and fully diluted	11	<u>(12.4)p</u>	<u>(2.3)p</u>	<u>(9.0)p</u>

Prior to 6 May 2003, RUKL, RL and RHL were not under the same legal group structure but were separate legal entities which were managed and operated jointly. After 6 May 2003, the Group operated under a formal legal structure. Accordingly, certain amounts, in particular the capital structure, goodwill amortisation, interest and tax charges together with the respective loss per share figures may not be directly comparable between the periods prior to and post 6 May 2003.

All results arise from continuing operations.

The Group has no recognised gains and losses other than the results above and therefore no separate statement of total recognised gains and losses is presented.

Combined and consolidated balance sheets as at 31 March

	Note	2003 £'000	2004 £'000	2005 £'000
Fixed assets				
Intangible assets	12	—	—	—
Negative goodwill	12	—	(1,711)	(1,609)
Tangible assets	13	1,915	1,627	1,383
Investments	14	—	—	—
		<u>1,915</u>	<u>(84)</u>	<u>(226)</u>
Current assets				
Debtors	15	1,172	850	624
Short term investments	16,21	5,223	1,976	361
Cash at bank and in hand	21	58	132	70
		<u>6,453</u>	<u>2,958</u>	<u>1,055</u>
Creditors: amounts falling due within one year	17	(1,114)	(1,033)	(579)
Convertible loan	17	—	—	(1,250)
		<u>5,339</u>	<u>1,925</u>	<u>(774)</u>
Net current assets/(liabilities)		<u>5,339</u>	<u>1,925</u>	<u>(774)</u>
Total assets less current liabilities		<u>7,254</u>	<u>1,841</u>	<u>(1,000)</u>
Creditors: amounts falling due after more than one year	18	(58)	—	(8)
Net assets/(liabilities)		<u>7,196</u>	<u>1,841</u>	<u>(1,008)</u>
Capital and reserves				
Called up share capital	22	—	3,586	3,587
Share premium account	25	—	—	365
Profit and loss account	25	—	(1,746)	(4,960)
Invested capital	24	7,196	—	—
		<u>7,196</u>	<u>1,840</u>	<u>(1,008)</u>
Total equity shareholders' funds/(deficit)	26	7,196	1,840	(1,008)
Equity minority interests	35	—	1	—
		<u>7,196</u>	<u>1,841</u>	<u>(1,008)</u>
Capital employed		<u>7,196</u>	<u>1,841</u>	<u>(1,008)</u>

Combined and consolidated cash flow statements for the years ended 31 March

	Note	2003 £'000	2004 £'000	2005 £'000
Net cash outflow from operating activities	27	<u>(4,026)</u>	<u>(3,346)</u>	<u>(3,150)</u>
Returns on investments and servicing of finance				
Interest received		<u>279</u>	<u>119</u>	<u>50</u>
Net cash inflow from returns on investments and servicing of finance		<u>279</u>	<u>119</u>	<u>50</u>
Taxation				
UK corporation tax – research and development tax credit received		<u>466</u>	<u>437</u>	<u>364</u>
Capital expenditure				
Purchase of intangible fixed assets		(113)	—	—
Purchase of tangible fixed assets		(120)	(28)	(27)
Proceeds from disposal of tangible fixed assets		<u>—</u>	<u>3</u>	<u>—</u>
Net cash outflow from capital expenditure		<u>(233)</u>	<u>(25)</u>	<u>(27)</u>
Acquisitions				
Refund of VAT on acquisition expenses	12	—	—	86
Purchase of subsidiary undertakings	30	—	(1,799)	—
Net cash (outflow)/inflow from acquisitions		<u>—</u>	<u>(1,799)</u>	<u>86</u>
Net cash outflow before management of liquid resources and financing		(3,514)	(4,614)	(2,677)
Management of liquid resources				
Decrease in short-term investments	29	3,363	3,247	1,615
Financing				
Proceeds from issue of ordinary share capital	22	—	1,441	—
Increase in loans	28	—	—	1,000
Net cash inflow from financing		<u>—</u>	<u>1,441</u>	<u>1,000</u>
(Decrease)/increase in cash		<u>(151)</u>	<u>74</u>	<u>(62)</u>

The cash flows for the period prior to the acquisition of RUKL on 6 May 2003 reflect the capital structure and financing of RUKL. These are different from those that have existed since the acquisition.

Notes to the Combined Financial Information

Basis of preparation

The Combined Financial Information has been prepared in accordance with the historical cost convention, the Companies Act 1985 and applicable accounting standards in the United Kingdom. This Combined Financial Information has been prepared using those accounting standards in force for the accounting period ending on 31 March 2005 and although there have been a number of new accounting standards issued which will apply for the forthcoming 31 March 2006 year end, none have been early adopted in the Combined Financial Information. New accounting standards not adopted include: FRS20 (Share based payment); FRS21 (Events after the balance sheet date); FRS 22 (Earnings per share), FRS 23 (The effects of changes in foreign exchange rates), (FRS 25 (Financial Instruments: Disclosure and presentation) and FRS 26 (Financial instruments: Measurement).

Basis of consolidation and combination

The Group was formed on 6 May 2003, following RHL's acquisition of RUKL. Prior to 6 May 2003, RUKL was the ultimate parent company with RL as its trading subsidiary.

The following summarises the accounting and other principles which have been applied in preparing the Combined Financial Information:

- (a) For the year to 31 March 2003, the Combined Financial Information has been prepared by consolidating the financial statements of RUKL and its wholly owned subsidiary, RL.
- (b) For the year to 31 March 2004, the Combined Financial Information is based on an aggregation of the financial statements of RHL for the 11 month period to 31 March 2004 and the consolidated financial statements of RUKL and RL for the year ended 31 March 2004.
- (c) For the year to 31 March 2005, the Combined Financial Information has been prepared from the consolidated financial statements of RHL.
- (d) Since, until 6 May 2003, the companies comprising the Group were not under a formal, legal group structure, the share capital and all reserves for the year ended 31 March 2003 have been presented in the balance sheet as a single line "invested capital".
- (e) Transactions and balances between combined and consolidated entities have been eliminated for all periods presented.
- (f) Taxation liabilities and assets of the Group are based on amounts recorded in the historic financial statements of the constituent entities. Accordingly, tax charges presented in the period prior to 6 May 2003 may not be representative of tax charges that would have been incurred had a formal Group structure been in place.

The Combined Financial Information includes the following companies, all of which are incorporated in the United Kingdom:

<i>Company</i>	<i>Nature of operations</i>	<i>Ownership interest at 31 March 2005</i>
ReNeuron Holdings Limited ("RHL")	Holding Company	100%
ReNeuron (UK) Limited ("RUKL")	Intermediate Holding Company	100%
ReNeuron Limited ("RL")	Main trading company	100%

Principal accounting policies

The principal accounting policies that materially affect the measurement of financial performance and financial position of the Group are set out below:

Intangible fixed assets

Licences, know-how and other intellectual property purchased for use in development are capitalised and amortised over the period in which the Group is expected to benefit from the asset. Provision is made against the carrying value of intangible fixed assets where an impairment in value is deemed to have occurred.

Goodwill

Negative goodwill arose on the acquisition of RUKL (see note 30) as the cost of acquisition was less than the fair value of the identifiable assets and liabilities of the acquired entities. In accordance with FRS 10 "Intangible Fixed Assets", negative goodwill is capitalised and amortised in the profit and loss account. Negative goodwill up to the fair values of non-monetary assets acquired is amortised over the period in which the non-monetary assets are recovered, this period being 10 years. Negative goodwill in excess of the fair values of the non-monetary assets acquired is immediately credited to the profit and loss account.

Fixed asset investments

Fixed asset investments are shown at cost less any provision for impairment.

Short term investments

Bank deposits which are not repayable on demand are treated as short term investments in accordance with Financial Reporting Standard ("FRS") 1 "Cash flow statements". Movements in such investments are included under "Management of liquid resources" in the Group's cash flow statement.

Foreign currency

Transactions denominated in foreign currencies are translated into sterling at actual rates of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the exchange rates ruling at the balance sheet date or at a contracted rate if applicable. All foreign exchange differences are taken to the profit and loss account in the period in which they arise.

Tangible fixed assets

The cost of tangible fixed assets is their purchase cost, together with any incidental costs of acquisition.

Depreciation is calculated so as to write off the cost of tangible fixed assets, 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 – 5 years
Computer equipment	3 years

Operating leases

Costs in respect of operating leases are charged on a straight line basis over the lease term. Benefits such as rent-free periods received and receivable as incentives to take on operating leases are spread on a straight-line basis over the lease term, or, if shorter than the full lease term, over the period to the review date on which the rent is first expected to be adjusted to the prevailing market rent.

Government 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 options

When options over shares are granted, a charge, being the estimated market value of the shares at the date of grant of the options less the exercise price of the options, is made to the profit and loss account in accordance with Urgent Issues Task Force Abstract 17 "Employee share schemes". The charge is then credited back to reserves. When a compensation charge is recognised on options to incentivise future performance, the charge is recognised over the performance period. In accordance with the Abstract, if the options are cancelled unexercised then the charge which has previously been recognised in the profit and loss account and the credit in reserves in respect of the option are reversed.

Turnover

Turnover is measured at the fair value of the consideration received from the provision of services net of value added tax. Turnover from services is recognised as revenue when the conditions in the contract for services have been satisfied.

Pension schemes

The Group operates a defined contribution pension scheme, the costs of which are charged to the profit and loss account as they become payable.

Research and development

Research and development expenditure is written off as incurred.

Financial instruments

The Group does not enter into derivative transactions. The Group's use of financial instruments is detailed in note 21.

Convertible loans

Bridging loans received which are repayable on demand are included in creditors falling due within one year. Premiums due on repayment are accrued over the period to maturity and are included within interest payable.

Deferred taxation

Provision is made for deferred taxation, using full provision accounting when an event has taken place by the balance sheet date which gives rise to an increased or reduced tax liability in the future, in accordance with FRS 19, "Deferred tax". Deferred tax assets are recognised to the extent that they are regarded as recoverable. Deferred tax assets and liabilities are not discounted.

1. Turnover

Turnover by destination

Turnover is wholly attributable to the Group's principal activity and originated wholly in the United Kingdom. The analysis of turnover by destination is set out below.

	Year ended 31 March		
	2003	2004	2005
	£'000	£'000	£'000
Turnover by destination			
Europe	5	1	3
USA	14	—	—
	<u>19</u>	<u>1</u>	<u>3</u>

2. Net operating expenses

	Year ended 31 March		
	2003 £'000	2004 £'000	2005 £'000
Administrative expenses – non-exceptional	1,871	1,067	987
Administrative expenses/(credits) – exceptional	330	(1,881)	—
Administrative expenses/(credits) – total	2,201	(814)	987
Research and development expenditure	3,206	2,170	2,395
Net operating expenses	<u>5,407</u>	<u>1,356</u>	<u>3,382</u>
Analysed as:			
Net operating expenses – non-exceptional	5,077	3,237	3,382
Net operating expenses/(credits) – exceptional	330	(1,881)	—
Net operating expenses – total	<u>5,407</u>	<u>1,356</u>	<u>3,382</u>

Details of the exceptional items are shown in note 3.

3. Exceptional operating charges/(credits)

	Year ended 31 March		
	2003 £'000	2004 £'000	2005 £'000
Share option compensation charge/(credit)	330	(934)	—
Amortisation of negative goodwill (see note 12)	—	(947)	—
	<u>330</u>	<u>(1,881)</u>	<u>—</u>

Share option compensation charge/(credit)

In accordance with the provisions of Urgent Issues Task Force Abstract 17 ('Employee Share Schemes'), during 2003 the Group made charges to the profit and loss account when options over shares were granted; the charge being the estimated market value of the shares at the date of grant less the exercise price of the options. The charge was then credited back to reserves in accordance with the Abstract.

A number of these options were cancelled during 2004, following the acquisition, and therefore compensation charges previously made in respect of these options have been written back to the profit and loss account. In addition, credits previously made to reserves in respect of the compensation charges were also reversed (see note 25).

Amortisation of negative goodwill

Negative goodwill in the period ended 31 March 2004 arose on the acquisition of RUKL (see note 29). The amount of the negative goodwill that is in excess of the fair values of non-monetary assets acquired was immediately amortised to the profit and loss account and is shown as an exceptional credit of £947,000. The remaining negative goodwill, equal to the fair values of non-monetary assets acquired, is being amortised over a period of 10 years and is not classified as an exceptional item.

4. Other operating income

	Year ended 31 March		
	2003 £'000	2004 £'000	2005 £'000
Grant income	236	57	27
Other income	—	45	16
	<u>236</u>	<u>102</u>	<u>43</u>

5. Interest receivable

	Year ended 31 March		
	2003	2004	2005
	£'000	£'000	£'000
Bank interest receivable	271	112	53

6. Interest payable

	Year ended 31 March		
	2003	2004	2005
	£'000	£'000	£'000
Other loans	—	—	250

Interest payable relates to the premium accrued on the convertible bridging loan, see note 17.

7. Directors' emoluments

The aggregate emoluments of the directors of the RHL Group for 2004 and 2005 and the RUK Group for 2003 are set out below:

	Year ended 31 March		
	2003	2004	2005
	£'000	£'000	£'000
Aggregate emoluments and benefits			
Emoluments in respect of qualifying services	441	255	280
Pension contributions	31	15	21
	<u>472</u>	<u>270</u>	<u>301</u>

	Year ended 31 March		
	2003	2004	2005
	£'000	£'000	£'000
Highest paid director			
Emoluments in respect of qualifying services	192	110	119
Pension contributions	18	8	11
	<u>210</u>	<u>118</u>	<u>130</u>

Two directors had retirement benefits accruing to them under defined contribution pension schemes (2004: two; 2003: three).

Share options

Directors' interests in share options over ordinary shares in RHL at 31 March were as follows:

Directors	Notes	On incorporation Number	Granted in 2004 Number	31 March 2004 Number	Granted in 2005 Number	31 March 2005 Number
Dr J D Sinden	1,2	246,680	—	246,680	—	246,680
Dr J D Sinden	3	—	—	—	650,000	650,000
Professor T M Jones	3	—	—	—	100,000	100,000
Mr M E Hunt	3	—	—	—	900,000	900,000
Mr W Edge	3	—	—	—	50,000	50,000

Note 1: This option was previously granted to Dr John Sinden over the number of ReNeuron Limited ordinary shares, at nominal cost, equal to one per cent of the fully diluted share capital of ReNeuron Limited immediately prior to Admission of RUKL in 2000. The option is exercisable at any time to 18 July 2007. Dr Sinden has entered an agreement pursuant to which RUKL is able to acquire any shares in ReNeuron Limited acquired by him following exercise of this option in consideration for the issue of 246,680 ordinary shares in RUKL.

Note 2: During the year ended 31 March 2004, put and call arrangements were entered into in respect of these options over RUKL ordinary shares, whereby any shares in RUKL issued pursuant to these options will be exchanged on a like-for-like basis for new shares in the Company.

Note 3: A new share option scheme was established in RHL during the year ended 31 March 2005, and 2,435,000 options were granted under the new scheme rules at an exercise price of 10p per share, of which 145,000 have subsequently lapsed. These options become exercisable upon the occurrence of a "special event" such as share sale, or on the occurrence of a listing. The options lapse on the tenth anniversary of date of grant, or when the option holder ceases to be a director or employee of the company. The options have an exercise price of 10p each and subject to the terms above, are exercisable between 23 July 2004 and 22 July 2014.

8. Employee information

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

	Year ended 31 March		
	2003 Number	2004 Number	2005 Number
By activity			
Research and development	22	22	15
Administration	8	6	4
	<u>30</u>	<u>28</u>	<u>19</u>

	Year ended 31 March		
	2003 £'000	2004 £'000	2005 £'000
Staff costs (for the above persons)			
Wages and salaries	1,285	1,097	873
Social security costs	137	127	95
Pension contributions	92	73	63
	<u>1,514</u>	<u>1,297</u>	<u>1,031</u>

9. Loss on ordinary activities before taxation

	Year ended 31 March		
	2003 £'000	2004 £'000	2005 £'000
Loss on ordinary activities before taxation is stated after charging/(crediting):			
Depreciation on tangible fixed assets	388	320	269
Amortisation of intangible fixed assets	113	—	—
(Profit)/loss on sale of fixed assets	—	(3)	2
Amortisation of negative goodwill (see note 12)	—	(1,119)	(188)
Auditors' remuneration			
– audit	15	14	18
– non-audit services	24	15	32
Hire of plant and machinery – operating leases	14	17	7
Hire of land and buildings – operating leases	243	222	243
	<u>243</u>	<u>222</u>	<u>243</u>

10. Tax on loss on ordinary activities

(a) Analysis of credits for the year

	Year ended 31 March		
	2003 £'000	2004 £'000	2005 £'000
United Kingdom			
Current year research and development tax credit at 16 per cent.	440	331	324
Adjustments in respect of previous periods	6	(3)	(5)
Tax credit on loss on ordinary activities	<u>446</u>	<u>328</u>	<u>319</u>

No corporation tax liability arises on the results for each year due to loss incurred. A tax credit has arisen as a result of tax losses being surrendered in respect of research and development expenditure.

