ReNeuron

*pioneering stem cell therapeutics*

# ANNUAL REPORT & ACCOUNTS 2013

ReNeuron
pioneering stem cell therapeutics

# ReNeuron in Summary

We are a leading, clinical-stage stem cell business. Our primary objective is the development of novel stem cell therapies targeting areas of significant unmet or poorly met medical need.

## OUR PRODUCTS AND TECHNOLOGIES

We have used our unique stem cell technologies to develop cell-based therapies for significant disease conditions where the cells can be readily administered "off-the-shelf" to any eligible patient without the need for additional drug treatments. Our lead therapeutic candidate is our ReN001 stem cell therapy for the treatment of patients left disabled by the effects of a stroke. This treatment is currently in clinical development. We are also developing stem cell therapies for other conditions such as critical limb ischaemia, a serious and common side effect of diabetes, and blindness-causing diseases of the retina. We have also developed a range of stem cell lines for non-therapeutic applications – our ReNcell® products for use in academic and commercial research. Our ReNcell®CX and ReNcell®VM neural cell lines are marketed worldwide under license by USA-based Merck Millipore.

## OUR STRATEGY

Our aim is to develop best-in-class stem cell therapies in our particular areas of therapeutic focus. Our principal strategy is to gain early clinical validation for our cell therapy programmes via well-designed clinical trials in well-regulated territories. Ultimately, we expect to realise value for our technologies and therapeutic programmes via out-license or sale to commercial development partners at the appropriate points in their development.

## Contents

# Highlights

- ReN001 stem cell therapy candidate for stroke:
  - Dosing complete in Phase I clinical trial
  - Encouraging Phase I interim data presented at European Stroke Conference
  - Phase II clinical trial expected to commence in UK later this year
- ReN009 stem cell therapy candidate for critical limb ischaemia:
  - Regulatory and ethical approvals received for Phase I clinical trial – study expected to commence in UK later this year
- ReN003 stem cell therapy candidate for retinitis pigmentosa:
  - Further positive pre-clinical efficacy data generated and late pre-clinical development programme underway
  - Phase I/II clinical trial application planned for mid-2014 in US and UK
- Share Placing announced to raise £25.35 million, before expenses, fully funding core therapeutic programmes through key Phase II clinical trials over next three years
- Further grant package totalling £7.8 million from Welsh Government
  - Grant funding will enable establishment of cell manufacturing and development facility in South Wales over next two years, for late stage clinical and commercial product requirements
- Non-dilutive grants and contributions in kind totalling £2.5 million awarded during the period from UK Government, via Technology Strategy Board and Cell Therapy Catapult
- Loss for the period of £6.3 million (2012: £6.2 million); cash outflow from operating activities of £6.0 million (2012: £5.8 million); cash and cash equivalents at 31 March 2013 of £3.5 million (2012: £4.0 million)

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# Chairman's and Chief Executive Officer's Joint Statement

## Review of Operations

**Therapeutic programmes**

During the financial year, we made good progress with our ReN001 stem cell candidate for stroke disability. Interim data from the first nine patients treated in the PISCES Phase I clinical trial with ReN001 were presented by the clinical team from Glasgow's Southern General Hospital at the 22nd European Stroke Conference in London in May of this year. There were no cell-related or immunological adverse events reported in any of the patients treated and sustained reductions in neurological impairment and spasticity were observed in most patients compared with their stable pre-treatment baseline performance.

Since the above data were collated, the remaining patients in the PISCES study have been treated and are all now through their short term follow-up period, with no cell-related or immunological adverse events reported.

During the period, we cleared all points arising from the regulatory review of our proposed UK multi-site Phase II clinical trial to examine the efficacy of ReN001 in disabled stroke patients. This Phase II study has been adopted by the NHS National Institute for Health Research Stroke Research Network (SRN), enabling us to work closely with the SRN to optimise performance against defined targets regarding site set-up, patient recruitment and monitoring activities across the various sites participating in the study. The SRN has also adopted a separate non-interventional protocol to allow for the pre-screening of potentially eligible patients for the Phase II study at the sites concerned. This separate protocol will enable such patients to be identified in good time while still in acute stroke care at the hospital.

As planned, we are now preparing a data package including three month follow-up data on the final dose cohort in the PISCES study in order to obtain final regulatory and ethical approvals for the Phase II clinical trial with ReN001. Assuming approvals are granted, we expect to commence recruitment into the Phase II study later this year.

During the period, we received regulatory and ethical approvals to commence a Phase I clinical trial in the UK with our ReN009 stem cell therapy programme targeting the major unmet medical need, critical limb ischaemia (CLI). CLI represents the second major disease target after stroke for our lead *CTX* stem cell line and is based on a number of pre-clinical studies showing dose-dependent positive effects of the *CTX* cells in restoring microvasculature and blood flow to the limb extremities in animal models of lower limb ischaemia. Our ReN009 therapy therefore offers the potential for an allogeneic (non-donor specific) and cost-effective cell-based treatment for CLI patients with the aim of restoring sufficient blood flow in the affected lower limb to avoid amputation and the severe health consequences that typically result from such an amputation.

The Phase I clinical trial will be undertaken through NHS Tayside at Ninewells Hospital and Medical School, Dundee, Scotland. In this dose escalation safety study, the ReN009 cells will be administered via straightforward intramuscular injection into the affected lower limb of nine patients with peripheral arterial disease. Approval may be sought in due course for a further clinical site in Germany to participate in the study.

During the period, we were awarded a Late Stage Biomedical Catalyst grant of £0.4 million from the Technology Strategy Board, the UK Government's innovation agency, to be deployed towards the cost of the ReN009 Phase I study. We expect recruitment and dosing of patients in the clinical trial to commence later this year. The straightforward nature of both the ReN009 treatment and the design of the Phase I clinical trial is expected to lead to progression into a larger placebo-controlled Phase II efficacy study during the second half of 2014, assuming the Phase I primary safety end-point is met.

Our ReN003 programme, based on our human retinal progenitor (hRPC) cells, also made good progress during the period, initially targeting the blindness-causing disease, retinitis pigmentosa. A late pre-clinical testing programme has now commenced with the ReN003 therapy, in collaboration with academic partners in both the US and at the UCL Institute of Ophthalmology in London. During the period, our US academic collaborators generated further pre-clinical efficacy data demonstrating that the hRPC cells are able to enhance visual acuity in a standard rodent model of blindness caused by the loss of photoreceptors in the retina.

