

**SILENCE THERAPEUTICS PLC**

**PRELIMINARY UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 DECEMBER 2007**

London, UK, 27 March 2008 – Silence Therapeutics plc (AIM: SLN) today announces its preliminary unaudited consolidated results for the year ended 31 December 2007.

## HIGHLIGHTS

- Collaboration signed with AstraZeneca to develop novel AtuRNAi molecules against five specific, principally respiratory, targets. Silence Therapeutics received an initial access fee payment of £2.5m (~US\$5m) plus an equity investment of £5m (~US\$10m) and will receive milestone payments of up to £200m (~US\$400m) as well as royalties on product sales.
- Two AtuRNAi products commence human clinical trials:
  - RTP801i-14 which is being developed by Pfizer and Quark Pharmaceuticals for the treatment of Age-Related Macular Degeneration (AMD), and
  - AKIi-5 which is being developed by Quark Pharmaceuticals for the treatment of Acute Kidney Injury.
- Silence's lead internal product Atu027 successfully completed single and repeat dose toxicology and geno-toxicology studies as well as 28-day toxicology studies using multiple dosing schedules. This product is scheduled to enter clinical trials in 2008.
- Core patent covering AtuRNAi granted in Europe, providing commercial protection to Silence Therapeutics and its partners.
- Management team strengthened with appointments of Jeff Vick as Group CEO and Dr. John Lucas as General Counsel and Vice President, Intellectual Property.
- Expansion of collaboration with Quark Pharmaceuticals granting Quark non-exclusive license options against three specific targets.

## FINANCIAL HIGHLIGHTS

- Revenue increased to £4.05m in 2007 from £1.95m in 2006, reflecting milestone and licence fee revenues from agreements with AstraZeneca, Pfizer and Quark.
- Research and Development expenditures rose to £4.8m in 2007 from £3.2m in 2006 due to investment in our pipeline of novel RNAi molecules targeting cancer indications and our world leading delivery expertise.
- Cash position at year-end is £10.17m, an increase of £1.35m from the end of 2006 as a result of increased payments from our collaboration partners.

## POST PERIOD HIGHLIGHTS .....

- Collaboration signed with AstraZeneca for the development of novel approaches for the delivery of siRNA molecules.

## **CHAIRMAN'S STATEMENT**

Dear Shareholder,

Silence Therapeutics has made tremendous progress in 2007 as we work towards our goal of global leadership in the field of RNAi therapeutics. During the course of the year we have achieved a number of significant milestones; signing a major collaborative deal with AstraZeneca to generate new RNAi therapeutics, developing our product pipeline and strengthening our intellectual property position.

In parallel with these achievements we have also been investing in our organisation so that we have the skills necessary to ensure we continue to be a driving force in the field of RNAi therapeutics. A key step in the development of your Company was the appointment of Jeff Vick as CEO. Jeff has come on board with a first class, international background in the biotech industry and has the appropriate scientific, technical, commercial and financial experience to lead the Company going forward.

The decision to change your Company's name to Silence Therapeutics in 2007 reflects our ambitions for the future. We believe our clear focus on RNAi technologies and the significant potential we see in this area will create substantial value for you, our shareholders, moving forward.

### **World Leading RNAi Technology**

Silence Therapeutics decision to focus on its proprietary AtuRNAi technology is based on its potential not only to significantly shorten the time taken to screen and identify drug candidates but also to develop treatments for conditions which, up until now, have not been treatable using conventional approaches to drug therapies. The potential of our AtuRNAi technology was clearly validated with our collaborative deal with AstraZeneca to develop new therapeutics, principally in the respiratory field, which was signed in July 2007.

In conjunction with our unique RNAi chemistry, we are also developing "state-of-the-art" delivery systems for administering siRNA systemically. We already have nine years experience in developing solutions for functional delivery of oligonucleotides (RNAi molecules) and are increasingly being approached by pharmaceutical companies partnered with other RNAi technology companies enquiring about access to our innovative delivery technology and capabilities.

Our recent deal with AstraZeneca, announced in March 2008, to develop novel delivery solutions is the first of a number of agreements in this area which we expect to sign in the next several years. Based on our progress to-date I am confident that we can generate significant additional value for our shareholders from both our AtuPLEX delivery system and our world leading expertise in RNAi delivery.

### **Strong Financial Performance**

For the third consecutive year we have achieved a strong financial performance in line with analyst expectations. Our revenues have increased to £4.05m (2006: £1.95m) and we ended the year with a cash balance of £10.17m (2006: £8.82m). With continued, prudent financial management we aim to surpass this performance in 2008.

