

REGEN THERAPEUTICS PLC

Chairman's Statement and preliminary results to 31 December 2006

PRELIMINARY STATEMENT to 31 December 2006

2006 was a good year for ReGen in which some important milestones were achieved and which we highlight in the following paragraphs:

FINANCIALS

Turnover increased by 250% over the previous year to £405,000, with cost of sales at £209,000. Development costs rose 11% to £826,000, which reflected the continuing increase in the Company's research and development programmes. Other costs, primarily personnel rose by 12% to £167,200, which partly reflected the expansion in numbers at our Guildford subsidiary. The result was that loss on ordinary activities after taxation increased by 5% to £2,253,000.

The only major difference between 2006 and 2005 in balance sheet terms is the reduction in cash at bank and at hand. The Board would like to point out that £1,100,000 was raised in February 2007 following the closure of the accounting period. This money is being used in our development of Colostrinin™ and zolpidem.

SCIENTIFIC AND COMMERCIAL DEVELOPMENT

Scientific development:

In 2006 ReGen published important papers on the development of both its main products Colostrinin™ and zolpidem.

Colostrinin™:

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*¹ in January 2006. 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 August 2006 a further in-vitro study published in the peer reviewed *Journal of Experimental Therapeutics and Oncology*² 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.

¹ Volume 25, nos 7, November 2005

² Volume 5, pages 249 to 259

Following on from the previous research ReGen announced in February 2007 that Colostrinin™ has been shown in an in-vivo study³ to increase the lifespan and improve the neurological performance of inbred mice predisposed to premature ageing.

We are also currently screening peptides derived from Colostrinin™ in a programme designed to show activity in neurodegenerative disorders.

Zolpidem:

In May 2006 consultants to the Company Drs Clauss and Nel published an article in the journal Neurorehabilitation⁴ showing that the ‘arousal’ effect of zolpidem in three subjects in a persistent vegetative state resulting from brain damage is maintained after daily treatment over a period of up to six years.

In December 2006 ReGen started a double blind Phase IIa ‘clinical proof of concept’ study in South Africa in known zolpidem responders. The object of the trial is to maintain the reversal of brain dormancy and, with either lower dosage or a different formulation, to lower the sedative effect of zolpidem. The results of this trial are expected in the first half of this year.

The Company has a scientific background programme looking at the metabolites of zolpidem and the likely mode of action. Research from this programme should be completed in the first half of 2007.

We should also stress that a very large amount of media interest was generated by the zolpidem discoveries. Currently, an independent TV production company is making a documentary about what zolpidem has done and this is expected to be screened in the UK and the US in the near future.

Commercial development:

The crucial commercial development of the year 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 produces bulk Colostrinin™ in South Dakota and is working with Metagenics to establish the best commercialisation strategy to introduce Colostrinin™ into the North American market. The agreement provides Metagenics with the exclusive right to market Colostrinin™ via healthcare professionals with an option to extend this exclusivity into the retail channels, such as drugstores and supermarkets. This option is valid for six months after first launch of a human nutraceutical containing

³ Poster; 8th International Conference of Alzheimer’s and Parkinson’s disease, Salzburg, Austria, March 14-18 2007

⁴ Volume 21, pages 23 to 28

Colostrinin™ and is subject to Metagenics being able to identify retail partners acceptable to ReGen and the achievement of certain performance criteria.

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

We await the results of our zolpidem trial, which is proceeding in South Africa. Following the results, if successful, we will examine whether it is in shareholders interests to try to obtain a licensing deal now or continue further work on the project.

SUMMARY

With a commercial deal signed for Colostrinin™ and a clinical trial underway in zolpidem, 2006 was a good year for ReGen. In our view 2007 is a pivotal year in which we expect Colostrinin™ to come to the market and we get the results and possible rewards of our zolpidem programme.

