REGEN THERAPEUTICS PLC

Chairman's Statement and preliminary results to 31 December 2005

PRELIMINARY STATEMENT to 31 December 2005

In 2005 ReGen progressed on the financial, scientific and commercial fronts.

FINANCIALS

As expected ReGen reported an operating loss for the year of £2.26m an increase of 46% over the previous year. This reflected an increase in development spend of 63%, some of which is reflected in future and not actual payments this year, and the real rise in development spend was 33%. The results of our increased development spend in 2004 and 2005 are shown in our encouraging scientific development. The acquisition of Guildford Clinical Pharmacology Unit Limited (GCPUL) in October 2004 doubled the number of full time employees within the group but our close control of costs and reorganisation of GCPUL meant that the rise in non development spend was only 40%. We are pleased to report that GCPUL's order book now stands at £663,000 and this has been achieved since the beginning of January 2006.

Turning now to the balance sheet the dramatic drop in debtors is merely that last year we had cash due to us from our stockbroker, who had made a December 2004 Placing for us and this was not received until January 2005.

SCIENTIFIC AND COMMERCIAL DEVELOPMENT

During the year we continued our long-term research contracts at the University of Texas Medical Branch (UTMB), Galveston, Texas, USA and Roswell Park Cancer Institute (RPCI), Buffalo, New York, USA. These collaborations produced three important publications during the year. In June 2005 the peer-reviewed journal *Neuropeptides* 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. In October 2005 ReGen presented an article at the 2005 Alzheimer's Disease Conference which showed that Colostrinin™ increases lifespan of mouse cells predisposed to premature ageing. In November 2005 another peer reviewed article regarding Colostrinin™ driven neurite outgrowth was published in the *Cellular and Molecular Neurobiology* journal.

Furthermore the scientific background provided by our collaborators gave us three more granted patents during the year. In addition to covering the use of Colostrinin™ as a medicament, particularly in the treatment of chronic disorders of the central nervous system and the immune system, our patent portfolio claims have been enhanced by 1) the use of Colostrinin™ and its constituent peptides as a promoter of neuronal cell differentiation, 2) the use of Colostrinin™ and its constituent peptides to promote induction of cytokines, and 3) the use of Colostrinin™ and its constituent peptides as oxidative stress regulators.

In addition, a further study was carried out by Proximagen, which showed that Colostrinin™ and a synthetic homolog of a Colostrinin™ derived peptide showed neuroprotection in a cell line model of Parkinson's disease. This is very important, as, although we had theoretically predicted that Colostrinin™ and its constituent peptides should have activity in other CNS neurodegenerative diseases, this was the first independent observation of this effect.

We were pleased to welcome Professor Michael Stewart of the Open University, who had previously completed work for us, as a consultant to provide further long-term scientific advice.

COMMERCIAL DEVELOPMENT

In March Pali Capital our US Investment Bank started making a market in ReGen shares in New York. This is a further step in the progress of accessing the US capital markets for the long-term development of the Company. In a further development in our funding we appointed JM Finn & Co as our broker in July and they successfully raised £1.56m for us in September.

As part of our development of Colostrinin™ as a nutraceutical in June we announced the successful definition of the production process for Colostrinin™ at industrial scale. We are now working to make this process fully compliant with the necessary standards of Good Manufacturing Practice (GMP). We are in advanced stages of licensing discussions with a US based partner, and are in less advanced discussions with several companies around the world.

Most important for the year was the option to acquire Sciencom Limited and its new use for zolpidem. On the 6 September it was announced that ReGen had entered into an exclusive option arrangement with Sciencom, a private company, which has 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 by us in February 2006.

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 250,000 people being affected at any one time, the Company believes that this represents a significant medical and commercial opportunity.

This reversal of dormancy has been visualised by SPECT (Scanning Positron Emission Computed Tomography) 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.

ReGen is planning a Phase II clinical study on zolpidem, managed by our subsidiary CRO Guildford Clinical Pharmacology Unit Limited, which will be carried out in South Africa. In this study we will be comparing a novel formulation with a standard formulation in known zolpidem responders. We estimate the potential market size to be $4.3 billion.

A new formulation for this indication could be licensed to another drug company for further development as early as 2007. Given the size of the market ReGen could obtain very significant milestone payments.

SUMMARY

2005 was a solid year of development for ReGen and we believe that 2006 should show in commercial terms the fruits of our development to date. I am particularly excited in the short term about the prospects of zolpidem and in the longer term for the overall uses of Colostrinin™ and its constituent peptides in neurodegenerative diseases.

I would also like to thank our shareholders for their continued support throughout the year.

MALCOLM BEVERIDGE

For personal reasons Malcolm Beveridge retired from the Board in April. He was crucial to the start of this Company and has played a role in it ever since.

Percy W Lomax
Executive Chairman

15th March 2006

REGEN THERAPEUTICS PLC

Consolidated profit and loss account for the year ended 31 December 2005

	2005 £ (Unaudited)	2004 £ (Audited)
Turnover	**115,657**	98,794
Cost of sales	39,713	44,665
Gross Profit	**75,944**	54,129
Administrative costs		
Development costs	**745,012**	456,566
Other	**1,496,465**	1,063,446
Goodwill amortisation	**94,036**	77,748
	(2,335,513)	(1,597,760)
Operating loss	**(2,259,569)**	(1,543,631)
Interest receivable	**47,139**	46,126
Interest payable	**(10,216)**	(4,723)
Loss on ordinary activities before taxation	**(2,222,646)**	(1,502,228)
Taxation on loss from ordinary activities	**81,930**	114,202
Loss on ordinary activities after taxation	**(2,140,716)**	(1,388,026)
Basic and diluted loss per share	**(0.56)p**	(0.49)p

