ReGen Therapeutics Plc

Pharmaceuticals
Nutraceuticals
Building a business




Annual Report and Accounts 2007


Metagenics
Genetic Potential Through Nutrition
CogniSure™
Support for Healthy Brain Aging & Cognition*
Dietary Supplement
30 CHEWABLE TABLETS

ReGen Therapeutics Plc

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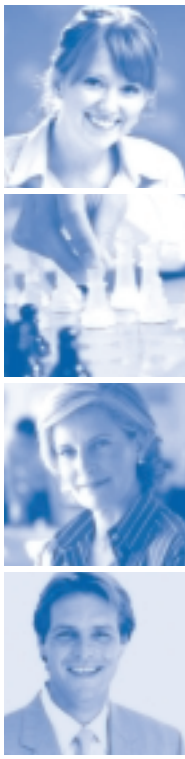


Annual Report and Accounts 2007

ReGen Therapeutics Plc

Summary

Developing treatments for the management of cognitive decline and other neurological disorders, obesity, rehabilitation after traumatic brain injury, and building a sustainable healthcare business.

ReGen Therapeutics Plc is developing the constituent peptides of the Colostrinin™ complex or their homologs as a treatment for Alzheimer's disease, other neurological diseases and obesity. It continues to support the commercialisation of Colostrinin™ as a nutraceutical product to support 'healthy brain ageing and cognition'. The Company widened its scientific base in 2006 by acquiring Sciencom Limited, a private company, with granted and pending patents for a new use of an existing drug, (zolpidem), which has been shown to improve the rehabilitation of stroke and brain injury victims.

Highlights of 2007

- **Market launch of Colostrinin™ as CogniSure™ in the professional channel in North America in October 2007 and Australasia in July 2007.**
- **Successful completion of zolpidem trial. Results announced in August 2007 show that a 2.5mg dose of a novel sublingual formulation is non-sedating.**
- **In two fundraisings in February and June 2007 the Company raised £2,486,875 to continue it's development programme.**

Commercial Milestones in 2007

- **Prior to the first ever launch of Colostrinin™ in the Australasian market, Dr Marian Kruzel, ReGen's Chief Scientific Officer, presented both scientific and clinical information on its utility to support healthy cognitive function at the 2007 International Congress on Natural Medicine in Surfers Paradise, Queensland, Australia. The conference, which was attended by key opinion leaders and practitioners of natural medicine from around the World, was sponsored by Metagenics Inc. of California via its Australian affiliate company Health World Limited. Since then Colostrinin™ has been marketed in Australasia through the professional channel by Health World Ltd.**
- **In October 2007 Colostrinin™ was launched as CogniSure™ in the professional channel of the North American market by Metagenics Inc., our licensee. This was a key development for ReGen as the USA alone accounts for around one third of the World nutraceutical market. The launch was a two-stage process with the soft launch starting in October 2007 and the full switching on of the marketing team taking place in January 2008.**

Scientific Milestones in 2007

- **In developing our nutraceutical product Colostrinin™ we are looking to help improve peoples' quality of life. These studies in addition to developing our scientific knowledge are important in providing positive science to support the launch and marketing development of Colostrinin™.**

Colostrinin™ and Colostrinin™-derived peptides

- In February 2007 ReGen announced that the results of an in vivo study showing that Colostrinin™ increases the lifespan of inbred mice predisposed to premature ageing had been accepted for presentation at the 8th International Conference of Alzheimer's and Parkinson's Diseases in Salzburg Austria March 14th-18th 2007. The paper entitled: "Colostrinin™ increases the lifespan and neurological performance in senescence accelerated mice" was presented at the conference by Dr. Marian Kruzel.
- In March 2007 ReGen announced that a robust potency assay to measure the biological activity of Colostrinin™ had been developed in collaboration with Roswell Park Cancer Institute, Buffalo, NY and published in the Journal of Neuroscience Methods (2007;160(2):264-8). The article entitled: "Linear quantitation of A-beta aggregation using Thioflavin T: reduction in fibril formation by Colostrinin™" was co-authored by Bourhim M, Kruzel M, Srikrishnan T, Nicotera T.
- In April 2007 ReGen announced that the results from the University of Texas, Medical Branch at Galveston (UTMB) research on the impact of Colostrinin™ on the lifespan of murine diploid fibroblast cells, an in vitro model for cellular ageing, had been published in peer-reviewed journal Neuropeptides (2007;41(2):93-101). The article entitled: "Colostrinin delays the onset of proliferative senescence of diploid murine fibroblast cells" is co-authored by Bacsi A, Woodberry M, Kruzel ML, Boldogh I.

Colostrinin™ Pharmaceutical Developments

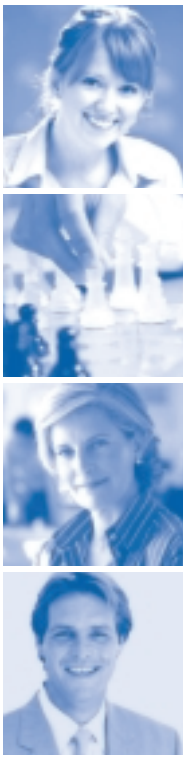
- In December 2007 ReGen announced that several Colostrinin™-derived peptides had been identified for further development to a pre-clinical stage in 2009. Two such synthetic peptides may have a potential utility in Alzheimer's disease and a further candidate potential utility in the management of obesity.

Veterinary Colostrinin™

- Also in December 2007 ReGen announced that preliminary results of a study of Colostrinin™ in the treatment of dementia in ageing dogs looked encouraging. The dosing phase of the study had been completed and a preliminary report based on 22/23 subjects showed that Colostrinin™ was well tolerated and that '40% of owners felt that there had been signs of improvement' throughout the trial. These findings and a similar study in cats were confirmed in an announcement on 11 February 2008. Nicholas Mills, Principal Investigator to the study, said, "These results clearly show that Colostrinin™ can significantly reduce the symptoms of cognitive dysfunction in aged cats and dogs".

Zolpidem

- In August 2007 the Company announced the successful completion of its Phase II trial in South Africa where it established that a 2.5mg dose of a novel sublingual formulation of zolpidem is non-sedating. The Company is currently planning a further trial in the UK to establish an effective and non-sedating multiple dose regimen to allow practical treatment for extended periods. Should they be sufficiently encouraging ReGen will then seek a licensing partner.



Chairman's statement

2007 was a good year for ReGen in which crucially Colostrinin™, branded as CogniSure™, was launched in the professional market in North America in October, following on from its original launch in Australasia in July. The USA alone accounts for about one third of the World nutraceutical market so this was a key launch for ReGen in its drive to achieve sustainable profitability. There were, however, a number of other major achievements, which are set out in the following paragraphs.

Financials

Turnover for the year was £311,488. This figure includes our income from initial sales of CogniSure™ (Colostrinin™) in Australia and the USA, which were £63,810. The year on year decrease in turnover of 23% resulted from the decline in the business of Guildford Clinical Pharmacology Unit Ltd. (GCPUL), the contract research organisation, reflecting industry-wide trends. The company has now become a purely "in-house" clinical research facility.

Cost of sales represented 34.7% of turnover as opposed to 51.6% the previous year, reflecting the higher margins earned on CogniSure™. As a result gross profit was marginally higher than last year.

Development costs were slightly down, which reflected the considerable expense involved in the Colostrinin™ development work the previous year, not being repeated in 2007. The Company still has an active research programme but the Colostrinin™ peptides particularly are not at a costly stage in their development.

Other administrative costs also fell slightly and this was primarily the result of lower expenditure on salaries. The charge for impairment of intangible assets is a non-cash item and merely reflects the write down of goodwill associated with the acquisition of GCPUL. Thus, after financing charges loss before tax was 11% higher at £2,553,591. The two main items of expenditure, research and development costs, and other administrative costs were both slightly down year on year. The Board will continue to control these costs tightly, and expects expenditure in both areas to be slightly down again in the coming year.

In March 2008 following the closure of the accounting period £246,898 was raised before expenses. In addition the Company obtained an equity credit facility of £2 million from Duke Holdings Corporation Limited enabling it to draw down capital in tranches in exchange for shares in the Company, based on the average traded share volumes achieved. This, taken together with other options currently being evaluated gives the Board confidence in our financial position. The money raised is being used in our development programmes.

Commercial development

Prior to the first ever launch of Colostrinin™ in the Australasian market, Dr Marian Kruzel, ReGen's Chief Scientific Officer, presented both scientific and clinical information on its utility to support healthy cognitive function at the 2007 International Congress on Natural Medicine in Surfers Paradise, Queensland, Australia. The conference, which was attended by key opinion leaders and practitioners of natural medicine from around the World, was sponsored by Metagenics Inc. of California via its Australian affiliate company Health World Limited. Since then Colostrinin™ has been marketed in Australasia through the professional channel by Health World Ltd.

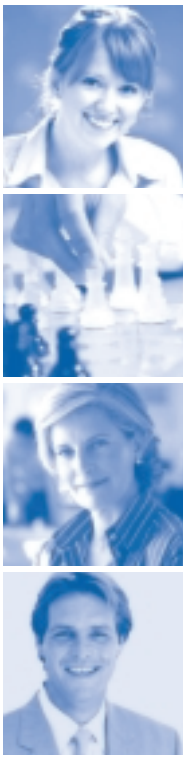
The crucial commercial development of the year was in October 2007 when Colostrinin™ was launched as CogniSure™ in the professional channel in the North American market by Metagenics Inc., our licensee. This was a key development for ReGen as the USA alone accounts for around one third of the World nutraceutical market.

Metagenics Inc., which is headquartered in San Clemente, California, is a leading developer, manufacturer and marketer of nutraceuticals, dedicated to research and evaluating the effects of natural ingredients on generic expression and protein activity. Metagenics states that it serves over 30,000 healthcare practitioners in North America.

ReGen produces bulk Colostrinin™ in South Dakota. Currently its production capacity is two million units per annum (a unit is thirty days supply) and a further extension of its manufacturing capability to ten million units per annum is possible and within the financial resources of the Company. ReGen makes a profit of about $5 per unit, which includes manufacturing profit and royalties.

In March 2008 ReGen announced a licensing deal with Golgi Pharmaceuticals Limited for distribution of Colostrinin™ in Cyprus. ReGen is currently discussing licensing arrangements with potential partners in other markets particularly Japan and other European countries.

In 2007 sales of Colostrinin™ for ReGen were £63,810. Currently this year the Company has already received orders worth $168,000, excluding royalties, and this does not include stocking in Cyprus. For the record Colostrinin™ is now launched in the United States, Canada and Australasia.



Scientific development

The primary focus of R&D in 2007 was the need to support the commercialisation of Colostrinin™ as a nutraceutical product and our continuing efforts to define the utility of zolpidem in the rehabilitation of brain trauma. Several peer-reviewed publications and highly visible presentations (particularly the one in Australia already referred to supporting the launch of Colostrinin™) have been made during the year.

Colostrinin™ and derived peptides

In 2007 ReGen made significant progress in understanding both the diversity of Colostrinin's™ mode of action and its potential utility in various age related disorders.

The development of a new assay has commercial benefits, in its speed and simplicity, as well as its scientific use. Consistent with the previous findings that Colostrinin™ inhibits the aggregation of beta amyloid, a simple potency assay has been developed and published in the peer-reviewed Journal of Neuroscience Methods (2007;160(2):264-8). The assay is particularly attractive since thioflavin, a capture agent, fluoresces only when bound to toxic amyloid fibrils, not the non-toxic monomers. In addition the reaction is completed within one minute and thioflavin does not interfere with aggregation of amyloid fibrils. It is hoped that in the near future this assay can be used to quickly quantify the potency of Colostrinin™ before final formulation into tablets. Using this assay, it was also shown that Colostrinin™ not only prevents the aggregation of beta amyloid, but it can also solubilize existing toxic fibrils in a dose and time-dependent fashion.

Chairman's statement continued




The implication of reactive oxygen species (ROS) in inflammatory and neurodegenerative diseases is now well documented. Therefore the ability of Colostrinin™ to reduce oxidative stress, which has been further confirmed by the University of Texas Medical Branch (UTMB) scientists in both in vitro and in vivo studies using senescence accelerated mice (SAMP) is very important. (SAMP mice are inbred mice predisposed to premature ageing). The in vitro results have been published in the peer-reviewed journal Neuropeptides (2007;41(2):93-101). This showed that Colostrinin™ significantly slowed the ageing of cultured murine diploid fibroblast cells and increased their lifespan. This was shown to be associated with a decrease in the intracellular levels of reactive oxygen species, which may be due to senescence-associated mitochondrial dysfunction. These data suggest that Colostrinin™ may delay the development of cellular ageing at the level of the mitochondria. These findings were confirmed in a subsequent in vivo study published in Neurodegenerative Diseases (207;4:264), which showed that Colostrinin™ given in drinking water increased the lifespan, motor and neurological performance of SAMP mice.

Of considerable importance for the longer term future of the Colostrinin™ peptides for the treatment of Alzheimer's disease and for the use of Colostrinin™ itself as a treatment for 'healthy brain function' was the acceptance of a review article entitled: "Colostrinin™ – An Oxidative Stress Modulator for Prevention and Treatment of Age-Related Disorders" in the Journal of Alzheimer's Disease (JAD) co-authored by Boldogh I. and Kruzel M. JAD is the major Journal for the audience in age-related disorders. This is about to be published. A second publication in 2008, in the International Archives of Allergy and Immunology entitled: "The Non-Allergenic Colostrinin™ Prevents Responses to Common Allergens" was co-authored by Boldogh I, Choudhury BK, Aguilera-Aguirre L, Bacsi A and Kruzel M and was published in March 2008.

Colostrinin™ Pharmaceutical Peptides

With regard to the peptide programme, we reported in December 2007 on the preliminary findings of a microarray analysis to determine how gene expression profiles were altered following treatment of cells with Colostrinin™. This work has produced a number of interesting leads, three of which we are now following up. Two of the peptides favourably modulate genes associated with Alzheimer's disease and another gene associated with obesity.

These leads, either as synthetic peptides or peptide mimetics, are being developed to address the pharmaceutical market. A classical pharmaceutical pre-clinical candidate is possible in 2009. Despite sales of around $11.8 billion in 2006 (source Espicom) the neurodegenerative markets do not have satisfactory treatments. A new product with efficacy and a good safety profile would be extremely attractive both on medical and health economics grounds. With regard to obesity there is considerable concern surrounding the leading product Xenical (orlistat), but even this product has sales of about $1billion per annum, so once again a safe and effective product could be a major revenue generator.

Veterinary Colostrinin™

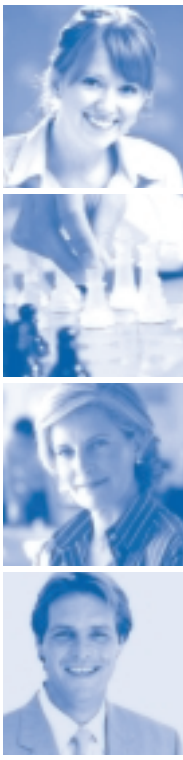
In December 2007 ReGen announced that preliminary results of a study of Colostrinin™ in the treatment of dementia in ageing dogs looked encouraging. The dosing phase of the study had been completed and a preliminary report based on 22/23 subjects showed that Colostrinin™ was well tolerated and that '40% of owners felt that there had been signs of improvement' throughout the trial. These findings and a similar study in cats were confirmed in an announcement on 11 February 2008. Nicholas Mills, Principal Investigator to the study, said, "These results clearly show that Colostrinin™ can significantly reduce the symptoms of cognitive dysfunction in aged cats and dogs".

Zolpidem

In August 2007 the Company announced the successful completion of its Phase II trial in South Africa where it established that a 2.5mg dose of a new sublingual formulation of zolpidem is non-sedating. The Company is currently planning a further trial in the UK to establish an effective and non-sedating multiple dose regimen to allow practical treatment for extended periods.

The Company has a scientific background programme attempting to understand the mode of action of zolpidem in brain trauma.

We should also stress that a very large amount of media interest was generated by the zolpidem discovery. Two TV programmes were screened on zolpidem during 2007. The first one in March on the Discovery Channel was an excellent programme and gave full prominence to ReGen. The second in October on BBC was less scientific, but generated more audience interest. Both of these programmes raised our profile.



Summary

The launch of Colostrinin™ in the World's largest nutraceutical market is a key achievement. Additionally, the product was launched in Australasia. Major scientific progress was made in the development of the Colostrinin™ peptide and zolpidem projects. ReGen is getting to a stage now where the nutraceutical product can take the Company into sustainable profitability and the development of its science programme in 2008 could lead to major licensing deals.

Percy W Lomax

Executive Chairman

4 April 2008

Operational review

Executive Summary

ReGen Therapeutics Plc was formed in 1998 to develop Colostrinin™ as a pharmaceutical for the treatment of Alzheimer's disease and other neurological disorders. It has since diversified its base by developing Colostrinin™ as a nutraceutical and examining the potential of its peptides for pharmaceutical applications in neurodegenerative disorders. In addition ReGen is also developing, as a pharmaceutical, a novel application in brain dormancy for an existing drug zolpidem.

...In its public offerings and subsequent offerings the Company has raised £19.9 million...

To provide capital for the original programme the Company was floated on the Ofex market in December 1998 and on the Alternative Investment Market (AIM) of the London Stock Exchange in March 2000. In its public offerings and subsequent offerings the Company has raised £19.9 million. We regard our ability to raise capital under difficult market conditions as crucial as it has enabled us to carry out our programmes.