Percy W Lomax
Executive Chairman

19 March 2007

REGEN THERAPEUTICS PLC

Consolidated profit and loss account for the year ended 31 December 2006

	2006 £ (Unaudited)	2005 £ (Audited)
Turnover	404,918	115,657
Cost of sales	208,789	39,713
	<hr/>	<hr/>
Gross Profit	196,129	75,944
Administrative costs		
Development costs	825,888	745,012
Other	1,672,486	1,496,465
Goodwill amortisation	96,349	94,036
	<hr/>	<hr/>
	(2,594,723)	(2,335,513)
	<hr/>	<hr/>
Operating loss	(2,398,594)	(2,259,569)
Interest receivable	36,003	47,139
Interest payable	(8,675)	(10,216)
	<hr/>	<hr/>
Loss on ordinary activities before taxation	(2,371,266)	(2,222,646)
Taxation on loss from ordinary activities	118,406	81,930
	<hr/>	<hr/>
Loss on ordinary activities after taxation	(2,252,860)	(2,140,716)
	<hr/> <hr/>	<hr/> <hr/>
Basic and diluted loss per share	(0.38)p	(0.56)p

REGEN THERAPEUTICS PLC

Consolidated balance sheet at 31 December 2006

	2006	2006	2005	2005
	£	£	£	£
	(Unaudited)	(Unaudited)	(Audited)	(Audited)
Fixed assets				
Intangible assets		2,183,597		2,166,765
Tangible assets		26,317		21,180
		<u>2,209,914</u>		<u>2,187,945</u>
Current assets				
Stocks	20,131		4,276	
Debtors	344,982		309,419	
Cash at bank and in hand	508,045		941,503	
	<u>873,158</u>		<u>1,255,198</u>	
Creditors: amounts falling due within one year	632,031		618,477	
Provision for liabilities and charges	100,000			
	<u>Net current assets</u>	<u>141,127</u>		<u>636,721</u>
Total assets less current liabilities		<u>2,351,041</u>		<u>2,824,666</u>
Capital and reserves				
Called up share capital		5,992,251		5,797,689
Share premium		11,991,836		10,437,948
Other reserves		265,745		242,308
Profit and loss account		(15,898,791)		(13,653,279)
		<u>2,351,041</u>		<u>2,824,666</u>
Equity shareholders' funds		<u>2,351,041</u>		<u>2,824,666</u>

REGEN THERAPEUTICS PLC**Consolidated cash flow statement for the year ended 31 December 2006**

	2006 £ (Unaudited)	2006 £ (Unaudited)	2005 £ (Audited)	2005 £ (Audited)
Net cash outflow from operating activities		(2,161,341)		(1,263,628)
Returns on investments and servicing of finance				
Interest received	36,003		47,139	
Interest paid	(8,675)		(10,216)	
	<hr/>	27,328	<hr/>	36,923
Taxation		84,872		104,202
Capital expenditure and financial investment				
Payments to acquire tangible fixed assets	(12,725)		(10,814)	
Payments to acquire intangible fixed assets	(92,173)		(95,754)	
	<hr/>	(104,898)	<hr/>	(106,568)
Acquisitions				
Purchase of a business:				
Acquisition expenses	(21,360)		-	
	<hr/>	(21,360)	<hr/>	-
Net cash outflow before management of liquid resources and financing		(2,175,399)		(1,229,071)
Management of liquid resources				
Decrease/(increase) in short term deposits	436,762		(175,095)	
	<hr/>	436,762	<hr/>	(175,095)
Financing				
Proceeds of shares issued for cash	1,930,000		1,556,000	
Expenses paid on share issue	(183,112)		(133,412)	
	<hr/>	1,746,888	<hr/>	1,422,588
Increase in cash		8,251		18,422

ReGen Therapeutics Plc

Notes forming part of the financial statements for the year ended 31 December 2006

1 Accounts

The financial information contained in this announcement does not constitute statutory financial statements within the meaning of Section 240 of the Companies Act 1985. The financial information for the year ended 31 December 2005 has been extracted from the statutory financial statements for that year, which have been filed with the Registrar of Companies. The audit report on those financial statements was unqualified and did not contain any statement under Sections 237 (2) or (3) of the Companies Act 1985. It did contain, however, an explanatory paragraph dealing with a fundamental uncertainty relating to going concern. The financial information for the year ended 31 December 2006 has been extracted from the draft statutory financial statements for that year upon which the auditors have yet to report. The auditors have indicated that their final audit report will contain an explanatory paragraph dealing with the fundamental uncertainty referred to in the next paragraph.