During the period, we were awarded a further Early Stage Biomedical Catalyst grant of £0.8 million from the Technology Strategy Board to be deployed towards the cost of the late pre-clinical development of the ReN003 programme through to the clinic. We are currently developing the protocol for an initial Phase I/II clinical trial with our ReN003 therapy in the UK and US, in retinitis pigmentosa patients. We have commenced our interactions with the US FDA regarding pre-filing regulatory advice on this programme, with a view to filing for regulatory approvals for the initial clinical study in the middle part of 2014.

**Other activities**

During the period, two important new papers regarding our lead *CTX* stem cell line were published in the leading peer-reviewed scientific journals, Cell Transplantation and PLOS ONE. The papers describe further non-clinical studies undertaken by ReNeuron researchers and our academic collaborators at King's College London, demonstrating the mechanisms by which the *CTX* cells may promote repair in a stroke-damaged brain.

Earlier this month, the influential House of Lords Select Committee on Science and Technology published its findings and recommendations arising from an inquiry to identify potential barriers to the development and commercialisation of regenerative medicine therapies in the UK. ReNeuron gave both written and oral evidence to the Committee and the Company is widely referred to in the Committee's published report. As one of the UK's foremost players in the field, we hope and expect the Company to benefit from the recommendations in the report if they are fully implemented.

**Transformational funding**

During the period, and thereafter, we have been successful in transforming the financial position and future prospects of the Company. On 22 July 2013 we announced a £33 million financing package for the Company, composed of a Placing to raise £25.35 million, before expenses, and a £7.8 million grant package from the Welsh Government to establish a cell manufacturing and development facility in South Wales for late stage clinical and commercial product requirements. The Company will move its principal operations to this facility as it is phased in over the next two years.

The above financing provides funding for the business over the next three years and will enable us to take all of our core therapeutic programmes through key Phase II trials and to consequent value inflection through commercial development deals or a broader strategic transaction. It will also enable us to secure manufacturing capability, and margin, as our therapeutic candidates move closer to market.

We have previously stated our intention to make greater use of non-dilutive grants and similar funding sources that have become available over the last eighteen months. We have succeeded in this aim, having secured in excess of £10 million of such commitments in this calendar year alone, including the Welsh Government grant package announced today. As mentioned above, we were also awarded two separate grants, totalling £1.2 million, from the UK Biomedical Catalyst during the period to pursue the further development of our ReN009 and ReN003 stem cell therapy candidates. Further, during the period, we were the first UK cell therapy business to enter into a collaboration with the newly established Cell Therapy Catapult, one of a number of innovation centres established by the UK Government, through the Technology Strategy Board, to accelerate the UK's commercial capability in strategically important technology areas. The collaboration will focus on the development and optimisation of the processes required to scale up manufacture of our *CTX* cell line, as well as improving potency assays for the *CTX* cells, based on the characteristics of the cells and their potential mechanisms of action. The Catapult will contribute £1.3 million into the collaboration, to be provided in the form of expert knowledge, plus state-of-the-art laboratories, equipment and services.

The grant awarding bodies mentioned above, together with the specialist life science equity investors participating in the equity financing announced today, have subjected our programmes to considerable due diligence and expert peer review in arriving at their investment decisions. We therefore regard these investments into our business as representing a strong independent endorsement of our world-class stem cell development capabilities and our progress to date.

## Summary of results

In the year to 31 March 2013, revenues were £17,000 (2012: £40,000), representing royalty income from the Group's non-therapeutic licensing activities.

Net operating expenses in the year were £7.1 million (2012: £6.9 million). Research and development expenditure reduced in the year to £4.8 million (2012: £4.9 million), reflecting lower clinical and manufacturing development costs. General and administrative costs in the year increased to £2.3 million (2012: £2.1 million), primarily as a result of an increase in professional fees.

Interest received reduced in the year to £30,000 (2012: £40,000) as a result of lower average levels of cash deposits held over the period.

The Group accrued a research and development tax credit of £0.7m during the year (2012: £0.6m), the higher claim reflecting the removal of the PAYE/NI cap in the financial year.

As a result of the above income statement movements, the post-tax loss for the year increased to £6.3 million (2012: £6.2 million). The basic and diluted loss per share reduced to 0.8p per share (2012: 1.0p loss), reflecting a combination of an increased loss and the full year effect of the increase in ordinary shares in issue following the completion of the placing in April 2012.

Cash used in operating activities increased in the year to £6.0 million (2012: £5.8 million), due to a combination of a higher loss before tax and an adverse working capital position. During the year, the Company raised £6.1 million, before expenses, by means of a Placing and Open Offer to shareholders.

As a result of the above cash flow movements in the year, the Group had cash and cash equivalents totalling £3.5 million as at 31 March 2013 (2012: £4.0 million). Subsequent to the financial year end, and as mentioned above, the Company has announced that it expects to raise £25.35 million, before expenses, by means of a Placing to shareholders, together with a £7.8m grant package from the Welsh Government to establish a cell manufacturing and development facility in South Wales over the next two years. Following completion of the Placing,

# Chairman's and Chief Executive Officer's Joint Statement continued

the directors expect that the Group's financial resources will be sufficient to support operations until the third quarter of 2016. Consequently, the going concern basis has been adopted in the preparation of these financial statements.

## Summary and outlook

Our therapeutic programmes have made considerable progress during the period under review. The Phase I clinical trial of our stem cell therapy candidate for stroke has yielded encouraging data and a Phase II study is planned to commence shortly, as is a Phase I study with our therapeutic candidate for critical limb ischaemia. We expect our stem cell therapy candidate for the blindness-causing disease, retinitis pigmentosa, to enter the clinic next year.

We have well-defined clinical development plans for these therapeutic programmes and process development plans to both enhance and take full control over the manufacture of our stem cell therapy candidates as they get closer to market. Crucially, the business is now fully funded to pursue these plans through to value inflection and commercial deals over the next three years and we look forward to reporting further progress towards that end.

On page 55 of this report is the notice of the 2013 Annual General Meeting (the AGM) to be held at 10:00 am on 13 September 2013. A short explanation of the resolutions to be proposed at the AGM is set out on page 58. The directors recommend that you vote in favour of the resolutions to be proposed at the AGM, as they intend to do in respect of their own beneficial holdings of ordinary shares. At the end of this document is a form of proxy for use in connection with the AGM which, if you wish to vote by way of proxy at the meeting, should be completed and returned to the Company's registrars in accordance with the instructions set out therein so as to be received not less than 48 hours prior to the AGM.

**Bryan Morton**
Chairman

**Michael Hunt**
Chief Executive Officer

9 August 2013

# Business Review

## ReN001: stem cell therapy for ischaemic stroke

**Overview**
Ischaemic stroke accounts for about 80% of strokes and results from the interruption of arterial blood flow to a focal area of the brain which causes neuronal death in the affected core region due to deprivation of oxygen and glucose.