The Company has used its money to achieve a number of significant milestones:

- ReGen's placebo-controlled clinical trial of Colostrinin™ in 106 Alzheimer's sufferers over 30 weeks (RG-010) was finished in the summer of 2002 and reached statistical significance in its main clinical end-point of cognitive efficacy. The results of this were published in the peer-reviewed Journal of Alzheimer's disease in February 2004.
- Colostrinin™ mode of action papers published.[1]
- Colostrinin™ bioassays developed to enable manufacturing scale-up.
- Colostrinin™ commercial production process defined.
- Ongoing science programmes, at the University of Texas Medical Branch, Galveston and Roswell Park Cancer Institute, Buffalo in the USA and at the Open University, Milton Keynes in the UK.
- Acquisition of Guildford Clinical Pharmacology Unit Limited in October 2004.
- Acquisition of Sciencom Limited in February 2006.
- Licensing deal for sale of nutraceutical Colostrinin™ signed with Metagenics for North America in July 2006.
- Phase IIa clinical trial for zolpidem in South Africa successfully completed in 2007.
- Colostrinin™ (CogniSure™) launched in the professional channel in North America in October 2007.
- Colostrinin™ (CogniSure™) launched in the professional channel in Australasia in July 2007.

The Company's programme for 2008 includes the following targets:

- To continue the development of pharmaceutical drug candidates based on the constituent peptides of Colostrinin™. Two such synthetic peptides have been identified as having potential utility in Alzheimer's disease and another with potential in the management of obesity. It is expected that sufficient data will be available by the end of 2008 to begin looking for a co-development partner or licensee.
- To sign further deals with co-development/licensing partners for the use of Colostrinin™ both as a human and veterinary nutraceutical.
- To continue 'proof of concept studies' with zolpidem.
- To acquire further complementary businesses and projects.

1 I Boldogh et al, Journal of Molecular Neuroscience (2003), 20, 125-134; A.Bacsi et al, Cellular and Molecular Neurobiology (2005), 25, 1123-1139; D. Schuster et al, Neuropeptides (2005), 39, 419-26

Background

In the following pages we will discuss the science programme for Colostrinin™ as referring to both the nutraceutical activities of Colostrinin™ and the potential pharmaceutical uses of the peptides derived from Colostrinin™. We will separately discuss the commercial development of zolpidem as a treatment for brain dormancy.

ReGen Therapeutics Plc was formed in 1998 to undertake the development of Colostrinin™ as a pharmaceutical for the treatment of Alzheimer's disease and other neurological disorders. Colostrinin™ is a proline-rich polypeptide complex developed from colostrum, mammals' first milk after the birth of an offspring, which is widely recognised for its immune properties.

ReGen acquired the intellectual property rights for Colostrinin™ from the Ludwik Hirszfeld Institute of Immunology & Experimental Therapy in Wroclaw, Poland that had been carrying out tests on patients for a number of years with apparent success.

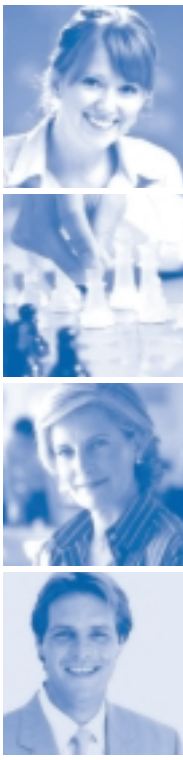
ReGen made a decision to conduct initial patient trials in Poland as the authorities there were satisfied as to the safety of the material following trials in Poland between 1995 and 1998. The largest and most robust of these, a study showing that Colostrinin™ was more effective than placebo and organic selenium and was well-tolerated, was published in 1999.[2]

ReGen's placebo-controlled clinical trial on 106 Alzheimer's sufferers over 30 weeks (RG-010) was completed in the summer of 2002 and the results demonstrated efficacy in a significant proportion of patients treated, with no safety concerns. A peer-reviewed manuscript detailing the full results of the study was published in the February 2004 edition of the Journal of Alzheimer's Disease.[3]

Key results of the study were:

- Approximately 40% of patients on Colostrinin™ were stabilised or improved after 15 weeks of therapy, based on an Analysis of Overall Response.
- 33% of patients continued to show stabilisation or improvement after 30 weeks of treatment, although levels of benefit were slightly higher at the 15-week stage of the trial.
- Statistical significance achieved with regard to the primary measure of efficacy – Alzheimer's Disease Assessment Scale – cognitive part (ADAS cog – a measure of cognitive/memory function) and the secondary endpoint Instrumental Activities of Daily Living (IADL).
- Efficacy demonstrated in both mild and moderate symptom groups as measured by ADAS cog, with greatest effects seen in earlier stages of the disease.
- No drug-related serious adverse events or safety concerns were observed during the trial.

Following completion of this trial ReGen has been pursuing an extensive scientific development programme, much of it in collaboration with the University of Texas, Medical Branch at Galveston (UTMB).



2 J Leszek et al (1999), Archivum Immunologiae et Therapiae Experimentalis (Archives of Immunology and Experimental Therapy), 47, 377-385

3 A Bilikiewicz and W Gaus (2004), Journal of Alzheimer's Disease, 6, 17-26

Operational review continued

Key areas of activity have focused on developing a greater understanding of the mode of action of Colostrinin™ and it's constituent peptides, which in turn has enabled development of bio-assays and the identification of functional (in vivo) models.

...the findings of our clinical trial RG-010 in the peer-reviewed Journal of Alzheimer's Disease, gives us confidence in the activity of Colostrinin™ in Alzheimer's disease...

During our discussions in 2004 with potential pharmaceutical and nutraceutical licensing partners, it became apparent to us that a product such as Colostrinin™ would be more commercially attractive as a nutraceutical. We therefore focused on producing Colostrinin™ as a nutraceutical product and have a licensing agreement with Metagenics, Inc. for North America and Australasia and, since March 2008, with Golgi Pharmaceuticals Ltd. for Cyprus, our first launch in the European Union. We have ongoing discussions for the rest of the World particularly in Japan and Asia. Our scientific evidence, taken together with the publication of the findings of our clinical trial RG-010 in the peer-reviewed Journal of Alzheimer's Disease, gives us confidence in the activity of Colostrinin™ in Alzheimer's disease. Thus we are in the process of characterizing the peptides within Colostrinin™, in the belief that this will lead to the development of a classical small molecular weight pharmaceutical candidate with a biological activity similar to or exceeding that of Colostrinin™. One of the constituent peptides, a nine amino-acid peptide, has been identified, synthesized and proved to facilitate learning and memory in a rat model and another nine amino-acid residue peptide has been shown to be neuroprotective in an in vitro model predictive of activity in Parkinson's disease.

More recently microarray analysis has been used to determine how gene expression profiles alter following treatment of cells with Colostrinin™. This programme has produced a number of interesting leads and our key focus will be on two synthetic peptides, which can favourably modulate genes associated with Alzheimer's disease and another peptide, which can modulate genes associated with obesity. Colostrinin's™ individual constituents, as synthetic peptides or peptide mimetics, will address the pharmaceutical market. A classical pharmaceutical pre-clinical candidate is possible in 2009. Despite sales of around $11.8 billion in 2006 *(source Espicom)* the neurodegenerative markets do not have satisfactory treatments. A new product with efficacy and a good safety profile would be extremely attractive both on human and health economics grounds.

Colostrinin™ Science Programme

Colostrinin™ was first isolated from ovine colostrum and characterised as a proline-rich polypeptide (Janusz 1974). Colostrinin™ has been shown to be an immunoregulator that may induce maturation and differentiation of murine thymocytes. Also, it was demonstrated that Colostrinin™, and its active nonapeptide fragment (NP), obtained after proteolytic digestion, are inducers of IFN gamma and TNF alpha in the peripheral blood lymphocytes.

Details on the potential mode of action of Colostrinin™ were first presented at the 18th International Conference on Alzheimer's disease in Barcelona, Spain in October 2002. This work has since been published in the Journal of Molecular Neuroscience.[4]

This showed that Colostrinin™ reduces the abundance of 4HNE-protein adducts, reduces intracellular levels of reactive oxygen species, inhibits 4HNE-mediated glutathione (GSH) depletion (important for maintenance of cellular red-ox status, metabolism and enzyme regulation) and inhibits 4HNE-induced activation of p53 protein and c-Jun NH2-terminal kinase enzymes (both involved in the process of apoptosis – programmed cell death).

4 I.Boldogh et al, Journal of Molecular Neuroscience Volume 20, 2003, p125-134

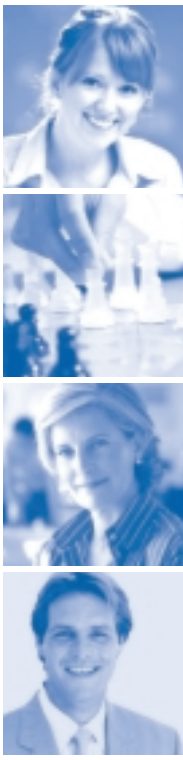
Four major scientific announcements were made during 2004

In May 2004 at the 14th Alzheimer Europe Conference scientists presented two papers. In one they showed that Colostrinin™ can prevent the aggregation of beta amyloid and reduce its toxic effect on neuroblastoma cells and in another one they showed that Colostrinin™ can block the proliferation and promote the differentiation of primary cells into neuronal cells.

In July 2004 at the 9th International Conference on Alzheimer's Disease and Related Disorders scientists reported that the neuroprotective effects of Colostrinin™ can be due, in part, to a decrease in beta amyloid-induced apoptosis.

Also in the same month, at the Federation of European Neurological Societies meeting it was reported that Colostrinin™ was able to enhance memory when compared with control saline injections in young chicks.

Finally, in October 2004 at The Society for Neuroscience meeting, the same scientists, again in the chick model, showed that pre-treatment with Colostrinin™ can limit the memory impairment induced by beta amyloid, a toxic protein involved in the pathology of Alzheimer's disease. Bovine-sourced Colostrinin™ made by ReGen's new production process was shown to have the same activity profile as the ovine-sourced material used in the clinical studies.



In 2005 further scientific milestones were achieved

Patents

In February the United States Patent and Trademark Office granted two patents regarding Colostrinin™: 1) US Patent No. 6,852,685 for the use of Colostrinin™ and its constituent peptides as a promoter of neuronal cell differentiation, and 2) US Patent No. 6,852,700 for the use of Colostrinin™ as a medicament, particularly in the treatment of chronic disorders of the central nervous system and the immune system.

In August ReGen announced the grant of a US Patent No. 6,903,068 on the use of Colostrinin™ and its constituent peptides to promote induction of cytokines. The induction of cytokines can modulate the immune response in patients with Alzheimer's disease.

In September the United States Patent and Trademark Office granted Patent No. 6,939,847 for the use of Colostrinin™ and its constituent peptides as oxidative stress regulators.

Scientific Studies

In April 2005 ReGen announced that Colostrinin™ and a nine amino-acid synthetic homolog of a Colostrinin™ derived peptide showed neuroprotection in a cell line model of Parkinson's disease.

In June 2005 the peer-reviewed journal 'Neuropeptides'[5] published an article showing that Colostrinin™ can prevent the aggregation of beta amyloid – a toxic protein that builds up in the brains of Alzheimer's disease sufferers.

...at the Federation of European Neurological Societies meeting it was reported that Colostrinin™ was able to enhance memory when compared with control saline injections in young chicks...

In October 2005 ReGen presented an important paper regarding the effects of Colostrinin™ on life span in mice at the 21st International Conference of Alzheimer's Disease International in Istanbul.

5 D.Schuster et al. Neuropeptides 2005 Aug; 39(4): p419-426

Operational review continued

The significance of this work is that it suggests several interrelated ways in which Colostrinin™, or more specifically its constituent peptides, might achieve its clinical activity:

- Reduction/prevention of oxidative stress
- Encouragement of neuronal cell production
- Reduction/prevention of apoptosis
- Reduction/prevention of beta amyloid aggregation
- Increase the life span of neuronal cells

Oxidative stress is a general term for the build-up of harmful reactive oxygen species (ROS) as a result of normal/abnormal cell metabolism. This age-related build-up gradually overwhelms the normal processes, in which ROS are neutralized, leading to the modification of important molecules (e.g. enzymes) and the impairment of their function, ultimately leading to disease. Oxidative stress has recently been implicated as a key feature in the development of many age-related disorders, including neurodegenerative diseases such as Alzheimer's disease and Parkinson's disease or multiple sclerosis. In 2005 for the first time we showed activity of Colostrinin™ and a Colostrinin™ derived peptide in a cell model predictive of Parkinson's disease. We are continuing to investigate this.

Apoptosis is the mechanism by which cells are caused to die when they reach the end of their life expectancy. However, premature apoptosis is often triggered by many pathological conditions including inflammation. In Alzheimer's disease, a particular example of brain inflammation, apoptosis is an important factor in progression of the disease.

Alzheimer's disease is characterised by the accumulation of abnormal protein fibrils, including senile plaques, causing selective neuronal loss in the central nervous system. The primary components of senile plaques are insoluble aggregates of a peptide called amyloid beta. In addition, an abnormally high level of iron is witnessed in the brains of Alzheimer's disease patients. This is thought to stimulate oxidative stress in the brain, giving rise to free radicals which then go on to damage cells and cause subsequent brain inflammation.

Developments in 2006

In January 2006 ReGen announced that the full results of an in vitro study showed that Colostrinin™ could cause precursor nerve cells to differentiate and proliferate. This was published in the peer-reviewed journal Cell and Molecular Neurobiology.[6] The potential to slow down or prevent the death of nerve cells in the brain has clear applicability to neurodegenerative diseases such as Alzheimer's, Parkinson's and Amyotrophic Lateral Sclerosis.

...In 2005 for the first time we showed activity of Colostrinin™ and a Colostrinin™ derived peptide in a cell model predictive of Parkinson's disease

In August 2006 a further in vitro study published in the peer-reviewed Journal of Experimental Therapeutics and Oncology [7] showed that Colostrinin™ reduced the spontaneous or induced mutation frequency in the DNA of cells. This would suggest an impact on both the ageing process and the development of cancer.

Developments in 2007

The primary focus of R&D in 2007 was determined by the upcoming commercialisation of Colostrinin™ as a nutraceutical product and exciting preliminary data on use of zolpidem in PVS patients. Several papers and highly visible presentations have been accomplished during 2007.

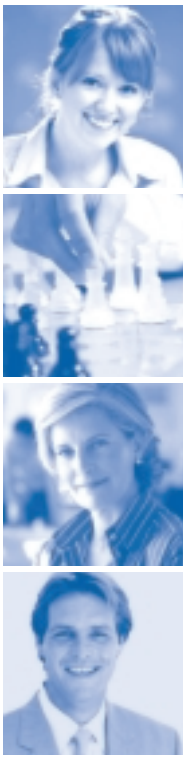
6 A. Bacsi et al, Cell and Molecular Neurobiology, Vol. 25, No 7, Nov 2005, p1123-1139

7 A. Bacsi et al, Journal of Experimental Therapeutics and Oncology, Vol 5, p249-259

Following on from the previous research, ReGen announced in February 2007 that Colostrinin™ has been shown in an in vivo study to increase the lifespan and improve the neurological performance of inbred mice predisposed to premature ageing.

Consistent with the previous findings that Colostrinin™ inhibits the aggregation of beta amyloid, a simple potency assay has been developed and published in the peer-reviewed Journal of Neuroscience Methods.[8] The assay is particularly attractive since thioflavin, a capture agent, fluoresces only when bound to amyloid fibrils, not the monomers. In addition the reaction is completed within one minute and thioflavin does not interfere with aggregation of amyloid fibrils. The newly developed assay is used to quantify and qualify the production batches of Colostrinin™ before final formulation into tablets. Also the assay has been used to demonstrate that Colostrinin™ not only prevents the aggregation of beta amyloid but it can solubilize the fibrils in a dose and time-dependent fashion.

...clinical data showing the beneficial effects of Colostrinin™ on the cognitive and functional performance of around 150 human subjects...



The effect of Colostrinin™ on reduction of oxidative stress has been further confirmed by the UTMB scientists in both in vitro and in vivo studies using senescence accelerated mice model (SAMP). The in vitro results have been published in a peer-reviewed journal Neuropeptides.[9] It has been demonstrated that Colostrinin™ significantly decelerates the senescence of cultured murine diploid fibroblast and increases their population doubling levels. This action of Colostrinin™ is associated with a decrease in the intracellular levels of reactive oxygen species, which may be due to senescence-associated mitochondrial dysfunction. These data suggest that Colostrinin™ may delay the development of cellular ageing at the level of the organism. In fact the in vivo study confirmed that Colostrinin™ increases the lifespan and neurological performance in SAMP mice. Thus, Colostrinin™ may be used in the prevention and/or therapy of diseases associated with ageing processes.

The utility of Colostrinin™ in Alzheimer's disease was extensively discussed at the 2007 International Congress on Natural Medicine in Australia. Dr. Marian Kruzel, ReGen's Chief Scientific Officer presented two lectures at the conference: 1. "The Immunological Basis of Alzheimer's Dementia" and 2. "Breakthroughs in the Prevention and Treatment of Alzheimer's Disease". In an overview to both lectures Dr. Kruzel presented data showing that Colostrinin™: a) reduces the production of intracellular reactive oxygen species, b) prevents the aggregation of beta-amyloid and its consequent neurotoxicity, c) increases the lifespan of mice prone to premature ageing and d) is well-tolerated when given to animals at doses up to 100 times that recommended for humans daily for prolonged periods. In addition clinical data showing the beneficial effects of Colostrinin™ on the cognitive and functional performance of around 150 human subjects were presented.

Before the end of 2007 two manuscripts were accepted for publication. One is a review article entitled: "Colostrinin™ – An Oxidative Stress Modulator for Prevention and Treatment of Age-Related Disorders" in Journal of Alzheimer's Disease co-authored by Boldogh I. and Kruzel M. JAD is the major journal for the audience in age-related disorders. This is about to be published. The second publication entitled: "Colostrinin Decreases Hypersensitivity and Allergic Responses to Common Allergens" was co-authored by Boldogh I, Choudhury BK, Aguilera-Aguirre L, Bacsi A and Kruzel M and was published in March 2008.