(b) *Factors affecting the current tax charge for the year*

The value of the research and development tax credit for the period does not equal the value that would be produced by applying the UK standard rate of 16 per cent. for research and development tax credits to the loss before tax for the year. The reasons for the difference are set out in the following table:

	Year ended 31 March		
	2003 £'000	2004 £'000	2005 £'000
Loss on ordinary activities before tax	4,881	1,141	3,533
Loss on ordinary activities multiplied by the rate at which UK research and development tax credits may be claimed of 16 per cent.	781	183	565
Effects of:			
Difference between depreciation and capital allowances	52	26	(28)
Expenses not deductible for tax purposes	33	432	136
Tax losses carried forward	(426)	(310)	(349)
Adjustments in respect of previous periods	6	(3)	(5)
Tax credit on loss on ordinary activities (See note 10(a))	446	328	319

(c) *Factors that may affect future tax charges:*

At 31 March 2005, there were tax losses available for carry forward of approximately £20 million (2004: £18 million; 2003: £16 million) subject to agreement with the HM Revenue and Customs.

11. Loss per share

Until 6 May 2003, the business of the Group was carried out by RUKL and its wholly owned subsidiary, RL. Prior to 6 May 2003, RUKL was the ultimate parent company with RL as its trading subsidiary.

On 6 May 2003, RHL acquired the ordinary shares of RUKL and, accordingly, RHL became the holding company of the newly created Group.

For the period prior to 6 May 2003, the Combined Financial Information has been prepared by combining the results of RUKL and RL and the calculation of the basic earnings per share has been based on 35,862,169 ordinary shares of 10p each, being those in existence immediately after the acquisition of RUKL (see note 30).

For the periods after 6 May 2003, the calculation of the basic earnings per share disclosed in the Consolidated Financial Information has been based on the weighted average number of shares in issue, namely 35,862,169 for the year ended 31 March 2004 and 35,863,275 for the year ended 31 March 2005.

The numerator used in calculation of the basic earnings per share figure comprises the loss attributable to ordinary shareholders after taxation. For the year ended 31 March 2005 this was a loss of £3,214,000 (2004: 812,000; 2003: 4,435,000).

The Company has no dilutive potential ordinary shares in issue as the Company has made a loss in each of the three years ended 31 March 2005.

12. Intangible fixed assets

	<i>Negative goodwill £'000</i>	<i>Licence fees £'000</i>	<i>Intellectual property rights £'000</i>	<i>Total £'000</i>
Cost				
At 1 April 2002	—	1,771	2,405	4,176
Additions	—	113	—	113
At 31 March 2003	—	1,884	2,405	4,289
Additions	(2,830)	—	—	(2,830)
At 31 March 2004	(2,830)	1,884	2,405	1,459
Additions	(86)	—	—	(86)
At 31 March 2005	<u>(2,916)</u>	<u>1,884</u>	<u>2,405</u>	<u>1,373</u>
Amortisation				
At 1 April 2002	—	1,771	2,405	4,176
Charge for the year	—	113	—	113
At 31 March 2003	—	1,884	2,405	4,289
(Credit) for the year	(1,119)	—	—	(1,119)
At 31 March 2004	(1,119)	1,884	2,405	3,170
(Credit) for the year	(188)	—	—	(188)
At 31 March 2005	<u>(1,307)</u>	<u>1,884</u>	<u>2,405</u>	<u>2,982</u>
Net book amount				
At 31 March 2003	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
At 31 March 2004	<u>(1,711)</u>	<u>—</u>	<u>—</u>	<u>(1,711)</u>
At 31 March 2005	<u>(1,609)</u>	<u>—</u>	<u>—</u>	<u>(1,609)</u>

Negative goodwill

Negative goodwill arose during the year ended 31 March 2004 on the acquisition of RUKL (see note 29). The amount of negative goodwill that is in excess of the fair values of non-monetary assets acquired of £947,000 (2004: £947,000; 2003: £nil) was immediately amortised to the profit and loss account (see note 3). The remaining negative goodwill, equal to the fair values of non-monetary assets acquired, is being amortised over a period of 10 years, being the period over which the non-monetary assets are expected to be recovered.

During the year ended 31 March 2005, the Group acquired 11,525 of the remaining 11,536 minority shares in RUKL. In addition to this, RUKL also received a VAT refund of £86,000 in relation to expenses incurred prior to the acquisition of that Company by ReNeuron Holdings Limited. The negative goodwill which arose in the prior year has been adjusted in accordance with FRS7, "Fair values in acquisition accounting" in light of these circumstances.

13. Tangible fixed assets

	<i>Leasehold improvements</i> £'000	<i>Plant and equipment</i> £'000	<i>Total</i> £'000
Cost			
At 1 April 2002	1,596	1,309	2,905
Additions	20	72	92
Disposals	—	(20)	(20)
At 31 March 2003	<u>1,616</u>	<u>1,361</u>	<u>2,977</u>
Additions	12	20	32
Disposals	—	(28)	(28)
At 31 March 2004	<u>1,628</u>	<u>1,353</u>	<u>2,981</u>
Additions	—	27	27
Disposals	—	(16)	(16)
At 31 March 2005	<u><u>1,628</u></u>	<u><u>1,364</u></u>	<u><u>2,992</u></u>
Depreciation			
At 1 April 2002	85	609	694
Charge for the year	118	270	388
Disposals	—	(20)	(20)
At 31 March 2003	<u>203</u>	<u>859</u>	<u>1,062</u>
Charge for the year	119	201	320
Disposals	—	(28)	(28)
At 31 March 2004	<u>322</u>	<u>1,032</u>	<u>1,354</u>
Charge for the year	120	149	269
Disposals	—	(14)	(14)
At 31 March 2005	<u><u>442</u></u>	<u><u>1,167</u></u>	<u><u>1,609</u></u>
Net book amount			
At 31 March 2003	<u><u>1,403</u></u>	<u><u>481</u></u>	<u><u>1,915</u></u>
At 31 March 2004	<u><u>1,306</u></u>	<u><u>321</u></u>	<u><u>1,627</u></u>
At 31 March 2005	<u><u>1,186</u></u>	<u><u>197</u></u>	<u><u>1,383</u></u>

14. Investments

	<i>2003</i> £'000	<i>At 31 March</i> <i>2004</i> £'000	<i>2005</i> £'000
Other fixed asset investments			
Cost	428	428	428
Provision	(428)	(428)	(428)
Net book amount	<u><u>—</u></u>	<u><u>—</u></u>	<u><u>—</u></u>

Other fixed asset investments comprise equity acquired in VistaGen Inc., a US private company.

15. Debtors

	2003	At 31 March 2004	2005
	£'000	£'000	£'000
Amounts falling due within one year			
Other debtors	88	54	85
Corporation tax	440	364	319
Prepayments and accrued income	401	350	138
	<u>929</u>	<u>768</u>	<u>542</u>
Amounts falling due after one year			
Other debtors	243	82	82
Total debtors	<u>1,172</u>	<u>850</u>	<u>624</u>

16. Short term investments

Short-term investments comprise fixed rate deposits with banks and money market funds which are not repayable on demand.

17. Creditors: amounts falling due within one year

	2003	At 31 March 2004	2005
	£'000	£'000	£'000
Trade creditors	514	386	268
Amount owed to Merlin General Partner II Limited (see note 34)	—	365	—
Other taxation and social security	45	32	29
Other creditors	—	7	7
Accruals and deferred income	555	243	275
	<u>1,114</u>	<u>1,033</u>	<u>579</u>
	2003	2004	2005
	£'000	£'000	£'000
Convertible loan	—	—	1,250

The convertible loan is an amount payable to Merlin General Partner II Limited (“Merlin”) in respect of a bridging loan. On the occurrence of a change in ownership or raising of finance, Merlin has the option to convert this loan into £1million of shares in the Company at a rate of 16p per share. However, this loan is repayable on demand in cash in which case there is a repayment premium of 25p per £1. Accordingly a further amount of £250,000 has been accrued for this premium. The loan is secured by way of a floating charge over the assets of the Company.

18. Creditors: amounts falling due after more than one year

	2003	At 31 March 2004	2005
	£'000	£'000	£'000
Accruals and deferred income	58	—	8

19. Deferred taxation

The Group has not recognised any deferred taxation (2004: £nil; 2003: £nil). An analysis of the unprovided deferred tax asset of the Group is as follows:

	2003	At 31 March	2005
	£'000	2004	£'000
		£'000	£'000
Tax effect of timing differences because of:			
Excess of tax allowances over depreciation	(11)	(45)	(64)
Other short-term timing differences	—	—	53
Losses carried forward	3,135	3,380	3,792
Net deferred tax asset	<u>3,124</u>	<u>3,335</u>	<u>3,781</u>

The net deferred tax asset has not been recognised as the directors consider that there is no immediate prospect of these being utilised.

20. Pension obligations

The group operates a defined contribution group pension scheme for employees and directors. The assets of the scheme are held in a separate fund and are administered independently of the Group. The total pension cost for the group was £63,000 (2004: £73,000; 2003: £92,000). There were no prepaid or accrued contributions to the scheme at the period end (2004: £nil; 2003: £nil).

21. Financial instruments

The financial risks faced by the Group include interest rate risk, 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, when appropriate, the generation of additional cash resources for the Group's operations through the issue of shares and/or debt instruments.

The Group's policy is to raise cash in advance of when it is required and when market conditions are appropriate, using those financial instruments can be negotiated with the providers of finance at that time. These instruments have included shares and convertible loan stock.

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

The balance sheet position at each year end was not representative of the position throughout the year as cash, short-term investments and the debt position fluctuate considerably depending on the timing of operating and capital expenditures.

Short-term debtors and creditors

Short-term debtors and creditors have been excluded from all the following disclosures, other than the currency risk disclosures, as permitted by FRS13 "Derivatives and other financial instruments".

Interest rate risk profile of the Group's financial liabilities

The Group's financial liabilities, other than short-term liabilities which have been excluded, comprise only the convertible loan. This liability is interest-free and has been recorded at £1,250,000 (see note 17) at 31 March 2005.

All material financial liabilities are denominated in Sterling.

Interest rate risk profile of the Group's financial assets

All amounts below are held in Sterling:

	At 31 March		
	2003	2004	2005
	£'000	£'000	£'000
Cash at bank and in hand	58	132	70
Short-term investments	5,223	1,976	361
At 31 March	<u>5,281</u>	<u>2,108</u>	<u>431</u>

The Group maintains cash and bank balances in Sterling. Cash and bank balances represent cash attracting interest at floating rates held in current accounts and deposit accounts with banks at interest rates based on LIBOR. Short-term investments represent fixed rate deposits placed with major clearing banks and building societies for up to six months and earn interest of between 3.0 per cent. and 4.0 per cent. (2004: 3.4 per cent. and 3.9 per cent.; 2003: 3.9 per cent. and 4.7 per cent.).

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 short-term assets and liabilities denominated in Euros held by the UK companies.

At 31 March 2005, these amounted to assets/(liabilities) of £72 (2004: £522; 2003: £966).

Liquidity risk profile

Due to the Group's loss making activities, it is necessary to manage actively the Group's short-term liquidity risks. The prime consideration in the investment of cash is security over the asset and only counterparties of high credit standing are used. Sufficient liquid funds are maintained to meet daily cash requirements.

Borrowing facilities

The Group had no unused borrowing facilities at 31 March 2005 (2004: £nil; 2003: £nil).

Maturity of financial liabilities

The maturity profile of the carrying amount of the group's financial liabilities, other than short term trade creditors and accruals at 31 March 2005 was entirely due within year (31 March 2004: all due within one year). As at 31 March 2005, the Group had accruals and deferred income of £58,000 which were repayable within two years.

Fair values

There is no material difference between the fair value and the carrying value of bank and cash balances and short-term investments. Carrying values approximate to fair values because of the short maturity periods of these financial instruments.

The fair value of the convertible debt at 31 March 2005 approximates to its book value given the expected short life of the instrument (see note 17).

22. Called up share capital

	At 31 March	
	2004	2005
	£'000	£'000
Authorised		
130,000,000 (2004:130,000,000) ordinary shares of 10p each	<u>13,000</u>	<u>13,000</u>
Allotted, called up and fully paid		
35,873,705 (2004: 35,862,169) ordinary shares of 10p each	<u>3,586</u>	<u>3,587</u>

The Company was incorporated on 13 March 2004 with an authorised share capital of 1,000 ordinary shares of £1 each. Twelve shares were allotted on incorporation.

On 24 March 2004 the authorised share capital was increased to £13,000,000 by the creation of an additional 129,990,000 ordinary shares of 10p each and the 1,000 ordinary £1 shares were each sub-divided into ten ordinary 10p shares.

The Company issued a further 35,862,049 ordinary 10p shares between 6 May 2003 and 17 July 2003, of which 21,450,000 were issued as consideration for the acquisition of RUKL (see note 29), and the balance of 14,412,049 were issued for cash of £1,441,000.

One share was issued to Merlin General Partner II on 16 August 2004 for consideration of the waiver of a balance owed to Merlin of £365,000.

The Company issued 11,535 shares on 25 February 2005 in order to acquire the minority interest shareholdings in RUKL as part of a share-for-share exchange.

23. Share options and warrants

Total options existing over ordinary 10p shares in companies in the Group as at 31 March 2005 are summarised below:

<i>Date of grant</i>	<i>Number of shares</i>	<i>Subscription price</i>	<i>Date from which exercisable</i>	<i>Date of expiry</i>
20 November 1998	500,000 Note 2	0.01p	16 Nov 2000	30 Sep 2005
6 November 2000	246,680 Note 2	Note 1	Note 1	Note 1
23 July 2004	2,290,000 Note 3	10p	23 July 2004	22 July 2014

Note 1: This option was previously granted to Dr John Sinden over the number of ReNeuron Limited ordinary shares, at nominal cost, equal to one per cent of the fully diluted share capital of ReNeuron Limited in November 2000. The option is exercisable at any time to 18 July 2007. Dr Sinden has entered an agreement pursuant to which RUKL is able to acquire any shares in ReNeuron Limited acquired by him following exercise of this option in consideration for the issue of 246,680 ordinary shares in RUKL.

Note 2: During the year ended 31 March 2004, put and call arrangements were entered into in respect of these options over RUKL ordinary shares, whereby any shares in RUKL issued pursuant to these options will be exchanged on a like-for-like basis for new shares in RHL.

Note 3: A new share option scheme was established in ReNeuron Holdings Limited during the year ended 31 March 2005, and 2,435,000 options were granted under the new scheme rules at an exercise price of 10p per share, of which 145,000 have subsequently lapsed. These options become exercisable upon the occurrence of a "special event" such as share sale, or on the occurrence of a listing. The options lapse on the tenth anniversary of date of grant, or when the option holder ceases to be a director or employee of the company.

Counter indemnity and fee agreement with The Merlin Fund L.P.

The Merlin Fund L.P. has earned fees from ReNeuron Limited in respect of a counter indemnity and fee agreement entered into by ReNeuron Limited with The Merlin Fund L.P. during the year to 31 March 2001. The Merlin Fund L.P. has the option of converting the fee earned into ordinary shares of ReNeuron Limited at a price equivalent to a subscription for cash at £3.60 per ordinary share. It has entered into an agreement pursuant to which RUKL is able to acquire any shares in ReNeuron Limited acquired by The Merlin Fund L.P. following the exercise of its option under the agreement in consideration for the issue of ordinary 10p shares in RUKL. RUKL would need to issue 46,575 ordinary 10p shares as a result.

The Merlin Fund L.P. has not exercised its option since the period-end.

Warrant instrument with WestLB

During the year to 31 March 2001, and in connection with a bridge finance arrangement, ReNeuron Limited entered into a warrant instrument with the London branch of Westdeutsche Landesbank Girozentrale ('WestLB'), and issued warrants to WestLB to subscribe for 116,478

ReNeuron Limited shares at any time, at a price of £17.17 per share. Upon the flotation of RUKL in November 2000, the Group repurchased 50 per cent. of the warrants issued to WestLB. WestLB entered into an agreement pursuant to which RUKL is able to acquire any shares in ReNeuron Limited acquired by them following the exercise of WestLB's remaining warrants in consideration for the issue of ordinary 10p shares in RUKL. RUKL would need to issue 582,390 ordinary 10p shares as a result.

In May 2002, WestLB assigned the benefit of the whole of its rights, title and interest in the warrants to Novavest Growth Fund Limited.