Our ReN001 therapy consists of a neural stem cell line, designated CTX, which has been generated using our proprietary cell expansion and cell selection technologies and then taken through a full manufacturing scale-up and quality-testing process. As such, ReN001 is a standardised, clinical and commercial-grade cell therapy product capable of treating all eligible patients presenting.

The ReN001 cells that are being used in clinical development are taken from the existing manufactured cell banks that will form the basis of the eventual marketed product. There will therefore be no need to re-derive and test new ReN001 cell lines for subsequent clinical trials or for the market – all such cells can simply be expanded from the existing banked and tested product.

**Market size**
Approximately 150,000 people suffer a stroke in the UK each year and approximately 800,000 in the US. The vast majority of these strokes are ischaemic in nature and approximately one half of all stroke survivors are left with permanent disabilities as a result of the damage caused to brain tissue arising from the stroke.

In cost terms, the annual healthcare costs of caring for disabled stroke patients is estimated to be in excess of £5 billion in the UK, with stroke patients occupying 25% of long-term hospital beds. In the US, the equivalent costs are estimated to be in excess of US$70 billion.

**Progress to date**
Our ReN001 therapy is currently in clinical development in a Phase I clinical trial entitled PISCES (Pilot Investigation of Stem Cells in Stroke). This is the world's first fully regulated clinical trial of a neural stem cell therapy for disabled stroke patients. The primary aim is to test the safety and tolerability of the treatment in ascending cell doses in patients with moderate to severe functional neurological impairments resulting from their stroke. The secondary aim is to evaluate efficacy measures for the design of future clinical trials, including imaging measures as well as a number of tests of sensory, motor and cognitive functions.

All patients in the trial have now been treated. To date, there have been no cell-related or immunological adverse events reported in any of the patients. Furthermore, sustained reductions in neurological impairment and spasticity have been observed in most patients compared with their stable pre-treatment baseline performance.

We are now preparing a data package including three month follow-up data on the final dose cohort in the PISCES study in order to obtain final regulatory and ethical approvals for a Phase II clinical trial with ReN001. Assuming approvals are granted, we expect to commence recruitment into the Phase II study later in 2013.

## ReN009 – stem cell therapy for critical limb ischaemia (CLI)

**Overview**
Critical limb ischaemia is the severe 'end stage' manifestation of peripheral arterial disease (PAD) and is a common side-effect of diabetes, as well as strokes and obesity. It is caused by chronic lack of blood supply to the leg due to obstruction of blood flow in the peripheral arteries. The condition is characterised by pain at rest and lesions of the leg. There are no effective therapies and as many as 50% of CLI patients currently have no treatment option other than limb amputation.

**Market size**
There are approximately 160,000 amputations as a result of PAD in the US every year, and the estimated costs per patient are >US$90,000 over 2 years and >US$0.5 million over a patient's lifetime. Available data shows that, in 2008, the total cost of inpatient treatment specifically for PAD in the USA was $14.3 billion, of which 71% related to the treatment of CLI.

**Progress to date**
Following a number of pre-clinical studies showing the dose-dependent positive effects of our CTX cells in restoring microvasculature and blood flow to the limb extremities in animal models of lower limb ischaemia, We have has received regulatory and ethical approvals to commence a Phase I clinical trial in the UK which will be undertaken through NHS Tayside at Ninewells Hospital and Medical School, Dundee.

In this dose escalation safety study, the ReN009 cells will be administered via straightforward intramuscular injection into the affected lower limb of nine patients with PAD.

Recruitment and dosing of patients in the trial is expected to commence later in 2013. The straightforward nature of both the ReN009 treatment and the design of the Phase I clinical trial is

# Business Review continued

expected to lead to progression into a larger placebo-controlled Phase II efficacy study during the second half of 2014, assuming the Phase I primary safety end-point is met.

We have been awarded a Late Stage Biomedical Catalyst grant of £0.4m to be deployed towards the cost of the approved ReN009 Phase I study.

## ReN003 – stem cell therapy for retinitis pigmentosa (RP)

**Overview**
Retinitis pigmentosa is a group of inherited diseases of the retina that all lead to a gradual and progressive reduction in vision caused by the death of photoreceptor cells. It is the most common inherited cause of blindness in people between the ages of 20 and 60. The age at which symptoms start is variable and the rate of deterioration of vision also varies from person to person. RP is typically diagnosed in adolescents and young adults and most sufferers will be legally blind by the age of 40.

Through our collaboration with the Schepens Eye Research Institute at Harvard Medical School, we have developed the ability to scale human retinal progenitor cells (hRPCs) for therapeutic use. Using this technology we have established GMP-compliant hRPC cell banks to provide future hRPC drug product.

There are no treatments currently available for RP, and two of the few approaches in development only target a small sub-population of the RP patient population with specific genetic mutations. Our ReN003 programme is expected to be applicable to the broad, heterogeneous RP patient population. The hRPC platform also represents an alternative and potentially highly advantageous cell therapy approach to other degenerative conditions of the retina, such as AMD and diabetic retinopathy, where the unmet medical need also remains high.

**Market size**
RP affects approximately 1 in 3,000 to 4,000 people, with an estimated 1.5 million patients worldwide, including more than 100,000 patients in the United States and approximately 180,000 patients in the EU.

**Progress to date**
Data presented to date demonstrate that our hRPCs differentiate into cells expressing the appropriate cell surface markers for photoreceptors, the cells lost in RP patients. The data also demonstrate that in rodent models of retinal degeneration, transplanted hRPCs migrate into the outer nuclear layer of the host retina and enhance visual acuity.

We have been awarded an £0.8 million Early Stage Biomedical Catalyst grant which will fund the late pre-clinical development of ReN003 through to the clinic. This work is being undertaken in collaboration with the world-renowned UCL Institute of Ophthalmology and complements our existing long-standing collaboration on this programme with the Schepens Eye Research Institute.

We are currently developing the protocol for an initial Phase I/II clinical trial with our ReN003 therapy in the UK and US, in retinitis pigmentosa patients. We intend to file for regulatory approvals for this clinical study in the middle part of 2014.