We are also currently screening peptides derived from Colostrinin™ in a programme designed to show activity in neurodegenerative disorders. The latest stage of the programme has involved the use of microarray analysis to determine altered gene expression profiles following treatment of cells with Colostrinin™. This programme has

8 A. Bacsi et al, Journal of Neuroscience Methods, 41(2007), p93-101

9 Bourhim M. et al, Neuropeptides, 2007 Mar 15; 160(2): p264-8

Operational review continued

produced a number of interesting leads and ReGen is developing two of them in the neurodegenerative area and one of them in the area of obesity. Colostrinin's™ individual constituents, as synthetic peptides or peptide mimetics, will address the pharmaceutical market. A classical pharmaceutical pre-clinical candidate is possible in 2009. Despite sales of around $11.8 billion in 2006 *(source Espicom)* the neurodegenerative markets do not have satisfactory treatments. A new product with efficacy and a low side effect profile would be extremely attractive both on human and health economics grounds.

About Alzheimer's disease (Source Alzheimer's Disease International)

Alzheimer's disease is the most common cause of dementia. Dementia is a collective name for progressive degenerative brain syndrome, which affects memory, thinking, behaviour and emotion.

Symptoms may include:

- loss of memory
- difficulty in finding the right words or understanding what people are saying
- difficulty in performing previously routine tasks, and
- personality and mood changes

There are currently an estimated 18 million people in the world with dementia. 66% of people with dementia live in developing countries.

There is no cure for Alzheimer's disease or for most other causes of dementia. However, many of the problems associated with dementia such as restlessness and depression can be treated. It may also be possible, especially in the early stages of dementia, to improve someone's memory with medication. There is an immense amount of research into new drug treatments for Alzheimer's disease and the other dementias.

Recent developments have been in the form of a group of drugs known as cholinesterase inhibitors or anti-cholinesterase drugs. These drugs work by reducing the breakdown of acetylcholine in the brain. Acetylcholine is a chemical substance that occurs naturally in the brain and enables nerve cells in the brain to pass messages to each other. Research has shown that many people with Alzheimer's disease have a reduced amount of acetylcholine, and it is thought that the loss of this chemical may result in deterioration of memory. Unfortunately this class of drugs has a number of side effects, which may include diarrhoea, nausea, insomnia, fatigue and loss of appetite. These drugs are not a cure, and may only stabilise some of the symptoms of early to mid stage Alzheimer's disease for a limited period of time. The same concept has been tested with acetylcholine boosters. The objective here is not to inhibit acetylcholinesterase, but to induce the production of acetylcholine.

Other potential uses for Colostrinin™

A genomics screen with peptides derived from Colostrinin™ has shown that it has the ability to favourably modulate the levels of certain proteins in vitro, which have important roles in the pathology of various disease conditions.

Using this approach we have not only confirmed the potential of two peptides derived from Colostrinin™ against neurodegenerative disorders, particularly Alzheimer's disease, but we have identified other peptides with potential in the management of inflammatory disorders, particularly linked to obesity. Obesity is a growing problem in the Western World and is poorly treated. A safe product for this could have very significant sales. The largest obesity

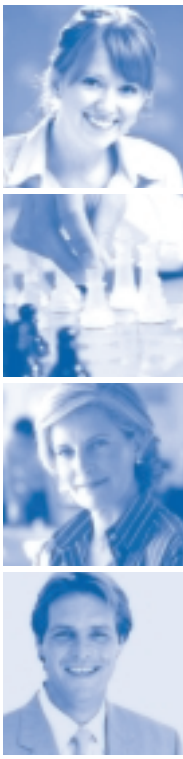
management product currently on the market is Xenical (orlistat) sold by Roche as prescription only and GlaxoSmithKline as an over the counter product. Edison Investment Research estimates their combined sales in 2007 as approaching $1 billion per annum.

We believe we may be able to identify further new potential disease targets and uses for Colostrinin™, its constituent peptides or small molecular weight substances based on their activity.

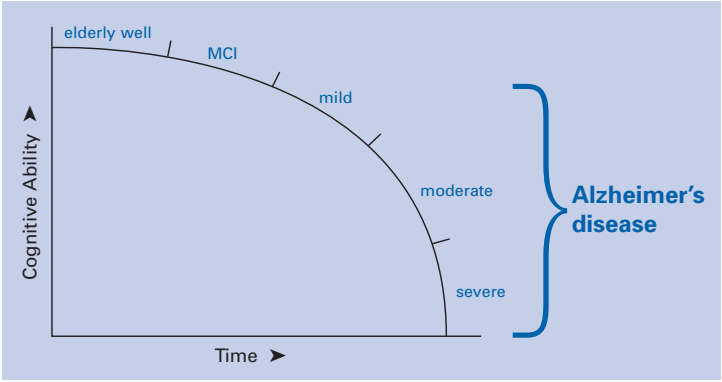
Colostrinin™ as a Nutraceutical

Our development programme for Colostrinin™ is now focused on its future as a nutraceutical product. Based on discussions with potential partners this could be as a stand-alone product or as part of a range of supplements for 'maintenance of healthy mental function' in the vast and increasing aged population at risk of cognitive decline.

We are also investigating the possibility of using Colostrinin™ as a veterinary nutraceutical product.



Business Opportunity



Cognitive decline in the elderly can be viewed as a progressive disease.

Most attempts at pharmaceutical intervention have targeted mild and moderate Alzheimer's disease, but a product that treated people with Mild Cognitive Impairment (MCI) or delayed their progression into and through this phase would have a large impact on the health of the elderly. We believe that this population is best accessed through nutraceutical products and, based on its natural source and the clinical results to date, Colostrinin™ has the profile to address this market.

Incidence and prevalence of age-related neurodegenerative disorders, including MCI and Alzheimer's disease, is increasing worldwide as people live longer. The prevalence of such disorders increases from one percent of the population in their early sixties to 25-50 percent in their late eighties. In 2006, 18 million people worldwide suffered from Alzheimer's disease and this is estimated to reach 34 million by 2025. *(Source: Alzheimer's Disease International).*

...We are also investigating the possibility of using Colostrinin™ as a veterinary nutraceutical product...

By 2009 the demand for anti-ageing nutraceutical products and services is predicted to reach around $72 billion in the US (Source: Nutrition Business Journal). Active ingredients in anti-ageing pharmaceuticals will continue to comprise the largest segment of anti-ageing products, accounting for more than one quarter of such compounds. Neurological agents for the treatment of Alzheimer's disease and other age-related neurodegenerative disorders are expected to record robust growth, supported by medical advances. The anti-ageing study that we reported on in 2005 is helpful in gaining acceptance for Colostrinin™ in this field.

Operational review continued

Colostrinin™ has been shown to have potential benefit for the treatment of age-related neurodegenerative disorders including Alzheimer's disease. Colostrinin™ potentially falls into the disease-modifying category because of its antioxidant effect and prevention of aggregation of beta-amyloid, which are both implicated in Alzheimer's disease. It has been given to over 150 patients with consistent evidence of efficacy and no safety concerns.

So far no therapeutic approach has halted disease progression convincingly. Therefore, Colostrinin™ has the potential to be one of the major products to succeed in this expanding market place as it could be taken prophylactically by otherwise healthy elderly people who may be at risk from developing Alzheimer's disease merely because of their increasing age.

A crucial commercial development was announced in July 2006 when ReGen signed its first commercialisation deal for Colostrinin™. ReGen entered into an exclusive licence agreement with Metagenics, Inc. for the commercialisation of Colostrinin™ as a human nutraceutical in North America. Headquartered in San Clemente, California, Metagenics is a leading developer, manufacturer and marketer of nutraceuticals, dedicated to researching and evaluating the effects of natural ingredients on genetic expression and protein activity. Metagenics states that it serves over 30,000 healthcare practitioners in North America.

ReGen is currently discussing licensing arrangements for other markets, in particular Japan and Europe.

Commercial development

The crucial commercial development of the year was in October 2007 when Colostrinin™ (branded as CogniSure™) was launched in the professional channel in the North American market by Metagenics Inc our licensee. This is a key development for ReGen as the USA alone accounts for around one third of the World nutraceutical market.

ReGen produces bulk Colostrinin™ in South Dakota and is working with Metagenics to expand the use of Colostrinin™. Currently production capacity is two million units per annum (a unit is thirty days supply) and a further extension of the manufacturing capacity to ten million units per annum is possible and within the financial resources of the Company. The license agreement provides Metagenics with the exclusive right to market Colostrinin™ via healthcare professionals.

Metagenics subsidiary Health World Ltd launched Colostrinin™ in the Australasian market in July 2007 following a successful pre launch conference in June.

In March 2008 ReGen announced a licensing deal with Golgi Pharmaceuticals Limited for distribution of Colostrinin™ in Cyprus. ReGen is currently discussing licensing arrangements with potential partners in other markets particularly Japan and other European countries.

Sciencom – zolpidem a potential new use

On the 6 September 2005 it was announced that ReGen had entered into an exclusive option arrangement with Sciencom Ltd, a private company, which had discovered an important new use for zolpidem, a long established drug, currently marketed for the treatment of insomnia. A patent application has been filed to cover this new use. Following the success of the feasibility study Sciencom was acquired outright in February 2006.

...entered into an exclusive licence agreement with Metagenics, Inc. for the commercialisation of Colostrinin™ as a human nutraceutical in North America...

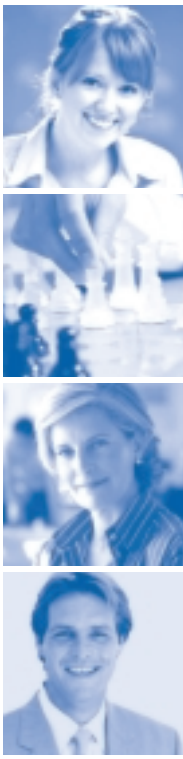
The clinical effect discovered in a number of 'open' clinical case observations is that zolpidem can normalise areas of brain dormancy secondary to a primary lesion in brain damage conditions. The clinical effects of this dormancy reversal

have been restoration of consciousness, swallowing, co-ordination and motor function after stroke and traumatic brain injury. Given that stroke alone is the largest single cause of severe disability in England and Wales, with over 450,000 people being affected at any one time, the Company believes that this represents a significant medical and commercial opportunity.

...ReGen's original focus, and even today its primary long-term focus, is as a researcher and developer of pharmaceuticals...

This reversal of dormancy has been visualised by SPECT brain scanning on dosing with zolpidem. The clinical effect is generally proportional to the size and position of the dormant area and correlates with drug levels in the brain/plasma. Whilst to date these effects have been achieved with existing formulations these are less than ideal for the new use, with sedation as a significant limiting factor. ReGen is therefore looking to develop new formulations to optimise the delivery of this important clinical benefit to a diverse range of patients.

In 2007 ReGen carried out a Phase IIa clinical study on zolpidem in South Africa, managed by our subsidiary CRO Guildford Clinical Pharmacology Unit Limited. In this study we compared a novel formulation with a standard formulation in known zolpidem responders and at varying dosages. The trial showed that a 2.5mg dosage of a novel sublingual spray formulation is non-sedative. A further study is planned in 2008 to establish efficacy with repeat dosing at this level. Should this trial be successful we would be looking for a licensing partner to develop the product to market. We estimate the global potential market size to be $4.3 billion. *(Source: ReGen from US Government statistics).*



Guildford Clinical Pharmacology Unit Limited

In October 2004 the Company acquired Guildford Clinical Pharmacology Unit Limited (GCPUL), a Contract Research Organisation based in Surrey, England.

GCPUL provided a high quality service in performing clinical trials for the pharmaceutical and biotechnology industry, using its associations with the Royal Surrey County Hospital and the University of Surrey. It is now, however, used primarily as an in-house facility although it remains capable of performing clinical trials for outside clients, should general market conditions improve.

Our Market Place, Principal Risks and Uncertainties, Outlook

ReGen is active in two main areas; pharmaceutical development and the development of its nutraceutical product.

ReGen's original focus, and even today its primary long-term focus, is as a researcher and developer of pharmaceuticals. Pharmaceuticals are medicines sold primarily through doctors and hospitals but can also be "over the counter" medicines (OTC). The primary factor in rewards from pharmaceuticals is that a patented compound will be able to enjoy a monopoly profit by virtue of its unique properties. A patent lasts for twenty years after which the product becomes a generic (i.e. anyone can manufacture and sell it and price and profits generally fall sharply). The objective of a pharmaceutical company is to deliver a product to market as rapidly as possible to take the full benefit of the monopoly profit whilst the product is patent protected.

ReGen has an original patent on Colostrinin™ dating back to 1996 and subsequent patents on its constituent peptides. The "use" patent on zolpidem was applied for in May 2004. ReGen therefore has a significant period of time in which to develop its compounds.

Operational review continued

ReGen is, however, a tiny player within the international pharmaceutical market. The therapy area in which it operates – Central Nervous System – accounts for around 19% of the World market with Moving Annual Total sales of $71 billion to September 2006 – *(Source: IMS Healthcare)*. As we see in the table below the largest geographical market is the USA:

Geographical Split of World Pharmaceutical Sales

	12 Months to September 07 US $ millions	% of Total
Total Region	**407,554**	**100**
North America	**219,551**	**54**
USA	204,849	50
Canada	14,702	4
Europe (leading 5)	**103,930**	**25**
Germany	30,212	7
France	28,034	7
United Kingdom	17,187	4
Italy	15,423	4
Spain	13,074	3
Japan	**56,780**	**14**
Latin America (leading 3)	**20,727**	**5**
Brazil	9,623	2
Mexico	8,536	2
Argentina	2,568	1
Australia/New Zealand	**6,567**	**2**

Source: IMS Healthcare




The industry is dominated by global pharmaceutical companies like Pfizer and GlaxoSmithKline whose annual prescription pharmaceutical sales are respectively $45.083 billion and $37.144 billion. *(Source: Edison Research)*. These and global companies like them are totally integrated, having the ability to take a compound from initial concept straight to the market.

Biotechnology companies such as ReGen do not have either the capacity to market a product or generally the resources to carry out late stage clinical trials. Their object, therefore, is to get one of the global (or smaller companies with an international presence) to take on their compound and get it to market. As a result of this a biotechnology company will typically receive an upfront payment and payment milestones as the product development progresses. Finally, when and if the product is on the market it will earn a royalty.

The prime risk for the biotechnology company is that it will not be able to do a deal or that it will not do a particularly attractive deal. There is also a significant risk, before a biotechnology company has done a deal, that it will run out of money, as it may not be able to attract further funding. Other risks are that, given the size of the company, its competitive intelligence may overestimate both its opportunities and its difficulties. Essentially one must remember that even the larger biotechnology companies are very 'small fish in the pharmaceutical sea'.

Turning now to the nutraceutical business, this is a different proposition in terms of risk/reward than that of pharmaceuticals, as generally it is easier to get a product to market because there are not the regulatory hurdles, but the returns will usually be lower. In terms of structure, the similarities are that ReGen is dependent on a marketer to sell its end product, but it is able to get the product sufficiently developed so that it is ready to be marketed, unlike in pharmaceuticals. Once again the prime risk is not doing a licensing deal.

...In consequence we believe that shareholder value will be enhanced having an active US-based share trading facility...

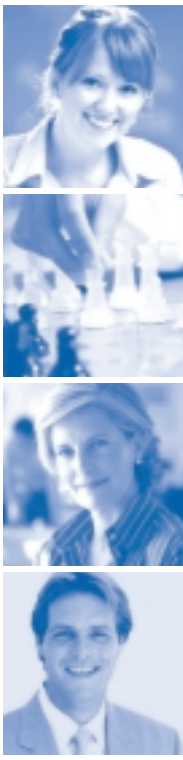
ReGen has tried to guard against the licensing risk by employing an international licensing consultancy to introduce it to prospective licensees and advise it on the terms of appropriate licensing deals. To date, these efforts have resulted in the Company achieving licensing arrangements in North America, Australasia and Cyprus. With regard to the problems of funding, ReGen has a long history of raising working capital and has now been on the AIM market since March 2000, having joined Ofex in December 1998.

In short the principal risks for ReGen are:

- That it will not be able to fund its development
- That it will not be able to do a licensing deal
- That it is a very small player in an international market

American Depositary Receipt (ADR) Programme

Looking to the future development of the Company, we established an ADR programme in the US in March 2005. We are in the process of being listed on the new OTCQX market and expect registration formalities to be completed shortly. This is commercially relevant to ReGen as we carry out research, development and manufacturing in the US and 62% of central nervous system pharmaceutical sales are in the US, which is also the most developed nutraceutical market in the World. On the financial side, the US is by far the largest capital market, particularly for biotech. In consequence we believe that shareholder value will be enhanced having an active US-based share trading facility.



ReGen management

Percy Lomax BSc (Econ) FSI

(Executive Chairman)

Percy Lomax joined the commercial intelligence department of Allen & Hanbury's, part of the Glaxo Group, in July 1967 and has been involved in the drug industry since then, either as an adviser or an employee. He was stockbroker in August 1987 to the flotation of Medirace Plc, which became Medeva Plc. As a healthcare analyst at Robert Fleming and Co he worked on the second fund raising for Wellcome in 1992. In 1995 he co-founded PolyMasc Pharmaceuticals Plc and was instrumental in its flotation in December of that year. In 1996 he was responsible for the rescue rights issue of Proteus Plc and the flotation of Oxford BioMedica plc. He joined the Board of ReGen prior to the Ofex flotation in 1998.