24. Invested capital

	<i>£'000</i>
At 31 March 2002	11,259
Loss attributable to shareholders	(4,435)
Credit in respect of employee share schemes	372
At 31 March 2003	7,196
Loss attributable to shareholders for period prior to acquisition	(294)
Eliminated on acquisition	6,902

25. Reserves

	<i>Share Premium Account £'000</i>	<i>Profit and loss account £'000</i>
At 31 March 2003	—	—
Loss for the financial period	—	(812)
Charge in respect of employee share schemes	—	(934)
At 31 March 2004	—	(1,746)
Premium on new shares issued during the year	365	—
Loss for the financial year	—	(3,214)
At 31 March 2005	365	(4,960)

26. Reconciliation of movements in shareholders' funds/(deficit)

	<i>2004 £'000</i>	<i>2005 £'000</i>
Opening shareholders' funds	—	1,840
Proceeds from new shares issued during the year following exercise of share options	3,586	1
Premium on issue of ordinary share capital	—	365
Loss for the financial year	(812)	(3,214)
Credit in respect of employee share schemes	(934)	—
Closing shareholders' funds/(deficit)	1,840	(1,008)

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

	Year ended 31 March		
	2003 £'000	2004 £'000	2005 £'000
Operating loss	(5,152)	(1,253)	(3,336)
Share option compensation charge/(credit)	372	(934)	—
Depreciation of tangible fixed assets	388	320	269
Amortisation of negative goodwill (see note 12)	—	(1,119)	(188)
Amortisation of intangible fixed assets	113	—	—
(Profit)/loss on sale of fixed assets	—	(3)	2
(Increase)/decrease in debtors	(234)	78	184
Increase/(decrease) in creditors	487	(435)	(81)
Net cash outflow from operating activities	(4,026)	(3,346)	(3,150)

28. Reconciliation of net cash flow to movement in net funds/ (debt)

	Year ended 31 March		
	2003 £'000	2004 £'000	2005 £'000
(Decrease)/increase in cash	(151)	74	(62)
Cash inflow from increase in debt	—	—	(1,000)
Non-cash movement (note 17)	—	—	(250)
Cash outflow from short-term investments	(3,363)	(3,247)	(1,615)
Movement in new funds in the year	(3,514)	(3,173)	(2,927)
Net funds at 1 April	8,795	5,281	2,108
Net funds/(debt) at 31 March	5,281	2,108	(819)

29. Analysis of net funds/(debt)

	Cash at bank and in hand £'000	Short-term investments £'000	Loans £'000	Total £'000
At 1 April 2002	209	8,586	—	8,795
Cash flows	(151)	(3,363)	—	(3,514)
At 31 March 2003	58	5,223	—	5,281

	Cash at bank and in hand £'000	Short-term investments £'000	Loans £'000	Total £'000
At 1 April 2003	58	5,223	—	5,281
Cash flows	74	(3,247)	—	(3,173)
At 31 March 2004	132	1,976	—	2,108

	Cash at bank and in hand £'000	Short-term investments £'000	Loans £'000	Total £'000
At 1 April 2004	132	1,976	—	2,108
Cash flows	(62)	(1,615)	(1,000)	(2,677)
Non cash movement (note 17)	—	—	(250)	(250)
At 31 March 2005	70	361	(1,250)	(819)

30. Acquisition

The Company purchased RUKL and its subsidiary undertaking, ReNeuron Limited on 6 May 2003 for a total consideration of £3,944,000.

For the period from 1 April 2003 to the date of acquisition, the results of the RUKL group were:

	<i>£'000</i>
Turnover	—
Operating loss	(307)
Loss before taxation	(294)
Loss for the period	<u>(294)</u>
Total recognised losses for the period	<u>(294)</u>

The book values and fair values of the assets and liabilities of the RUKL group at the date of acquisition are shown below:

	<i>Book value £'000</i>	<i>Adjustments £'000</i>	<i>Fair value £'000</i>
Intangible assets	—	—	—
Tangible assets	1,883	—	1,883
Debtors	1,184	(128)	1,056
Short term investments	4,740	—	4,740
Cash	51	—	51
Creditors	(953)	—	(953)
	<u>6,905</u>	<u>(128)</u>	<u>6,777</u>
Minority interests (see note 35)	(2)	—	(2)
Net assets acquired	<u>6,903</u>	<u>(128)</u>	<u>6,775</u>
Negative goodwill			(2,831)
Consideration			<u>3,944</u>
Consideration satisfied by:			
Shares issued (21,450,000 at 10p each)			2,145
Cash			1,799
			<u>3,944</u>

The adjustment to debtors of £128,000 represents the inclusion of a research and development tax credit of £33,000 for the period from 1 April 2004 to the date of acquisition, offset by a fair value adjustment of £161,000 relating to a long term debtor.

31. Capital commitments

The Group and Company had no commitments (2004: £nil; 2003: £nil) at the end of the year for capital expenditure contracted for but not provided for in the financial statements.

32. Financial commitments

At 31 March 2005, 31 March 2004 and 31 March 2003 the Company had annual commitments under non-cancellable operating leases as follows:

	<i>2003 £'000</i>	<i>2004 £'000</i>	<i>2005 £'000</i>
Land and buildings			
Expiring within two to five years	—	—	—
Expiring after five years	243	243	243
	<u>243</u>	<u>243</u>	<u>243</u>

	2003 £'000	2004 £'000	2005 £'000
Other			
Expiring within one year	—	3	7
Expiring within two to five years	13	4	—
	<u>13</u>	<u>7</u>	<u>7</u>

33. Contingent liabilities

The Group and its European collaborators receive income from the European Commission in the form of two Framework 5 Grants. Under the terms of the grant agreements, any payments received from the European Commission shall be treated as advances until the last project deliverable is achieved. As at 31 March 2005, the Group had contingent liabilities of £nil (2004: £882,000; 2003: £900,000) in respect of its share of these grants.

34. Related party disclosures

The Company has taken advantage of the exemption under FRS 8 not to disclose any transactions or balances with other members of the group because the consolidated financial statements in which the subsidiary is included are publicly available.

Transactions with Merlin General Partner II Limited

On 29 November 2004, the Company received a bridging loan of £1,000,000 from Merlin General Partner II Limited, a shareholder of RHL. At 31 March 2005, the full balance of the loan is outstanding, together with £250,000 accrued premium, and has been included in creditors due within one year (see note 17).

As at 31 March 2005, the Company owes £nil (2004: £365,000; 2003: £nil) in respect of costs incurred on the Company's behalf by Merlin General Partner II Limited, a substantial shareholder in the Company.

35. Minority interest

	£'000
At 31 March 2003	—
Acquisitions (see note 29)	2
Share of losses	(1)
	<u>1</u>
At 31 March 2004	1
Acquisitions	(1)
Share of losses	—
	<u>—</u>
At 31 March 2005	<u><u>—</u></u>

The Company issued 11,535 shares on 25 February 2005 in order to acquire the minority interest shareholdings in RUKL as part of a share-for-share exchange.

36. Ultimate controlling party

The directors consider that no one single party has ultimate control over ReNeuron Holdings Limited.

37. Post balance sheet events

On 21 June 2005, the entire share capital of the Company was acquired by ReNeuron Group plc by way of a share-for-share exchange.

Yours faithfully

PricewaterhouseCoopers LLP

PART 9

PARTICULARS OF THE WARRANTS

Pursuant to the UK Placing and US Private Placement, Warrants are being issued to subscribers of new Ordinary Shares on the basis of one Warrant for every two new Ordinary Shares. Application will be made for both the Ordinary Shares, issued and to be issued pursuant to the UK Placing and US Private Placement, and the Warrants to be admitted to trading on AIM. Set out below are particulars of the principal terms and conditions applying to the Warrants constituted by an instrument entered into by the Company by way of deed poll dated 4 August 2005 (the “**Warrant Instrument**”).

1. Constitution

- 1.1 The Company has determined by a resolution of its board of directors (being duly empowered and authorised by the Memorandum and Articles of Association of the Company) to issue up to 19,000,000 Warrants each entitling the holder thereof to subscribe for Ordinary Shares at a fixed price of 30 pence.
- 1.2 The maximum number of Warrants to be issued under the Warrant Instrument is 19,000,000.
- 1.3 The Warrants shall rank *pari passu* in all respects and without discrimination or preference.
- 1.4 Every Warrant holder shall be entitled to receive one certificate for the Warrant(s) held by him which are in certificated form but joint holders shall be entitled to only one certificate in respect of the Warrants held jointly by them which are in certificated form which certificates shall be delivered to the joint holder whose name stands first in the Register. Warrants that are in uncertificated form shall be held in accordance with and subject to the provisions of the Regulations (defined below) and the facilities and requirements of the relevant system concerned. Every certificate shall be under the securities seal of the Company which shall be affixed in such manner as shall be permitted by the Articles of Association of the Company.

2. Subscription rights

- 2.1 A registered holder (a “**holder**”) of a Warrant shall have the right, exercisable in accordance with paragraph 2.3 below, to subscribe (the “**subscription rights**”) in cash on any business day from (and including) 12 August 2005 to (and including) 12 February 2007 (each date a “**subscription date**”, and the final such date the “**final subscription date**”), on the following terms: for each Warrant specified in the warrant certificate (in the case of any Warrants that are in certificated form) and for each Warrant held (in the case of any Warrants that are in uncertificated form) one Ordinary Share at a subscription price of 30p (the “**subscription price**”) payable in full on subscription. The number and/or the nominal value of Ordinary Shares to be subscribed and the subscription price are subject to adjustment pursuant to paragraph 3 below. The subscription rights will not be exercisable in respect of a fraction of an Ordinary Share.
- 2.2 The number of Warrants to which each Warrant holder shall be entitled shall be evidenced (in the case of any Warrants that are in certificated form) by a warrant certificate issued by the Company (in the form set out in the appendix hereto) and (in the case of any Warrants that are in uncertificated form) in accordance with and subject to the provisions of the Regulations and the facilities and requirements of the relevant system concerned.
- 2.3 In order to exercise the subscription rights in respect of any Warrants that are in certificated form on any subscription date, the Warrant holder must, having completed the notice of subscription on his warrant certificate, lodge it at the office of the Registrars of the Company in relation to any subscription rights so (or to be) exercised (the date of receipt of such notice by the Registrars being the “**exercise date**”) accompanied by a remittance for the total subscription price of the Ordinary Shares in respect of which the subscription rights are being exercised. Once lodged, a notice of subscription shall be irrevocable save with the

consent of the Directors. In order to exercise the subscription rights in respect of any Warrants that are in uncertificated form on any subscription date, the Warrant holder must procure that a properly authenticated dematerialised instruction and/or other instruction or notification is received by the Company or by such person as it may require in such form and subject to such terms and conditions as may from time to time be prescribed by the Directors (subject always to the facilities and requirements of the relevant system concerned). The Directors may in addition determine when any such properly authenticated dematerialised instruction and/or other instruction or notification is to be treated as received by the Company or by such person as it may require for these purposes (subject always to the facilities and requirements of the relevant system concerned). In either case compliance must also be made with any statutory requirements then applicable. Whether any Warrants are in certificated form or uncertificated form on a subscription date shall be determined by reference to the register of Warrant holders as at 12.01 a.m. on the relevant subscription date or such other time as the Directors may (subject to the facilities and requirements of the relevant system concerned) in their absolute discretion determine.

- 2.4 Not earlier than 4 weeks and not later than 2 weeks before the date of the final subscription date, as described in paragraph 2.1 above, the Company will give notice in writing to the holders of outstanding Warrants reminding them of their subscription rights.
- 2.5 Ordinary Shares issued pursuant to the exercise of subscription rights will be allotted as soon as reasonably practicable after the relevant exercise date and, in respect of any Warrants that are in certificated form on any exercise date, share certificates in respect of such Ordinary Shares will be issued free of charge and despatched (at the risk of the persons entitled thereto) as soon as reasonably practicable after the relevant exercise date to the first named person in whose name the Warrants are registered at the relevant exercise date or (subject as provided by law) to such other persons as may be named in the form of nomination upon the reverse of the warrant certificate. In the event that, in respect of any Warrants that are in certificated form on any subscription date, not all of the Warrants evidenced by a warrant certificate are exercised, the Company shall at the same time issue for no payment a fresh warrant certificate in the name of the Warrant holder for any balance of the subscription rights remaining exercisable.
- 2.6 Ordinary Shares allotted pursuant to the exercise of subscription rights will not rank for any dividends or other distributions declared, made or paid on a date (or by reference to a record date) prior to the relevant exercise date but, subject thereto, will rank *pari passu* in all other respects with the Ordinary Shares in issue at the relevant exercise date including ranking in full for all dividends and other distributions in respect of the financial year in which the relevant exercise date occurs provided that on any allotment falling to be made pursuant to paragraph 4.4 below the Ordinary Shares so to be allotted shall not rank for any dividends or other distributions declared, made or paid by reference to a record date prior to the date of allotment.
- 2.7 Application will be made to the London Stock Exchange for the Ordinary Shares allotted pursuant to any exercise of subscription rights to be admitted to trading on AIM (a market of the London Stock Exchange) and the Company will use all reasonable endeavours to obtain the admission thereof as soon as reasonably practicable after the relevant exercise date.
- 2.8 Within 14 days following the final subscription date the Company shall be entitled to appoint a trustee, who, within 28 days following the date of appointment, shall (provided that in his opinion the proceeds of a sale of the Ordinary Shares represented by the relevant Warrants after deduction of all costs and expenses incurred by him will exceed the total subscription price) exercise such subscription rights as have not been exercised on the terms on which the same could have been exercised on the final subscription date (subject to any adjustment pursuant to paragraph 3 below) and shall sell the Ordinary Shares acquired on

exercise of such subscription rights, and shall distribute pro rata the proceeds less the subscription price and such other costs and expenses to the persons entitled thereto within two calendar months of the final subscription date, provided that entitlements of under £10 shall be retained for the benefit of the Company. Subject thereto, and to the extent not then exercised, all subscription rights shall lapse at 5.00 p.m. on the final subscription date.

- 2.9 If at any time less than 25 per cent. of the Warrants originally issued by the Company remain outstanding, the Company shall be entitled, on giving not less than 14 days' notice in writing to the holders of Warrants then outstanding, to appoint a trustee who, provided that in his opinion the proceeds of a sale of the Ordinary Shares represented by such outstanding Warrants after deduction of all costs and expenses incurred by him will exceed the total subscription price, shall within the period of 28 days following the giving of such notice exercise such subscription rights as have not been exercised as if they were exercisable 28 days following the date of such notice on the basis (subject to any adjustment pursuant to paragraph 3 below) then applicable and sell in the market the Ordinary Shares acquired on exercise of such subscription rights or accept any offer available to holders of Warrants for the purchase of those Warrants which would provide net proceeds to the Warrant holders in excess of those which would be obtained from a sale of Ordinary Shares represented by such Warrant in the market. The trustee shall distribute pro rata the proceeds less the subscription price and such other costs and expenses to the persons entitled thereto as soon as practicable after such sale, provided that entitlements of under £10 shall be retained for the benefit of the Company.
- 2.10 The Warrants and the Ordinary Shares issuable on exercise of the Warrants have not been and will not be registered under the United States Securities Act of 1933, as amended, and the relevant exemptions have not been and will not be obtained from the Securities Commission or similar regulatory authority of any province of Canada. Subject to certain exceptions, the Warrants and the Ordinary Shares issuable on exercise of the Warrants may not be offered, sold, transferred or delivered, directly or indirectly, in Canada or the United States or to any citizen or resident of Canada (a "**Canadian Person**") or of the United States (a "**U.S. Person**") or to or for the benefit of any such person. Persons subscribing for Ordinary Shares in connection with the exercise of Warrants shall (unless the Ordinary Shares can be lawfully allotted) be deemed to represent and warrant to the Company that they are not Canadian Persons or U.S. Persons and that they are not subscribing for such Ordinary Shares for the account or benefit of any such person or with a view to the re-offer or re-sale of such Ordinary Shares directly or indirectly in Canada or the United States and that they will not offer, sell, transfer or deliver, directly or indirectly, such Ordinary Shares in Canada or the United States or to or for the benefit of any Canadian Person or U.S. Person. The Company shall be entitled in its absolute discretion to impose such conditions, restrictions, limitations, prohibitions and other requirements as it may from time to time think fit for the purpose of complying with relevant laws of the United States and/or Canada.
- 2.11 Any trustee appointed pursuant to paragraphs 2.8 or 2.9 above shall have no liability of any nature whatsoever where he has acted honestly and reasonably and shall have no responsibility for the safe custody of, or to earn any interest on, any unpaid or unclaimed money.

3. Adjustment of subscription price

- 3.1 If, on a date on or before the final subscription date, the Company shall allot any Ordinary Shares fully paid by way of capitalisation of profits or reserves to holders of Ordinary Shares on the register on a date before the final subscription date or upon any consolidation or sub-division of the Ordinary Shares before such date, the number and/or nominal value of Ordinary Shares to be subscribed on any subsequent exercise of the subscription rights will be increased or, as the case may be, reduced in due proportion and the subscription price per Ordinary Share will be adjusted accordingly. On any such capitalisation, consolidation

or sub-division the Company will procure that the auditors for the time being of the Company will verify the correctness of the appropriate adjustments and, within 28 days of such adjustments, notice will be sent to each Warrant holder of the adjusted number of Ordinary Shares to which the Warrant holder is entitled to subscribe in consequence thereof, fractional entitlements being ignored, and/or of the adjusted subscription price per Ordinary Share, such notice being accompanied by a new warrant certificate in respect of such adjusted number of Ordinary Shares in the case of any Warrants that are in certificated form.

- 3.2 If, on a date on or before the final subscription date, the Company makes any offer or invitation (whether by rights issue, rights offer, open offer or otherwise but not being an offer of shares in lieu of a cash dividend payment) to the holders of Ordinary Shares in their capacity as such, or any offer or invitation (not being an offer to which paragraph 4.4 below applies) is made to such holders otherwise than by the Company, then the Company shall, as far as it is able, procure that at the same time the same offer or invitation is made to the then Warrant holders as if their subscription rights had been exercisable and had been exercised on the day immediately preceding the date (or record date) of such offer or invitation on the terms (subject to any adjustment pursuant to paragraph 3.1 above) on which the same could have been exercised on the basis then applicable provided that, if the Directors shall so resolve, in the case of any offer or invitation made by the Company, the Company shall not be required to procure that the same offer or invitation is made to the Warrant holders but the subscription price and/or the number of Ordinary Shares to be subscribed on any subsequent exercise of the subscription rights shall be adjusted accordingly. The Company will procure that the auditors for the time being of the Company will certify in writing the appropriateness of the adjustments and, within 28 days, notice will be sent to each Warrant holder together with (in the case of any of the Warrants that are in certificated form) a new warrant certificate in respect of the adjusted number of Ordinary Shares to which that Warrant holder is entitled to subscribe in consequence thereof, fractional entitlements being ignored.
- 3.3 No adjustment shall be made to the subscription price pursuant to paragraph 3.1 or 3.2 if such adjustment would (taken together with the amount of any adjustment carried forward under the provisions of this paragraph 3.3) be less than one per cent. of the subscription price then in force and on any adjustment the adjusted subscription price will be rounded down to the nearest 0.5p. Any adjustment not so made and any amount by which the subscription price is rounded down will be carried forward and taken into account in any subsequent adjustment.