# Directors and advisers

## Directors

Bryan Morton, Non-executive Chairman
Michael Hunt, Chief Executive Officer
Dr John Sinden, Chief Scientific Officer
John Berriman, Non-executive Director
Simon Cartmell, Non-executive Director
Dr Tim Corn, Non-executive Director
Mark Docherty, Non-executive Director
Professor Sir Chris Evans, Non-executive Director (appointed 9 August 2013)
Dr Paul Harper, Non-executive Director

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# Board of Directors

**Bryan Morton BSc, MBA, Non-executive Chairman**

Bryan Morton was appointed to the Board in October 2008 and appointed as Chairman in August 2011. He is Chief Executive Officer of EUSA Pharma International, a division of Jazz Pharmaceuticals, and was formally Chief Executive Officer of EUSA Pharma Inc., a Company he founded in 2006, until its acquisition by Jazz in 2012. He is a non-executive Chairman of Aircraft Medical and Energist Ltd and is a member of the Pilgrim Software global advisory board. He began his pharmaceutical career in sales and has held positions in medical information, marketing, sales management, business development and general management during a 30 year career in the healthcare industry, largely with Merck and Co. Inc. and Bristol Myers Squibb. In 2003, he founded Zeneus Pharma, which was sold to Cephalon Inc. in late 2005 for US$360 million. He has a BSc in Pharmacology from Aberdeen University and a MBA from Durham University. Aged 57.

**Michael Hunt BSc ACA, Chief Executive Officer**

Michael Hunt was appointed Chief Executive Officer in July 2005. Prior to ReNeuron, he spent six years at Biocompatibles International plc (sold to BTG plc) where he held a number of senior financial and general management positions. His early industrial career was spent at Bunzl plc. He is a founding member and co-chair of the European Alliance for Advanced Therapies and sits on the BioIndustry Association's Cell Therapy and Regenerative Medicine Advisory Committee and its Finance and Tax Advisory Committee. He is a past Senior Industry Group member of the UK Government's Office for Life Sciences, and a past member of the TSB's Cell Therapy Catapult Interim Advisory Group. He read economics at University College London and qualified as a chartered accountant with Ernst & Young. Aged 50.

**Dr. John Sinden BA MA Ph.D., Chief Scientific Officer**

Dr. Sinden is a scientific co-founder of ReNeuron. Prior to joining ReNeuron as Chief Scientific Officer in October 1998, he was Reader in Neurobiology of Behaviour at the Institute of Psychiatry at Kings College London. He graduated in Psychology from the University of Sydney and completed a Ph.D. in Neuroscience from the University of Paris at the College de France. He subsequently held post-doctoral appointments at Oxford University and the Institute of Psychiatry prior to joining the permanent staff of the Institute in 1987. Dr. Sinden holds Fellowships of the Royal Society of Medicine and the Society of Biology, is a member of the Society for Neuroscience and the International Society for Cellular Therapies. He sits on the Industry Committee of the International Society for Stem Cell Research, the Scientific Advisory Board of the Minda de Gunzburg Center for Ocular Regeneration, Schepens Eye Research Institute at Harvard Medical School, and the Expert Working Group on Cell and Gene Therapies for the Bioindustry Organization BioSafe Committee. Aged 62.

**John Berriman BSc MSc, Non-executive Director**

John Berriman was appointed to the Board in July 2011. He is the Chairman of Heptares Therapeutics Ltd, Autifony Ltd and past Chairman (now deputy Chairman) of Algeta ASA (listed on the Oslo stock exchange). He is also a non-executive director of Cytos AG (listed on the SIX Swiss exchange). Until its sale to Amgen in the spring of 2012 he was a director of Micromet Inc. (listed on NASDAQ). Previously he was a director of Abingworth Management, an international healthcare venture capital firm, where he was involved in founding, financing and serving as a director of several biotechnology companies in Europe and the USA – many of which obtained listings on public stock exchanges. Prior to that, he spent 14 years with Celltech Group plc and was a member of its Board when it listed on the London Stock Exchange in 1994. He has a degree in Chemical Engineering from the University of Cambridge and an MBA from the London Business School. In addition to the positions mentioned above, he has in the last five years been a non-executive director of Pronota BV and Ablynx NV. Aged 65.

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# Board of Directors

**Simon Cartmell BSc Msc, Non-executive Director**

Simon Cartmell was appointed to the Board in July 2011. He was, until June 2010, Chief Executive Officer of ApaTech Ltd, which he built into a world leader in orthobiologics. Its sale to Baxter International Inc was completed in March 2010. Prior to ApaTech he was Chief Executive Officer of Celltech Pharmaceuticals and a director of Celltech Group plc before which he was Chief Operating Officer of Vanguard Medica plc. His early career was spent at Glaxo plc in multiple senior UK and global commercial strategy, product development, supply chain, marketing, sales and business development roles. He is a Medical Microbiology graduate from Manchester University and an alumnus of the London Business School Sloan Fellowship Programme. He is currently Chief Executive Officer of Calon Cardio-Technologies Ltd and has non-executive or advisory roles as a Venture Partner with Imperial Innovations plc, as a non-executive director of Phase4 Ventures, as an adviser to Mercia Fund Management Ltd and as an advisor to several emerging life science and medical technology companies in the UK and internationally. Aged 53.

**Dr Tim Corn, MSc FFPM FRCPsych, Non-executive Director**

Dr Tim Corn was appointed to the Board in June 2012. He is Chief Medical Officer at EUSA Pharma International, a division of Jazz Pharmaceuticals, and was formally Chief Medical Officer at EUSA Pharma Inc., until its acquisition by Jazz in 2012, and Chief Medical Officer at Zeneus Pharma, which was acquired by Cephalon Inc in 2006. In addition, he serves as Chair of the Board of Trustees of the Neuro Foundation, and Non-executive Director on the Board of Circassia Limited. Dr. Corn qualified in medicine at King's College Hospital, London after gaining a Master's degree in biochemistry from Imperial College. He became consultant and senior lecturer in neuropsychiatry at the Institute of Psychiatry, London and is author of more than forty scientific publications. Dr. Corn has held senior clinical and regulatory positions at GlaxoWellcome, MSD Research Laboratories, Athena Neuroscience and Elan as well as in the UK regulatory agency. He has played a key role in twenty regulatory approvals in USA and Europe for products in the fields of neurology and oncology, the most recent being the approval by FDA of the BLA for Erwinaze™. He was elected Fellow of the Faculty of Pharmaceutical Medicine in 1996 and of the Royal College of Psychiatrists in 1998. Aged 62.

**Mark Docherty BEng FCA, Non-executive Director**

Mark Docherty was appointed to the Board in March 2003. He is Finance and Corporate Director of FKD Therapies Oy, a Finnish based gene therapy company whose lead product for bladder cancer is in clinical development. He is Director of Finvector Vision Therapies Limited, a specialist gene therapy manufacturer and Chief Financial Officer of Wölbern Private Equity GmbH, a specialist private equity house. He was a founding director of Merlin Biosciences Limited (now Excalibur Fund Managers Limited) and was actively involved in the structuring and financing of many of the Merlin portfolio companies including ReNeuron. Previously, he was a Manager in the Corporate Finance Group of Arthur Andersen. He is a chartered accountant and holds a BEng in Mechanical Engineering from Sheffield University. He is also a non-executive director of CBT Development Limited. Aged 49.