In my role as Chairman of Silence Therapeutics the performance of the Company's shares is obviously something on which I am focused. In the first half of 2007 your Company's share price rose dramatically reflecting some of the key milestones which I have outlined above and investors' interest in the siRNA area in general. However since the announcement of our

ground breaking deal with AstraZeneca at the end of July 2007 the price has declined significantly and I share the disappointment of many shareholders. Having said this, the business is fundamentally stronger than it was 12 months ago, our internal and external development programmes have progressed, and we are confident that further significant technology and commercial milestones will be achieved in 2008.

The recent volatility in the financial markets, coupled with the high liquidity in our stock has resulted in the Company's share price fluctuating dramatically on a daily basis and declining to a level which, in my opinion, is unwarranted and reflects neither the progress that we have made over the last 15 months nor the underlying value of the business.

As a result, in 2008 we are placing even greater efforts behind our overall investor relations activities. A key goal in the coming twelve months is to attract the interest of larger European and US institutions with a specific interest in, and knowledge of, the pharma/biotechnology sector. Our view is that they will take a longer term view and provide some stability going forward. In addition, in view of the competitive landscape, we are looking to strengthen our efforts, specifically in the US, in terms of collaborative agreements, investor, and public relations initiatives.

Finally on a personal basis, I remain extremely committed and confident that in 2007 we have created a platform from which we can move ahead rapidly towards our goal of becoming a leader in RNAi therapeutics, an objective, which I believe will create significant shareholder value. I would like not only to thank the Board, management and staff for their efforts during the year but also the shareholders for their continued support.

**Iain G Ross**  
**Chairman**

## **CHIEF EXECUTIVE'S REVIEW**

Dear Shareholders,

2007 has seen Silence Therapeutics progress across all facets of our business and also has seen an increased interest in RNA interference technologies – technologies which are now being recognised as having the potential to improve existing therapies and fundamentally change the way in which new pharmaceutical treatments are identified and developed.

### **R&D Programmes**

During the year significant progress was made in the development of siRNA molecules utilising our proprietary chemistry (AtuRNAi) and, as appropriate, our proprietary delivery technologies. This has been achieved both in partnership with our collaborators and through our own internal programmes. This success is reflected in the fact that two out of the five siRNA products in the clinic globally are based on Silence Therapeutics' innovative and proprietary siRNA chemistry. RTP801i-14, which is being developed by Pfizer and Quark Pharmaceuticals for the treatment of Age-related Macular Degeneration (AMD), moved into human clinical trials as did AKIi-5 which is being developed by Quark Pharmaceuticals for the treatment of Acute Kidney Injury.

Our internal programs have advanced considerably in 2007 with Atu027, which is designed to silence the function of a novel kinase protein involved in tumour growth and metastases, moving through preclinical development. Atu027 furthermore utilizes our proprietary drug delivery system AtuPLEX to deliver active drug into the appropriate cells following systemic administration. We have successfully completed single and repeat dose toxicology and genotoxicology studies as well as 28-day toxicology studies using multiple dosing schedules. Additional studies are underway currently to establish the MABEL (minimum anticipated biological effect level) which is recommended by the European Medicines Agency (EMA) in calculating starting doses for clinical studies.

In 2008 we hope to finalise these pre-clinical studies and progress Atu027 into the clinic. What also is very exciting about Atu027 is that, in the hands of our investigators, we are not only seeing unprecedented activity against pancreatic cancer, particularly in respect of halting metastasis, but the activity in the lung indicates that this product potentially could also be developed as a systemic treatment for lung cancer.

### **Third Party Collaborations and Licences**

In July 2007, we signed a major R&D collaboration with AstraZeneca which primarily covers the respiratory field but also includes an option to allow for targets that extend into other disease areas of interest to AstraZeneca. Silence Therapeutics will receive milestone payments of up to £200m (~US\$400m) as well as royalties on product sales and we have already received an initial access fee payment of £2.5m (~US\$5m) plus an equity investment of £5m (~US\$10m). The collaboration has progressed well since signature, the working relationship between AstraZeneca and us is strong and we are on schedule for the development of products under this agreement.

Also in July we expanded our strategic licensing agreement with Quark Pharmaceuticals, Inc.