Keith Corbin ACIB

(Non-executive Deputy Chairman)

Keith Corbin is a non-executive Director of ReGen and has served on the Board of the Company since 1998. For the last twenty-five years, he has served as the Group Managing Director and Chairman of financial services businesses in various parts of the World. From 1979 to 1997, he was the Group Managing Director of Havelet Holdings Limited and he is currently the Chairman of an independent financial services business, Nerine Trust Company Limited, with operations in Guernsey and the British Virgin Islands. He serves as a Non-executive Director on various boards. He is an associate of the Chartered Institute of Bankers and a member of the Society of Trust and Estate Practitioners.

Norman Lott BSc ACA

(Finance Director and Company Secretary)

Norman Lott qualified as a chartered accountant in 1980 with Ernst & Whinney and joined Peat Marwick Mitchell & Company in their Hong Kong office in 1981. From 1984 onwards he held a number of senior financial positions in commerce and industry before joining Tiger Books International Plc in 1993 as Finance Director and was subsequently appointed as Deputy Managing Director. He joined the Board of ReGen as Finance Director in June 1999.

Martin Small

(New Projects Director)

Martin Small entered the international commodity trade in 1982, initially trading sugar in the Far Eastern and Middle Eastern markets, before moving to commodity broking in 1985. Working with clients in the Far East and West Africa, he gained an extensive knowledge of the oilseed industry and, in particular, the Hong Kong edible oil market. From the beginning of 1991, Martin developed various industrial business ventures in Scandinavia and Poland. In 1996 he met Jerzy Georgiades and learned of his work on a prospective therapy for Alzheimer's disease in Poland. The work with Dr Georgiades lead to their founding of The Georgiades Foundation Ltd and the acquisition of the ownership and development rights to Colostrinin™ from its original Polish inventors in October 1997. Following the sale of The Georgiades Foundation Ltd to ReGen in October 1998, Martin joined ReGen as General Manager and was appointed to the Board as New Projects Director on 10 December 2002.

Timothy Shilton BSc Hons

(Development Director)

Tim Shilton has been involved in the pharmaceutical industry for nearly 30 years. After completing his degree at Surrey University in 1979 Tim joined the Regulatory Affairs Department at Wellcome, where he was specifically involved in product registration and licensing. He later transferred to International Strategic Marketing/New Products, where he was part of the team responsible for establishing Wellcome as the market leader in antivirals with Zovirax (cyclovir) and Retrovir (AZT). After leaving Wellcome in 1995 Tim consulted for various pharmaceutical and healthcare communications companies, before joining Phairson Medical in 1996, as Product Development and Marketing Director. Tim joined ReGen in November 2000 as Development Manager and was appointed to the Board as Development Director on 10th December 2002.

Dr Peter Garrod BDS, LDS

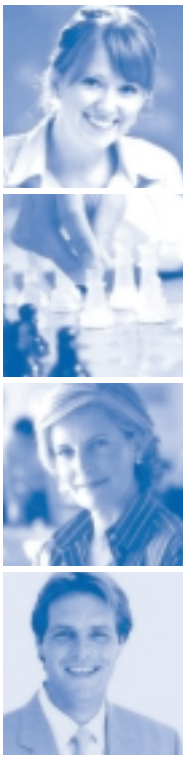
(Non-executive Director)

Dr Garrod was educated at the London Hospital, part of the University of London. He graduated with a BDS and is a LDS of the Royal College of Surgeons. He has been the Senior Partner of the Bower Dental Centre, which specialises in advanced dental cosmetic surgery, for the last 18 years.

Professor Marian L Kruzel PhD

(Chief Scientific Officer)

Professor Marian Kruzel is a faculty member of the Department of Integrative Biology and Pharmacology, The University of Texas Medical School at Houston. He is an internationally recognized immunologist with an established interest and expertise in inflammation and age-related pathophysiology. He is the recipient of numerous grants and a participant in NIH funded projects. Also, he serves as a reviewer on several scientific journals, including Clinical and Experimental Immunology and Cellular and Molecular Biology Letters. Recently, he has been elected as an Associate Editor of the Journal of Experimental Therapeutics and Oncology. In 1999 Prof. Kruzel founded PharmaReview Corporation, a consulting firm that provides guidance to bio-medical research companies in project design and development of clinical protocols. He is the former Chairman of the Board of Cancer Coalition of America. Through a consultancy agreement with the Company Prof. Kruzel is responsible to the Board for scientific research and development and management of the scientific aspects of future clinical development on behalf of the Company



Report of the directors

for the year ended 31 December 2007

The directors present their report together with the audited financial statements for the year ended 31 December 2007.

Results and dividends

The consolidated income statement is set out on page 28 and shows the loss for the year.

The directors do not recommend the payment of an ordinary dividend (2006 – £Nil).

Principal activities

The principal activity of the Group was drug development and ancillary services, and conducting pharmacokinetic and pharmacodynamic research.

Business performance

The turnover this year included income from the initial sales of CogniSure™ as a nutraceutical in Australia and in the US professional market at the back end of the year. The higher margins achieved by the CogniSure™ sales together with the improved margins at Guildford Clinical Pharmacology Unit Ltd (GCPUL) increased the overall margin from 48.4% to 65.3%. Although 2007 revenues at £311,488 were down on last year's total of £404,918 the resulting gross profit generated still managed to exceed 2006 levels.

Development costs at £802,303 were not far short of the high level spent last year and reflected the Group's continuing commitment to its research and development programmes. Whilst much of the CogniSure™ development related back to previous years there was an increasing emphasis on the zolpidem programme together with the Colostrinin™ peptides and the veterinary studies.

While total administrative costs increased, this was entirely due to the impairment charge of £348,562 as a result of the goodwill associated with GCPUL, which was fully written off. Without this charge other administrative costs were lower than last year. As a result of these factors the loss after tax increased by 9.6% to £2,385,074.

The Group's net assets at 31 December 2007 are marginally up on last year, while the cash available at £587,837 has increased by £79,792. Since the balance sheet date further funds of £246,898 have been raised. The Company has also secured an additional equity credit facility of £2 million from Duke Holdings Corporation Limited enabling it to draw down capital in tranches in exchange for shares in the Company. This, taken together with other options currently being evaluated secures the Company's financial position and enables it to continue its scientific programme.

The Group's key performance indicators are linked in with its commercial and scientific development. On the commercial side the key objectives are to progress further licensing deals in respect of Colostrinin™ both in Japan and Europe and particularly in the US to achieve a retail deal. The Group will also be looking to investigate potential licensing deals for its veterinary version of Colostrinin™. On the scientific and development front, following the successful completion of its Phase II zolpidem trial in South Africa, the Company is seeking to perform a further trial on zolpidem to establish an effective and non-sedating multiple dose regimen to allow practical treatment for extended periods. Finally the Company's objective to progress the peptide programme is to further develop its leads with a view to producing at least one pre-clinical drug candidate in 2009.

Principal risks, uncertainties and outlook

A review of the principal risks and outlook is contained in the operational review on pages 15 to 19.

Financial Instruments

Details of the use of financial instruments by the Group are contained in note 4 of the financial statements.

Policy of the payment of creditors

Amounts due to suppliers are settled promptly within their terms of payment except in cases of dispute.

The number of days purchases of the Group represented by trade creditors at 31 December 2007 was 35 (2006 - 48). The payment policy of the Group is to pay all invoices 30 days net, ie the end of the month following the date of issue, unless otherwise contracted.

Corporate governance

The directors acknowledge the importance of the revised Combined Code issued by the Financial Reporting Council (2006 FRC Code) in June 2006 and have applied the Code as appropriate to the Company given its size and nature.

A remuneration committee exists and is comprised of the Company's two non-executive directors. It reviews the performance of executive directors and senior executives, recommends the scale and structure of their remuneration and reviews the basis of their service agreements with due regard to the interests of shareholders. No director participates in decisions concerning his own remuneration.

An audit committee exists and is comprised of the Company's two non-executive directors.

Research and development

Research expenditure is recognised in the income statement in the year in which it is incurred. Development expenditure is recognised in the income statement in the year in which it is incurred unless it meets the recognition criteria of IAS 38"Intangible Assets". Regulatory and other uncertainties generally mean that such criteria are not met. Where the recognition criteria are met, however, intangible assets are capitalised and amortised on a straight-line basis over their useful economic lives from product launch. This policy is in line with industry practise. Previously under UK GAAP all development expenditure was expensed. All expenditure incurred in respect of the development of Colostrinin™ and zolpidem for 2007 has been charged to the consolidated income statement in accordance with this policy.

Charitable Donations

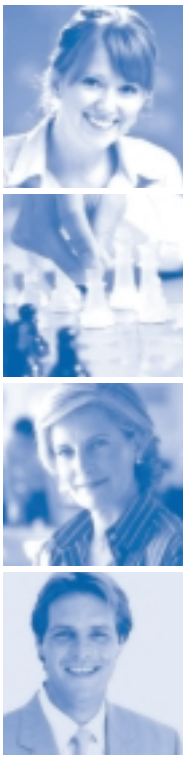
The Company donated £350 (2006 – £350) to the Alzheimer's Society and £250 to Headway during the year.

Events after the balance sheet date

On 26 March 2008, the Company issued 629,685 ordinary shares of 10p each at a premium of 22.5p per share for a consideration of £204,648.

On 27 March 2008, the Company issued 130,000 ordinary shares of 10p each at a premium of 22.5p per share for a consideration of £42,250.

On 27 March 2008, the Company issued 138,889 ordinary shares of 10p each at a premium of 26p per share for a consideration of £50,000 representing the draw down fees payable upon entering in to an agreement with Duke Holdings Corporation Limited ("Duke") under which Duke will make available to the Company an initial equity credit facility. The Company has an initial facility of £2,000,000, which is available in two tranches of £1,000,000, with draw downs based on traded share volumes achieved by the Company.



Report of the directors continued

for the year ended 31 December 2007




Directors

The directors of the Company during the year were:

P W C Lomax
K B Corbin – Non-executive
N A C Lott
M J Small
T S Shilton
P R Garrod – Non-executive

Directors' interests

The directors' interests in the shares of the Company at the year end were:

	Ordinary shares of 10p each		Ordinary shares of 0.1p each		Deferred shares of 4.9p each	
	31 December 2007	31 December 2006	31 December 2007	31 December 2006	31 December 2007	31 December 2006
P W C Lomax	38,487	2,282,069	1,448,736	1,448,736		
K B Corbin	31,050	1,105,000	105,000	105,000		
N A C Lott	1,820	182,000	32,000	32,000		
M J Small	45,820	2,248,736	1,348,736	1,348,736		
T S Shilton	11,666	500,000	–	–		
P R Garrod	757,500	66,750,000	3,715,000	3,715,000		

Share options held by directors are disclosed in note 7 to the financial statements.

Directors' responsibilities

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group, for safeguarding the assets of the Company, for taking reasonable steps for the prevention and detection of fraud and other irregularities and for the preparation of a Directors' Report which complies with the requirements of the Companies Act 1985.

The directors are responsible for preparing the annual report and the financial statements in accordance with the Companies Act 1985. The directors are also required to prepare financial statements for the Group in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs) and the rules of the London Stock Exchange for companies trading securities on the Alternative Investment Market. The directors have chosen to prepare financial statements for the Company in accordance with UK Generally Accepted Accounting Practice.

Group financial statements

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

A fair presentation also requires the directors to:

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

Parent company financial statements

Company law requires the directors to prepare financial statements for each financial year, which give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the directors are required to:

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

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

Auditors

All of the current directors have taken all the steps that they ought to have taken to make themselves aware of any information needed by the Company's auditors for the purposes of their audit and to establish that the auditors are aware of that information. The directors are not aware of any relevant audit information of which the auditors are unaware.

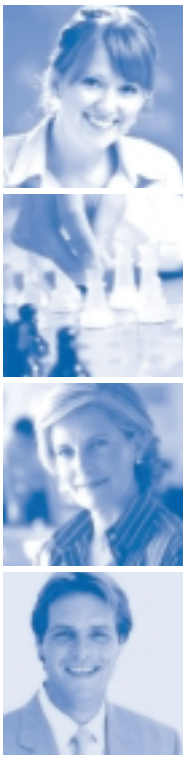
BDO Stoy Hayward LLP have expressed their willingness to continue in office and a resolution to re-appoint them will be proposed at the Annual General Meeting.

By order of the Board

N Lott

Secretary

4 April 2008



Report of the independent auditors

To the shareholders of ReGen Therapeutics Plc

We have audited the group and parent company financial statements of ReGen Therapeutics Plc for the year ended 31 December 2007, which comprise the consolidated income statement, consolidated statement of changes in equity, the consolidated and parent company balance sheets, the consolidated cash flow statement and the related notes. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

As described in the Statement of Directors' Responsibilities the company's directors are responsible for the preparation of the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRS) as adopted by the European Union.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985 and whether the information given in the Director's Report is consistent with these financial statements. We also report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. The other information comprises the Summary, the Chairman's statement and the Operational review, ReGen management and the Directors' report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Our report has been prepared pursuant to the requirements of the Companies Act 1985 and for no other purpose. No person is entitled to rely on this report unless such a person is a person entitled to rely upon this report by virtue of and for the purpose of the Companies Act 1985 or has been expressly authorised to do so by our prior written consent. Save as above, we do not accept responsibility for this report to any other person or for any other purpose and we hereby expressly disclaim any and all such liability.

Basis of audit opinion

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

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

Opinion

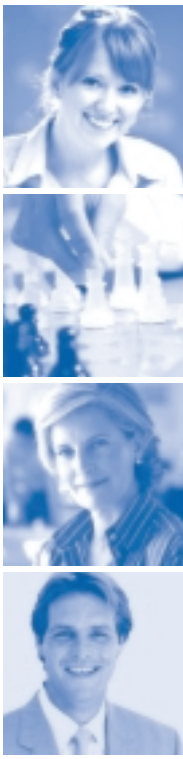
In our opinion:

- the group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the group's affairs as at 31 December 2007 and of its loss for the year then ended;
- the group financial statements have been properly prepared in accordance with the Companies Act 1985 and article 4 of the IAS Regulation;
- the parent company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the parent company's affairs as at the 31 December 2007 and;
- the parent company financial statements have been properly prepared in accordance with the Companies Act 1985.
- the information given in the Directors' Report is consistent with the financial statements.

Emphasis of matter – going concern

In forming our opinion, which is not qualified, we have considered the adequacy of the disclosures made in note 1 to the financial statements concerning the ability of the group to continue as a going concern.

The financial statements have been prepared on the going concern basis, which depends on the outcome of future fund raising and the generation of revenues from licensing deals. These conditions indicate the existence of a material uncertainty, which may cast significant doubt on the ability of the group to continue as a going concern. The financial statements do not include the adjustments that would result if the group was unable to continue as a going concern.



BDO STOY HAYWARD LLP

Chartered Accountants and Registered Auditors
London

4 April 2008

Consolidated income statement

for the year ended 31 December 2007

	Note	2007 £	2006 £
Revenue		**311,488**	404,918
Cost of sales		**107,985**	208,789
Gross profit		**203,503**	196,129
Research and development costs		**802,303**	825,888
Other administrative costs		**1,654,185**	1,672,486
Impairment of intangible assets		**348,562**	19,546
Administrative expenses		**2,805,050**	2,517,920
Operating loss	6	**(2,601,547)**	(2,321,791)
Finance income	9	**56,537**	36,003
Finance costs	10	**(8,581)**	(8,675)
Loss before taxation		**(2,553,591)**	(2,294,463)
Taxation	11	**168,517**	118,406
Loss after taxation	24	**(2,385,074)**	(2,176,057)
Basic and diluted loss per share	12	**(25.71p)**	(0.37p)

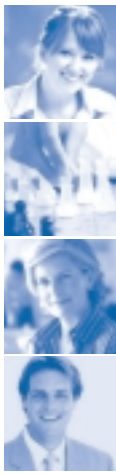
All amounts relate to continuing activities

The notes on pages 32 to 57 form part of these financial statements.

Consolidated statement of changes in equity

for the year ended 31 December 2007

	Share Capital £	Share Premium £	Other Reserves £	Retained Earnings £	Total £
At 1 January 2006	5,797,689	10,437,948	242,308	(13,653,279)	2,824,666
Net income recognised directly in equity	–	–	–	–	–
Loss for the year	–	–	–	(2,176,057)	(2,176,057)
Total recognised income and expense for the year	–	–	–	(2,176,057)	(2,176,057)
Issue of share capital	194,562	1,553,888	23,437	–	1,771,887
Recognition of share based payments	–	–	–	7,348	7,348
Balance at 31 December 2006	5,992,251	11,991,836	265,745	(15,821,988)	2,427,844
Net income recognised directly in equity	–	–	–	–	–
Loss for the year	–	–	–	(2,385,074)	(2,385,074)
Total recognised income and expense for the year	–	–	–	(2,385,074)	(2,385,074)
Issue of share capital	331,584	1,977,558	–	–	2,309,142
Recognition of share based payments	–	–	–	88,184	88,184
Balance at 31 December 2007	**6,323,835**	**13,969,394**	**265,745**	**(18,118,878)**	**2,440,096**



The notes on pages 32 to 57 form part of these financial statements.