**Professor Sir Chris Evans OBE, Non-executive Director**

Professor Sir Chris Evans OBE was appointed to the Board in August 2013. Sir Chris is the Founder and Chairman of Excalibur Group, and is a highly successful scientist and entrepreneur, having built over 50 medical companies and created over $5bn of value for investors with $3bn of cash exits. He is the Founder of Chiroscience, Celsis, Biovex, Merlin, Vectura & and Piramed. He has also raised $2bn for cancer research projects. More recently, he has established Arthurian Life Sciences Ltd to provide management services to the Wales Life Sciences Investment Fund, a £100million fund and a key part of the Welsh Government's Life Sciences initiative. Aged 55.

**Dr Paul Harper BSc Ph.D., Non-executive Director**

Dr Paul Harper was appointed to the Board in August 2005. He is a graduate of Leeds University (Microbiology/Virology). He initially pursued a career in drug discovery and development with Glaxo Group Research as Head of Antimicrobial Chemotherapy, Johnson & Johnson Limited as Director of Research & Development and with Unipath plc. This was followed by work in a number of start-up companies and SMEs as Chief Executive Officer or adviser. These included, as Chief Executive Officer, preparing Cambridge Antibody Technology Ltd for flotation on the London Stock Exchange and founding Provensis Limited to develop a drug device product. Currently Chairman of Physiomics plc, Sareum Holdings plc and three other private biotechnology/devices businesses. Aged 67.

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# Directors' report
for the year ended 31 March 2013

The directors present their report and the audited consolidated financial statements of the company for the year ended 31 March 2013.

## Principal activities, risks, business review and future prospects

A review of the business and its prospects is contained within the Chairman's and Chief Executive Officer's joint statement and the business review that follows it. The principal activities of the Group are the research, development and commercial exploitation of stem cell technologies for therapeutic and non-therapeutic applications. These activities are carried out by the company and its subsidiaries.

In common with other small biotechnology companies, the Group is subject to a number of risks and uncertainties, which include:

- the early stage of development of the business;
- the safety and effectiveness of its technologies;
- its history of operating losses;
- availability and terms of capital needed for the business;
- its ability to receive regulatory approvals;
- the uncertainty that clinical trials will succeed or lead to commercially viable products;
- competition from other companies and market acceptance of its products;
- its reliance on consultants, contractors and personnel at third-party research institutions;
- intellectual property infringement claims by others and the ability to protect its intellectual property;
- the ability to attract and retain qualified personnel; and
- pricing pressures and actions by governmental health administration authorities.

A number of specific committees exist in the Group which meet regularly to review progress and agree actions encompassing research activities, development programmes, and wider business and commercial issues. Through these committees, and through formal Board meetings, the directors are able to continuously monitor, evaluate and mitigate the potential impact of the principal risks facing the Group as it develops.

## Clinical and regulatory risk

There are significant inherent risks in developing stem cell therapies for commercialisation due to the long and complex development process. Any therapy which we wish to offer commercially to the public must be put through extensive research, pre-clinical and clinical development all of which takes several years and is extremely costly. We may fail to successfully develop a drug candidate because of:

- the failure of the drug in pre-clinical studies;
- the inability of clinical trials to demonstrate the drug is safe and effective in humans;
- the failure to find a collaborator to take the drug candidate into expensive later stage studies; and
- the failure to manufacture the drug substance in sufficient quantities and at commercially acceptable prices.

In addition, the complexity and multijurisdictional nature of the regulatory processes could result in either delays in achieving regulatory approval or non-approval. If a product is approved, the regulators may impose additional requirements, for example, restrictions on the therapy's indicated uses or the levels of reimbursement receivable, that could impact on its commercial viability. Once approved, the product and its manufacture will continue to be reviewed by the regulators and may be withdrawn or restricted in the future.

## Competition and intellectual property

Intellectual property protection remains fundamental to our strategy of developing novel drug candidates. Our ability to stop others making a drug, using it or selling the invention or proprietary rights by obtaining and maintaining protection is critical to our success. We manage a portfolio of patents and patent applications which underpin our research and development programmes. We invest significantly in maintaining and protecting this intellectual property to reduce the risks over the validity and enforceability of our patents. However, the patent position is always uncertain and often involves complex legal issues. Therefore, there is a risk that intellectual property may become invalid and/or expire before, or soon after, commercialisation of a drug product and we may be blocked by other companies' patents and intellectual property.

## Manufacturing risk

Our ability to successfully scale-up production processes through outsourced manufacturers to viable clinical trial or commercial levels is vital to the commercial viability of any product. Availability of

raw materials is extremely important to ensure that manufacturing campaigns are performed on schedule and therefore dual sourcing is used where possible. Product manufacture is subject to continual regulatory control and products must be manufactured in accordance with good manufacturing practice. Any changes to the approved process may require further regulatory approval which may incur substantial cost and delays. These potential issues could adversely impact on the results from operations and our cash liquidity.

## Financial risks

The financial risks faced by the Group include interest rate risk, foreign currency risk, liquidity risk and risk associated with cash held on deposit with financial institutions. The Board reviews and agrees policies for managing each of these risks. The Group's main objectives in using financial instruments are the maximisation of returns from funds held on deposit, balanced with the need to safeguard the assets of the business. The Group does not enter into forward currency contracts. Due to the nature of the Group's activities, the directors do not currently consider it necessary to use derivative financial instruments to hedge the Group's exposure to fluctuations in interest rates as these exposures are not considered significant. However, the Group does hold currency in US dollars to cover US dollar expenses. A summary of the Group's financial instruments is set out in note 21 to the financial statements.

## Key Performance Indicators

The ongoing performance of the Group is managed and monitored using a number of key performance indicators, both financial and qualitative. In terms of financial performance, the Group does not currently generate profits and utilises cash for its operational activities. The forecasting and monitoring of the Group's cash resources is therefore critical in terms of the efficient allocation of those resources and in predicting future cash requirements. A key feature of the Group's internal management reporting systems is therefore the emphasis placed on operational cash spend by category and against forecast, which is monitored at both Management Committee and Board level on a monthly basis. The Group's net cash outflow from operating activities for the year ended 31 March 2013 was £6,022,000 (2012: £5,786,000). Cash flow forecasts are adjusted on a regular basis to take account of changing circumstances in the business. In this way, the Group's forward cash requirements can be predicted with a high degree of accuracy. In terms of the Group's wider performance, each going concern risk, research or development programme is managed by a project manager who reports progress against key qualitative milestones on a monthly basis to the Management Committee.