I would like to emphasise that in both of these agreements we have maintained our strategy of signing target-specific agreements with our partners. This is important as it allows us not only to enter multiple collaborations but also to continue to develop our own programmes while maintaining our corporate flexibility. We believe this approach will allow us to generate significantly more shareholder value than a much broader collaboration with one single pharma

partner and we anticipate signing additional target-specific collaborations over the next 12 months.

## **Drug Delivery**

In 2007 we continued to explore a wide range of delivery approaches with partners and academic collaborators. We are pursuing this strategy as we see the successful functional delivery of siRNA molecules as one of the key factors in realising the clear potential of this novel therapeutic approach.

The key challenge in delivering siRNA molecules, whether our own AtuRNAi molecules or those of our competitors, is that they do not readily cross cell membranes into the cell when given systemically. Without entering the cell, siRNA molecules cannot exert their potential therapeutic benefits. Historically, drug delivery systems, including liposomes and polymers, which are capable of delivering siRNA molecules or other drugs into cells have had unacceptable toxicity levels associated with them, precluding them from human use.

We have however shown that our AtuPLEX delivery technology is able to deliver one of our AtuRNAi molecules effectively and safely. This has been achieved in repeat-dose toxicology experiments using systemic administration. These experiments have allowed us to identify a dose range for one of our AtuRNAi molecules that achieves biologic effect with minimal toxicity.

In March 2008, we were very excited to announce that, based on our significant expertise in siRNA delivery, AstraZeneca chose to collaborate with us in the first deal specifically focused on developing novel approaches for the delivery of siRNA molecules. The financial details of this, our second collaboration with AstraZeneca, in which both parties will contribute expertise, intellectual property and know-how, have not been disclosed.

The collaboration signed with AstraZeneca is important strategically for a number of reasons. This is the first collaboration in the industry signed by a large pharmaceutical company focused on the delivery of siRNA molecules highlighting its importance to the successful and broad utilization of RNAi therapeutics. It also underscores Silence Therapeutics' world leading expertise in the delivery area and demonstrates the confidence that AstraZeneca has in the Company, based on the strong, successful working relationship we have built via our earlier AtuRNAi therapeutics collaboration.

Importantly in this collaboration with AstraZeneca, Silence Therapeutics retains all rights to its AtuPLEX drug delivery system as well as any improvements to it. In addition, Silence Therapeutics has the right to use and partner any of the technologies that we jointly develop under this collaboration.

We are looking forward to working closely with AstraZeneca to expand the capabilities of AtuPLEX and develop additional novel "state-of-the-art" delivery systems for administering siRNA therapeutics which we believe will help secure the future success of this exciting technology.

We also anticipate the potential to sign drug delivery collaborations over the course of the next twelve to eighteen months with other large pharmaceutical companies who have an interest in siRNA therapeutics.

## **Intellectual Property**

A strong intellectual property position is key to our future success. In 2007, the company's commercial protection, as well as that of our partners, was confirmed when the European Patent Office granted our core patent (EP1527176 B1). This patent not only covers Silence's novel, stabilised, small interfering RNA molecules – AtuRNAi – which have blunt ends and positional modifications but also covers structures with “overhangs” and positional modifications.

As anticipated, our competitors filed oppositions, the procedure for which will commence sometime in 2008. These oppositions are expected to take 18 – 36 months to resolve and we, our advisers and R&D partners, remain confident that any potential changes to the scope of our core patent will not impact our business opportunity.

In September 2007 we began a dialogue with the US Patent and Trademark Office (PTO) with regard to gaining a similar patent position in the US. In these discussions we are focused on the elements of this patent application required to differentiate and protect our technology and via this approach we are confident that this US patent will be allowed. At present our management team and external advisers, who are well versed in this process, remain confident that we will receive a US patent allowance in 2008.

## **Continuing to Build a Strong Team**

In November 2007 we appointed Dr. John Lucas as Vice President of Intellectual Property and General Counsel. We were very happy to recruit John to the team given his wealth of experience in the biotech sector, including a period as an Examiner for the US PTO. Having John on board has already begun to benefit the Company in terms of progressing our IP strategy and ongoing business development discussions. We envisage further significant appointments being made in 2008 as we seek to establish a world-class management team.

In addition, in late 2007 we appointed new financial advisors and a new broker and nominated advisor to provide us with the world-class level of support we need to successfully execute our ambitious corporate strategy.