Consolidated balance sheet

at 31 December 2007

	Note	2007 £	2007 £	2006 £	2006 £
Assets					
Non current assets					
Property, plant and equipment	13	**2,674**		26,317	
Intangible assets	14	**1,946,559**		2,260,400	
			1,949,233		2,286,717
Current assets					
Inventories	17	**6,649**		20,131	
Trade and other receivables	18	**212,779**		229,518	
Tax receivable		**145,833**		115,464	
Cash and cash equivalents		**587,837**		508,045	
Total current assets			**953,098**		873,158
Total assets			**2,902,331**		3,159,875
Liabilities					
Current liabilities					
Trade and other payables	19	**311,636**		559,591	
Loans and borrowings	20	**50,599**		72,440	
Total current liabilities			**362,235**		632,031
Non current liabilities					
Provisions	21		**100,000**		100,000
Total liabilities			**462,235**		732,031
Total net assets			**2,440,096**		2,427,844
Equity					
Share capital	22		**6,323,835**		5,992,251
Share premium	24		**13,969,394**		11,991,836
Other reserves	24		**265,745**		265,745
Retained earnings	24		**(18,118,878)**		(15,821,988)
Total equity			**2,440,096**		2,427,844

The financial statements were approved by the Board and authorised for issue on 4 April 2008 and were signed on its behalf by

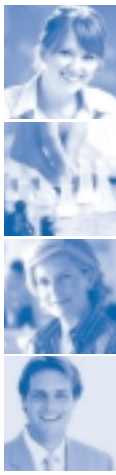
P W C Lomax
Director
4 April 2008

The notes on pages 32 to 57 form part of these financial statements.

Consolidated cash flow statement

for the year ended 31 December 2007

	Note	2007 £	2007 £	2006 £	2006 £
Loss before tax for the financial year		**(2,553,591)**		(2,294,463)	
Impairment of goodwill		**348,562**		19,546	
Amortisation of intangible assets		**34,910**		125,252	
Depreciation of property, plant and equipment		**24,353**		7,588	
Share option charge		**88,184**		7,348	
Interest charged		**8,581**		8,675	
Interest credited		**(56,537)**		(36,003)	
Taxation received		**138,148**		84,872	
Operating cash flows before movements in working capital and provisions		**(1,967,390)**		(2,077,185)	
Decrease/(increase) in inventories		**13,482**		(15,855)	
Decrease/(increase) in receivables		**16,739**		(1,930)	
(Increase)/decrease in payables		**(247,956)**		18,501	
Net cash outflow from operating activities		**(2,185,125)**		(2,076,469)	
Cash flows from investing activities					
Interest received		**56,537**		36,003	
Purchase of subsidiary, net of cash acquired		**–**		(21,360)	
Purchase of property, plant and equipment		**(710)**		(12,725)	
Purchase of intangible assets		**(69,630)**		(92,173)	
Net cash used in investing activities		**(13,803)**		(90,255)	
Cash flows from financing activities					
Proceeds from issue of share capital		**2,486,875**		1,930,000	
Expenses paid on share issue		**(177,733)**		(183,112)	
Interest paid		**(8,581)**		(8,675)	
Net cash from financing activities		**2,300,561**		1,738,213	
Net increase/(decrease) in cash and cash equivalents			**101,633**		(428,511)
Opening cash and cash equivalents	25		**435,605**		864,116
Closing cash and cash equivalents	25		**537,238**		435,605



The notes on pages 32 to 57 form part of these financial statements.

Notes forming part of the financial statements

for the year ended 31 December 2007

1 Accounting policies

Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs and IFRIC interpretations) issued by the International Accounting Standards Board (IASB) as adopted by European Union ("adopted IFRSs") and with those parts of the Companies Act 1985 applicable to companies preparing their accounts under IFRS. This is the first time the Group has prepared its financial statements in accordance with IFRSs, having previously prepared its financial statements in accordance with UK accounting standards. The Group's date of transition to IFRS is 1 January 2006 being the start of the previous period that has been presented as comparative information. Details of how the transition from UK accounting standards to IFRSs has affected the Group's reported financial position, financial performance and cash flows are given in note 3.

Going concern

The financial statements have been prepared on a going concern basis. However, the Group's ability to continue as a going concern is reliant upon successfully obtaining funds to finance ongoing development. In considering the appropriateness of this basis of preparation the directors have reviewed the Company's working capital forecasts. They believe that the funds raised recently, together with the use of further options being considered, taken in conjunction with revenues from licensing, will be sufficient for the Group's purposes for a minimum of 12 months from 31 March 2008. If licensing deals, further fundraising or ongoing development programmes are not successful then adjustments may be necessary to write down assets to their recoverable amounts, reclassify fixed assets and long term liabilities as current and provide for additional liabilities.

Implementation of IFRS

In implementing the transition to IFRS, the Group has followed the requirements of IFRS 1 "First Time Adoption of International Financial Reporting Standards", which in general requires IFRS accounting policies to be applied fully retrospectively in deriving the opening balance sheet at the date of transition. IFRS 1 contains certain mandatory exceptions and some optional exemptions to this principal of retrospective application. Where the Group has taken advantage of the exemptions they are noted below. The adoption of IFRS represents an accounting change only and does not affect the operations or cash flow of the Group. The principal areas of impact are described below.

Goodwill and Business Combinations (IFRS 3)

The Group has elected to take the exemption not to apply IFRS 3 retrospectively to business combinations occurring prior to the date of transition to IFRS. Goodwill arising on such acquisitions has therefore been frozen at its UK GAAP carrying value of £1,187,253 at 1 January 2006. A goodwill impairment review was undertaken as at 1 January 2006.

Research and development (IAS 38)

Research expenditure is recognised in the income statement in the year in which it is incurred. Development expenditure is recognised in the income statement in the year in which it is incurred unless it meets the recognition criteria of IAS 38 "Intangible Assets". Regulatory and other uncertainties generally mean that such criteria are not met. Where, however the recognition criteria are met, intangible assets are capitalised and amortised on a straight-line basis over their useful economic lives from product launch. This policy is in line with industry practise. Previously under UK GAAP all development expenditure was expensed.

Employee benefits (IAS19)

The Group has complied with the provisions of IAS 19 and has accrued holiday pay for all staff from the date of transition. No accrual is necessary at the 31 December 2007 as it is the Company's policy not to carry over holiday into the next year.

Share-based payment

The Group adopted FRS 20 last year. This is the same as IFRS 2 "Share-based payments" which continues to apply to employee options granted after 7 November 2002 that had not vested by 1 January 2005.

Reconciliations to previously presented financial statements are set out in note 3.

(a) Standards, interpretations and amendments to published standards effective in 2007 but which are not relevant to the Group

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning on or after 1 January 2008 or later periods and which the Group has decided not to adopt early. These are:

– IFRIC 7, Applying the restatement approach under IAS 29, Financial Reporting in Hyperinflationary Economies (effective for accounting periods beginning on or after 1 March 2006). IFRIC 7 provides guidance on the application of IAS 29 requirements in a reporting period in which entity identifies the existence of hyperinflation in the economy of its functional currency, when the company was not hyperinflationary in the prior period. IFRC 7 is not relevant to the Group as none of the Group companies has a currency of a hyperinflationary economy as its functional currency. Standards, amendments and interpretations to published standards not yet effective

– IFRS 8, Operating Segments (effective for accounting periods beginning on or after 1 January 2009). This standard sets the requirements for the disclosure of information about an entity's operating segments and also about the entity's products and services, the geographical areas in which it operates, and its major customers. It replaces IAS 14, Segmental Reporting. The Group expects to apply this standard in the accounting period beginning on 1 January 2009. As this is a disclosure standard it will not have any impact on the results or net assets of the Group.

– IAS 23, Borrowing Costs (revised) (effective for accounting period beginning on or after 1 January 2009). The revised IAS 23 is still to be endorsed by the EU. The main change from the previous version is the removal of the option of immediately recognising as an expense borrowing costs that relate to qualifying assets, broadly being assets that take a substantial period of time to get ready for use or sale. The Group is currently assessing its impact on the financial statements.

– IFRIC 11, IFRS 2 – Group and Treasury Share Transactions (effective for accounting period beginning on or after 1 March 2007). IFRIC 11 requires share-based payments transactions in which an entity receives services as consideration for its own equity instruments to be accounted for as equity-settled. This applies regardless of whether the entity chooses or is required to buy those equity instruments from another party to satisfy its obligations to its employee's under the share-based payment arrangement. It also applies regardless of whether: (a) the employee's rights to the entity's equity instruments were granted by the entity itself or by its shareholder(s); or (b) the share-based payment arrangement was settled by the entity itself or by its shareholder(s). Management is currently assessing the impact of IFRIC 11 on the accounts.

– IFRIC 12, Service Concession Arrangements (effective for accounting periods beginning on or after 1 January 2008). IFRIC 12 is still to be endorsed by the EU. IFRIC 12 gives guidance on the accounting by operators for public-to-private service concession arrangements. IFRIC 12 is not relevant to the Group's operations due to absence of such arrangements.

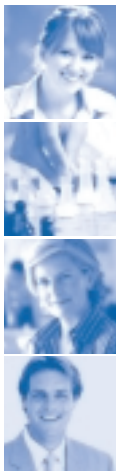
– IFRIC 13, Customer Loyalty Programmes (effective for accounting periods beginning on or after 1 July 2008). IFRIC 13 is still to be endorsed by the EU. IFRIC 13 addresses sales transactions in which the entities grant their customers award credits that, subject to meeting any further qualifying conditions, the customers can redeem in future for free or discounted goods or services. IFRIC 13 is not relevant to the Group's operations due to absence of such arrangements.

– IFRIC 14, IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (effective for accounting periods beginning on or after 1 January 2008). IFRIC 14 is still to be endorsed by the EU. IFRIC 14 clarifies when refunds or reductions in future contributions should be regarded as available in accordance with paragraph 58 of IAS 19, how a minimum funding requirement might affect the availability of reductions in future contributions and when a minimum funding requirement might give rise to a liability. Management is currently assessing the impact of IFRIC 14 on the accounts.

(b) Standards, amendments and interpretations to published standards not yet effective

– Revised IFRS 3, Business Combination and complementary Amendments to IAS 27, 'Consolidated and separate financial statements (both effective for accounting periods beginning on or after 1 July 2009). This revised standard and amendments to is still to be endorsed by the EU. The revised IFRS 3 and amendments to IAS 27 arise from a joint project with the Financial Accounting Standards Board (FASB), the US standards setter, and results in IFRS being largely converged with the related, recently issued, US requirements. There are certain very significant changes to the requirements of IFRS, and options available, if accounting for business combinations. Management is currently assessing the impact of revised IFRS 3 and amendments to IAS 27 on the accounts.

– Amendment to IFRS 2, Share-based payments: vesting conditions and cancellations (effective for accounting periods beginning on or after 1 January 2009). This amendment is still to be endorsed by the EU. The Amendment to IFRS 2 is of particular relevance to companies that operate employee shares save schemes. This is because it results in an immediate acceleration of the IFRS 2 expense that would otherwise have been recognised in future periods should an employee decide to stop contributing to the savings plan, as well as a potential revision to the fair value of



Notes forming part of the financial statements continued

for the year ended 31 December 2007

(b) Standards, amendments and interpretations to published standards not yet effective (Continued)

the awards granted to factor in the probability of employees withdrawing from such a plan. Management is currently assessing the impact of the Amendment on the accounts.

Except as noted above, the following principal accounting policies have been applied: consistently in the preparation of these financial statements:

Revenue

Revenue represents amounts invoiced during the year for goods and services provided in the normal course of business, exclusive of Value Added Tax.

Sales of Colostrinin™ are recognised when goods are delivered and title has passed.

Revenue arising from the sale of clinical trial services is recognised by reference to the stage of completion of the trial activity at the balance sheet date. The stage of completion is determined by reference to the milestones achieved and pertinent criteria such as the number of patients that have taken part at certain stages of the trial.

Operating loss

Operating loss is stated after crediting all operating income and charging all operating expenses but before crediting/charging financial income/expense.

Basis of consolidation

Where the company has the power, either directly or indirectly, to govern the financial and operating policies of another entity or business so as to obtain benefits from its activities, it is classified as a subsidiary. The consolidated financial statements present the results of the Company and its subsidiaries ("the Group") as if they formed a single entity. Intercompany transactions and balances between Group companies are therefore eliminated in full.

Business combinations

The consolidated financial statements incorporate the results of business combinations using the purchase method. In the consolidated balance sheet, the acquiree's identifiable assets, liabilities and contingent liabilities are initially recognised at their fair values at the acquisition date. The results of the acquired operations are included in the consolidated income statement from the date on which control is obtained.

Goodwill

Goodwill represents the excess of the cost of a business combination over the interest in the fair value of the identifiable assets, liabilities and contingent liabilities acquired. Cost comprises the fair values of assets given, liabilities assumed and equity instruments issued, plus any direct costs of acquisition.

Goodwill is capitalised as an intangible asset with any impairment in carrying value being charged to the consolidated income statement. Where the fair value of identifiable assets, liabilities and contingent liabilities exceed the fair value of consideration paid, the excess is credited in full to the consolidated income statement on the acquisition date.

At the date of transition to IFRS on 1 January 2006, the goodwill carrying amount was tested for impairment and based on conditions existing at the transition date no impairment was identified. From 1 January 2006 ReGen Therapeutics Plc discontinued the amortisation of goodwill and implemented annual impairment tests for goodwill.

Impairment of non-financial assets

Impairment tests on goodwill and other intangible assets with indefinite useful economic lives are undertaken annually on 31 December. Other non-financial assets are subject to impairment tests whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. Where the carrying value of an asset exceeds its recoverable amount (ie the higher of value in use and fair value less costs to sell), the asset is written down accordingly.

Where it is not possible to estimate the recoverable amount of an individual asset, the impairment test is carried out on the asset's cash-generating unit (ie the lowest group of assets in which the asset belongs for which there are separately identifiable cash flows). Goodwill is allocated on initial recognition to each of the Group's cash-generating units that are expected to benefit from the synergies of the combination giving rise to the goodwill (see note 15).

Segment reporting

A reportable segment, as defined by IAS 14 ''Segment Reporting'', is a distinguishable business or geographical component of the Group, that provides products or services, that are subject to risks and rewards that are different from those of other segments. The Group considers its primary reporting format to be business segments. A business segment is a distinguishable component of an enterprise that is engaged in providing an individual product or service and are subject to separate risks and rewards.

Property, plant and equipment

Items of property, plant and equipment are initially recognised at cost. As well as the purchase price, cost directly attributable costs and the estimated present value of any future unavoidable costs of dismantling and removing items.

All items of property, plant and equipment are carried at depreciated cost.

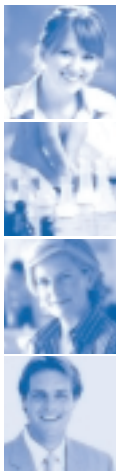
Depreciation is provided to write off the carrying value of items over their expected useful lives. It is applied at the following rate:

Office equipment: – 25% per annum on cost.

Inventories

Inventories are initially recognised at cost, and subsequently at the lower of cost and net realisable value. Cost comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Work in progress is valued on the basis of direct costs plus attributable overheads based on normal levels of activity. Provision is made for any foreseeable losses where appropriate. No element of profit is included in the valuation of work in progress.



Foreign currency

Foreign currency transactions of individual companies are translated at the rates ruling when they occurred. Foreign currency monetary assets and liabilities are translated at the rates ruling at the balance sheet dates. Any differences are taken to the profit and loss account.

The results of overseas operations are translated at the rate when the transaction took place and the balance sheet translated into Sterling at the rate of exchange ruling on the balance sheet date. Exchange differences, which arise from translation of the opening net assets and results of foreign subsidiary undertakings, are taken to reserves.

Financial instruments

In relation to the disclosures made in note 4:

Financial assets and financial liabilities are recognised on the Group's balance sheet at fair value when the Group becomes a party to the contractual provisions of the instrument.

Trade Receivables

Trade receivables represent amounts due from customers in the normal course of business. These are recognised at fair value and subsequently at amortised cost unless the effect of discounting is immaterial. Appropriate allowance is made for impairment.

Cash and cash equivalents

Cash and cash equivalents include cash at hand and deposits held at call with banks with original maturities of three months or less.

Trade payables

Trade payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

Notes forming part of the financial statements continued

for the year ended 31 December 2007

Internally generated intangible assets (research and development costs)

Research expenditure is recognised in the income statement in the year in which it is incurred. Development expenditure is recognised in the income statement in the year in which it is incurred unless it meets the recognition criteria of IAS 38 "Intangible Assets", namely:

- it is technically feasible to develop the product for it to be sold;
- adequate resources are available to complete the development;
- there is an intention to complete and sell the product;
- the Group is able to sell the product;
- sale of the product will generate future economic benefits; and
- expenditure on the project can be measured reliably.

Regulatory and other uncertainties generally mean that such criteria are not met. Where, however, the recognition criteria are met, intangible assets are capitalised and amortised on a straight-line basis over their useful economic lives from product launch.

Externally generated intangible assets (Patents and trademarks)

Externally acquired intangible assets are initially recognised at cost and subsequently amortised on a straight-line basis over their useful economic lives. The amortisation expense is included within the administrative expenses line in the consolidated income statement.

The significant intangibles recognised by the Group and their useful economic lives are as follows:

Intangible asset	*Useful economic life*
Trademarks	Indefinite
Patents	20 years

Costs to obtain patent rights for the use of Colostrinin™ have been capitalised and will be amortised over 20 years, the expected useful life of the patent from the date the patent is filed.

Deferred taxation

Deferred tax assets and liabilities are recognised where the carrying amount of an asset or liability in the balance sheet differs from its tax base, except for differences arising on:

- the initial recognition of goodwill;
- the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither accounting or taxable profit; and
- investments in subsidiaries and jointly controlled entities where the Group is able to control the timing of the reversal of the difference and it is probable that the difference will not reverse in the foreseeable future.

Recognition of deferred tax assets is restricted to those instances where it is probable that taxable profit will be available against which the difference can be utilised.

The amount of the asset or liability is determined using tax rates that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the deferred tax liabilities/(assets) are settled/(recovered).

Leased assets

Where substantially all of the risks and rewards incidental to ownership are not transferred to the Group (an "operating lease"), the total rentals payable under the lease are charged to the consolidated income statement on a straight-line basis over the lease term. The aggregate benefit of lease incentives is recognised as a reduction of the rental expense over the lease term on a straight-line basis.

The land and buildings elements of property leases are considered separately for the purposes of lease classification and are classified as operating leases.