The more detailed aspects of these programmes are also discussed and monitored through separate Project Review or Development Committees. Research and development programmes are planned and executed against identified milestones, and together these programmes constitute the Group's product pipeline.

## Presentation of financial statements

The Group accounts include the financial statements of the Company and its subsidiary undertakings, made up to 31 March 2013.

## Results and dividends

The results for the year are given in the Group Statement of Comprehensive Income set out on page 23. The directors do not recommend the payment of a dividend (2012: £nil).

## Research and development

During the year the Group incurred research and development costs of £4,786,000 (2012: £4,865,000) all charged to the Statement of Comprehensive Income.

## Directors and directors' interests

The directors who held office during the year, and up to the signing of the financial statements, unless otherwise stated, are listed below:

Bryan Morton, Non–executive Chairman
Michael Hunt, Chief Executive Officer
Dr John Sinden, Chief Scientific Officer
John Berriman, Non–executive Director
Simon Cartmell, Non–executive Director
Dr Tim Corn, Non-executive Director (appointed 26 June 2012)
Mark Docherty, Non–executive Director
Professor Sir Chris Evans, Non-executive Director (appointed 9 August 2013)
Dr Paul Harper, Non–executive Director
Professor Trevor Jones, Non-executive Director (resigned 26 June 2012)

# Directors' report continued
for the year ended 31 March 2013

## Directors' emoluments

| | Salaries and fees £'000 | Bonuses £'000 | Benefits in kind £'000 | **2013 Total £'000** | Pension contributions £'000 | 2012 Total £'000 | Pension contributions £'000 |
|---|---|---|---|---|---|---|---|
| Michael Hunt | 185 | 51 | 2 | **238** | 17 | 221 | 17 |
| Dr John Sinden | 172 | 47 | 3 | **222** | 16 | 206 | 16 |
| Bryan Morton | 32 | – | – | **32** | – | 29 | – |
| John Berriman | 27 | – | – | **27** | – | 19 | – |
| Simon Cartmell | 27 | – | – | **27** | – | 19 | – |
| Dr Tim Corn | 19 | – | – | **19** | – | – | – |
| Mark Docherty | 17 | – | – | **17** | – | 16 | – |
| Dr Paul Harper | 23 | – | – | **23** | – | 21 | – |
| Professor Trevor Jones | 8 | – | – | **8** | – | 23 | – |
| **Total** | 510 | 98 | 5 | **613** | 33 | 554 | 33 |

Benefits in kind are private medical insurance and professional subscription payments.

Directors' emoluments include the following amounts payable to third parties:

£17,496 (2012: £16,248) payable to XKE Capital Llp in respect of directors' fees for Mark Docherty, and £22,500 (2012: £21,048) payable to Dr Paul Harper, trading as BioMedicon Systems Pvt. Limited, in respect of directors' fees.

The directors held the following interests in the shares of the Company:

| | | **2013 Number** | 2012 Number |
|---|---|---|---|
| Michael Hunt | Ordinary shares of 1p each | **453,023** | 328,023 |
| Dr John Sinden | Ordinary shares of 1p each | **1,611,902** | 1,486,902 |
| Bryan Morton | Ordinary shares of 1p each | **215,909** | 90,909 |
| John Berriman | Ordinary shares of 1p each | **125,000** | – |
| Simon Cartmell | Ordinary shares of 1p each | **187,500** | – |
| Dr Tim Corn | Ordinary shares of 1p each | **–** | – |
| Dr Paul Harper | Ordinary shares of 1p each | **251,709** | 201,709 |
| Mark Docherty | Ordinary shares of 1p each | **344,854** | 219,854 |
| Professor Trevor Jones | Ordinary shares of 1p each | **227,109** | 202,109 |

On the 3 April 2012, the Company announced that it had raised net proceeds of £5.6 million by means of a Placing through the issue of 134,037,500 ordinary shares of 1p each at 4p per share.

In addition, investors in the Placing were issued Warrants to subscribe for Ordinary Shares, with each Warrant entitling the holder to subscribe for Ordinary Shares at a price of 6 pence per Ordinary Share. Warrants are exercisable within 2 years of the date of issue.

Following completion of the placing and at the financial year end the directors held the following interests in warrants of the Company:

| | **2013 Number** | 2012 Number |
|---|---|---|
| Michael Hunt | **125,000** | – |
| Dr John Sinden | **125,000** | – |
| Bryan Morton | **125,000** | – |
| John Berriman | **125,000** | – |
| Simon Cartmell | **187,500** | – |
| Dr Paul Harper | **50,000** | – |
| Mark Docherty | **125,000** | – |
| Professor Trevor Jones | **25,000** | – |

The directors held the following interests in options over shares of the Company:

**Michael Hunt**

| | Note | At 1 April 2012 Number | *Adjusted during the year Number | Granted during the year Number | **At 31 March 2013 Number** | *Exercise Price | ** Exercise Period |
|---|---|---|---|---|---|---|---|
| Options – approved | 1 | 772,989 | 33,381 | – | **806,370** | 5.06p | August 2005 – July 2014 |
| Options – unapproved | 1 | 931,465 | 40,225 | – | **971,690** | 5.06p | August 2006 – July 2014 |
| Options – unapproved | 2 | 1,893,837 | 81,784 | – | **1,975,621** | 12.65p | August 2008 – August 2015 |
| Options – unapproved | 2 | 472,916 | 20,443 | – | **493,359** | 5.07p | August 2009 – August 2016 |
| Options – unapproved | 2 | 472,916 | 20,443 | – | **493,359** | 7.6p | August 2010 – August 2016 |
| Options – unapproved | 3 | 824,713 | 35,615 | – | **860,328** | 12.2p | August 2010 – August 2017 |
| Options – unapproved | 3 | 824,713 | 35,615 | – | **860,328** | 21.79p | August 2010 – August 2017 |
| Options – Deferred Bonus Plan approved | 5 | 1,442,887 | – | – | **1,442,887** | 1.0p | August 2011 – August 2020 |
| Options – Long Term Incentive Plan unapproved | 6 | 1,772,728 | – | – | **1,772,728** | 1.0p | August 2012 – August 2019 |
| Options – Long Term Incentive Plan unapproved | 7 | 2,071,066 | – | – | **2,071,066** | 1.0p | August 2013 – August 2020 |
| Options – Long Term Incentive Plan unapproved | 8 | 2,916,667 | – | – | **2,916,667** | 1.0p | August 2014 – August 2021 |
| Options – Long Term Incentive Plan unapproved | 10 | – | – | 3,181,818 | **3,181,818** | 1.0p | September 2015 – September 2022 |
| | | 14,396,897 | 267,506 | 3,181,818 | **17,846,221** | | |