4. Other provisions

So long as any subscription rights remain exercisable:

- 4.1 the Company shall not (except with the sanction of an extraordinary resolution of the Warrant holders) create any new class of share capital except for Ordinary Shares which carry, as compared with the existing Ordinary Shares, no more advantageous rights as regards voting, dividends and return of capital;
- 4.2 the Company shall keep available for issue sufficient authorised but unissued share capital to satisfy in full (without the need for the passing of any resolution by shareholders) all subscription rights remaining exercisable;
- 4.3 the Company shall not (except with the sanction of an extraordinary resolution of the Warrant holders) issue any Ordinary Shares credited as fully paid by way of capitalisation of profits or reserves nor make any such offer as is referred to in paragraph 3.2 above if as a result the Company would on any subsequent exercise of the subscription rights be obliged to issue Ordinary Shares at a discount;

- 4.4 if at any time an offer is made to all holders of Ordinary Shares (or all holders of Ordinary Shares other than the offeror and/or any company controlled by the offeror and/or persons acting in concert with the offeror) to acquire the whole or any part of the issued share capital of the Company and the Company becomes aware that as a result of such offer the right to cast a majority of the votes which may ordinarily be cast on a poll at a general meeting of the Company has or will become vested in the offeror and/or such persons or companies as aforesaid, the Company shall give notice to the Warrant holders of such vesting within 14 days of its becoming so aware, and each such Warrant holder shall be entitled, at any time within the period of 30 days immediately following the date of such notice, to exercise his subscription rights. On expiry of such 30 day period all the Warrants then outstanding shall automatically expire and have no further effect. Publication of a scheme of arrangement under the Companies Act 1985 (as from time to time amended or re-enacted) providing for the acquisition by any person of the whole or any part of the issued share capital of the Company shall be deemed to be the making of an offer for the purposes of this paragraph 4.4;
- 4.5 if the Company commences liquidation, whether voluntary or compulsory (except for the purpose of reconstruction, amalgamation or unitisation on terms sanctioned by an extraordinary resolution of the holders of the Warrants), it shall forthwith give notice thereof to all holders of Warrants; thereupon each Warrant holder will (if in such winding-up there shall be a surplus available for distribution amongst the holders of the Ordinary Shares (including for this purpose the Ordinary Shares which would arise on the exercise of all the outstanding subscription rights) which, taking into account the amounts payable on the exercise of the subscription rights, exceeds in respect of each Ordinary Share a sum equal to the subscription price) be treated as if immediately before the date of such order or resolution his subscription rights had been exercised in full and shall accordingly be entitled to receive out of the assets available on liquidation *pari passu* with the holders of the Ordinary Shares such a sum as he would have received had he been the holder of the Ordinary Shares to which he would have become entitled by virtue of such subscription after deducting a sum per share equal to the subscription price; subject to the foregoing, all subscription rights shall lapse on liquidation of the Company; and
- 4.6 the Company shall not (except with the sanction of an extraordinary resolution of the Warrant holders) make any allotment of fully paid Ordinary Shares by way of capitalisation of profits or reserves unless at the date of such allotment the Directors have authority to grant the additional rights to subscribe to which the Warrant holders will by virtue of paragraph 3.1 above be entitled in consequence of such capitalisation.

5. Modification of rights and Warrant Instrument

All or any of the rights for the time being attached to the Warrants may from time to time (whether or not the Company is being wound up) be altered or abrogated with the sanction of an extraordinary resolution of the Warrant holders. Such alteration or abrogation approved as aforesaid shall be effected by deed poll executed by the Company and expressed to be supplemental to the Warrant Instrument. Modifications to the Warrant Instrument which are of a formal, minor or technical nature, or made to correct a manifest error, or certain modifications which the Directors consider appropriate to take pursuant to the terms of the Warrant Instrument, may be effected by deed poll executed by the Company and expressed to be supplemental to the Warrant Instrument and notice of such alteration or abrogation or modification shall be given by the Company to the Warrant holders.

6. Purchase by the Company

The Company shall be entitled at any time to purchase Warrants (i) by tender in the market (available alike to all Warrant holders) at a price (exclusive of expenses of purchase) not exceeding an amount equal to the average of the Relevant Prices during the period of ten dealing days (the “**Relevant Period**”) immediately prior to the date of such tender or purchase or (ii)

through the market at the market price, provided that such market price does not exceed five per cent. above the amount equal to the average of the Relevant Prices during the Relevant Period. For this purpose, the “**Relevant Price**” for any dealing day is the middle market quotation for the Warrants for that dealing day (as derived from the London Stock Exchange Daily Official List). Any Warrants so purchased shall be cancelled and shall not be available for re-issue.

7. Transfer

Each Warrant will be registered and (in the case of any Warrants that are in certificated form) transferable by instrument of transfer in any usual or common form or in any other form which may be approved by the Directors and (in the case of any Warrants that are in uncertificated form) in accordance with and subject to the provisions of the Regulations and the facilities and requirements of the relevant system concerned and, subject thereto, any arrangements from time to time made by the Directors pursuant to the terms of the Warrant Instrument except that (in either case) no transfer of a right to subscribe for a fraction of an Ordinary Share shall be effected. Save insofar as the same would be inconsistent with the Warrant Instrument, the provisions of the Articles of Association of the Company relating to the registration, transfer and transmission of shares shall apply *mutatis mutandis* to the Warrants.

8. General

- 8.1 The Company will concurrently with the issue of the same to holders of Ordinary Shares send to each holder of a Warrant (or, in the case of joint holders, to the first named) a copy of each published annual report and accounts of the Company and unaudited interim report of the Company together with all documents required by law to be annexed thereto, and copies of every statement, notice or circular issued to holders of Ordinary Shares.
- 8.2 Warrant holders may attend all meetings of shareholders but may not vote at such meetings by virtue of or in respect solely of their holdings of Warrants.
- 8.3 For the purposes of these particulars, “**business day**” means a day (excluding Saturdays and public holidays) on which banks in England are open for business and “**extraordinary resolution**” means a resolution proposed at a meeting of the Warrant holders duly convened and held and passed by a majority consisting of not less than three-fourths of the votes cast, whether on a show of hands or on a poll. All the provisions of the Articles of Association for the time being of the Company as to General Meetings shall apply *mutatis mutandis* as though the Warrants were a class of Ordinary Shares forming part of the capital of the Company but so that (i) the period of notice shall be 21 days at least, (ii) the necessary quorum shall be Warrant holders (present in person or by proxy) entitled to subscribe for one-third in nominal amount of the Ordinary Shares attributable to the then outstanding Warrants, (iii) every Warrant holder present in person at any such meeting shall be entitled on a show of hands to one vote and every Warrant holder present in person or by proxy shall be entitled on a poll to one vote for every Ordinary Share for which he is entitled to subscribe, (iv) any Warrant holder present in person or by proxy may demand or join in demanding a poll, and (v) if at any adjourned meeting a quorum as defined above is not present, a Warrant holder who is then present in person or by proxy shall be a quorum.
- 8.4 References in these particulars to the Regulations are to The Uncertificated Securities Regulations 2001 (SI 2001 No 3755) and include any re-enactment or modification thereof or any regulations made in substitution therefor made under section 207 of the Companies Act 1989 (or any re-enactment or modification thereof) and from time to time in force and words and expressions used in these particulars shall have the same respective meanings herein as in the Regulations. References in these particulars to an uncertificated Warrant or to a Warrant (or to a holding of Warrants) being in uncertificated form are references to that Warrant being an uncertificated unit of a security and a dematerialised instruction is properly authenticated if it complies with the specifications referred to in paragraph 5(3) of schedule 1 to the Regulations.

9. Governing law

The Warrant Instrument is to be construed in accordance with and governed by the laws of England.

PART 10

ADDITIONAL INFORMATION

1. Incorporation

- 1.1 The Company was incorporated and registered in England and Wales on 7 June 2005 under the Act as a private limited company with registered number 5474163. The Company was incorporated with the name MF59657 Limited and by virtue of a special resolution dated 21 June 2005 the Company was re-registered under section 43 of the Act as a public limited company with the name MF59657 plc on 22 June 2005. The Company changed its name to ReNeuron Group plc on 23 June 2005.
- 1.2 The Company is a public limited company and, accordingly, the liability of its members is limited.
- 1.3 The principal legislation under which the Company operates is the Companies Act 1985 (as amended) and the regulations made thereunder.
- 1.4 The head and registered office of the Company is at 10 Nugent Road, Surrey Research Park, Guildford, Surrey GU2 7AF (telephone number 01483 302 506 or, if dialling from outside the United Kingdom, +44 1483 302 506).
- 1.5 The business of the Company and its principal activity is to act as a holding company. The Group's activities and operations will be carried on by ReNeuron Limited, a wholly owned subsidiary of the Company.

2. Share capital

- 2.1 The authorised and issued share capital of the Company, as at the date of this document and is expected to be immediately following Admission, as follows:

	<i>At present</i>		<i>Immediately following Admission⁽¹⁾</i>	
	<i>No. of shares</i>	<i>Nominal Value/£</i>	<i>No. of shares</i>	<i>Nominal Value/£</i>
Ordinary Shares:				
Authorised	130,000,000	13,000,000	130,000,000	13,000,000
Issued and fully paid	39,649,198	396,491.98	93,547,932	9,354,793.2

(1) Assumes the issue of 5,165,000 Ordinary Shares to StemCells, Inc. pursuant to the terms of the StemCells Agreement described at paragraph 9.5 of this Part 10.

On 12 August 2005, the New Ordinary Shares will, subject to Admission, be issued pursuant to the UK Placing and US Private Placement at a price of 25p per share. A further 10,666,666 Ordinary Shares will, subject to Admission, be issued as a result of the capitalisation of the Merlin Loans and 67,068 Ordinary Shares will be issued, subject to Admission, pursuant to the Merlin Fee Arrangement. A further 6,000,000 Ordinary Shares will, immediately prior to Admission, be issued pursuant to the Subscription Deed at a price of 25p per share.

- 2.2 The following changes have occurred in the authorised and issued share capital of the Company since 7 June 2005, the date of its incorporation:

2.2.1 By a special resolution passed on 21 June 2005, the Company:

- (i) granted the directors the authority to allot relevant securities, in accordance with section 80 of the Act, up to a maximum aggregate nominal amount of the authorised but unissued share capital of the Company, provided that the authority will expire on 31 December 2008; and
- (ii) granted the directors the power, in accordance with section 95 of the Act, to allot equity securities (within the meaning of section 94 of the Act) pursuant to the authority conferred by resolution (i) above, as if section 89(1) of the Companies Act 1985 did not apply to the allotment, provided that such power shall expire on the date being five years from the date on which the resolution is passed unless previously renewed, varied or revoked by the Company in general meeting.

- 2.2.2 On 21 June 2005, the Company issued 35,874,704 Ordinary Shares of £0.10 each to the then shareholders of ReNeuron Holdings Limited pursuant to the Share Exchange described in paragraph 9.4 of this Part 10.
- 2.2.3 On 1 July 2005, the Company issued 3,774,493 Ordinary Shares, credited as fully paid up as to nominal value, to StemCells, Inc. in consideration of the transfer to the Company by StemCells, Inc. of 3,774,493 A Ordinary Shares of 10p each in nominal value in ReNeuron Limited pursuant to the StemCells Agreement described at paragraph 9.5 of this Part 10.
- 2.2.4 By a special resolution passed on 1 August 2005, conditional upon Admission becoming effective on or before 15 October 2005, the shareholders of the Company granted the following powers and authorities to the Directors to issue Ordinary Shares:
- (i) the Directors were generally and unconditionally authorised (in substitution for all previous authorities), for the purposes of section 80 of the Act to allot relevant securities (within the meaning of that section) up to an aggregate nominal amount of £9,035,080.20 provided that in the case of any such allotment (other than (a) allotments made in connection with the placing of Ordinary Shares in the capital of the Company in connection with Admission, (b) the allotment of up to 2,421,680 Ordinary Shares in connection with certain options to be granted to certain employees and directors of, and consultants to, the Company and/or its subsidiaries, in replacement of certain pre-existing options (c) the allotment of up to 600,000 Ordinary Shares in connection with contractual options granted on or prior to Admission and (d) the allotment of Ordinary Shares on exercise of the Warrants to be issued by the Company in connection with the placing of Ordinary Shares in connection with Admission and (e) the allotment of Ordinary Shares to StemCells, Inc. pursuant to the terms of the subscription and share exchange agreement dated 1 July 2005 (as amended) between, *inter alia*, the Company and StemCells, Inc. ((a), (b), (c), (d) and (e) together, the “**Initial Allotments**”)) such authority shall be limited to the allotment of relevant securities up to an aggregate nominal amount equal to one third of the aggregate nominal amount of all Ordinary Shares in issue and fully paid immediately after Admission, provided that the authority shall expire on 7 December 2007, being the date 18 months from the date of incorporation of the Company 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;
 - (ii) the Directors were (in substitution for all previous authorities), 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 paragraph (i) above as if section 89(1) of the Act did not apply to any such allotment provided that such power shall be limited to:
 - (a) the Initial Allotments;
 - (b) the allotment of equity securities in connection with an issue to holders of Ordinary Shares (whether by way of rights issue, open offer or otherwise) where the equity securities respectively attributable to the interests of such holder of Ordinary Shares on a fixed record date are proportionate (as nearly as may be) to the respective number of shares held by them (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);

- (c) 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 New Share Option Scheme (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 10 per cent. of the aggregate nominal amount of all Ordinary Shares in issue and fully paid immediately after Admission; and
- (d) the allotment (otherwise than pursuant to paragraphs (a) to (c) (inclusive)) of equity securities having an aggregate nominal value of up to 10 per cent. of the aggregate nominal amount of all Ordinary Shares in issue and fully paid immediately after Admission,

provided that such authority shall expire on 7 December 2006, being the date 18 months from the date of incorporation of the Company or, if earlier, at the conclusion of the next annual general meeting of the Company, save that the Company may before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the directors may allot equity securities in pursuance of such offer or agreement as if such authority had not expired.

- 2.3 The New Ordinary Shares and the Committed Shares shall have the rights and be subject to the restrictions referred to in paragraph 4.2 of this Part 10.
- 2.4 The Ordinary Shares to be issued under the UK Placing and US Private Placement will, on Admission, rank *pari passu* in all respects with the existing Ordinary Shares, including the right to receive all dividends and other distributions declared, made or paid after the date of this document.
- 2.5 As at the date of this document, the Company has granted Contractual Options over 600,000 Ordinary Shares as described at paragraph 7.3 of this Part 10.
- 2.6 Following Admission, the Company intends to grant 2,321,680 Replacement Options and 100,000 Non-Executive Replacement Options, as described at paragraphs 7.2.3 and 7.4.1 respectively of this Part 10. In addition to the Replacement Options and Non-Executive Replacement Options, the Company intends to grant further options under the New Share Option Scheme and New Non-Executive Share Option Scheme following Admission over up to 3,045,000 Ordinary Shares (in aggregate) as described in paragraphs 7.2.4 and 7.4.1 of this Part 10.
- 2.7 Immediately prior to Admission, the Merlin Loans (as described in paragraph 9 of this Part 10) shall be capitalised into 6,000,000 Ordinary Shares in ReNeuron Holdings Limited which will be exchanged for 6,000,000 Ordinary Shares in the Company.
- 2.8 Immediately prior to Admission pursuant to the Merlin Fee Arrangement (as described in paragraph 9.1 of this Part 10), 67,068 Ordinary Shares in the Company will be issued.
- 2.9 The Company, conditional on Admission, has issued Warrants (including the Merlin Warrants) to subscribe for 19,000,000 Ordinary Shares on the terms described in Part 9 of this document.
- 2.10 On Admission, the Company shall issue 5,165,000 Ordinary Shares, credited as fully paid up as to nominal value, to StemCells, Inc. in consideration of the transfer to the Company by StemCells, Inc. of 5,165,000 A Ordinary Shares of 10p each in nominal value in ReNeuron Limited pursuant to the StemCells Agreement described at paragraph 9.5 of this Part 10.
- 2.11 Immediately prior to Admission, the Company shall issue, and Merlin Biosciences shall subscribe for, 6,000,000 Ordinary Shares at a price per share equal to the Placing Price and the Company shall issue 3,000,000 Warrants to Merlin Biosciences.

- 2.12 Save as disclosed in this document, no commission, discounts, brokerages or other specific terms have been granted by the Company in connection with the issue or sale of any of its share or loan capital.
- 2.13 The Ordinary Shares and Warrants are in registered form and will, on Admission, be capable of being held in uncertificated form. Application has been made to CRESTCo for the Ordinary Shares and Warrants to be enabled for dealings through CREST as participating securities. No temporary documents of title will be issued. It is expected that definitive certificates will be posted to those holders who have requested the issue of Ordinary Shares and Warrants in certificated form by 19 August 2005.