As our deals with AstraZeneca illustrate, Silence Therapeutics operates in one of the most exciting areas of the pharmaceutical industry and with the advice and support of Lazard and Nomura Code, we will continue to build on the progress we have made to become one of the global leaders in the RNAi space. In 2008, to reflect this ambition we are looking to attract additional institutional shareholders and to broaden the geographic spread of our investor base. To this end we have an ongoing programme of investor road shows planned through 2008, both in Europe and the USA.

## **Summary**

At the beginning of 2007 we set out to achieve a number of important milestones including progressing our own product pipeline, further validating our AtuRNAi platform by signing additional collaborations and strengthening our IP position. We have achieved these goals while at the same time continuing to build the Silence organisation and to invest in our RNAi delivery expertise.

We have made a good start to 2008 with the signing of our drug delivery collaboration with AstraZeneca and I fully expect to make further significant progress during the next 12 months towards our goal of being recognised as one of the leading RNAi companies globally.

Over the next 12 months we expect to:

- Start clinical trials with our most advanced product, Atu027, in patients with systemic cancer indications,
- Sign a number of additional collaborations based on our AtuRNAi and AtuPLEX technologies,
- Achieve allowance of our core AtuRNAi patent application in the US, and
- Further strengthen our organisation so that we can support our value creating collaborations appropriately, while advancing our own internal pipeline.

I have great confidence in our future prospects and I look forward to keeping you updated on the development of our business, as the Silence team continues to work to create significant value for our shareholders.

**Jeffery S Vick**  
**Chief Executive Officer**

## **FINANCIAL REVIEW**

The group is able to report another positive set of financial figures for 2007. Increased revenue allowed the group to raise its investment in Research and Development as well as continue to build its infrastructure. Despite these additional cash demands, the group closed the year with bank balances increased by over £1m from the end of 2006 to £10.2m.

### **Operating Results**

Revenue for the year rose from £1.95m to £4.05m. This reflects principally the milestone and licence fee revenues from Silence's agreements with AstraZeneca and with Pfizer and Quark Pharmaceuticals. The agreement with AstraZeneca, covering the development of AtuRNAi therapeutics, signed in July 2007 resulted in Silence receiving an upfront access fee of £2.5m. Due to the nature of the agreement, this entire sum has been recorded as revenue in 2007. In addition, the group received milestone payments from its arrangements with Quark and Pfizer during the year and, again, all such receipts are treated as revenue in the year.

The Group continues to invest in its research and development activities in order to expand and develop its own pipeline of RNAi molecules targeting oncology indications. As predicted last year, the rate of expansion increased during 2007 compared to 2006. This is in line with our plan to maintain and capitalise on the lead we have established with our unique RNAi molecules and our world leading delivery technology. With significant expenditure on both toxicology trials and manufacturing development of our molecules and delivery systems, Research and Development costs rose from £3.2m in 2006 to £4.8m in 2007. We plan to continue to expand our investment in R&D over the coming years.

The charge for Administration expenses is heavily influenced by the amount calculated as the impact of the granting of stock options. For 2006 the total charge relating to options was £0.7m, but this non-cash item has risen to £1.4m in 2007. This is likely to rise again in future years as the group seeks to attract and reward the high calibre staff essential to the successful execution of our growth strategy. Aside from the increase of this element of costs, other administration expenses rose from £2.3m in 2006 to £3.6m in 2007, which reflects both the expansion of the management capabilities and rewarding the achievements during the year.

### **Cash Flow**

As noted above, the operating loss continues to contain a number of large non-cash items, such as option charges but also depreciation and amortisation, which significantly impact on the Group's profitability. After adjusting for these items the cash absorbed in the Group's operating activities for the year was just £3.8m (2006: £4.0). With the benefit of the equity investment by AstraZeneca during the year and cash realised from the exercise of options and warrants, amounting in aggregate to almost £5.2m (2006: £3.5m), the Group's net cash position increased by £1.35m in the year (2006: decrease £0.27m).

### **Future**

The Group will continue to add value to its portfolio of RNAi based assets by expanding and developing its technology, either alone or with selected development partners. The mix and speed of this expansion will be dependent upon the availability of resources to the Group. The Group continues to look for licensing and collaboration opportunities that will generate either revenues or other financing or resource opportunities to aid in this development drive. Further

expansion of the Group's management and administrative capabilities are likely to enable it to adequately support and exploit its research and development activities.

The Board continues its commitment to maintaining a strong cash balance relative to current cash usage, enabling a secure basis for the planning of future activities and giving the Group a sound financial platform from which to progress the Group's various licensing discussions.