REGEN THERAPEUTICS PLC

Consolidated balance sheet at 31 December 2005

	2005	2005	2004	2004
	£ (Unaudited)	£ (Unaudited)	£ (Audited) (Restated)	£ (Audited) (Restated)
Fixed assets				
Intangible assets		**2,166,765**		2,190,130
Tangible assets		**21,180**		18,498
		2,187,945		2,208,628
Current assets				
Stocks	**4,276**		500	
Debtors	**309,419**		1,163,549	
Cash at bank and in hand	**941,503**		771,185	
	1,255,198		1,935,234	
Creditors: amounts falling due within one year	**618,477**		601,068	
Net current assets		**636,721**		1,334,166
Total assets less current liabilities		**2,824,666**		3,542,794
Capital and reserves				
Called up share capital		**5,797,689**		5,639,868
Share premium		**10,437,948**		9,173,181
Other reserves		**242,308**		242,308
Profit and loss account		**(13,653,279)**		(11,512,563)
Equity shareholders' funds		**2,824,666**		3,542,794

REGEN THERAPEUTICS PLC

Consolidated cash flow statement for the year ended 31 December 2005

	2005 £ (Unaudited)	2005 £ (Unaudited)	2004 £ (Audited)	2004 £ (Audited)
Net cash outflow from operating activities		**(1,263,628)**		(1,760,901)
Returns on investments and servicing of finance				
Interest received	**47,139**		46,126	
Interest paid	**(10,216)**		(4,723)	
		36,923		41,403
Taxation		**104,202**		-
Capital expenditure and financial investment				
Payments to acquire tangible fixed assets	**(10,814)**		(4,346)	
Payments to acquire intangible fixed assets	**(95,754)**		(66,234)	
		(106,568)		(70,580)
Acquisitions				
Purchase of a business:				
Acquisition expenses	-		(73,050)	
Cash acquired	-		(115,234)	
		-		(188,284)
Net cash outflow before management of liquid resources and financing		**(1,229,071)**		(1,978,362)
Management of liquid resources				
(Increase)/decrease in short term deposits	**(175,095)**		206,058	
		(175,095)		206,058
Financing				
Proceeds of shares issued for cash	**1,556,000**		1,748,000	
Expenses paid on share issue	**(133,412)**		(95,254)	
		1,422,588		1,652,746
Increase/(decrease) in cash		**18,422**		(119,558)

ReGen Therapeutics Plc

Notes forming part of the financial statements for the year ended 31 December 2005

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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 2004 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 section 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 2005 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 any potential licensing deal 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 a licensing deal, 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 this statement the Group has adopted FRS 25 "Financial instruments: disclosure and presentation" for the first time. The adoption of this standard represents a change in accounting policy and the comparative figures have been restated accordingly. Further details are given in note 4 below. With this exception the accounting policies used to prepare the financial information contained in this statement are consistent with those set out in the statutory financial statements for the year ended 31 December 2004. All accounting policies are in accordance with applicable accounting standards.

4 Prior year adjustment

The Group has adopted FRS 25 "Financial instruments: disclosure and presentation" for the first time. The effect of this change in accounting policy to adopt the presentation requirements of FRS 25 was to reclassify non equity minority interests of £176 (2004: £176) from equity to liabilities.

5 Intangible fixed assets

Costs amounting to £95,754 relating to patent rights have been capitalised in the year in accordance with the Group's stated accounting policy.

6 Share Capital

On 15 September 2005, the Company issued 2,222,222 ordinary shares of 0.1p each at a premium of 1.25p per share for a consideration of £30,000 representing the underwriting commission payable upon entering in to an agreement with the Headstart Group of Funds under which Headstart will make available to the Company a committed share finance facility of up to £2,000,000.

On 15 September 2005, the Company issued 89,000,000 ordinary shares of 0.1p each at a premium of 0.9p per share.

On 10 October 2005, the Company issued 66,600,000 ordinary shares of 0.1p each at a premium of 0.9p per share.

The issued shares rank pari passu with existing shares.

7 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 383,344,701 and the loss is £2,140,716 (2004 - 280,747,760 shares and the loss £1,388,026).

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

8 Reconciliation of movements in equity shareholders' funds

	2005 **£** **(Unaudited)**	**2004** **£** **(Audited)**
Loss for the financial year	**(2,140,716)**	(1,388,026)
New share issue	**157,821**	80,135
Premium on new share issue net of issue costs	**1,264,767**	1,822,611
(Decrease)/increase to equity shareholders' funds	**(718,128)**	514,720
Opening equity shareholders' funds	**3,542,794**	3,028,074
Closing equity shareholders' funds	**2,824,666**	3,542,794

9 Reconciliation of operating loss to net cash outflow from operating activities

	2005 £ (Unaudited)	2004 £ (Audited)
Operating loss	**(2,259,569)**	(1,543,631)
Amortisation	**119,119**	92,460
Depreciation	**8,132**	4,947
(Increase) in stocks	**(3,776)**	(500)
Decrease/(increase) in debtors	**831,858**	(570,882)
Increase in creditors	**40,608**	256,705
Net cash outflow from operating activities	**(1,263,628)**	(1,760,901)

10 Reconciliation of net cash flow to movement in net funds

	2005 £ (Unaudited)	2004 £ (Audited)
Increase/(decrease) in cash in the year	**18,422**	(119,558)
Increase/(decrease) in liquid resources	**175,095**	(206,058)
Movement in net funds in the year	**193,517**	(325,616)
Net funds at start of year	**670,599**	996,215
Net funds at end of year	**864,116**	670,599

The annual report and financial statements for the year ended 31 December 2005 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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