3. Subsidiaries and other interests

The Company has the following subsidiary undertakings and associated companies:

<i>Name</i>	<i>Registered Number</i>	<i>Status</i>	<i>Place of Incorporation</i>	<i>Interest held by the Company</i>
ReNeuron Limited	3375897	Active	England & Wales	100%
ReNeuron (UK) Limited	4083134	Intermediate Holding Company	England & Wales	100%*
ReNeuron Holdings Limited	4697300	Holding Company	England & Wales	100%

* ReNeuron (UK) Limited is 100 per cent. owned by ReNeuron Holdings Limited, which in turn is 100 per cent. owned by ReNeuron Group plc.

4. Memorandum and Articles of Association

4.1 Memorandum of Association

The Memorandum of Association of the Company provides that the principal objects of the Company are, *inter alia*, to carry on business as, amongst other things, a holding company. The objects of the Company are set out in full in clause 3 of the Memorandum of Association.

4.2 Articles of Association

The New Articles of Association of the Company (the "Articles") which were adopted by a special resolution of the Company on 1 August 2005 contain, *inter alia*, provisions to the following effect:

4.2.1 Rights attaching to Ordinary Shares

(i) Voting rights of members

Subject to disenfranchisement in the event of (a) non-payment of any call or other sum due and payable in respect of any share or (b) any non-compliance with any statutory notice requiring disclosure of the beneficial ownership of any shares and subject to any special rights or restrictions as to voting for the time being attached to any shares (as to which there will be none following Admission), on a show of hands every member who, being an individual, is present in person or by proxy or being a corporation, is present by a duly authorised representative who is not himself a member entitled to vote, on a show of hands shall have one vote and on a poll shall have one vote for every share of which he is a holder. In the case of joint holders, the vote of the person whose name stands first in the register of members and who tenders a vote is accepted to the exclusion of any votes tendered by any other joint holders.

(ii) Dividends

Subject to the rights attached to any shares issued on any special terms and conditions (as to which there will be none at Admission), dividends shall be declared and paid according to the amounts paid up on the shares on which the dividend is paid, but no amount paid up on a share in advance of a call shall be regarded as paid up on the share.

(iii) *Return of capital*

Subject to the rights attached to any shares issued on any special terms and conditions (as to which there will be none at Admission), on a winding-up the surplus assets remaining after payment of all creditors of the Company will be divided amongst the members of the Company according to their respective holding of shares. The liquidator may, with the sanction of an extraordinary resolution of the Company and any other sanction required by statute (a) divide amongst the members in specie the whole or any part of the assets of the Company, or (b) vest the whole or any part of the assets in trustees on such trusts for the benefit of members as the liquidator shall determine, and the liquidation may be closed and the Company dissolved but no member shall be compelled to accept any assets upon which there is any liability.

4.2.2 *Restrictions on shareholders*

Subject to the AIM Rules, if a member or any other person appearing to be interested in shares, has been given notice under section 212 of the Act and has failed to give information of their interest in any shares (the “**Default Shares**”) within a prescribed time, the member shall not be entitled in respect of the Default Shares to attend or vote (either personally or by proxy) at a general meeting of the Company or a meeting of the holders of any class of shares or to exercise any other right in relation to general meetings of the Company or meetings of the holders of any class of shares.

Where the Default Shares represent 0.25 per cent. or more (in nominal value) of the issued shares of a class, then the Company shall be entitled to (a) withhold any dividend (or part thereof) and any right to receive shares instead of a dividend or other money which would otherwise be payable in respect of the Default Shares and (b) no transfer of the Default Shares shall be registered unless the shareholder is not himself in default as regards supplying the information required and provides evidence, to the satisfaction of the directors, that no person in default as regards supplying such information is interested in any of the shares which are the subject of the transfer; or registration is required by the Uncertificated Securities Regulations 2001.

4.2.3 *Transfer of shares*

A member may transfer all or any of his uncertificated shares and the Company shall register the transfer of any uncertificated shares in accordance with any applicable statutory provision. The Directors may refuse to register the transfer of an uncertificated share or any renounceable right of allotment of a share which is a participating security held in uncertificated form in accordance with the CREST Regulations to the extent that the Company is permitted to do so by the CREST Regulations, provided that where the uncertificated shares are admitted to AIM, such a refusal would not prevent dealings in the shares of that class taking place on an open and proper basis. If the board of directors refuses to register a transfer of an uncertificated share it shall, within two months of the date on which the operator instruction relating to such a transfer was received by the Company, send to the transferee notice of the refusal.

A member may transfer all or any of his certificated shares by an instrument in writing in any usual form, or in any other form which the Directors may approve. The instrument of transfer shall be executed by or on behalf of the transferor and, where the share is not fully paid by or on behalf of the transferee. The Directors may, in their absolute discretion and without giving any reason, refuse to register the transfer of a certificated share which is not fully paid up but shall not be bound to specify the grounds upon which such registration is refused provided that, where any such shares are admitted to AIM, such a refusal would not prevent dealings in the shares of that class taking place on an open and proper basis. The Directors may also refuse to register a transfer of a certificated share or a renunciation of a renounceable letter of allotment, whether or not fully paid, unless the instrument of transfer is lodged, duly stamped or adjudged or certified as not chargeable to stamp duty, at the transfer office, or such other place as the Directors may appoint and is accompanied by the certificate(s) for the share(s) to which it relates (except where the shares are

registered in the name of a market nominee and no certificate has been issued for them) and such other evidence as the Directors may reasonably require to show the right of the transferor to make the transfer or the person renouncing to effect the renunciation. If the Directors refuse to register a transfer of a share they shall, within two months after the date on which the transfer was lodged with the Company, send to the transferee notice of the refusal.

The Directors may refuse to register any transfer unless it is in respect of only one class of share and is in favour of not more than four transferees or renounees.

4.2.4 *Changes in capital*

The Company may by ordinary resolution:

- (i) increase its share capital by a sum to be divided into shares of such amounts as the resolution shall prescribe;
- (ii) consolidate and divide all or any of its share capital into shares of a larger amount than its existing shares;
- (iii) sub-divide its shares, or any of them, into shares of a smaller amount than is fixed by the Memorandum of Association; and
- (iv) cancel shares which, at the date of the passing of the resolution, have not been taken or agreed to be taken by any person and diminish the amount of its share capital by the amount of the shares so cancelled.

Subject to the provisions of the statutes and the AIM Rules and to the rights attaching to existing shares, the Company may:

- (i) by extraordinary resolution purchase, or enter into a contract under which it will or may purchase, its own shares; and
- (ii) by special resolution reduce its share capital, any capital redemption reserve, share premium account or other undistributable reserve in any manner.

4.2.5 *Variation of rights*

Subject to the provisions of the statutes, if at any time the capital of the Company is divided into different classes of shares (which it will not be following Admission), the rights attached to any class may be varied or abrogated in such manner (if any) as may be provided by these rights or in the absence of any such provisions, with the consent in writing of the holders of not less than three-quarters in nominal value of the issued shares of that class or with the sanction of an extraordinary resolution passed at a separate meeting of the holders of the shares of that class. At any separate general meeting, the necessary quorum shall be two persons holding or representing by proxy at least one-third in nominal amount of the issued shares of the class in question or, at any adjourned meeting of such holders, shall be one person holding shares of the class in question in person or by proxy whatever his holding. Every holder of the shares of the class shall, on a poll, have one vote in respect of every share of the class held by them respectively and a poll may be demanded in writing by any holder of shares of the class present in person or by proxy.

4.2.6 *Directors*

- (i) The number of directors (other than alternate directors) shall not be less than two. There shall be no more than twelve directors.
- (ii) A Director shall not be required to hold any shares of the Company by way of qualification.
- (iii) There shall be no age limit for Directors.
- (iv) At each annual general meeting one-third of the Directors for the time being shall retire from office by rotation. The Directors to retire by rotation shall include, firstly, any Director who wishes to retire at the meeting and not offer himself for re-election and, secondly, those Directors who have been longest in office since their last appointment or reappointment, provided always that each director shall be

required to retire and offer himself for re-election at least every three years. The retiring Director shall, if willing to act be deemed to have been reappointed, unless at the general meeting it is resolved not to fill the vacancy or a resolution for the reappointment of the director is put to the meeting and not passed.

- (v) The Directors (other than alternate directors) shall be entitled to such remuneration by way of fees for their services in the office of a director as the Directors may determine (not exceeding £200,000 in aggregate per annum or such larger sum as the Company may, by ordinary resolution, decide). Such fee shall be divided between the Directors as they agree or, failing agreement, equally. The fees shall be distinct from any salary, remuneration or other amount payable to a Director.
- (vi) The Directors may also be paid all travelling, hotel and other expenses properly incurred by them in connection with their attendance at meetings of the Directors or of committees of the Directors or general meetings or separate meetings of the holders of any class of shares of the Company.
- (vii) The Directors may provide benefits, whether by the payment of gratuities or pensions or by purchasing and maintaining insurance or otherwise, for the benefit of any persons who are or were at any time Directors or the holders of any executive or comparable office of employment with the Company or any other company or undertaking which is or has been (a) a subsidiary of the Company or (b) otherwise allied to or associated with the Company or a subsidiary of the Company or (c) a predecessor in business of the Company or of any such subsidiary, or (d) for any member of his family (including a spouse and a former spouse) or any person who is or was dependent on him, and may (as well before or after he ceases to hold such office or employment) establish, maintain, subscribe and contribute to any fund and pay premiums for the purchase or provision of any such benefit.
- (viii) Subject to the provisions of the statutes a Director may be a party to or otherwise interested in any contract, transaction, arrangement or proposal with the Company or in which the Company is otherwise interested either in regard to his tenure of any office or place of profit or as vendor purchaser or otherwise. A Director may hold any other office or place of profit under the Company (except that of auditor or auditor of a subsidiary of the Company) in conjunction with the office of director and may act by himself or through his firm in such professional capacity to the Company and in any such case on such terms as to remuneration and otherwise as the Directors may arrange. Any remuneration shall be in addition to any remuneration provided for by any other article.
- (ix) A Director who to his knowledge is in any way (directly or indirectly) interested in a contract, transaction, arrangement or proposal with the Company shall declare the nature of his interest at the meeting of the Directors at which the question of entering into such contract, transaction, arrangement or proposal is first considered if he knows his interest then exists or in any other case at the first meeting of the directors after he knows that he is or has become so interested.
- (x) A Director shall not vote or be counted in the quorum on any resolution of the directors concerning his own appointment (including the fixing and varying of terms of appointment) as the holder of any office or place of profit with the Company or any other company in which the Company is directly or indirectly interested. Where proposals are under consideration concerning the appointment (including the fixing or varying of terms of appointment) of two or more Directors to offices or employment with the Company or any body corporate in which the Company is interested the proposals may be divided and considered in relation to each director separately and (provided he is not under the Articles or for any other reason precluded from voting) each of the directors concerned shall be entitled to vote and be counted in the quorum in respect of each resolution except that concerning his own appointment.

- (xi) A Director shall not vote or count in the quorum in relation to a resolution or meeting of the Directors in respect of any contract or arrangement or any other proposals whatsoever in which he has an interest which (together with any interest of a connected person) to his knowledge is a material interest. Notwithstanding the above, a Director shall be entitled to vote (and be counted in the quorum) on: (a) any contract in which he is interested by virtue of his interest in shares or debentures or other securities of or otherwise in or through the Company; (b) the giving of any guarantee, security or indemnity to him in respect of money lent or obligations incurred by him or by any other person at the request of, or for the benefit of, the Company or any of its subsidiary undertakings; or the giving of any guarantee, security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiary undertakings for which he himself has assumed responsibility in whole or in part and whether alone or jointly with others under a guarantee or indemnity or by the giving of security; (c) any matter relating to an offer of shares, debentures or other securities of or by the Company or any of its subsidiary undertakings in which offer the Director is or may be entitled to participate as a holder of securities or in the underwriting or sub-underwriting of which the Director is to participate; (d) any contract, transaction, arrangement or proposal to which the Company is or is to be a party relating to another company, including any subsidiary of the Company, in which he and any persons connected with him do not to his knowledge (directly or indirectly) hold an interest in shares (as that term is used in sections 198 to 211 of the Act) whether as an officer, shareholder, creditor or otherwise representing one per cent. or more of any class of the equity share capital, or the voting rights, in that company or of any other company through which his interest is derived; (e) any contract, transaction, arrangement or proposal for the benefit of employees of the Company or any of its subsidiary undertakings (including in relation to a pension fund, retirement, death or disability benefits scheme or personal pension plan) which does not award him any privilege or benefit not generally awarded to the employees to whom the arrangement relates; and (f) any contract, transaction, arrangement or proposal concerning insurance which the Company proposes to maintain or purchase for the benefit of directors or for the benefit of persons including directors.

4.2.7 *Borrowing powers*

The board of Directors may exercise all the powers of the Company to borrow money and to mortgage or charge all or any part of its undertaking, property and assets (both present and future) and uncalled capital and to issue debentures and other securities, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party. The board of Directors shall restrict the borrowings of the Company and exercise all voting and other rights or powers of control exercisable by the Company in relation to its subsidiary undertakings (if any) so as to secure (as regards subsidiary undertakings only so far as by such exercise it can secure) that the aggregate principal amount outstanding at any time in respect of all borrowings by the Group (exclusive of any borrowings which are owed by one Group company to another Group company) after deducting the amount of cash deposited will not, without the previous sanction of the Company in general meeting, exceed an amount equal to two and a half times the adjusted capital and reserves (as defined in the Articles of Association) or any higher limit fixed by ordinary resolution of the Company which is applicable at the relevant time.

4.2.8 *Meetings*

Subject to the provisions of the Act, an annual general meeting and any extraordinary general meeting called for the passing of a special resolution or a resolution appointing or reappointing a person as a Director or, a resolution of which special notice has been given to the Company, shall be called by at least twenty-one clear days' notice, and all other extraordinary general meetings shall be called by at least fourteen clear days' notice. The notice should specify the place, the date and the time of meeting and the general or special nature of business to be transacted.

A general meeting shall, notwithstanding that it has been called by shorter notice than that specified above, be deemed to have been duly called if it is so agreed in the case of an annual general meeting, by all the members entitled to attend and vote at the meeting; and in the case of any other meeting, by a majority in number of the members having a right to attend and vote at that meeting, being a majority together holding not less than 95 per cent. in nominal value of the shares giving that right.

4.2.9 *Unclaimed dividends*

Any dividend which has remained unclaimed for twelve years from the date when it became due for payment shall, if the directors so resolve, be forfeited, revert to and cease to remain owing by the Company.

5. **Directors' and other interests**

5.1 As at the date of this document and immediately following Admission, the interests in the issued ordinary share capital of the Company of the Directors (all of which, unless otherwise stated, are beneficial), which are required to be notified to the Company pursuant to sections 324 or 328 of the Act or which are required to be entered in the register to be maintained under the provisions of section 325 of the Act or which are interests of a person connected with a Director (within the meaning of section 346 of the Act), which interests, if such connected persons were Directors would be required to be disclosed pursuant to sections 324, 325 or 328 of the Act and the existence of which is known or could, with reasonable diligence, be ascertained by the Directors, will be as follows:

<i>Shareholder</i>	<i>Prior to Admission⁽⁷⁾</i>		<i>Immediately⁽²⁾ following Admission</i>		<i>Number⁽³⁾⁽⁶⁾ of Ordinary Shares held under option</i>
	<i>Number of Ordinary Shares held</i>	<i>Percentage of issued share capital</i>	<i>Number of Ordinary Shares held</i>	<i>Percentage of issued share capital</i>	
Professor Trevor Jones	—	—	—	—	150,000
Dr. John Sinden ⁽⁴⁾	1,150,000	2.07	1,267,160	1.35	1,955,260
Michael Hunt ⁽⁴⁾	—	—	59,000	0.06	1,929,500
Mark Docherty ⁽¹⁾⁽⁵⁾	95,000	0.17	95,000	0.10	—
Dr Paul Harper	—	—	—	—	50,000

(1) Mark Docherty is a director of Merlin Biosciences Fund which is the adviser to the Merlin Fund and Merlin Biosciences.

(2) Assumes the issue of 5,165,000 Ordinary Shares to StemCells, Inc. pursuant to the terms of the StemCells Agreement described at paragraph 9.5 of this Part 10.

(3) Including 900,000 Replacement Options to be granted to Michael Hunt, 100,000 Non-Executive Replacement Options to be granted to Professor Trevor Jones and 896,680 Replacement Options to be granted to Dr John Sinden, as described in paragraphs 7.2.3 and 7.4 of this Part 10, and 1,000,000 Flotation Options to be granted to Michael Hunt, 1,000,000 Flotation Options to be granted to Dr John Sinden, 50,000 Non-Executive Flotation Options to be granted to Dr Paul Harper and 50,000 Non-Executive Flotation Options to be granted to Professor Trevor Jones, as described at paragraphs 7.2.4 and 7.4 of this Part 10.

(4) Michael Hunt and Dr. John Sinden have agreed to subscribe for 59,000 Ordinary Shares and 117,160 Ordinary Shares respectively as part of the UK Placing.

(5) Including 95,000 Ordinary Shares held through a Funded Unapproved Retirement Benefits Scheme whose trustee is Merlin Ventures Limited.

(6) Including 29,500 Warrants to be issued to Michael Hunt in connection with his subscription for 59,000 Ordinary Shares as part of the UK Placing and 58,580 Warrants to be issued to Dr John Sinden in connection with his subscription for 117,160 Ordinary Shares as part of the UK Placing.