**Melvyn Davies**  
**Finance Director**

**SILENCE THERAPEUTICS PLC**  
**UNAUDITED CONSOLIDATED INCOME STATEMENT**  
**YEAR ENDED 31 DECEMBER 2007**

	<b>2007</b>	<b>2006</b>
	£	£
Revenue	4,046,974	1,947,301
Research and development costs	(4,842,529)	(3,185,886)
Gross loss	<u>(795,555)</u>	<u>(1,238,585)</u>
Administrative expenses	(4,992,159)	(3,029,764)
Operating loss	<u>(5,787,714)</u>	<u>(4,268,349)</u>
Finance income	543,817	347,676
Finance costs	-	(19,905)
Loss for the year before taxation	<u>(5,243,897)</u>	<u>(3,940,578)</u>
Taxation credit for the year	136,019	114,094
Loss for the year after taxation transferred from reserves	<u>(5,107,878)</u>	<u>(3,826,484)</u>
Loss per share (basic and diluted)	<u>4.39p</u>	<u>4.02p</u>

**SILENCE THERAPEUTICS PLC**  
**UNAUDITED CONSOLIDATED BALANCE SHEET**  
**AT 31 DECEMBER 2007**

	<b>2007</b>	<b>2006</b>
	£	£
<b>Non-current assets</b>		
Property, plant and equipment	398,764	146,897
Goodwill	6,653,990	6,239,679
Other intangible assets	779,703	728,489
	<u>7,832,457</u>	<u>7,115,065</u>
<b>Current assets</b>		
Trade and other receivables	1,340,860	732,453
Tax recoverable	130,000	80,000
Cash and cash equivalents	10,174,389	8,824,044
	<u>11,645,249</u>	<u>9,636,497</u>
<b>Liabilities – current</b>		
Trade and other payables	1,801,946	929,607
Provisions – current	-	115,342
	<u>1,801,946</u>	<u>1,044,949</u>
<b>Net assets</b>	<u>17,675,760</u>	<u>15,706,613</u>
<b>Equity</b>		
Share capital	1,198,835	1,130,650
Capital reserves	46,465,165	40,212,619
Retained loss	(29,988,240)	(25,636,656)
<b>Total equity</b>	<u>17,675,760</u>	<u>15,706,613</u>

**SILENCE THERAPEUTICS PLC**  
**UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
**AT 31 DECEMBER 2007**

	Share capital	Capital reserves (note 3)	Retained Loss	Total
	£	£	£	£
At 1 January 2006	903,116	36,405,031	(21,621,016)	15,687,131
Loss for the year ended 31 December 2006	-	-	(3,826,484)	(3,826,484)
Recognition of share-based Payments	-	491,489	-	491,489
Transfer upon exercise of options in year	-	(1,113)	1,113	-
Shares issued in the year	227,534	3,317,212	-	3,544,746
Exchange differences arising on consolidation of foreign operations	-	-	(190,269)	(190,269)
Movement in the year	<u>227,534</u>	<u>3,807,588</u>	<u>(4,015,640)</u>	<u>19,482</u>
At 31 December 2006	<u>1,130,650</u>	<u>40,212,619</u>	<u>(25,636,656)</u>	<u>15,706,613</u>
Loss for the year ended 31 December 2007	-	-	(5,107,878)	(5,107,878)
Recognition of share-based Payments	-	1,221,952	-	1,221,952
Transfer upon exercise of options in year	-	(72,234)	72,234	-
Shares issued in the year	68,185	5,102,828	-	5,171,013
Exchange differences arising on consolidation of foreign operations	-	-	684,060	684,060
Movement in the year	<u>68,185</u>	<u>6,252,546</u>	<u>(4,351,584)</u>	<u>1,969,147</u>
At 31 December 2007	<u>1,198,835</u>	<u>46,465,165</u>	<u>(29,988,240)</u>	<u>17,675,760</u>