# Directors' report continued
for the year ended 31 March 2013

**John Sinden**

| | Note | At 1 April 2012 Number | *Adjusted during the year Number | Granted during the year Number | **At 31 March 2013 Number** | *Exercise Price | ** Exercise Period |
|---|---|---|---|---|---|---|---|
| Options – approved | 1 | 772,989 | 33,381 | – | **806,370** | 5.06p | August 2005 – July 2014 |
| Options – unapproved | 1 | 925,178 | 39,953 | – | **965,131** | 5.06p | August 2006 – July 2014 |
| Options – unapproved | 2 | 1,893,837 | 81,784 | – | **1,975,621** | 12.65p | August 2008 – August 2015 |
| Options – unapproved | 2 | 472,916 | 20,423 | – | **493,339** | 5.07p | August 2009 – August 2016 |
| Options – unapproved | 2 | 472,916 | 20,423 | – | **493,339** | 7.6p | August 2010 – August 2016 |
| Options – unapproved | 3 | 824,713 | 35,615 | – | **860,328** | 12.2p | August 2010 – August 2017 |
| Options – unapproved | 3 | 824,713 | 35,615 | – | **860,328** | 21.79p | August 2010 – August 2017 |
| Options – Deferred Bonus Plan approved | 5 | 1,564,642 | – | – | **1,564,642** | 1.0p | August 2011 – August 2020 |
| Options – Long Term Incentive Plan unapproved | 6 | 1,713,637 | – | – | **1,713,637** | 1.0p | August 2012 – August 2019 |
| Options – Long Term Incentive Plan unapproved | 7 | 1,918,782 | – | – | **1,918,782** | 1.0p | August 2013 – August 2020 |
| Options – Long Term Incentive Plan unapproved | 8 | 2,336,389 | – | – | **2,336,389** | 1.0p | August 2014 – August 2021 |
| Options – Long Term Incentive Plan unapproved | 10 | – | – | 2,450,758 | **2,450,758** | 1.0p | September 2015 – September 2022 |
| | | 13,720,712 | 267,194 | 2,450,758 | **16,438,664** | | |

### Bryan Morton

| | Note | At 1 April 2012 Number | *Adjusted during the year Number | Granted during the year Number | **At 31 March 2013 Number** | *Exercise Price | ** Exercise Period |
|---|---|---|---|---|---|---|---|
| Options – unapproved | 4 | 217,298 | 9,384 | – | **226,682** | 4.85p | August 2012 – August 2019 |
| Options – unapproved | 4 | 266,297 | 11,500 | – | **277,797** | 4.43p | August 2013 – August 2020 |
| Options – unapproved | 9 | 400,000 | 17,274 | – | **417,274** | 4.31p | August 2014 – August 2021 |
| Options – Unapproved | 11 | – | – | 500,000 | **500,000** | 3.3p | August 2015 – August 2022 |
| | | 883,595 | 38,158 | 500,000 | **1,421,753** | | |

### John Berriman

| | Note | At 1 April 2012 Number | *Adjusted during the year Number | Granted during the year Number | **At 31 March 2013 Number** | *Exercise Price | ** Exercise Period |
|---|---|---|---|---|---|---|---|
| Options – unapproved | 9 | 400,000 | 17,274 | – | **417,274** | 4.31p | August 2014 – August 2021 |
| Options – unapproved | 11 | – | – | 500,000 | **500,000** | 3.3p | August 2015 – August 2022 |
| | | 400,000 | 17,274 | 500,000 | **917,274** | | |

### Simon Cartmell

| | Note | At 1 April 2012 Number | *Adjusted during the year Number | Granted during the year Number | **At 31 March 2013 Number** | *Exercise Price | ** Exercise Period |
|---|---|---|---|---|---|---|---|
| Options – unapproved | 9 | 400,000 | 17,274 | – | **417,274** | 4.31p | August 2014 – August 2021 |
| Options – unapproved | 11 | – | – | 500,000 | **500,000** | 3.3p | August 2015 – August 2022 |
| | | 400,000 | 17,274 | 500,000 | **917,274** | | |

# Directors' report continued
for the year ended 31 March 2013

### Dr Paul Harper

| | Note | At 1 April 2012 Number | *Adjusted during the year Number | Granted during the year Number | **At 31 March 2013 Number** | *Exercise Price | ** Exercise Period |
|---|---|---|---|---|---|---|---|
| Options – unapproved | 2 | 94,692 | 4,089 | – | **98,781** | 12.65p | August 2008 – August 2015 |
| Options – unapproved | 2 | 94,583 | 4,084 | – | **98,668** | 5.07p | August 2009 – August 2016 |
| Options – unapproved | 3 | 247,414 | 10,684 | – | **258,098** | 12.2p | August 2010 – August 2017 |
| Options – unapproved | 4 | 217,298 | 9,384 | – | **226,682** | 4.85p | August 2012 – August 2019 |
| Options – unapproved | 4 | 266,297 | 11,500 | – | **277,797** | 4.43p | August 2013 – August 2020 |
| Options – unapproved | 9 | 400,000 | 17,274 | – | **417,274** | 4.31p | August 2014 – August 2021 |
| Options – unapproved | 11 | – | – | 500,000 | **500,000** | 3.3p | August 2015 – August 2022 |
| | | 1,320,284 | 57,016 | 500,000 | **1,877,300** | | |

### Mark Docherty

| | Note | At 1 April 2012 Number | *Adjusted during the year Number | Granted during the year Number | **At 31 March 2013 Number** | *Exercise Price | ** Exercise Period |
|---|---|---|---|---|---|---|---|
| Options – unapproved | 3 | 247,414 | 10,684 | – | **258,098** | 12.2p | August 2010 –August 2017 |
| Options – unapproved | 4 | 217,298 | 9,384 | – | **226,682** | 4.85p | August 2012 – August 2019 |
| Options – unapproved | 4 | 266,297 | 14,500 | – | **277,797** | 4.43p | August 2013 – August 2020 |
| Options – unapproved | 9 | 400,000 | 17,274 | – | **417,274** | 4.31p | August 2014 – August 2021 |
| Options – unapproved | 11 | – | – | 500,000 | **500,000** | 3.3p | August 2015 – August 2022 |
| | | 1,131,009 | 48,842 | 500,000 | **1,679,851** | | |