(7) Including: (a) the issue of 5,165,000 Ordinary Shares to StemCells, Inc. pursuant to the StemCells Agreement described at paragraph 9.5 of Part 10 of this document; (b) the issue of 10,666,666 Ordinary Shares to Merlin Biosciences pursuant to the capitalisation of the Merlin Loan; and (c) the issue of 67,068 Ordinary Shares to Merlin Fund pursuant to the capitalisation of the Merlin Fee Arrangements, but excluding the Committed Shares and Warrants issued in connection therewith.

5.2 Save as disclosed above, none of the Directors nor any member of his immediate family or any person connected with him holds or is beneficially or non-beneficially interested, directly or indirectly, in any shares or options to subscribe for, or securities convertible into, shares of the Company or any of its subsidiary undertakings.

5.3 As at 4 August 2005 the Directors were aware of the following interests (within the meaning of Part VI of the Act) (other than interests held by the Directors) which represent 3 per cent. or more of the issued share capital of the Company as at the date of this document and immediately following Admission:

Shareholder	Prior to Admission ⁽²⁾		Immediately ⁽¹⁾ following Admission	
	Number of Ordinary Shares	Percentage of issued share capital	Number of Ordinary Shares	Percentage of issued share capital
Merlin General Partner Limited (as general partner of the Merlin Fund L.P.)	14,456,348	26.02	14,456,348	15.45
Merlin Equity Limited	4,000,130	7.20	4,000,130	4.28
Merlin General Partner II Limited (as general partner of the Merlin Biosciences Fund L.P.)	23,659,062	42.59	29,318,912	31.34
Merlin General Partner II Limited (as managing partner of the Merlin Biosciences Fund GbR)	1,421,864	2.56	1,762,014	1.88
Merlin Ventures Limited	500,000	0.90	500,000	0.53
Helen Hodges	1,396,680	2.51	1,396,680	1.49
StemCells, Inc.	8,939,493	16.09	8,939,493	9.50

(1) Assumes the issue of the 5,165,000 Ordinary Shares to StemCells, Inc. pursuant to the terms of the StemCells Agreement described at paragraph 9.5 of Part 10.

(2) Including: (a) the issue of 5,165,000 Ordinary Shares to StemCells, Inc. pursuant to the StemCells Agreement described at paragraph 9.5 of Part 10 of this document; (b) the issue of 10,666,666 Ordinary Shares to Merlin Biosciences pursuant to the capitalisation of the Merlin Loan; and (c) the issue of 67,068 Ordinary Shares to Merlin Fund pursuant to the capitalisation of the Merlin Fee Arrangements, but excluding the Committed Shares and Warrants issued in connection therewith.

Save as disclosed above, the Directors are not aware of any person who is or will be immediately following Admission, directly or indirectly, interested in 3 per cent. or more of the issued share capital of the Company, or of any other person who immediately following Admission can, will or could, directly or indirectly, jointly or severally, exercise control over the Company.

None of the major shareholders of the Company set out above has different voting rights from any other holder of Ordinary Shares in respect of any Ordinary Shares held by them.

5.4 The Directors are or have been directors of the following companies (other than the Company and its subsidiaries) or are or have been partners in the following partnerships in the five years preceding the date of this document.

Director's Name	Current	Former
Professor Trevor Jones	Oxford NewTech Limited The Merlin Fund L.P. Merlin General Partners Limited The Merlin Biosciences Fund LP Merlin General Partners II Limited Kinetique Limited Allergan, Inc. Next Pharma Technologies Holdings Ltd B.A.C BV The UK StemCell Foundation Medicines for Malaria Venture	Datapharm Communications Limited ABPI Institute for Education and Training ABPI Services Limited OHE – IFPMA Database Limited Healthcare Reform Investment Trust plc (<i>dissolved</i>) Trident Health Limited Medidesk Group Limited Medidesk Limited
Michael Hunt	—	—
Dr John Sinden	—	—
Mark Docherty	Merlin Ventures Limited Merlin Biosciences Limited Merlin General Partner III Limited	Kindertec Limited BioWisdom Limited Cambridge Biotechnology Limited

<i>Director's Name</i>	<i>Current</i>	<i>Former</i>
Mark Docherty (continued)	Merlin Biomed Limited Devrx Limited Intercytex Limited Onyvax Limited Merlin (Scotland) GP Limited The Centre for Nutritional Medicine Limited (<i>in liquidation</i>) Merlin Bioscience Limited	Merlin Equity Limited Ashridge Gate Management Limited
Dr Paul Harper	Angel Biotechnology Limited RegenTec Limited Sareum Holdings Limited Sareum Limited Physiomics plc Food and Drug Analytical Services Limited	Provensis Limited

5.5 Save as disclosed above, the Directors have:

- (i) no unspent convictions relating to indictable offences;
- (ii) have had no bankruptcies or individual voluntary arrangements;
- (iii) have not been directors of any company at the time of or within 12 months preceding any receivership, compulsory liquidation, creditors' voluntary liquidation, administration, company voluntary arrangement or any composition or arrangement with creditors generally or any class of creditors of such company;
- (iv) have not been partners of any partnership at the time of or within 12 months preceding any compulsory liquidation, administration or partnership voluntary arrangements of such partnership;
- (v) have not been partners of any partnership at the time of or within 12 months preceding a receivership of any assets of such partnership;
- (vi) have not had any of their assets subject to any receivership; and
- (vii) have not received any public criticisms by statutory or regulatory authorities (including recognised professional bodies) and have not been disqualified by a court from acting as a director of a company or from acting in the management or conduct of the affairs of a company.

5.6 No Director has, or has had, an interest in any transactions which are or were unusual in their nature and conditions or significant to the business of the Group and which were effected by the Company during the current or immediately preceding financial year or which were effected during any earlier financial year and which remain in any respect outstanding or unperformed.

5.7 There are no outstanding loans or guarantees provided by the Company or the Group to or for the benefit of any of the Directors.

6. Directors' service agreements and emoluments

6.1 Dr. John Sinden entered into a service agreement with the Company dated 4 August 2005. The agreement may be terminated by either party giving to the other 12 months' written notice or the Company may terminate the employment by making a payment in lieu of notice. Dr. Sinden's basic salary is £135,000 per annum. Dr. Sinden is also entitled to receive a discretionary bonus of up to 40 per cent. of his annual salary, from time to time. In addition a bonus of £50,000 will be payable on Admission. Dr. Sinden is eligible to participate in the Group pension scheme to which the Company makes contributions of

- 10 per cent. of his salary. He also has the benefit of private health insurance and critical illness cover. He is also entitled to life assurance cover equal to 4 times his base salary and a car allowance of £8,000 per year. Dr. Sinden is entitled to 25 days paid holiday in each calendar year in addition to statutory holidays.
- 6.2 Michael Hunt entered into a service agreement with the Company dated 4 August 2005. The agreement may be terminated by either party giving to the other 12 months' written notice or the Company may terminate the employment by making a payment in lieu of notice. Mr Hunt's basic salary is £140,000 per annum. Mr Hunt is also entitled to receive a discretionary bonus of up to 40 per cent. of his annual salary from time to time. In addition a bonus of £50,000 will be payable on Admission. Mr Hunt is eligible to participate in the Group pension scheme to which the Company makes contributions of 10 per cent. of his salary. He also has the benefit of private health insurance and critical illness cover. He is also entitled to life assurance cover equal to 4 times his base salary and a car allowance of £8,000 per year. Mr Hunt is entitled to 25 days paid holiday in each calendar year in addition to statutory holidays.
- 6.3 Professor Trevor Jones is engaged as Non-executive Chairman of the Company pursuant to the terms of a letter of appointment dated 4 August 2005. The appointment will continue for a period of 3 years and may be terminated by either party giving to the other not less than 3 months' written notice. The appointment will terminate immediately if he breaches the terms of his appointment or he is incompetent, guilty of gross misconduct and/or serious or persistent negligence. Professor Jones receives a fee of £25,000 per annum. The Company will also reimburse Professor Jones for all expenses reasonably incurred in the proper performance of his duties.
- 6.4 Mark Docherty is engaged as a Non-executive Director of the Company pursuant to the terms of a letter of appointment dated 4 August 2005. The appointment will continue for a period of 3 years and may be terminated by either party giving to the other 3 months' written notice. The appointment will terminate immediately if he breaches the terms of his appointment, or he is incompetent, guilty of gross misconduct and/or any serious persistent negligence. Mr Docherty receives a fee of £15,000 per annum. The Company will also reimburse Mr Docherty for all expenses reasonably incurred in the proper performance of his duties.
- 6.5 Dr Paul Harper is engaged as a Non-executive Director of the Company pursuant to the terms of a letter of appointment dated 4 August 2005. The appointment will continue for a period of 3 years and may be terminated by either party giving to the other 3 months' written notice. The appointment will terminate immediately if he breaches the terms of his appointment, or he is incompetent, guilty of gross misconduct and/or any serious persistent negligence. Dr Harper receives a fee of £15,000 per annum. The Company will also reimburse Dr Harper for all expenses reasonably incurred in the proper performance of his duties.
- Dr Harper is also engaged as a consultant of ReNeuron Limited pursuant to the terms of a consultancy agreement dated 4 August 2005. Dr Harper receives a fee of £1,000 a day. Dr Harper's consultancy services include, amongst other things, supporting the Board in the establishment of objectives; work plan and budget for the ReN001 stroke programme of the Company; and supporting management in the development and execution of the Company's business strategy. The consultancy agreement may be terminated by either party giving to the other 3 months written notice.
- 6.6 Save as set out above, there are no service agreements existing between any of the Directors and any member of the Group.
- 6.7 The total aggregate of the remuneration paid and benefits in kind granted to the Directors by members of the Group during the year ended 31 March 2005 was £301,000. The aggregate estimated amount payable to the Directors by the members of the Group for the current financial year under arrangements in force at the date of this document is £560,000.

6.8 There is no arrangement under which any Director has waived or agreed to waive future emoluments nor has there been any waiver of emoluments during the financial year ended 31 March 2005.

7. Share Option Arrangements

7.1 *ReNeuron Holdings Limited Unapproved Share Option Scheme*

ReNeuron Holdings Limited operated an unapproved share option scheme (“the Old Share Option Scheme”) which was adopted by ReNeuron Holdings Limited on 23 June 2004. ReNeuron Holdings Limited granted unapproved options over ordinary shares of £0.10 each in the capital of ReNeuron Holdings Limited to employees (including executive directors) of ReNeuron Holdings Limited pursuant to the terms of the Old Share Option Scheme.

Subsequent to the Share Exchange all options granted under the Old Share Option Scheme in respect of ordinary shares in ReNeuron Holdings Limited which were in existence immediately prior to the Share Exchange have lapsed. The Company proposes to grant options over an equivalent number of Ordinary Shares of £0.10 each in the capital of the Company under the ReNeuron Group plc Employees’ Share Option Scheme to replace the options granted under the Old Share Option Scheme (other than in respect of the options held by Professor Trevor Jones under the Old Share Option Scheme in respect of which it is proposed that Non-Executive Replacement Options be granted as described at paragraph 7.4.1 below) that have lapsed together with a contractual option previously granted to Dr John Sinden that shall lapse on Admission (together the “**Replacement Options**”). The Replacement Options will have the same total exercise price and will be over Ordinary Shares of the same total value. Further details of the Replacement Options are set out in paragraph 7.2 below.

No more options have been, or will be, granted under the Old Share Option Scheme subsequent to the Share Exchange.

7.2 *The Employees’ Share Option Scheme*

The Employees’ Share Option Scheme (the “New Share Option Scheme”) to be adopted by the Company allows the grant of tax efficient Enterprise Management Incentive (“EMI”) share options and unapproved share options.

7.2.1 *Eligibility*

Under the New Share Option Scheme, selected executive directors and employees of the Group will be offered the opportunity to acquire Ordinary Shares in the capital of the Company. Where options are to be EMI qualifying options, individuals must meet applicable HM Revenue & Customs (“HMRC”) qualifying conditions.

7.2.2 *Grant of options*

Options may be granted by the Remuneration Committee (“Committee”) of the Company or the trustees of any employee benefit trust established by the Company (the “Grantor”). Following Admission, options will only be granted:

- during the period of 42 days following Admission;
- during the 42 days following the announcement of the Company’s interim or final results;
or
- at other times if the Committee considers there are circumstances sufficiently exceptional to justify the grant of options at that time.

No options will be granted prior to Admission.

No option may be granted during a prohibited period for dealings by directors or certain employees of the Company or Group whether by the Listing Rules or otherwise, except where this is permitted under the Model Code or the Company’s own code on insider dealing.

An option is personal to the option holder and not transferable (other than on death when it may become exercisable by the option holder’s personal representative).

No option can be granted more than 10 years after the date of adoption of the New Share Option Scheme.

No option can be granted to an employee less than six months before his normal retirement date.

EMI options may only be granted when the appropriate HMRC qualifying conditions are satisfied by the Company and employee.

7.2.3 Replacement Options

The Committee proposes to grant options shortly after Admission under the New Share Option Scheme to those individuals (other than Professor Trevor Jones) who held options under the Old Share Option Scheme which have now lapsed (together with a contractual option previously granted to Dr. John Sinden that shall lapse conditionally on Admission) (see paragraph 7.1 above), provided such individuals continue to be eligible employees under the New Share Option Scheme. Such options shall be designated as Replacement Options under the New Share Option Scheme and their key terms shall, to the extent possible, reflect the key terms of the options originally held under the Old Share Option Scheme. A Replacement Option may be an EMI option or an unapproved option. The Committee proposes to grant a total of 2,321,680 Replacement Options exercisable at £0.10 per share, including the grant of 900,000 Replacement Options to Michael Hunt and 896,680 Replacement Options to Dr John Sinden.

These options will be exercisable from the date of grant as the relevant exercise condition will have been satisfied (being the Admission of the Ordinary Shares in the Company which replaced the ordinary shares in ReNeuron Holdings Limited) in respect of options granted under the Old Share Option Scheme (the contractual option previously granted to Dr John Sinden was not subject to any unsatisfied exercise condition.)

7.2.4 Flotation Options

The Committee proposes to grant certain options ("Flotation Options") under the New Share Option Scheme within 5 days of Admission. The Committee proposes to grant a total of 2,945,000 Flotation Options exercisable at the Placing Price per share, including the grant of 1,000,000 Flotation Options to Michael Hunt and 1,000,000 Flotation Options to Dr John Sinden.

7.2.5 Exercise price

The exercise price payable for each Ordinary Share subject to an option shall be determined by the Committee and may be any price but, except for Replacement Options and Flotation Options, 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.

For Replacement Options, the exercise price will be set so that the Replacement Option has the same total exercise price as the related options under the Old Share Option Scheme, and is over Ordinary Shares of the same total value as those related options.

For Flotation Options, the exercise price will be the Placing Price.

7.2.6 Limits

The New Share Option Scheme contains the following limits on the number of new Ordinary Shares which may be issued as a result of the New Share Option Scheme:

- (i) The number of Ordinary Shares which may be placed under option under the New Share Option Scheme, the New Non-Executive Share Option Scheme 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 New Share Option Scheme, the New Non-Executive Share Option Scheme and any other discretionary 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.

An individual employee may be granted options with an aggregate market value not exceeding 200 per cent. of his annual remuneration for the 12 months prior to the grant date. In normal circumstances it is not expected that option grants would exceed 100 per cent. of annual remuneration, however for flexibility the Committee may wish to make higher awards in exceptional circumstances.

Options granted prior to Admission, Replacement Options and Non-Executive Replacement Options are not included in any of the above limits. Flotation Options, Replacement Options, Non-Executive Flotation Options and Non-Executive Replacement Options are not included in the individual employee limit.

7.2.7 Performance Targets

At the time of grant of an option, the Grantor may set a performance target which must normally be met before the options may be exercised. The Flotation Options will be subject to a performance condition target. The Flotation Options will not become exercisable (subject to the further rules of the New Share Option Scheme) until the first human patient has been administered with a ReNeuron cell therapy in Phase I/II trials.

The performance targets once set will not be amended unless an event occurs which causes the Committee to consider that an amended target would be a fairer measure of performance and is not materially more or less difficult to satisfy.

The Committee may adopt difference performance targets for subsequent option grants, if appropriate. However, any new target will be intended to be no less stretching than the targets set out above.

As set out in paragraph 7.1 above, the Replacement Options will not be subject to a performance target.

7.2.8 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 certificate) 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. For a Replacement Option, the option will be exercisable in whole or in part at any time after the date of grant and will lapse on the tenth anniversary of the date of grant of the option which it replaced (being 23 July 2014 in respect of all Replacement Options other than 246,680 Replacement Options granted to Dr John Sinden in respect of which the tenth anniversary of grant is 19 January 2008).

If an option holder ceases to be employed within the Group, in certain circumstances, including death, disability, injury, retirement, redundancy or ill-health, he may exercise options in the six months (or such other period determined by the Committee) after termination of his employment or, in the case of his death, 12 months thereafter. If the option holder ceases to be employed within the Group in any other circumstances, any options granted to him lapse, subject to a discretion of the Committee to allow six months for exercise. The Committee has the discretion to waive satisfaction of the performance target in any of these circumstances. If a disqualifying event occurs, the Committee has the discretion to allow option holders to exercise their options within the period of 40 days following the date of the disqualifying event.