Retirement benefits: Defined contribution schemes

Contributions to defined contribution pension schemes are charged to the consolidated income statement in the year to which they relate.

Share based payment

Where share options are awarded to employees, the fair value of the options at the date of grant is charged to the income statement over the vesting period. Non-market vesting conditions are taken into account by adjusting the number of equity investments expected to vest at each balance sheet date so that, ultimately, the cumulative amount recognised over the vesting period is based on the number of options that eventually vest. Market vesting conditions are factored into the fair value of the options granted. As long as all other vesting conditions are satisfied, a charge is made irrespective of whether the market vesting conditions are satisfied. The cumulative expense is not adjusted for failure to achieve a market vesting condition.

Where terms and conditions of options are modified before they vest, the increase in the fair value of the options, measured immediately before and after the modification, is also charged to the income statement over the remaining vesting period.

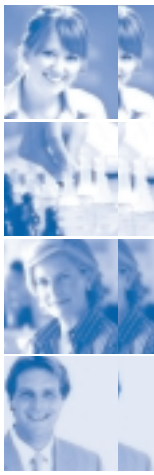
Where equity instruments are granted to persons other than employees, the income statement is charged with the fair value of goods and services received.

Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents are defined as cash available on demand and short-term deposits.

Provisions

Provisions are recognised for liabilities of uncertain timing or amount that have arisen as a result of past transactions.



2 Critical accounting estimates and judgements

The Group makes certain estimates and assumptions regarding the future. Estimates and judgements are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may differ from these estimates and assumptions. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Impairment of goodwill

The Group is required to test, on an annual basis, whether goodwill has suffered any impairment. The recoverable amount is determined based on value in use calculations. The use of this method requires the estimation of future cash flows and the choice of a discount rate in order to calculate the present value of cash flows. Actual outcomes could vary from those projected, in particular the value in use is dependant on future revenue streams which are not certain. More information including carrying values is included in note 15.

(b) Useful lives and carrying values of intangible assets

Intangible assets are amortised over their useful lives. Useful lives are based on the management's estimates of the period that the assets will generate revenue, which are periodically reviewed for continued appropriateness. The useful life of patents are determined by the length of the patents, which are 20 years from the application date, and they are amortised from the date the patent is granted. Changes to estimates can result in significant variations in the carrying value and amounts charged to the consolidated income statement in specific periods. More details including carrying values are included in note 14.

(c) Research and development

Development expenditure was recognised in the income statement during the year. Management made the judgement not to capitalise this expenditure as it did not meet the recognition criteria of IAS 38 in that it related to costs incurred on the development of a product or products, which had not been approved from a regulatory point of view at that stage.

(c) Share based payment

The Group has an equity-settled share-based scheme for its employees. Employee services received, and the corresponding increase in equity, are measured by reference to the fair value of the equity instruments at the date of grant, excluding the impact of any non-market vesting conditions. The fair value of share options is estimated by using the Black-Scholes valuation model on the date of the grant based on certain assumptions. Those assumptions are described in note and include, among others, the dividend growth rate, expected volatility, expected life of the options and number of options expected to vest. More details including carrying values are included in note 23.

Notes forming part of the financial statements continued

for the year ended 31 December 2007

3 First time adoption of International Financial Reporting Standards (IFRS)

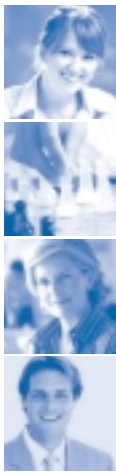
Reconciliations and explanatory notes on how the transition to IFRS has affected losses and net assets previously reported under UK Generally Accepted Accounting Principles are given below:

Reconciliation of loss from UK GAAP to IFRS for the year ended 31 December 2006

	Commentary	UK GAAP £	Effect of transition to IFRS £	IFRS £
Revenue		404,918	–	404,918
Cost of sales		(208,789)	–	(208,789)
Gross profit		196,129	–	196,129
Research and development costs		825,888	–	825,888
Other administrative costs		1,672,486	–	1,672,486
Goodwill amortisation	(a)	96,349	(96,349)	–
Impairment of goodwill	(a)	–	19,546	19,546
Administrative costs		2,594,723	(76,803)	2,517,920
Operating loss		(2,398,594)	76,803	(2,321,791)
Finance income		36,003	–	36,003
Finance costs		(8,675)	–	(8,675)
Loss before taxation		(2,371,266)	76,803	(2,294,463)
Income tax credit		118,406	–	118,406
Loss after taxation		(2,252,860)	76,803	(2,176,057)
Loss reported under previous UK GAAP				(2,252,860)
Goodwill amortisation				96,349
Impairment charge				(19,546)
Total adjustment to profit				76,803
Total loss reported under IFRS				(2,176,057)

Reconciliation of equity from UK GAAP to IFRS at 1 January 2006

	UK GAAP £	Effect of transition to IFRS £	IFRS £
Assets			
Non current assets			
Goodwill – carrying value at 31 December 2005	1,187,253	–	1,187,253
Intangible assets	979,512	–	979,512
Property, plant and equipment	21,180	–	21,180
Total non current assets	2,187,945	–	2,187,945
Current assets			
Inventories	4,276	–	4,276
Trade and other receivables	227,489	–	227,489
Tax receivable	81,930	–	81,930
Cash and cash equivalents	941,503	–	941,503
Total current assets	1,255,198	–	1,255,198
Total assets	3,443,143	–	3,443,143
Liabilities			
Current liabilities			
Trade and other payables	618,477	–	618,477
Non current liabilities			
Provisions	–	–	–
Total liabilities	618,477	–	618,477
Total net assets	2,824,666	–	2,824,666
Equity			
Capital and reserves			
Share capital – Issued and fully paid	499,741	–	499,741
– Deferred	5,297,948	–	5,297,948
Share premium	10,437,948	–	10,437,948
Other reserves	242,308	–	242,308
Retained earnings	(13,653,279)	–	(13,653,279)
Total equity	2,824,666	–	2,824,666



Notes forming part of the financial statements continued

for the year ended 31 December 2007

3 First time adoption of International Financial Reporting Standards (IFRS) (Continued)

Reconciliation of equity from UK GAAP to IFRS at 31 December 2006

	Commentary	UK GAAP £	Effect of transition to IFRS £	IFRS £
Assets				
Non current assets				
Goodwill – carrying value at 31 December 2005	(a)	1,237,164	76,803	1,313,967
Intangible assets		946,433	–	946,433
Property, plant and equipment		26,317	–	26,317
Total non current assets		2,209,914	–	2,286,717
Current assets				
Inventories		20,131	–	20,131
Trade and other receivables		229,518	–	229,518
Tax receivable		115,464	–	115,464
Cash and cash equivalents		508,045	–	508,045
Total current assets		873,158	–	873,158
Total assets		3,083,072	–	3,159,875
Liabilities				
Current liabilities				
Trade and other payables		632,031	–	632,031
Non current liabilities				
Provisions		100,000	–	100,000
Total liabilities		732,031	–	732,031
Total net assets		2,351,041	76,803	2,427,844
Equity				
Capital and reserves				
Share capital – Issued and fully paid		694,303	–	694,303
– Deferred		5,297,948	–	5,297,948
Share premium		11,991,836	–	11,991,836
Other reserves		265,745	–	265,745
Retained earnings		(15,898,791)	76,803	(15,821,988)
Total equity		2,351,041	76,803	2,427,844

(a) Under IAS 38 goodwill is not amortised and so goodwill previously amortised under UK GAAP is reversed. Instead, impairment must be considered.

Cash flow statement for the year ended 31 December 2006

The only changes to the cash flow statement are presentational. The key ones include:

- Presenting a statement showing movements in cash and cash equivalents, rather than just cash. Cash under UK GAAP comprised only amounts accessible in 24 hours without penalty less overdrafts repayable on demand. The components of cash equivalents are defined as cash available on demand and short term deposits.
- Classifying tax cash flows as relating to operating activities.

4 Financial Instruments – Risk Management

The Group is exposed through its operations to liquidity risk and credit risk and to a lesser extent foreign exchange risk. The directors do not believe the Group has any significant currency risk or interest rate risk. The directors are of the opinion that there is no difference between the fair value and book value of financial instruments.

In common with all other businesses, the Group is exposed to risks that arise from its use of financial instruments. This note describes the Group's objectives, policies and processes for managing those risks and the methods used to measure them where appropriate. Further quantitative information in respect of these risks is presented throughout these financial statements.

There have been no substantive changes in the Group's exposure to financial instrument risks, its objectives, policies and processes for managing those risks or the methods used to measure them from previous periods unless otherwise stated in this note.

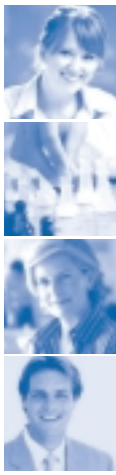
The Group's financial instruments comprise principally cash and current asset investments. The main purpose of these financial instruments is to finance the Group's operations. The list of financial instruments used by the Group, from which financial instrument risk arises are as follows:

- trade receivables
- cash and cash equivalents
- bank overdraft
- trade and other payables

All financial assets are designated as loans and receivables and all financial liabilities are measured at amortised cost.

	Loans and receivables held at amortised cost		**Borrowings and trade payables held at amortised cost**	
	2007	2006	**2007**	2006
	£	£	**£**	£
Current financial assets				
Trade receivables	**56,156**	59,720	**–**	–
Current financial liabilities				
Trade payables	**–**	–	**212,426**	288,307
Bank overdraft	**–**	–	**50,599**	72,440
Total	**56,156**	59,720	**263,025**	360,747

The Board has overall responsibility for the determination of the Group's risk management objectives and policies and it sets policies that seek to reduce risk as far as possible without unduly affecting the Group's competitiveness and flexibility. Further details regarding these policies are set out overleaf:



Notes forming part of the financial statements continued

for the year ended 31 December 2007

Liquidity risk

The principal risk to the Group is liquidity, which arises from the Group's management of working capital. It is the risk that the Group will encounter difficulty in meeting its financial obligations as they fall due. This aspect is kept under review by the directors and in this respect the Board receives rolling 12 month cash flow projections on a monthly basis as well as information regarding cash balances. It is the Group's policy as regards liquidity to ensure sufficient cash resources are maintained to meet short-term liabilities. All financial liabilities at the year end are due within 120 days.

The Group tends to have significant amounts of surplus cash following capital raisings The funds are placed on the money market in a mixture of short term deposits and current accounts in order to obtain the best possible return on monies deposited, yet retaining the flexibility in terms of access to allow the Group to meet its liabilities when they become due.

The subsidiary company Guildford Clinical Pharmacology Unit Limited has a bank overdraft facility, which is secured by a fixed and floating charge over its assets.

Credit risk

The Group's credit risk is primarily attributable to its trade receivables, which is represented by a small number of well known and reputable customers. To help mitigate the exposure, credit worthiness checks are undertaken before entering into contracts with new customers in cases where it is deemed necessary. Amounts presented in the balance sheet are stated net of allowances for doubtful recovery. There is no concentration of credit risk within trade receivables. The credit risk on liquid funds is limited as the funds are held at banks with high credit ratings.

Market risk

There is no market risk arising from interest rates.

Foreign exchange risk

Foreign exchange risk may arise when the Group enters into transactions denominated in a foreign currency. The Group is exposed to currency risk on purchases made from a small number of suppliers based in the USA. The Group also sells to a customer based in the USA and the US Dollar denominated receivables act as a partial hedge against US Dollar denominated payables. The directors consider the appropriateness of the use of currency derivatives to hedge foreign exchange risk when they deem such risk to be material to the Group's operations. No material forward exchange contracts were entered into in either the current or comparative period. The remaining US Dollar exposure on suppliers should be covered by US Dollar receivables going forward as a natural hedge. It is therefore unlikely that the use of forward contracts will be necessary going forward in the short term as it is not envisaged that there will be any significant exposure in this area. As all financial assets and liabilities are short term in nature, this risk is not considered to be material.

Capital

The Group considers its capital to comprise its ordinary share capital and share premium. The Group has historically considered equity funding as the most appropriate form of capital for the Group but keeps this under review bearing in mind the risks, costs and benefits to equity shareholders of introducing debt finance.

The principal risk to the Group is liquidity and this is kept under review by the directors. The directors do not believe the Group has any significant currency risk or interest rate risk. The cash deposits are held in a mixture of short term deposits and current accounts at floating rates. The directors are of the opinion that there is no difference between the fair value and book value of financial instruments.

5 Revenue

	2007	2006
	£	£
Revenue arises from:		
Sale of Colostrinin™	**63,810**	–
Provision of clinical research services	**247,678**	404,918
	311,488	404,918

6 Loss from operations

			2007	2006
			£	£
This has been arrived at after charging:				
Staff costs (see note 7)			**816,985**	758,954
Depreciation of property, plant and equipment			**24,228**	7,588
Goodwill impairment charge			**348,562**	19,546
Amortisation of intangible non-current assets			**34,910**	125,252
Foreign exchange differences			**2,334**	(5,032)
Research and development costs			**737,076**	825,888
Auditors' remuneration	– audit fee	– Group	**43,600**	37,500
		– Subsidiaries	**4,500**	5,000
	– taxation		**11,500**	8,864
	– IFRS		**8,500**	5,000
	– Other services		**2,000**	1,500
Operating lease expense	– property		**122,587**	73,940
Share-based payment (see note 23)			**88,184**	7,348

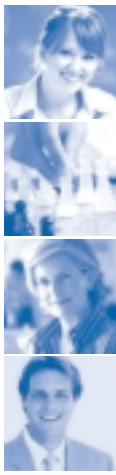
Included within the Group audit fee is an amount of £22,000 (2006 – £21,000) in respect of the Company.

7 Staff costs

	2007	2006
	£	£
Staff costs (including directors) comprise:		
Wages and salaries	**650,213**	669,505
Social security costs	**72,796**	74,546
Other pension costs	**5,792**	7,575
Share-based payment expense (see note 23)	**88,184**	7,348
	816,985	758,974

The average number of employees during the year, including directors, was as follows:	**Number**	**Number**
Administration	**9**	11
Scientific	**2**	2
	11	13

Included in the share-based payments of £88,184 (2006 – £7,348) is £87,088 (2006 – £7,257) relating to the share based payments to employees and directors, this is included in wages and salaries.



Notes forming part of the financial statements continued

for the year ended 31 December 2007

7 Staff costs (Continued)

Directors' remuneration

The remuneration of the directors of ReGen Therapeutics Plc are set out below.

	2007 £	2006 £
Salaries	**409,084**	382,275
Bonuses	**10,000**	10,000
Private health benefit	**6,034**	6,759
Share-based payment expense (non-cash item)	**86,091**	7,166
	511,209	406,200

Directors' emoluments by individual are as follows:

	2007 Cash items £	2007 Share based payment expense (non-cash item) £	2007 Total £	2006 Cash items £	2006 Share based payment expense (non-cash item) £	2006 Total £
P W C Lomax	**119,437**	**25,907**	**145,344**	117,637	2,159	119,796
K B Corbin	**27,001**	**5,380**	**32,381**	25,925	448	26,373
N A C Lott	**81,640**	**15,943**	**97,583**	79,847	1,329	81,176
M J Small	**80,793**	**15,943**	**96,736**	73,497	1,329	74,826
T S Shilton	**91,247**	**17,936**	**109,183**	81,378	1,494	82,872
P R Garrod	**25,000**	**4,982**	**29,982**	20,750	415	21,165
	425,118	**86,091**	**511,209**	399,034	7,174	406,208

The share options of the directors at the year-end under approved and unapproved share option schemes are set out below:

	1 January and 31 December 2007 Number	Post-Consolidation Exercise price	Date from which exercisable	Expiry date
P W C Lomax	130,000	£1.25	31 December 2007	12 December 2016
K B Corbin	1,500	£28.00	24 March 2002	24 March 2010
	35,000	£6.00	13 February 2004	13 February 2009
	1,000	£6.00	21 December 2004	21 December 2009
	27,000	£1.25	31 December 2007	12 December 2016
N A C Lott	80,000	£1.25	31 December 2007	12 December 2016
M J Small	80,000	£1.25	31 December 2007	12 December 2016
T S Shilton	90,000	£1.25	31 December 2007	12 December 2016
P R Garrod	25,000	£1.25	31 December 2007	12 December 2016

No options were exercised or lapsed during the year. The market price of the shares at 31 December 2007 was 56.5p and the range during the financial year was 39.5p to £1.20.

8 Segment information

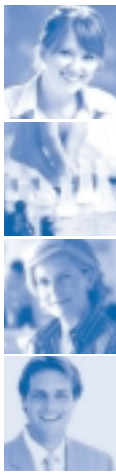
The Group operates in two main business segments, the commercial development and sale of Colostrinin™ as a nutraceutical product and the provision of clinical research services. In addition ReGen continues to be active in progressing Colostrinin™ and its constituent peptides in terms of their development on the pharmaceutical front together with continuing to develop new formulations of zolpidem as a form of a clinically significant benefit.

The Group's primary reporting format for reporting segment information is business segments.

	Nutraceutical and pharmaceutical development 2007 £	Provision of clinical research services 2007 £	Total 2007 £
Revenue			
Segment revenue	**63,810**	**247,678**	**311,488**
Segment result			
Finance income	56,534	3	56,537
Finance costs	(5,434)	(3,147)	(8,581)
(Loss)/Profit before taxation	**(2,584,498)**	**33,134**	**(2,551,364)**
Taxation	22,684	–	22,684
(Loss)/Profit for the year	**(2,561,814)**	**33,134**	**(2,528,680)**

	Nutraceutical and pharmaceutical development 2006 £	Provision of clinical research services 2006 £	Total 2006 £
Revenue			
Segment revenue	**–**	**404,918**	**404,918**
Segment result			
Finance income	36,000	3	36,003
Finance costs	(4,148)	(4,527)	(8,675)
Loss before taxation	**(2,148,526)**	**(145,937)**	**(2,294,463)**
Taxation	118,406	–	118,406
Loss for the year	**(2,030,120)**	**(145,937)**	**(2,176,057)**

Inter-segment transfers are priced along the same lines as sales to external customers. This policy was applied consistently throughout the current and prior period.