**SILENCE THERAPEUTICS PLC**  
**UNAUDITED CONSOLIDATED CASH FLOW STATEMENT**  
**FOR THE YEAR ENDED 31 DECEMBER 2007**

	<b>2007</b>	<b>2006</b>
	<b>£</b>	<b>£</b>
<b>Cash flow from operating activities</b>		
<b>Loss before taxation</b>	(5,243,897)	(3,940,578)
Adjustments for:		
Depreciation charges	78,069	142,053
Amortisation charges	240,021	211,416
Impairment of goodwill	153,915	-
Loss/(Profit) on disposal of property, plant and equipment	39	2,255
Charge for the year in respect of share based payments	1,221,952	491,489
Foreign exchange movement	25,856	(27,712)
Recovery of loan provided for in previous years	(36,000)	(33,000)
Finance income	(507,817)	(314,676)
Finance expense	-	1,360
	<u>(4,067,862)</u>	<u>(3,467,393)</u>
(Increase) in trade and other receivables	(608,407)	(287,101)
Decrease in inventories	-	81,852
Increase/(decrease) in trade and other payables	756,997	(440,692)
	<u>(3,919,272)</u>	<u>(4,113,334)</u>
Cash (absorbed) by operations		
Interest paid	-	(1,360)
Taxation received	86,019	84,466
	<u>(3,833,253)</u>	<u>(4,030,228)</u>
<b>Net cash outflow from operating activities</b>		
<b>Cash flows from investing activities</b>		
Recovery of loan made previous years	36,000	33,000
Interest received	507,817	314,676
Additions to property, plant and equipment	(306,463)	(48,434)
Additions to intangible assets	(224,769)	(80,917)
	<u>12,585</u>	<u>218,325</u>
Net cash generated from investing activities		
<b>Cash flows from financing activities</b>		
Proceeds from issue of share capital and options	<u>5,171,013</u>	<u>3,544,746</u>
	<u>1,350,345</u>	<u>(267,157)</u>
<b>Increase/(decrease) in cash &amp; cash equivalents</b>		
Cash and cash equivalents at start of year	8,824,044	9,091,201
Net increase/(decrease) in the year	1,350,345	(267,157)
	<u>10,174,389</u>	<u>8,824,044</u>
Cash and cash equivalents at end of year		

**SILENCE THERAPEUTICS PLC**  
**NOTES TO THE UNAUDITED FINANCIAL STATEMENTS**  
**YEAR ENDED 31ST DECEMBER 2007**

**1 GENERAL INFORMATION**

1.1 Group Information

Silence Therapeutics (“Silence” or “the Company”) and its subsidiaries (together “the Group”) are primarily involved in the research and development of novel pharmaceutical products. Silence Therapeutics plc, a limited liability corporation incorporated and domiciled in England, is the Group’s ultimate parent company. The address of the Company’s registered office is: 22 Melton Street, London NW1 2EP and the principal place of business is Centre Point, 103 New Oxford Street, London WC1A 1DD.

1.2 The financial information set out above does not constitute the Company's statutory accounts within the meaning of section 240 of the Companies Act 1985. The 2007 figures are based on unaudited accounts for the year ended 31 December 2007.

The unaudited financial statements have been prepared on the basis of the accounting policies set out in the Group's statutory accounts for 2006.

The 2006 comparatives are derived from the statutory accounts for 2006 which have been delivered to the Registrar of Companies and received an unqualified audit report and did not contain a statement under the Companies Act 1985, s237(2) or (3).

**2. LOSS PER SHARE**

The calculation of the loss per share is based on the loss for the financial year after taxation of £5,107,878 (2006: loss £3,826,484) and on the weighted average of 116,296,656 (2006: 95,138,708) ordinary shares in issue during the year.

The options outstanding at 31 December 2006 and 31 December 2007 are considered to be non-dilutive in that their conversion into ordinary shares would not increase the net loss per share. Consequently, there is no diluted earnings per share to report for either year.

### 3. CAPITAL RESERVES

	Share Premium Account	Merger Reserve	Share- Based Payment Reserve	Total
	£	£	£	£
At 31 December 2005	28,192,197	6,140,874	2,071,960	36,405,031
On shares issued in the year:				
- in respect of fundraising	3,600,000	-	-	3,600,000
- less costs of fundraising	(285,355)	-	-	(285,355)
On options exercised during the year	2,567	-	(1,113)	1,454
On warrants converted during the year	676,105	-	(676,105)	-
On options issued during the year	-	-	491,489	491,489
Movement in the year	3,993,317	-	(185,729)	3,807,588
At 31 December 2006	32,185,514	6,140,874	1,886,231	40,212,619
On shares issued in the year:				
- in respect of fundraising	4,965,754	-	-	4,965,754
On options exercised during the year	137,057	-	(72,234)	64,823
On warrants converted during the year	676,105	-	(676,105)	-
On options issued during the year	17	-	1,221,952	1,221,969
Movement in the year	5,778,933	-	473,613	6,252,546
At 31 December 2007	37,964,447	6,140,874	2,359,844	46,465,165