7.2.9 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 Committee determines otherwise, options are only exercisable to the extent any performance targets attaching to the options have been met. Additionally, if an acquiring company so permits, option holders may release their options for equivalent options over shares in the acquiring company.

7.2.10 Amendments to the New Share Option Scheme

The Committee may alter or add to any of the provisions of the New Share Option Scheme provided that no such alteration or addition shall adversely affect the rights of existing option holders unless they have approved such alterations.

Following Admission, any amendments relating to the persons to whom an option may be granted; the limit on the aggregate number of Ordinary Shares over which options may be granted; the extent of participation; and the adjustment of options on a reorganisation, require prior approval of the Company in general meeting; except for minor amendments to benefit the administration of the New Share Option Scheme or in order to take account of a change of legislation or to obtain or maintain favourable tax, exchange control or regulatory treatment for option holders or the Company.

7.2.11 Adjustment of options

In the event of a variation in the share capital of the Company by way of capitalisation, rights issue, consolidation, sub-division, reduction or otherwise (other than a capitalisation issue in substitution for or as an alternative to a cash dividend) options may be adjusted in such manner as the Committee determines.

7.2.12 Tax

Option holders must indemnify the Company in respect of any PAYE and employees' NIC arising on exercise. Payment of any related employer's NIC may be transferred to option holders. Employer's NIC will be transferred in relation to both Replacement Options and Flotation Options.

7.2.13 Pensionability

Options granted under the New Share Option Scheme will not be pensionable.

7.2.14 Sources of shares and employee trust

The New Share Option Scheme may be operated in conjunction with an employee benefit trust established by the Company. The trust deed of any employee benefit trust so established will preclude the trustees from holding more than 5 per cent. of the Company's issued share capital at any one time.

7.3 Contractual Options

The Company has granted options over Ordinary Shares in the Company to Jack Price and Martin Edwards pursuant to individual option agreements. The Contractual Options are granted on substantially the same terms.

7.3.1 Jack Price has been granted options over 100,000 Ordinary Shares at an exercise price of £0.10 per Ordinary Share. The option is exercisable upon Mr Price serving a written notice at any time prior to 16 August 2014.

7.3.2 Martin Edwards has been granted options over 500,000 Ordinary Shares at an exercise price of £0.10 per Ordinary Share. The option is exercisable upon Mr Edwards serving a written notice at any time prior to 30 September 2006.

7.4 The Non-Executive Share Option Scheme

The Non-Executive Share Option Scheme (the "New Non-Executive Share Option Scheme") to be adopted by the Company prior to Admission allows the Company to grant unapproved share options. The rules of the New Non-Executive Share Option Scheme are substantially the same as the rules of the New Share Option Scheme described at paragraph 7.2 above, save that under the rules of the New Non-Executive Share Option Scheme non-executive directors are eligible participants to whom share options may be granted. The limits on the number of New Ordinary Shares which may be issued as set out in section 7.2.6 shall apply to options granted under the New Non-Executive Share Option Scheme.

7.4.1 *Non-Executive Replacement Options*

The Committee proposes to grant 100,000 options (“Non-Executive Replacement Options”) shortly after Admission under the New Non-Executive Share Option Scheme to Professor Trevor Jones who held 100,000 options under the Old Share Option Scheme which options have now lapsed (see paragraph 7.1 above). Such options shall be designated as Non-Executive Replacement Options under the New Non-Executive Replacement Option Scheme and their key terms shall, to the extent possible, reflect the key terms of the options originally held by Professor Trevor Jones under the Old Option Scheme. The Non-Executive Replacement Options will be exercisable at £0.10 per share. The Non-Executive Replacement Options will not be subject to any performance condition (as the relevant exercise condition will have been satisfied (being the Admission of Ordinary Shares in the Company which replaced the ordinary shares in ReNeuron Holdings Limited). The Non-Executive Replacement Options will be exercisable in whole or in part at any time after the date of grant and will lapse on the tenth anniversary of the date of grant of the option which it replaced (being 23 July 2014).

7.4.2 *Non-Executive Flotation Options*

The Committee proposes to grant 100,000 options (“Non-Executive Flotation Options”) under the New Non-Executive Share Option Scheme within 5 days of Admission. The Non-Executive Flotation Options will be exercisable and at the Placing Price per share and comprise the grant of 50,000 options to Dr Paul Harper and 50,000 options to Professor Trevor Jones. The Non-Executive Flotation Options will be subject to a performance target. The Non-Executive Flotation Options will not become exercisable (subject to the further rules of the New Non-Executive Share Option Scheme) until the first human patient has been administered with a ReNeuron cell therapy in phase I/II.

8. UK Placing and US Private Placement arrangements

8.1 *UK Placing Agreement*

The Company, the Directors and Collins Stewart have entered into an Agreement (“the UK Placing Agreement”) dated 4 August 2005 pursuant to which and conditional upon, *inter alia*, Admission taking place on or before 12 August 2005 (or such later time and or date as the Company and Collins Stewart may agree, being no later than 19 August 2005) Collins Stewart has agreed to use its reasonable endeavours to procure subscribers for 27,200,000 new Ordinary Shares and the related Warrants. To the extent that it is unable to secure subscribers for such Ordinary Shares and Warrants, Collins Stewart has agreed to subscribe for them itself. Dr John Sinden and Michael Hunt have agreed to subscribe for 117,160 Ordinary Shares and 59,000 Ordinary Shares respectively as part of the UK Placing. A further 4,800,000 new Ordinary Shares are subject to the US Private Placement, further details of which are set out below.

The UK Placing Agreement contains customary warranties from the Company and the Directors and a customary indemnity from the Company all in favour of Collins Stewart together with provisions which enable Collins Stewart to terminate the UK Placing Agreement in certain circumstances prior to Admission, principally where any warranties are found to be untrue or inaccurate and also in the event of a material adverse change in the financial position or prospects of the Company or in national or international financial, market, economic or political conditions. Under the UK Placing Agreement the Company has agreed to pay Collins Stewart a commission of 4 per cent. of the value of the New Ordinary Shares at the Placing Price.

Under the UK Placing Agreement Collins Stewart will receive a corporate finance fee of £200,000. The Company has also agreed to pay all other costs, charges and expenses incidental to the UK Placing and Admission.

8.2 *Nominated Adviser and Broker Agreement*

The Company and Collins Stewart have entered into a Nominated Adviser and Broker Agreement dated 4 August 2005 pursuant to which, and conditional upon Admission, the Company has appointed Collins Stewart to act as Nominated Adviser and Broker to the Company as required by the AIM Rules. Under the Nominated Adviser and Broker Agreement, Collins

Stewart has agreed, *inter alia*, to provide such independent advice and guidance to the directors of the Company as they may require to ensure compliance by the Company on a continuing basis with the AIM Rules. The Company has agreed to pay Collins Stewart a fee of £40,000 per annum for its services as Nominated Adviser and Broker under this agreement. The agreement contains certain undertakings and indemnities given by the Company in respect of, *inter alia*, compliance with all applicable laws and regulations. The agreement continues for an initial period of 12 months from Admission (unless terminated for reason prior to such date in accordance with the terms of the agreement) and thereafter until terminated in accordance with the terms of the agreement.

8.3 *Lock-in and Orderly Marketing Agreement*

The Company, the Directors, Merlin Biosciences, Merlin Equity Limited, Merlin Ventures Limited, Helen Hodges, John Sinden, Michael Hunt, Martin Edwards, Paul Harper and Trevor Jones (the "**Lock-up Parties**") have entered into a lock-in and orderly marketing agreements with Collins Stewart dated 4 August 2005 pursuant to which the Lock-up Parties have undertaken, subject to certain limited exceptions, including a sale in the event of an offer for all the Ordinary Shares in the Company, not to dispose of any of the Ordinary Shares (other than Committed Shares) which they hold immediately following Admission for a period of twelve months following Admission without the prior written consent of Collins Stewart.

Further orderly marketing arrangements apply for six months after the expiry of the lock-up period referred to above, pursuant to which the Lock-up Parties are obliged to sell Ordinary Shares (other than Committed Shares) held immediately following Admission through Collins Stewart and subject to Collins Stewart offering market terms for the carrying out of any such sale.

8.3 *US Placement Agent Engagement Letter*

On 4 August 2005, in connection with the US Private Placement, the Company and the US Placement Agent entered into the US Placement Agent Engagement Letter, pursuant to which the Company engaged the US Placement Agent to perform the services as its exclusive placement agent in relation to the US Private Placement. Pursuant to the US Placement Agent Engagement Letter, the Company agreed to pay to the US Placement Agent a placement fee in cash equal to 4.0 per cent. of the gross proceeds received by the Company from the US Private Placement. The Company also agreed to be responsible for all reasonable out-of-pocket expenses incurred in connection with the engagement of the US Placement Agent. In the US Placement Agent Engagement Letter, the Company has agreed not to take any action that would cause the UK Placing and the US Private Placement to fail to be exempt from the registration requirements of the US Securities Act. The Company also has given representations and warranties in favour of the US Placement Agent which are customary for an agreement of this nature, including in relation to compliance with securities regulations and the accuracy and completeness of this document. The Company has also given an indemnity in favour of US Placement Agent which is customary for an agreement of this nature.

8.4 *US Purchase Agreements*

On 4 August 2005, in connection with the US Private Placement, the Company and certain US investors entered into the US Purchase Agreements pursuant to which each of those investors has agreed, subject to certain conditions, to subscribe for, in aggregate, 4,800,000 new Ordinary Shares at the Placing Price and related Warrants. Each of those investors has given representations and warranties in favour of the Company relating, *inter alia*, to their status to participate in the US Private Placement, and undertakings to comply with transfer restrictions in respect of the New Ordinary Shares and Warrants and the Company has given representations and warranties to each of the investors that are customary for agreements of this nature and that are similar in many respects to those contained in the UK Placing Agreement. The principal obligations of those investors under the US Purchase Agreements are conditional, *inter alia*, upon the closing of the UK Placing and the admission the New Ordinary Shares and the Warrants to trading on AIM becoming effective.

8.5 *Warrant Instrument*

On 4 August 2005, the Company executed a warrant instrument by way of a deed poll creating the Warrants. Particulars of the Warrants are set out in Part 9 of this document.

9. **Material Contracts**

In addition to the UK Placing Agreement, the Nominated Adviser and Broker Agreement, the Lock-in and Orderly Marketing Agreement, the US Placement Agent Engagement Letter, the US Purchase Agreements details of which are set out in paragraph 8 above, the following contracts (not being contracts entered into in the ordinary course of business) have been entered into by the Company or another member of the Group (i) within the two years immediately preceding the date of this document and are, or may be, material; or (ii) at any time and contain provisions under which any member of the Group has an obligation or entitlement which is material to the Group at the date of this document:

9.1 On 31 March 2000 the Merlin Fund and ReNeuron Limited entered into a counter indemnity agreement pursuant to which ReNeuron Limited agreed to pay the Merlin Fund certain fees in return for the Merlin Fund guaranteeing certain obligations of ReNeuron Limited. In accordance with the agreement the Merlin Fund has agreed, conditional on Admission, to accept settlement of the outstanding fee by the issue and allotment to the Merlin Fund of 6,707 ordinary shares in the capital of ReNeuron Limited (the “**Fee Shares**”).

On 4 August 2005 the Merlin Fund and the Company entered into a put and call agreement pursuant to which on issue of the Fee Shares the Company has the right to require the Merlin Fund to transfer the Fee Shares to the Company in return for the issue and allotment of 67,068 fully paid Ordinary Shares and the Merlin Fund has the right to require the Company to acquire the Fee Shares in return for its issue and allotment of 67,068 fully paid Ordinary Shares. The Merlin Fund has exercised the option.

9.2 On 29 November 2004, Merlin Biosciences and ReNeuron Holdings Limited entered into a loan facility agreement (the “**First Merlin Loan**”) pursuant to which Merlin Biosciences made available to ReNeuron Holdings Limited a loan facility in the amount of £1 million in two tranches of £500,000. The initial tranche of £500,000 was advanced on 20 October 2004 and the second tranche was advanced on 25 February 2005. The loan is repayable on demand and in any event on 31 December 2006. The outstanding loan will be capitalised immediately prior to Admission into 5,333,333 Ordinary Shares in ReNeuron Holdings Limited and then exchanged on a 1 for 1 basis for 5,333,333 Ordinary Shares in the Company.

9.3 On 28 April 2005, Merlin Biosciences entered into a further loan facility with ReNeuron Holdings Limited (the “**Second Merlin Loan**”) on substantially the same terms as the First Merlin Loan. Two tranches of £500,000 each have been drawn by ReNeuron Holdings Limited. Immediately prior to Admission the Second Merlin Loan shall be capitalised into 5,333,333 ordinary shares in ReNeuron Holdings Limited and then exchanged on a 1 for 1 basis for 5,333,333 Ordinary Shares in the Company.

9.4 On 21 June 2005, ReNeuron Holdings Limited entered into a share exchange agreement with the Company (the “**Share Exchange Agreement**”) pursuant to which the Company acquired the entire issued share capital of ReNeuron Holdings Limited in consideration for the issue of shares in the Company to the then holders of ReNeuron Holdings Limited (the “**Share Exchange**”), such that the proportion of interest of each shareholder in the issued share capital of the Company and the rights attaching to the shares that are acquired by each shareholder, immediately subsequent to the Share Exchange, replicated the issued share capital of ReNeuron Holdings Limited immediately prior to the Share Exchange.

Clearance for the Share Exchange was given by HM Revenue & Customs pursuant to Section 138 of the Taxation of Chargeable Gains Act 1992.

9.5 On 1 July 2005, the Company, ReNeuron Limited, ReNeuron (UK) Limited, the then shareholders of the Company and StemCells, Inc. entered into a subscription and share exchange agreement (as amended) (the “**StemCells Agreement**”) pursuant to which

ReNeuron Limited issued 3,774,493 ordinary shares of 10p each in nominal value in the capital of ReNeuron Limited to StemCells, Inc. (together with the right to be issued additional A ordinary shares as described below) in consideration of StemCells, Inc. entering into a further agreement (the “**Licence Agreement**”) granting ReNeuron Limited a licence in respect of certain intellectual property rights (as described in Part 1 of this document). The A ordinary shares so issued were immediately transferred to the Company in consideration of the issue by the Company of 3,774,493 Ordinary Shares credited as fully paid up as to nominal value to StemCells, Inc.

StemCells, Inc. has a right (the “**Further Issue Right**”) to be issued additional A ordinary shares to be credited as fully paid up as to nominal value of 10p per share in the capital of ReNeuron Limited, which shares will on issue be transferred to the Company in consideration of the Company issuing an equal number of Ordinary Shares to StemCells, Inc. The number of additional shares to be so issued to StemCells, Inc. is calculated such that the cumulative total number of Ordinary Shares issued to StemCells, Inc. pursuant to the StemCells Agreement equals 7.5 per cent. of the fully diluted share capital of the Company at such date. The obligation to issue such additional shares arises on each occasion on which the Company issues shares as part of a funding round or in the event of an acquisition by any person of Ordinary Shares which results in such person, together with persons acting in concert with such person, together holding Ordinary Shares carrying more than 50 per cent. of the voting rights exercisable at a general meeting of the Company (a “Sale”). StemCells, Inc.’s right to such additional shares will terminate on the first to occur of: (i) the Company receiving a cumulative total of £15,000,000 by way of cash subscriptions for Ordinary Shares (including the proceeds of the UK Placing and US Private Placement), (ii) a completion of a Sale, or (iii) termination of the Licence Agreement (other than by the Company at will and without cause), but such termination is without prejudice to the right of StemCells, Inc. to be issued shares pursuant to the Further Issue Right arising in connection with such event. Pursuant to the Further Issue Right, Admission, ReNeuron Limited shall issue 5,165,000 additional A ordinary shares, credited as fully paid up as to nominal value of 10p per share, to StemCells, Inc. which shares shall be immediately transferred to the Company in consideration of the issue of 5,165,000 Ordinary Shares by the Company, credited as fully paid up as to nominal value, to StemCells, Inc.

The further terms of the StemCells Agreement grant StemCells, Inc. the right to receive financial and other information concerning the Group and the right to appoint an observer to attend board meetings of the Company. These rights will terminate on Admission.

In addition the Company gave certain warranties to StemCells, Inc. concerning the Group, its business and intellectual property rights. The StemCells Agreement provides that no claim may be made under these warranties following Admission.

- 9.6 ReNeuron Limited has by an instrument dated 19 May 2000 constituted a warrant (the “**RN Warrant**”). Novavest Growth Fund Limited (“**Novavest**”) have the right to subscribe for 58,239 ordinary shares in the capital of ReNeuron Limited 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 in the capital of ReNeuron (UK) Limited. The Company intends to enter into an agreement with Novavest whereby if the RN Warrant is exercised the ReNeuron Limited shares acquired by Novavest are exchanged directly for 582,390 Ordinary Shares.
- 9.7 The Company and Merlin Biosciences are party to a subscription deed dated 4 August 2005 (the “**Subscription Deed**”) pursuant to which Merlin Biosciences has agreed to subscribe for 6,000,000 Ordinary Shares immediately prior to Admission at a price per share equal to the Placing Price whereupon the Company has agreed to issue 3,000,000 Warrants to Merlin Biosciences.