Notes forming part of the financial statements continued

for the year ended 31 December 2007

8 Segment information (Continued)

Segment assets and liabilities as at 31 December 2007 and capital expenditure for the year then ended are as follows:

	Nutraceutical and pharmaceutical development 2007 £	Provision of clinical research services 2007 £	Total 2007 £
Total Assets	**2,679,871**	**66,576**	**2,746,447**
Total Liabilities	**356,940**	**93,016**	**449,956**
Capital expenditure	**70,341**	**–**	**70,341**

	Nutraceutical and pharmaceutical development 2006 £	Provision of clinical research services 2006 £	Total 2006 £
Total Assets	**2,982,565**	**177,310**	**3,159,875**
Total Liabilities	**508,189**	**223,842**	**732,031**
Capital expenditure	**94,823**	**10,075**	**104,898**

The Group's secondary reporting format for reporting segment information is geographic segments.

	External revenue by location of customers		Total assets by location of assets		Capital expenditure by location of assets	
	2007 £	2006 £	**2007 £**	2006 £	**2007 £**	2006 £
UK	**247,678**	404,918	**2,746,447**	3,159,875	**70,341**	104,898
United States	**52,990**	–	**–**	–	**–**	–
Australia	**10,820**	–	**–**	–	**–**	–
	311,488	404,918	**2,746,447**	3,159,875	**70,341**	104,898

9 Finance income

	2007	2006
	£	£
Finance income		
Bank interest received	**56,537**	36,003

10 Finance expense

	2007	2006
	£	£
Finance expense		
Interest expense on financial liabilities	**8,581**	8,675

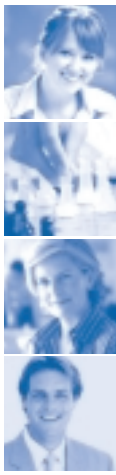
11 Taxation

	2007	2006
	£	£
UK corporation tax credit in respect of current period	**145,833**	115,464
Adjustment in respect of prior years	**22,684**	2,942
Total current tax credit	**168,517**	118,406

The Group has unrecognised tax losses of approximately £12,500,000 (2006 – £12,000,000) for offset against future profits.

The tax for the year differs from the standard rate of corporation tax in the UK. The differences are explained below:

	2007	2006
	£	£
Loss before tax	**2,553,591**	2,294,463
Loss at the standard rate of corporation tax in the UK of 30% (2006 – 30%)	**766,077**	688,339
Effects of:		
Expenses not deductible for tax purposes	**(165,192)**	(14,278)
Difference in tax rate applying to R&D tax credit	**(35,621)**	(28,866)
Unrecognised deferred tax	**13,510**	(5,633)
Unrelieved tax losses	**(432,941)**	(524,098)
Adjustment to prior year tax charge	**22,684**	2,942
Total tax credit for the year	**168,517**	118,406



Notes forming part of the financial statements continued

for the year ended 31 December 2007

12 Earnings per share

	2007	2006
Numerator		
Loss for the year	**2,385,074**	2,176,057
Denominator		
Weighted average number of shares of 10p/0.1p	**9,276,893**	595,192,463

The Company has instruments that could potentially dilute basic earnings per share in the future, but that have not been included in the calculation of diluted earnings per share because they are antidilutive for the periods presented. These instruments are disclosed per note 22.

13 Property, plant and equipment

	Office Equipment 2007 £	Office Equipment 2006 £
Cost		
At 1 January	**151,225**	138,500
Additions	**710**	12,725
At 31 December	**151,935**	151,225
Depreciation		
At 1 January	**124,908**	117,320
Charge for the year	**24,353**	7,588
At 31 December	**149,261**	124,908
Carrying value at 31 December	**2,674**	26,317

The carrying value at 1 January 2006 was £21,180.

14 Intangible assets

	Goodwill £	Patent rights £	Trade marks £	Total £
Cost				
At 1 January 2006	1,805,976	1,029,819	4,681	2,840,476
Additions	146,260	92,173	–	238,433
At 31 December 2006	**1,952,236**	**1,121,992**	**4,681**	**3,078,909**
Amortisation				
At 1 January 2006	618,723	54,988	–	673,711
Impairment losses	19,546	–	–	19,546
Amortisation	–	125,252	–	125,252
At 31 December 2006	**638,269**	**180,240**	**–**	**818,509**
Cost				
At 1 January 2007	1,952,236	1,121,992	4,681	3,078,909
Additions	–	69,631	–	69,631
At 31 December 2007	**1,952,236**	**1,191,623**	**4,681**	**3,148,540**
Amortisation				
At 1 January 2007	638,269	180,240	–	818,509
Impairment losses	348,562	–	–	348,562
Amortisation	–	34,910	–	34,910
At 31 December 2007	**986,831**	**215,150**	**–**	**1,201,981**
Carrying value				
At 1 January 2006	1,187,253	974,831	4,681	2,166,765
At 31 December 2006	1,313,967	941,752	4,681	2,260,400
At 31 December 2007	**965,405**	**976,473**	**4,681**	**1,946,559**

Notes forming part of the financial statements continued

for the year ended 31 December 2007

15 Goodwill and impairment

As a result of the difficult market conditions and the very considerable competition in the UK Phase I/II clinical trials market it has been decided to scale down the operations of Guildford Clinical Pharmacology Unit Limited ("GCPUL"). As a consequence of this the goodwill, which arose on the acquisition of GCPUL has been fully impaired.

Details of goodwill allocated to each business unit are as follows:

	Goodwill carrying amount	
	2007	**2006**
	£	**£**
Colostrinin™	**819,146**	819,146
Zolpidem (acquisition of Sciencom)	**146,259**	146,259
GCPUL	**–**	348,562
	965,405	1,313,967

The recoverable amounts of the different business units have been determined from value in use calculations based on cash flow projections from revenue and expenditure forecasts covering a five year period to 31 December 2012. Other major assumptions are as follows (NB the growth rate applies only after 3 years, ie to the period beyond the initial forecasts of the launch phases of the individual projects, with the value in use calculation based on an extrapolation of the forecast cash flows from 2011 onwards):-

	Colostrinin™	Zolpidem
	2007	**2007**
	%	**%**
Discount rate	15	15
Growth rate	10	10
Wage inflation	5	5

Operating margins have been based on past experience and future expectations in the light of anticipated economic and market conditions. Discount rates are based on the Company's knowledge in terms of the cost of capital adjusted to reflect the management's assessment of the risk and uncertainty of future cash flows. Growth rates beyond the first 3 years are based on economic data pertaining to the growth of the global nutraceutical and pharmaceutical markets. Wage inflation has been based on recent trends and current future expectations.

16 Subsidiaries

The principal subsidiaries of ReGen Therapeutics Plc, all of which have been included in these consolidated financial statements are as follows:

Name	Country of Incorporation	Proportion of ownership interest at 31 December	
		2007	**2006**
Guildford Clinical Pharmacology Unit Limited	Great Britain	100%	100%
Sciencom Limited	Great Britain	100%	100%
ReGen Biotech Limited *	Great Britain	100%	100%
The Georgiades Foundation Limited	British Virgin Islands	100%	100%
Georgiades Biotech Limited *	British Virgin Islands	100%	100%
ReGen Polska Sp. z o.o.	Poland	100%	100%

* Interest held indirectly via The Georgiades Foundation Limited.

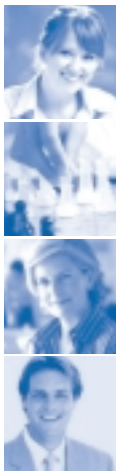
The investment in The Georgiades Foundation Limited is as follows:

Class of share	Number of shares in issue	Percentage held
10c ordinary 'A' shares	**22,100**	**100**
10c deferred shares	**6,852**	**58**
	28,952	

The share capital of The Georgiades Foundation Limited is denominated in US dollars.

17 Inventories

	2007	2006
	£	£
Work in progress	**–**	20,131
Finished goods and goods for resale	**6,649**	–
	6,649	20,131



Notes forming part of the financial statements continued

for the year ended 31 December 2007

18 Trade and other receivables

	2007	2006
	£	£
Trade receivables	**56,156**	59,720
Less: provision for impairment of trade receivables	**–**	–
Trade receivables – net	**56,156**	59,720
Other receivables	**58,012**	85,500
Prepayments	**98,611**	84,298
Corporation tax	**145,833**	115,464
	358,612	344,982

There is no difference between the fair value and book value of trade and other receivables. This also represents the maximum credit risk exposure.

The carrying values of the Group's trade receivables are denominated in the following currencies:

	2007	2006
	£	£
Pound Sterling	**48,749**	59,720
US Dollar	**7,407**	–
	56,156	59,720

19 Trade and other payables: current

	2007	2006
	£	£
Trade payables	**212,426**	288,307
Other taxes and social security costs	**21,759**	45,609
Other payables	**24,529**	115,571
Accruals	**52,746**	109,928
Minority interests	**176**	176
	311,636	559,591

20 Loans and borrowings

	Book Value 2007	Fair Value 2007	Book value 2006	FairValue 2006
	£	£	£	£
Current				
Overdraft	**50,599**	**50,599**	72,440	72,440
Total borrowings	**50,599**	**50,599**	72,440	72,440

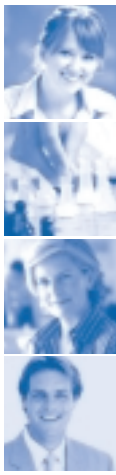
The bank overdraft is secured by a fixed and floating charge over the assets of Guildford Clinical Pharmacology Unit Limited.

The Company also has in place a committed share finance facility of up to £2,000,000, which is available if required. This facility expires on 14 September 2008.

21 Provisions

	Deferred consideration £
At 1 January 2007	100,000
Additions	–
At 31 December 2007	**100,000**

Under the terms of the agreement to acquire Sciencom Limited there is contingent consideration of £100,000 following the demonstration, to the reasonable satisfaction of ReGen, of the efficacy of zolpidem, a new formulation, in the form of a clinically significant benefit. On the basis of the probable outcome of the studies taking place it is considered to be appropriate to provide for this sum at this stage.



22 Share capital

	2007 £	2006 £
Authorised		
296,100,000 ordinary shares of 10p each		
(2006 – 29,610,000,000 ordinary shares of 0.1p each)	**29,610,000**	29,610,000
110,000,000 deferred shares of 4.9p each	**5,390,000**	5,390,000
	35,000,000	35,000,000
Called up share capital issued and fully paid		
10,258,878 ordinary shares of 10p each		
(2006 – 694,304,442 ordinary shares of 0.1p each)	**1,025,887**	694,303
108,121,391 deferred shares of 4.9p each	**5,297,948**	5,297,948
	6,323,835	5,992,251

Deferred shares do not carry voting rights and have no right to receive dividends. Deferred shareholders are entitled to receive the amount paid up or credited as paid up on their respective holdings of deferred shares only after there has been paid on each ordinary share the nominal amount paid up on such share plus a further £1 per ordinary share. The holders of the deferred shares shall not be entitled to participate further in any distribution of the assets or the capital of the Company.

On 6 February 2007, the Company issued 151,841,668 ordinary shares of 0.1p each at a premium of 0.65p per share for a consideration of £1,138,813.

On 14 June 2007, the Company issued 179,741,600 ordinary shares of 0.1p each at a premium of 0.65p per share for a consideration of £1,348,062.

The issued shares rank pari passu with existing shares.

On 20 November 2007 there was a consolidation of the Company's share capital whereby a resolution was passed at an Extraordinary General Meeting of the Company at which every one hundred existing ordinary shares of 0.1p each were consolidated into one new ordinary share with a nominal value of 10p.

Notes forming part of the financial statements continued

for the year ended 31 December 2007

22 Share capital (Continued)

The movements during the year of issued share capital and share premium are set out below:

	Date	Nominal value £	Number of ordinary shares	Issued share capital £	Premium per share on issue £	Share premium £
At 1 January 2007	1 January 2007	0.001	694,304,442	694,303		11,991,836
Share issue	6 February 2007	0.001	151,841,668	151,842	0.0065	986,971
Share issue	14 June 2007	0.001	179,741,600	179,742	0.0065	1,168,320
			1,025,887,710	1,025,887		14,147,127
Capital consolidation	20 November 2007	0.10	10,258,878	1,025,887		14,147,127
Less total share issue costs						(177,733)
At 31 December 2007			**10,258,878**	**1,025,887**		**13,969,394**

Share options

At 31 December 2007, total share options outstanding under the Company's approved and unapproved share option plan are as set out below:

Date of grant	Pre-Consolidation Number of shares	Date from which options are first exercisable	Lapse date	Pre-Consolidation Price per share
24 March 2000	150,000	24 March 2002	23 March 2010	28p
7 December 2000	200,000	1 December 2002	30 November 2010	28p
25 July 2002	89,285	25 July 2002	24 July 2010	1.5p
25 November 2003	1,150,000	25 November 2003	24 November 2010	1.5p
13 February 2005	750,000	13 February 2005	13 February 2009	6p
21 December 2005	325,000	21 December 2005	21 December 2009	6p
12 December 2006	44,250,000	31 December 2007	12 December 2016	1.25p

On 10 October 2005 4,000,000 (post consolidation – 40,000) warrants were issued to J.M. Finn & Co to subscribe for 0.1p (post consolidation 10p) ordinary shares at an exercise price of 1p (post consolidation – £1). These warrants are exercisable from 10 October 2005 to 10 October 2008.

On 10 October 2005 2,000,000 (post consolidation – 20,000) warrants were issued to E.C. Capital Limited to subscribe for 0.1p (post consolidation – 10p) ordinary shares at an exercise price of 1.65p (post consolidation – £1.65). These warrants are exercisable from 10 October 2005 to 10 October 2008.

On 10 October 2005 1,000,000 (post consolidation – 10,000) warrants were issued to Headstart Global Fund Limited to subscribe for 0.1p (post consolidation 10p) ordinary shares at an exercise price of 1.65p (post consolidation – £1.65). These warrants are exercisable from 10 October 2005 to 10 October 2008.

On 10 October 2005 1,000,000 (post consolidation – 10,000) warrants were issued to Headstart Global Aggressive Fund Limited to subscribe for 0.1p (post consolidation 10p) ordinary shares at an exercise price of 1.65p (post consolidation – £1.65). These warrants are exercisable from 10 October 2005 to 10 October 2008.

23 Share based payment

The Company operates a share based remuneration scheme whereby options vest if certain performance conditions based on product launches and achieving certain revenue and profit targets over 2007, 2008 and 2009, are met.

	2007 Weighted average exercise price (pence)	**2007 Number**	2006 Weighted average exercise price (pence)	2006 Number
Outstanding at the beginning of the year	**1.57**	**46,914,285**	6.80	2,664,285
Granted during the year	**–**	**–**	1.25	44,250,000
Forfeited during the year	**–**	**–**	–	
Exercised during the year	**–**	**–**	–	–
Lapsed during the year	**–**	**–**	–	–
	1.57	**46,914,285**	1.57	46,914,285
Capital consolidation 20 November 2007	**157**	**469,143**	–	–
Outstanding at the year end	**157**	**469,143**	1.57	46,914,285

The exercise price of non-vesting options outstanding at the end of the year was £1.25 (2006 – 1.25p) and their weighted average contractual life was 1.75 years (2006 – 2.75).

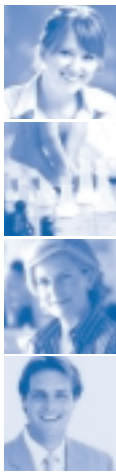
Of the total number of options outstanding at the end of the year, 26,643 (2006 – 2,664,285) had vested and were exercisable at the end of the year.

The weighted average fair value of each option granted during the year was £1.57 (2006 – 0.52p).

	2007	2006
Equity-settled		
Option price model used	**Black-Scholes**	Black-Scholes
Weighted average share price at grant date (pence)	**–**	1.25
Exercise price	**–**	1.25
Weighted average contractual life (days)	**–**	990
Expected volatility	**–**	60%
Risk-free interest rate	**–**	5.25%

Following the capital consolidation on 20 November 2007 the weighted average share price at grant date and the exercise price became £1.25 The volatility assumption, measured at the standard deviation of expected share price returns, is based on a statistical analysis of monthly share prices over the last three years.

	2007	2006
The share-based remuneration expense (note 7) comprises:		
Equity-settled schemes	**88,184**	7,348



Notes forming part of the financial statements continued

for the year ended 31 December 2007

24 Reserves

	Share Premium £	Other Reserves £	Retained Earnings £	Total £
At 1 January 2006	10,437,948	242,308	(13,653,279)	(2,973,023)
Net income recognised directly in equity	–	–	–	–
Loss for the year	–	–	(2,176,057)	(2,176,057)
Total recognised income and expense for the year	–	–	(2,176,057)	(2,176,057)
Issue of share capital	1,553,888	23,437	–	1,577,325
Equity share options issued	–	–	7,348	7,348
Balance at 31 December 2006	11,991,836	265,745	(15,821,988)	(3,564,407)
Net income recognised directly in equity	–	–	–	–
Loss for the year	–	–	(2,385,074)	(2,385,074)
Total recognised income and expense for the year	–	–	(2,385,074)	(2,385,074)
Issue of share capital	1,977,558	–	–	1,977,558
Equity share options issued	–	–	88,184	88,184
Balance at 31 December 2007	**13,969,394**	**265,745**	**(18,118,878)**	**(3,883,739)**

The following describes the nature and purpose of each reserve

Reserve	Description and purpose
Share premium	Amount subscribed for share capital in excess of nominal value.
Other reserves	Share capital issued to finance acquisitions in excess of nominal value.
Retained earnings	Cumulative net losses recognised in the consolidated income statement.