2 Going concern

The directors have reviewed and amended the Company's plans for utilising its existing resources and believe that future funds available together with revenues from North American licensing will be sufficient for the group's purposes for a minimum of 12 months.

On this basis the Directors consider it appropriate to prepare the financial statements on the going concern basis.

If licensing deals, further fundraising or ongoing drug development programme 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.

3 Accounting policies

In preparing these financial statements the Group has adopted FRS 20 "Share-based payment" for the first time. FRS 20 "Share based payment" requires the recognition of share-based payments at fair value at the date of grant. Prior to the adoption of FRS 20, the Group recognised the financial effect of the share based payment in the following way: when shares and share options were granted to employees a charge was made to the Group profit and loss account and a reserve created in capital and reserves to record the intrinsic value of the awards in accordance with UITF Abstract 17 (revised 2003) 'Employee Share Schemes'.

The change in accounting policy has not resulted in a prior year adjustment as all the previous outstanding share options issued after 7 November 2002 had vested as of 1 January 2006, and no liabilities for share-based transactions existed at 1 January 2006.

4 Intangible fixed assets

Costs amounting to £92,173 relating to patent rights have been capitalised in the year in accordance with the Group's stated accounting policy.

5 Share Capital

On 14 February 2006, the Company issued 1,562,500 ordinary shares of 0.1p each at a premium of 1.5p per share for a consideration of £25,000 in exchange for 100 £1 ordinary shares, the entire share capital of Sciencom Limited. In accordance with Section 131 of the Companies Act 1985 this premium has not been recorded as share premium. However it has been included in other reserves.

On 25 May 2006, the Company issued 77,500,000 ordinary shares of 0.1p each at a premium of 0.9p per share for a consideration of £775,000.

On 8 June 2006, the Company issued 4,500,000 ordinary shares of 0.1p each at a premium of 0.9p per share for a consideration of £45,000.

On 26 July 2006, the Company issued 111,000,000 ordinary shares of 0.1p each at a premium of 0.9p per share for a consideration of £1,110,000.

The issued shares rank pari passu with existing shares.

6 Loss per share

The basic loss per ordinary share has been calculated using the weighted average number of shares in issue during the relevant financial year. The weighted average number of equity shares in issue are 595,192,463 ordinary shares of 0.1p each and the loss on ordinary activities after taxation is £2,252,860 (2005 - 383,344,701 ordinary shares of 0.1p each and a loss on ordinary activities after taxation of £2,140,716).

The effect of all potential ordinary shares is anti-dilutive.

7 Reconciliation of movements in equity shareholders' funds

	2006 £ (Unaudited)	2005 £ (Audited)
Loss for the financial year	(2,252,860)	(2,140,716)
Share option charge	7,348	-
New shares issued	1,771,887	1,422,588
	<hr/>	<hr/>
(Decrease) to equity shareholders' funds	(473,625)	(718,128)
Opening equity shareholders' funds	2,824,666	3,542,794
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Closing equity shareholders' funds	2,351,041	2,824,666
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8 Reconciliation of operating loss to net cash outflow from operating activities

	2006 £ (Unaudited)	2005 £ (Audited)
Operating loss	(2,398,594)	(2,259,569)
Amortisation	221,601	119,119
Depreciation	7,588	8,132
Share option charge	7,348	-
(Increase) in stocks	(15,856)	(3,776)
(Increase)/decrease in debtors	(1,929)	831,858
Increase in creditors	18,501	40,608
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Net cash outflow from operating activities	(2,161,341)	(1,263,628)
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9 Reconciliation of net cash flow to movement in net funds

	2006 £ (Unaudited)	2005 £ (Audited)
Increase in cash in the year	8,251	18,422
(Decrease)/increase in liquid resources	(436,762)	175,095
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Movement in net (debt)/funds in the year arising from cash flows	(428,511)	193,517
Net funds at start of year	864,116	670,599
	<hr/>	<hr/>
Net funds at end of year	435,605	864,116
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The annual report and financial statements for the year ended 31 December 2006 will be sent to all shareholders in due course and copies will be available from the company's business address at Suite 406, Langham House, 29-30 Margaret Street, London, W1W 8SA.

Further information:
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