10. UK Taxation

10.1 *General*

The following statements are intended to apply only as a general guide to current UK tax law and what is understood to be the current practice of Her Majesty's Revenue and Customs ("HMRC"). They are intended to apply only to shareholders and warrant holders who are resident in the United Kingdom for UK tax purposes (unless the position of non-resident shareholders is expressly referred to), who hold Ordinary Shares or Warrants as investments and who are the beneficial owners of base Ordinary Shares or Warrants. The statements may not apply to certain classes of shareholders or warrant holders such as dealers in securities, collective investment vehicles and insurance companies. Holders of Ordinary Shares and Warrants who are in any doubt as to their tax position or who are subject to tax in a jurisdiction other than the UK should consult their own tax advisers.

10.2 *Dividends*

Under current tax law, the Company will not be required to withhold tax at source from any dividend payments it makes.

10.2.1 *Individuals*

An individual shareholder who is resident in the UK for tax purposes and who receives a dividend from the Company will generally be entitled to a tax credit which may be set off against his total income tax liability on the dividend received. Such an individual shareholder's liability to income tax is calculated on the aggregate of the dividend and the tax credit (the "gross dividend") which will be regarded as the top slice of the individual's income. The tax credit will be equal to ten per cent. of the gross dividend (i.e. the tax credit will be one-ninth of the amount of the cash dividend received).

Generally, a UK resident individual shareholder who is not liable to income tax in respect of the gross dividend will not be entitled to reclaim any part of the tax credit. A UK resident shareholder who is liable to income tax at no more than the lower or basic rate will be subject to income tax on the dividend at the rate of ten per cent. of the gross dividend and so the tax credit will satisfy in full such shareholder's liability to income tax on the dividend received. A UK resident individual shareholder liable to income tax at the higher rate will be subject to income tax on the gross dividend at 32.5 per cent. After taking into account the tax credit, such a shareholder will have to account for additional tax equal to 22.5 per cent. of the gross dividend (an effective tax rate of 25 per cent. of the net cash dividend received).

10.2.2 *Companies*

A corporate shareholder resident in the UK for tax purposes will not normally be subject to corporation tax on any dividend received from the Company. Such corporate shareholders will not be able to claim repayment of the tax credit attaching to any dividend.

10.2.3 *Pension Funds and Charities*

UK pension funds and charities which are not liable to UK tax on dividends will not be entitled to reclaim the tax credit attaching to any dividend paid by the Company.

10.2.4 *Non-UK resident shareholders*

The right of a shareholder who is not resident in the UK for tax purposes to claim repayment from HMRC of any part of the tax credit attaching to dividends paid by the Company will depend upon the existence and the terms of any applicable double tax treaty between the UK and the country in which the shareholder is resident.

A shareholder who is not resident in the UK may be subject to foreign taxation on dividend income under local law and should consult his own tax advisers concerning his liabilities to tax on dividends received from the Company.

10.3 *Capital gains*

A disposal of Ordinary Shares or Warrants by a shareholder or warrant holder who is either resident or ordinarily resident in the UK for tax purposes, or who is not UK resident for tax purposes but carries on a trade, profession or vocation in the UK, through a branch, agency or permanent establishment and has used, held or acquired the Ordinary Shares or Warrants for the purposes of such trade, branch, agency or permanent establishment may, depending on the shareholder's or warrant holder's circumstances and subject to any available exemption or relief, give rise to a chargeable gain or allowable loss for the purposes of the taxation of capital gains.

For shareholders or warrant holders within the charge to corporation tax on chargeable gains, indexation allowance should be available to reduce the amount of chargeable gain realised on a disposal of the Ordinary Shares or Warrants (but not to create or increase any loss).

For shareholders or warrant holders who are subject to capital gains tax, such as individuals, trustees and personal representatives, taper relief (which reduces the percentage of the gain chargeable by reference to how long the Ordinary Shares or Warrants have been held) may be available to reduce the amount of chargeable gain realised on a disposal of the Ordinary Shares or Warrants.

The exercise of the Warrants should not constitute a disposal for tax purposes and should not therefore, of itself, give rise to a charge to taxation. The amount paid upon exercise will be taken into account in computing any gain or loss on a subsequent disposal of any Ordinary Shares acquired pursuant to the Warrants.

10.4 *Stamp duty and stamp duty reserve tax*

No liability to stamp duty or stamp duty reserve tax ("SDRT") should arise on the issue of, or on the issue of definitive share certificates in respect of, the New Ordinary Shares or Warrants by the Company pursuant to the UK Placing and US Private Placement (unless issued into a clearance system or depositary arrangement, on which see below).

The subsequent conveyance or transfer on sale of the Ordinary Shares or Warrants outside the CREST system will generally be subject to ad valorem stamp duty on the instrument of transfer at the rate of 0.5 per cent. of the amount or value of the consideration paid or payable rounded up to the nearest £5. Stamp duty is normally the liability of the purchaser or transferee. An unconditional agreement to transfer Ordinary Shares or Warrants will normally give rise to a charge to SDRT at the rate of 0.5 per cent. of the amount or value of the consideration paid or payable. However, where within six years of the date of the agreement, an instrument of transfer is executed and duly stamped, the SDRT liability will be cancelled and any SDRT which has been paid will be repaid. SDRT is normally the liability of the purchaser or transferee.

Under the CREST system for paperless share transfers, deposits of Ordinary Shares or Warrants into CREST will generally not be subject to stamp duty or SDRT unless such a transfer is made for a consideration in money or money's worth, in which case a liability to SDRT will arise usually at the rate of 0.5 per cent. of the value of the consideration paid or payable. Subsequent paperless transfers of Ordinary Shares or Warrants within CREST are generally liable to SDRT, rather than stamp duty, at the rate of 0.5 per cent. of the amount or value of the consideration payable. CREST is obliged to collect SDRT from the purchaser on relevant transactions settled within the system.

The above statements are intended only as a general guide to the current position. Special rules apply to agreements made by certain categories of person in the ordinary course of their business, including market makers, brokers and dealers, and other persons (such as depositories and clearance services) may be liable to stamp duty and SDRT at a higher rate or may, although not primarily liable for tax, be required to notify and account for it under the Stamp Duty Reserve Tax Regulations 1986.

Any person who is in any doubt as to his tax position or who may be subject to tax in any other jurisdiction should consult his professional tax adviser.

10.5 *Venture Capital Trust (“VCT”) legislation*

The Company has made an application to HMRC for clearance that the Company is a qualifying company for the purposes of the Venture Capital Trust (“VCT”) legislation. The Company has received assurances from HMRC that the Ordinary Shares will be eligible shares for the purposes of section 842AA(14) Income and Corporation Taxes Act 1988 and that the Ordinary Shares held by a VCT immediately following Admission will be “qualifying holdings” for the purposes of Schedule 28B Income and Corporation Taxes Act 1988.

The clearance sought relates only to the qualifying status of the Company and its shares and does not guarantee that any particular VCT will qualify for relief in respect of an acquisition of Ordinary Shares. The conditions for relief are complex and depend not only upon the qualifying status of the Company but upon certain factors and characteristics of the VCT concerned. A VCT which believes it may qualify for VCT reliefs should consult its own tax advisers regarding this.

The Company cannot guarantee or undertake to conduct its business following Admission in a way to ensure that the Company will continue to meet the requirements of Schedule 28B Income and Corporation Taxes Act 1988.

10.6 *Enterprise Investment Scheme (“EIS”)*

Provided that the investor and the Company comply with the EIS legislation (Chapter III of Part VII of the Taxes Act and Sections 150A-D, Schedule 5B and 5BA of the Taxation of Chargeable Gains Act 1992) UK taxpayers who are individuals may qualify for EIS tax relief on their investment in the Company.

The Directors have received assurances from HMRC subject to a satisfactorily completed form EIS1 being submitted by the Company to HMRC that the Company will be a qualifying company for EIS purposes based on the fact that the Company intends to carry on a qualifying trade for EIS purposes and the Directors intend to manage the Company so as to maintain (as far as they are able) the status of the Company as a qualifying company, although no guarantee can be given by the company in this regard. Investors who believe they may qualify for EIS reliefs should consult their own tax advisers regarding this.

There are five EIS tax reliefs being:

(a) *Income tax relief*

An individual can obtain income tax relief on the amount subscribed for ordinary shares (up to £200,000 in 2005/2006) in one or more qualifying companies, which are retained for a period of 3 years, provided they are not connected to the issuing company. To calculate the relief a tax credit of 20 per cent. of the eligible amount subscribed is given. The relief is given against the individual’s income tax liability for the tax year in which the ordinary shares are issued although it is possible to carry back part of the relief to the preceding tax year where the ordinary shares are issued before 6 October in any tax year. The relief will be limited to an individual’s income tax liability in the year. EIS income tax relief is not available for individuals who own more than 30 per cent. of the issued share capital of the company or certain other connected individuals.

(b) *Capital Gains Tax (“CGT”) Exemption*

Any capital gains realised on the disposal, after 3 years, of ordinary shares on which EIS income tax relief has been given and not withdrawn, are tax-free. This is not available for individuals who own more than 30 per cent. of the issued share capital of the company of other connected individuals.

(c) *Loss relief*

Tax relief is available where there is a loss on a disposal, subject to certain qualifying conditions at the time, on ordinary shares on which EIS income tax relief, (see (a) above) has been given and not withdrawn or CGT deferred relief (see (d) below) has been given

and not withdrawn. The amount of the loss (after taking account of the income tax relief initially obtained) can be set against the individual's capital gain in the year of loss or following years or offset against taxable income in the tax year in which the disposal occurs or the preceding year.

(d) *Capital gains tax liability deferral*

To the extent that a UK resident investing ordinary shareholder (which includes individuals and certain trustees) subscribes for qualifying ordinary shares, they can claim to defer paying capital gains tax on all or part of a chargeable gain arising on the disposal of any asset. Although there is a limit of £200,000 for income tax relief and the exemption from CGT (see (a) and (b) above) there is no limit on the amount of gain that can be deferred in this way. The subscription must have been made within one year before or three years after the date of the disposal which gives rise to the gain or the date when a previously deferred gain crystallises. The gain is deferred until there is a chargeable event such as a disposal of ordinary shares after the 3 year qualifying period. If the investing ordinary shareholder does not retain the ordinary shares for 3 years or the EIS rules are otherwise breached, the CGT deferral originally granted will be withdrawn and tax charged based on a taxable event occurring at the date the rules cease to be met or, in certain instances, by referring to the normal payment date.

(e) *Serial EIS Investor Relief*

Investors who defer a chargeable gain on the disposal of an EIS Investment by reinvesting the gain on the growth in value of the original EIS investment in ordinary shares of another EIS company will benefit from taper relief on a cumulative basis. As a result, taper relief, which reduces the amount of a chargeable gain according to how long an asset has been held after 5 April 1998, will be calculated over the combined period for which both investments (and further investment if the gain is further deferred) are held. This relief applies where the ordinary shares in the first EIS company were issued after 5 April 1998 and are disposed of after 5 April 1999.

11. Litigation

No member of the Group is, or has been, involved in any governmental, legal or arbitration proceedings nor, as far as the Directors are aware, are any such proceedings pending or threatened by or against any member of the Group which may have, or have had within the previous 12 months, a significant effect on the Group's financial position or profitability.

12. Working capital

The Directors are of the opinion that, having made due and careful enquiry, taking into account the net proceeds of the Placing receivable by the Company and the Group's existing cash resources, the Group has sufficient working capital for its present requirements, that is, for at least the next 12 months from the date of Admission.

13. Significant changes

- 13.1 Save as described in this document and in respect of expenditure incurred in the ordinary course of its business, there has been no significant change in the financial or trading position of ReNeuron Holdings Limited since 31 March 2005, being the end of the last financial period included in the Accountants' Report, as set out in Part 8 of this document.
- 13.2 Save as described in this document and in respect of expenditure incurred in the ordinary course of its business, there has been no significant change in the financial or trading position of ReNeuron Group plc since 21 June 2005, being the date of the balance sheet included in the Accountants' Report, as set out in Part 7 of this document.

14. Consents

- 14.1 Collins Stewart, of 9th Floor, 88 Wood Street, London EC2V 7QR, which is regulated by the Financial Services Authority, has given and not withdrawn its consent to the issue of this document with the inclusion of its name and references to it in the form and context in which it appears.

- 14.2 Gill Jennings & Every, patent agents, of Broadgate House, 7 Eldon Street, London EC2M 7LH, has given and has not withdrawn its consent to the issue of this document with the inclusion herein of its report in Part 6 of this document and the reference to such report and to its name in the form and context in which it appears and has authorised that part of this document.
- 14.3 Wood Mackenzie, technology experts, of Kintore House, 74-77 Queen Street, Edinburgh EH2 4NS has given and has not withdrawn its consent to the issue of this document with the inclusion herein of its report in Part 5 of this document and the reference to such report and to its name in the form and context in which it appears and has authorised that part of this document.
- 14.4 Pricewaterhouse Coopers LLP of Abacus House, Castle Park, Cambridge CB3 0AN has given and not withdrawn its consent to the issue of this document with the inclusion herein of its reports in Part 7 and Part 8 of this document and the reference to such reports and to its name in the form and context in which it appears and has authorised that part of this document.
- 14.5 Harris Nesbitt Corp, US Private Placement Agents of 3 Times Square, New York, NY 10036 has given and has not withdrawn its consent to the issue of this document with the inclusion of its name and references to it in the form and context in which it appears.

15. General

- 15.1 The financial information set out in the Accountants' Reports in Part 7 and Part 8 and otherwise in this document does not constitute statutory accounts within the meaning of Section 240 of the Act. Consolidated statutory accounts of ReNeuron Holdings Limited for the financial periods ended 31 March 2003 and 2004 and ReNeuron (UK) Limited for the period ended 31 March 2003, on which their auditors, PricewaterhouseCoopers LLP, made reports which were unqualified and did not contain a statement under Section 237(2) or (3) of the Act, have been delivered to the Registrar of Companies in England and Wales. The Company was incorporated on 7 June 2005 and, accordingly, no such accounts have been delivered to the Registrar of Companies.
- 15.2 The UK Placing will be fully underwritten by Collins Stewart, which is registered in England and Wales and has its registered office at 9th Floor, 88 Wood Street, London EC2V 7QR. No securities are being made available to the public in conjunction with the UK Placing. The US Private Placement is not being underwritten.
- 15.3 The Placing Price of 25p per Ordinary Share represents a premium of 15p per share over the nominal value of an Ordinary Share.
- 15.4 It is anticipated that Admission will occur and dealings in the Ordinary Shares will commence on 12 August 2005. On the basis that dealings do commence on that date, definitive share certificates will be posted by first class mail to shareholders, at their risk, on or before 19 August 2005 and CREST accounts will be credited on 12 August 2005. No temporary documents of title will be issued.
- 15.5 The Ordinary Shares will be in registered form and will be capable of being held in both certificated and uncertificated form. The Ordinary Shares will be admitted with the ISIN: GBOOBODZML60 and the Warrants with the ISIN: GBOOBODZNH99.
- 15.6 Collins Stewart has agreed to subscribe for 1,283,840 New Ordinary Shares and related Warrants in connection with the UK Placing.
- 15.7 The total expenses (excluding value added tax where appropriate) payable by the Company on Admission in connection with the UK Placing and US Private Placement are estimated to amount to approximately £1.20 million.
- 15.8 Save as disclosed in this document, no persons (excluding Directors and professional advisers) have received, directly or indirectly, from the Company and no persons have entered into contractual arrangements to receive, directly or indirectly, from the Company on or after Admission:

- (i) fees totalling £10,000 or more;
 - (ii) securities in the Company with a value of £10,000 or more calculated by reference to the Placing Price: or
 - (iii) any other benefit with a value of £10,000 or more at the date of Admission.
- 15.9 Save as disclosed in this document, the Directors believe that there are no patents, other intellectual property rights, licences or particular contracts which are of fundamental importance to the Company's business.
- 15.10 Neither the existing Ordinary Shares nor the New Ordinary Shares have been admitted to dealings on a recognised investment exchange and save in relation to the application for Admission, no application for such admission has been made.
- 15.11 The following details are (if applicable) set out in the placing letters to be sent to prospective investors by Collins Stewart with this document: the period during which the offer constituted by the UK Placing is open, the arrangements for payment for the New Ordinary Shares and Warrants, the arrangements during the period prior to Admission for the return of moneys received from such investors where the applications were not accepted, and the timetable for the return of such moneys.
- 15.12 Save as disclosed in this document, there are no exceptional factors which have influenced the Group's activities.
- 15.13 There are no arrangements in place under which future dividends are to be waived or agreed to be waived.
- 15.14 There are no significant investments by the Group under active consideration.

16. Documents available for inspection

Copies of the following documents will be available for inspection at the registered office of the Company and at the offices of Morrison & Foerster MNP, City Point, One Ropemaker Street, London EC2Y 9AW, during normal business hours on any weekday (Saturdays, Sundays and public holidays excepted) from the date of this document up to and including 31 August 2005:

- 16.1 the Memorandum and Articles of Association of the Company;
- 16.2 the Experts' Report set out in Part 5 of this document;
- 16.3 the Patent Agents Report set out in Part 6 of this document;
- 16.4 the Accountants' Report set out in Part 7 of this document;
- 16.5 the Accountants' Report set out in Part 8 of this document;
- 16.6 the service contracts and letters of appointment referred to in paragraph 6 of this Part 10 of this document;
- 16.7 the rules of the Share Option Schemes referred to in paragraph 7 of this Part 10 of this document;
- 16.8 the material contracts referred to in paragraph 9 of this Part 10 of this document;
- 16.9 the written consents referred to in paragraph 14 of this Part 10 of this document; and
- 16.10 this document.

Dated 4 August 2005