25 Note supporting cash flow statement

Cash and cash equivalents comprises:

	2007 £	2006 £
Cash available on demand	**18,579**	34,549
Short-term deposits	**569,258**	473,496
Cash and cash equivalents	**587,837**	508,045
Overdraft	**(50,599)**	(72,440)
	537,238	435,605

26 Leases

Operating leases – lessee

The Company leases serviced offices. The total future value of minimum lease payments are due as follows:

	2007	2006
	£	£
Not later than one year	**30,630**	15,833
Later than one year but not later than 5 years	**–**	–
Later than 5 years	**–**	–

27 Related party transactions

Details of directors remuneration are given in note 7 to the accounts and there are no additional key management personnel within the business. Other related party transactions are as follows:-

Related party relationship	**Type of transaction**	**Transaction amount**		**Balance owed/(owing)**	
		2007	2006	**2007**	2006
		£	£	**£**	£
P W C Lomax (Director)	Provision of services (Note 1)	**13,456**	14,882	**397**	1,294
K B Corbin	Provision of services (Note 2)	**1,273**	2,229	**1,273**	1,258

Note 1 – The provision of services through Lomax Pharmaceutical Consulting of which P W C Lomax is a partner.

Note 2 – The provision of services through Nerine Trust Company Limited of which K B Corbin is a director.

28 Events after the balance sheet date

On 26 March 2008, the Company issued 629,685 ordinary shares of 10p each at a premium of 22.5p per share for a consideration of £204,648.

On 27 March 2008, the Company issued 130,000 ordinary shares of 10p each at a premium of 22.5p per share for a consideration of £42,250.

On 27 March 2008, the Company issued 138,889 ordinary shares of 10p each at a premium of 26p per share for a consideration of £50,000 representing the draw down fees payable upon entering in to an agreement with Duke Holdings Corporation Limited ("Duke") under which Duke will make available to the Company an initial equity credit facility. The Company has an initial facility of £2,000,000, which is available for 24 months in two tranches of £1,000,000, with draw downs based on traded share volumes achieved by the Company.

Company balance sheet

at 31 December 2007

	Note	2007 £	2007 £	2006 £	2006 £
Fixed assets					
Intangible assets	3	**693,539**		650,160	
Tangible assets	4	**2,674**		4,753	
Investments in subsidiaries	5	**2,835,119**		2,836,437	
			3,531,332		3,491,350
Current assets					
Inventories		**6,649**		–	
Debtors	6	**292,132**		639,230	
Cash and cash equivalents		**587,223**		507,233	
Total current assets		**886,004**		1,146,463	
Creditors: amounts falling due within one year	7	**243,241**		314,225	
Net current assets			**642,763**		832,238
Total assets less current liabilities			**4,174,095**		4,323,588
Provision for liabilities			**17,699**		9,091
Net assets			**4,156,396**		4,314,497
Capital and reserves					
Share capital – Issued and fully paid	8		**1,025,887**		694,303
– Deferred	8		**5,297,948**		5,297,948
Share premium	11		**13,969,394**		11,991,836
Retained earnings	11		**(16,136,833)**		(13,669,590)
Total equity			**4,156,396**		4,314,497

The financial statements were approved by the Board and authorised for issue on 4 April 2008 and were signed on its behalf by

P W C Lomax
Director

The notes on pages 59 to 66 form part of these financial statements.

Notes to the company financial statements

for the year ended 31 December 2007

1 Accounting policies

Basis of preparation

These financial statements present financial information for ReGen Therapeutics Plc as a separate entity, and have been prepared in accordance with the Companies Act 1985 and United Kingdom Accounting Standards (UK Generally Accepted Accounting Practice). The principal accounting policies adopted in these company financial statements are set out below and, unless otherwise indicated, have been consistently applied for all periods presented.

Loss for the financial year

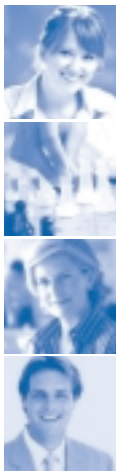
The Company has taken advantage of Section 230 of the Company's Act 1985 and has not included its own Profit and Loss Account in these financial statements. The Company loss after tax for the year ended 31 December 2007 under UK GAAP was £2,555,427 (2006 – £2,324,521).

Audit fees for the year were £22,000 (2006 – £21,000).

Related party transactions

The Company is exempt under the terms of FRS 8, Related party disclosures, from disclosing related party transactions with entities that are part of the Group.

The principal accounting policies are summarised below.



Share based payment

When shares and share options are granted to employees a charge is made to the profit and loss account and a credit to equity to record the fair value of the awards at the date of grant in accordance with FRS20 "Share based payment". This charge is spread over the vesting period.

Foreign currency

Foreign currency transactions of individual companies are translated at the rates ruling when they occurred. Foreign currency monetary assets and liabilities are translated at the rates ruling at the balance sheet dates. Any differences are taken to the profit and loss account.

Patents and trademarks

Costs to obtain patent rights for the use of Colostrinin™ and zolpidem have been capitalised and will be amortised over 20 years, the expected useful life of the patent from the date the patent is granted.

Deferred taxation

Deferred tax balances are recognised in respect of all timing differences that have originated but not reversed by the balance sheet date except that the recognition of deferred tax assets is limited to the extent that the Company anticipates to make sufficient taxable profits in the future to absorb the reversal of the underlying timing differences.

Deferred tax balances are not discounted.

Notes to the company financial statements continued

for the year ended 31 December 2007

2 Staff costs

	2007	2006
	£	£
Staff costs (including directors) comprise:		
Wages and salaries	**455,083**	425,275
Social security costs	**53,575**	49,928
Other pension costs	**–**	–
Share-based payment expense	**88,184**	7,348
	596,842	482,551

The average number of employees during the year, including directors, was as follows:	Number	Number
Administration	**6**	6
Scientific	**1**	1
	7	7

Directors' emoluments by individual are as follows:	£	£
P W C Lomax	**145,344**	119,796
K B Corbin (Non-Executive)	**32,381**	26,373
N A C Lott	**97,583**	81,176
M J Small	**96,736**	74,826
T S Shilton	**109,183**	82,872
P R Garrod (Non-Executive)	**29,982**	21,165
	511,209	406,208

Emoluments of the highest paid director:		
Emoluments	**117,084**	115,000
Private health benefit	**2,353**	2,637
Share-based payment expense	**25,907**	2,159
	145,344	119,796

3 Intangible assets

	Patent rights £
Cost	
At 1 January 2007	765,414
Additions	61,447
At 31 December 2007	**826,861**
Amortisation	
At 1 January 2007	115,254
Charge for the year	18,068
At 31 December 2007	**133,322**
Net book value	
At 31 December 2007	**693,539**
At 31 December 2006	650,160

4 Tangible assets

	Office Equipment £
Cost	
At 1 January 2007	65,657
Additions	710
At 31 December 2007	**66,367**
Depreciation	
At 1 January 2007	60,904
Charge for the year	2,789
At 31 December 2007	**63,693**
Net book value	
At 31 December 2007	**2,674**
At 31 December 2006	4,753

Notes to the company financial statements continued

for the year ended 31 December 2007

5 Investments in subsidiaries

	Investments in subsidiary undertakings £	Loans to subsidiary undertakings £	Total £
At 1 January 2007 – at cost	1,529,422	1,307,015	2,836,437
Additions	8,608	70,816	79,424
Impairment charge	80,742	–	80,742
At 31 December 2007 – at cost	**1,457,288**	**1,377,831**	**2,835,119**

The investments at 31 December 2007 represent a 100% investment in ReGen Polska, a 100% interest in the ordinary shares of Guildford Clinical Pharmacology Unit Limited, a 100% interest in Sciencom Limited and a 100% interest in the ordinary 'A' shares of The Georgiades Foundation Limited and its wholly owned subsidiaries, ReGen Biotech Limited and Georgiades Biotech Limited. All of the above are unlisted companies.

Name	Country of registration	Nature of business
Guildford Clinical Pharmacology Unit Limited	Great Britain	Clinical Research
Sciencom Limited	Great Britain	Developer of zolpidem
ReGen Biotech Limited *	Great Britain	Dietary supplement licensee
The Georgiades Foundation Limited	British Virgin Islands	Developer of Colostrinin™
Georgiades Biotech Limited *	British Virgin Islands	Developer of Colostrinin™
ReGen Polska Sp. z o.o.	Poland	Developer of Colostrinin™

* Interest held indirectly via The Georgiades Foundation Limited.

The investment in The Georgiades Foundation Limited is as follows:

Class of share	Number of shares in issue	Percentage held
10c ordinary 'A' shares	**22,100**	**100**
10c deferred shares	**6,852**	**58**
	28,952	

The share capital of The Georgiades Foundation Limited is denominated in US Dollars.

6 Debtors

	2007 £	2006 £
Amounts due from Group undertakings	**–**	406,359
Trade receivables	**7,407**	–
Other receivables	**43,634**	36,303
Prepayments	**95,258**	81,104
Corporation tax	**145,833**	115,464
	292,132	639,230

7 Creditors: amounts falling due within one year

	2007 £	2006 £
Trade creditors	**192,382**	241,271
Other taxes and social security costs	**21,759**	20,863
Other creditors	**–**	15,091
Accruals	**29,100**	37,000
	243,241	314,225

8 Share capital

	2007 £	2006 £
Authorised		
296,100,000 ordinary shares of 10p each		
(2006 - 29,610,000,000 ordinary shares of 0.1p each)	**29,610,000**	29,610,000
110,000,000 deferred shares of 4.9p each	**5,390,000**	5,390,000
	35,000,000	35,000,000
Called up share capital issued and fully paid		
10,258,878 ordinary shares of 10p each		
(2006 - 694,304,442 ordinary shares of 0.1p each)	**1,025,887**	694,303
108,121,391 deferred shares of 4.9p each	**5,297,948**	5,297,948
	6,323,835	5,992,251

Deferred shares do not carry voting rights and have no right to receive dividends. Deferred shareholders are entitled to receive the amount paid up or credited as paid up on their respective holdings of deferred shares only after there has been paid on each ordinary share the nominal amount paid up on such share plus a further £1 per ordinary share. The holders of the deferred shares shall not be entitled to participate further in any distribution of the assets or the capital of the Company.

On 6 February 2007, the Company issued 151,841,668 ordinary shares of 0.1p each at a premium of 0.65p per share for a consideration of £1,138,813.

On 14 June 2007, the Company issued 179,741,600 ordinary shares of 0.1p each at a premium of 0.65p per share for a consideration of £1,348,062.

The issued shares rank pari passu with existing shares.

Notes to the company financial statements continued

for the year ended 31 December 2007

8 Share capital (Continued)

On 20 November 2007 there was a consolidation of the Company's share capital whereby a resolution was passed at an Extraordinary General Meeting of the Company at which every one hundred existing ordinary shares of 0.1p each were consolidated into one new ordinary share with a nominal value of 10p.

The movements during the year of issued share capital and share premium are set out below:

	Date	Nominal value £	Number of ordinary shares	Issued share capital £	Premium per share on issue £	Share premium £
At 1 January 2007	01/01/2007	0.001	694,304,442	694,303		11,991,836
Share issue	06/02/2007	0.001	151,841,668	151,842	0.0065	986,971
Share issue	14/06/2007	0.001	179,741,600	179,742	0.0065	1,168,320
			1,025,887,710	1,025,886		14,147,127
Capital consolidation	20/11/2007	0.10	10,258,878	1,025,887		14,147,127
Less total share issue costs						
At 31 December 2007			10,258,878	1,025,887		13,969,394

9 Share options

At 31 December 2007, total share options outstanding under the Company's approved and unapproved share option plan are as set out below:

Date of grant	Pre-Consolidation Number of shares	Date from which options are first exercisable	Lapse date	Pre-Consolidation Price per share
24 March 2000	150,000	24 March 2002	23 March 2010	28p
7 December 2000	200,000	1 December 2002	30 November 2010	28p
25 July 2002	89,285	25 July 2002	24 July 2010	1.5p
25 November 2003	1,150,000	25 November 2003	24 November 2010	1.5p
13 February 2005	750,000	13 February 2005	13 February 2009	6p
21 December 2005	325,000	21 December 2005	21 December 2009	6p
12 December 2006	44,250,000	31 December 2007	12 December 2016	1.25p

On 10 October 2005 4,000,000 (post consolidation – 40,000) warrants were issued to J.M. Finn & Co to subscribe for 0.1p (post consolidation 10p) ordinary shares at an exercise price of 1p (post consolidation - £1). These warrants are exercisable from 10 October 2005 to 10 October 2008.

On 10 October 2005 2,000,000 (post consolidation – 20,000) warrants were issued to E.C. Capital Limited to subscribe for 0.1p (post consolidation – 10p) ordinary shares at an exercise price of 1.65p (post consolidation – £1.65). These warrants are exercisable from 10 October 2005 to 10 October 2008.

On 10 October 2005 1,000,000 (post consolidation – 10,000) warrants were issued to Headstart Global Fund Limited to subscribe for 0.1p (post consolidation 10p) ordinary shares at an exercise price of 1.65p (post consolidation – £1.65). These warrants are exercisable from 10 October 2005 to 10 October 2008.

On 10 October 2005 1,000,000 (post consolidation – 10,000) warrants were issued to Headstart Global Aggressive Fund Limited to subscribe for 0.1p (post consolidation 10p) ordinary shares at an exercise price of 1.65p (post consolidation – £1.65). These warrants are exercisable from 10 October 2005 to 10 October 2008.

10 Share based payment

The Company operates a share based remuneration scheme whereby options vest if certain performance conditions based on product launches and achieving certain revenue and profit targets over 2007, 2008 and 2009, are met.

	2007 Weighted average exercise price (pence)	**2007 Number**	2006 Weighted average exercise price (pence)	2006 Number
Outstanding at the beginning of the year	**1.57**	**46,914,285**	6.80	2,664,285
Granted during the year	**–**	**–**	1.25	44,250,000
Forfeited during the year	**–**	**–**	–	–
Exercised during the year	**–**	**–**	–	–
Lapsed during the year	**–**	**–**	–	–
	1.57	**46,914,285**	1.57	46,914,285
Capital consolidation 20 November 2007	**157**	**469,143**	–	–
Outstanding at the year end	**157**	**469,143**	1.57	46,914,285

The exercise price of non-vesting options outstanding at the end of the year was £1.25 (2006 – £1.25) and their weighted average contractual life was 1.75 years (2006 – 2.75).

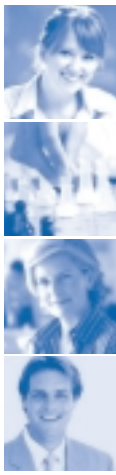
Of the total number of options outstanding at the end of the year, 26,643 (2006 – 2,664,285) had vested and were exercisable at the end of the year.

The weighted average fair value of each option granted during the year was Nil (2006 – 0.52p).

	2007	2006
Equity-settled		
Option price model used	**Black-Scholes**	Black-Scholes
Weighted average share price at grant date (pence)	**–**	1.25
Exercise price	**–**	1.25
Weighted average contractual life (days)	**–**	990
Expected volatility	**–**	60%
Risk-free interest rate	**–**	5.25%

Following the capital consolidation on 20 November 2007 the weighted average share price at grant date and the exercise price became £1.25 The volatility assumption, measured at the standard deviation of expected share price returns, is based on a statistical analysis of monthly share prices over the last three years.

	2007	2006
	£	£
The share-based remuneration expense comprises:		
Equity-settled schemes	**88,184**	7,348



Notes to the company financial statements continued

for the year ended 31 December 2007

11 Reserves

	Share premium £	Profit and loss account £
At 1 January 2007	11,991,836	(13,669,590)
Shares issued	2,155,291	
Share issue costs written off	(177,733)	–
Loss transferred to reserves	–	(2,555,427)
Recognition of share based payments	–	88,184
At 31 December 2007	**13,969,394**	**(16,136,833)**

Directors, officers and professional advisers

Directors	P W C Lomax	(Executive Chairman)
	K B Corbin	(Channel Islands) (Non Executive Deputy Chairman)
	N A C Lott	(Finance Director)
	M J Small	(New Projects Director)
	T S Shilton	(Development Director)
	P R Garrod	(Non Executive Director)

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Company number
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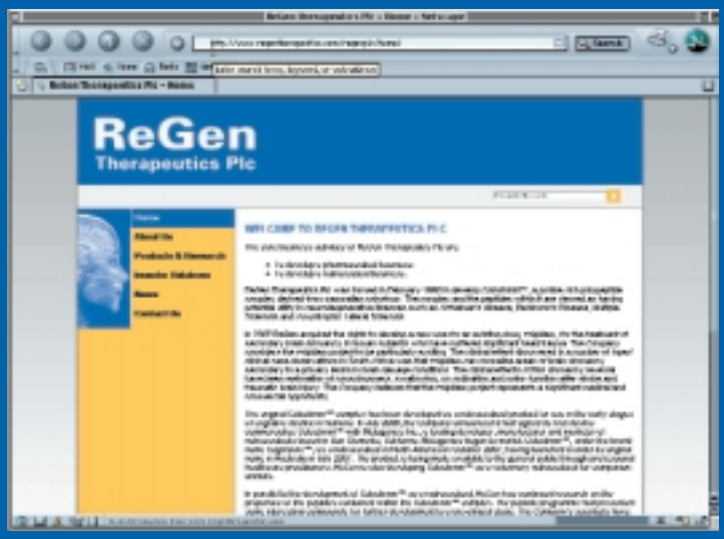

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