**Professor Trevor Jones**

| | Note | At 1 April 2012 Number | *Adjusted during the year Number | Granted during the year Number | **At 31 March 2013 Number** | *Exercise Price | ** Exercise Period |
|---|---|---|---|---|---|---|---|
| Options – Unapproved | 1 | 189,384 | 8,178 | – | **197,562** | 5.06p | August 2005 – July 2014 |
| Options – Unapproved | 2 | 94,692 | 4,089 | – | **98,781** | 12.65p | August 2008 – August 2015 |
| Options – Unapproved | 2 | 94,583 | 4,085 | – | **98,668** | 5.07p | August 2009 – August 2016 |
| Options – Unapproved | 3 | 247,414 | 10,684 | – | **258,098** | 12.2p | August 2010 – August 2017 |
| Options – Unapproved | 4 | 217,298 | 9,384 | – | **226,682** | 4.85p | August 2012 – August 2019 |
| Options – Unapproved | 4 | 266,297 | 11,500 | – | **277,797** | 4.43p | August 2013 – August 2020 |
| Options – Unapproved | 9 | 400,000 | 17,274 | – | **417,274** | 4.31p | August 2014 – August 2021 |
| | | 1,509,668 | 65,194 | – | **1,574,862** | | |

Professor Trevor Jones retained his options following his resignation from the Board of Directors on 26 June 2012, by virtue of his continuing role as Chairman of the Company's Scientific and Strategic Advisory Group.

* The number of share options and exercise price for share options issued under notes 1, 2, 3 and 4 below were adjusted during the year in accordance with the Rules of the Scheme to adjust for the variation in share capital since their issue.

** The exercise periods indicate the earliest dates by which options are exercisable subject to meeting the performance conditions disclosed below. As at 31 March 2013 the performance conditions in notes 4, 6, 7, 8, 9, 10 and 11 had not been met. Performance conditions in relation to note 3 were met in the prior year.

# Directors' report continued
for the year ended 31 March 2013

**Note 1:**
These options were issued in August 2005 following the Group's Admission to the AIM market. The new share options replaced those previously held under an earlier share option scheme, which have now lapsed. These options were issued through a combination of an Inland Revenue approved EMI scheme and an unapproved scheme and are exercisable from the date of grant, as the relevant performance condition had been satisfied, being the Admission of the Ordinary Shares in the Company.

**Note 2:**
These options were issued under the Group's Share Option Scheme. Subject to the satisfaction of a performance condition, being the first patient administered with a ReNeuron cell therapy in Phase I/II trials, the options are exercisable in whole or in part at any time between the third anniversary and the tenth anniversary of the date on which the option was granted. If not exercised by the tenth anniversary of the date of grant, the option will lapse.

**Note 3:**
These options were issued under the Group's Share Option Scheme. Subject to the satisfaction of a performance condition, being the successful completion of an initial clinical trial of a ReNeuron cell therapy, the options are exercisable in whole or in part at any time between the third anniversary and the tenth anniversary of the date on which the option was granted. If not exercised by the tenth anniversary of the date of grant, the option will lapse.

**Note 4:**
These options were issued under the Group's Share Option Scheme. Subject to the satisfaction of a performance condition, being the first patient administered with a ReNeuron cell therapy in a second clinical trial, the options are exercisable in whole or in part at any time between the third anniversary and the tenth anniversary of the date on which the option was granted. If not exercised by the tenth anniversary of the date of grant, the option will lapse.

**Note 5:**
These options have been issued under the Group's Share Option Scheme. The options were awarded in accordance with the Group's Deferred Share-based Bonus Plan in respect of corporate and personal objectives achieved in the financial year ended 31 March 2009 and as such all performance conditions have been met. The options are exercisable in whole or in part at any time between the second anniversary and the tenth anniversary of the date on which the option was granted. If not exercised by the tenth anniversary of the date of grant, the option will lapse.

**Note 6:**
These options have been issued under the Group's Share Option Scheme. These options were awarded in accordance with the Group's Long Term Incentive Plan and are subject to the satisfaction of the performance conditions set out below. Subject to achievement of these performance conditions, options are exercisable in whole or in part at any time between the third anniversary and the tenth anniversary of the date on which the option was granted. If not exercised by the tenth anniversary of the date of grant, the option will lapse.

Performance Conditions:

i) The first patient is administered with a ReNeuron cell therapy in a second clinical trial,

ii) The Total Shareholder Return (TSR) of the Company must exceed that of the AIM Healthcare Index in any given three year period from date of grant. Where the TSR ranks between median and upper quartile of the index over the three-year period, the options will vest pro-rata between 25% and 100%. Where the TSR ranks below the median in the performance period, no options will vest.

iii) The business must have operated within its internal financial budgets throughout the period to vesting.

iv) The business must be a going concern (under the accepted accounting definition) at the time of any exercise of an option.

**Note 7:**
These options have been issued under the Group's Share Option Scheme. These options were awarded in accordance with the Group's Long Term Incentive Plan and are subject to the satisfaction of the performance conditions set out below. Subject to achievement of these performance conditions, options are exercisable in whole or in part at any time between the third anniversary and the tenth anniversary of the date on which the option was granted. If not exercised by the tenth anniversary of the date of grant, the option will lapse.

Performance Conditions:

i) The first patient is administered with a ReNeuron cell therapy in a second clinical trial,

ii) The Total Shareholder Return (TSR) of the Company must exceed that of the AIM Healthcare Index in any given three year period from date of grant. Where the TSR ranks between median and upper quartile of the index over the three-year period, the options will vest pro-rata between

25% and 100%. Where the TSR ranks below the median in the performance period, no options will vest.

iii) The business must have operated within its internal financial budgets throughout the period to vesting.

iv) The business must be a going concern (under the accepted accounting definition) at the time of any exercise of an option.

**Note 8:**
These options have been issued under the Group's Share Option Scheme. These options were awarded in accordance with the Group's Long Term Incentive Plan and are subject to the satisfaction of the performance conditions set out below. Subject to achievement of these performance conditions, options are exercisable in whole or in part at any time between the third anniversary and the tenth anniversary of the date on which the option was granted. If not exercised by the tenth anniversary of the date of grant, the option will lapse.

Performance Conditions:

i) The first patient is administered with a ReNeuron cell therapy in a third clinical trial,

ii) The Total Shareholder Return (TSR) of the Company must exceed that of the AIM Healthcare Index in any given three year period from date of grant. Where the TSR ranks between median and upper quartile of the index over the three-year period, the options will vest pro-rata between 25% and 100%. Where the TSR ranks below the median in the performance period, no options will vest.

iii) The business must have operated within its internal financial budgets throughout the period to vesting.

iv) The business must be a going concern (under the accepted accounting definition) at the time of any exercise of an option.

**Note 9:**
These options were issued under the Group's Share Option Scheme. Subject to the satisfaction of a performance condition, being the first patient administered with a ReNeuron cell therapy in a third clinical trial, the options are exercisable in whole or in part at any time between the third anniversary and the tenth anniversary of the date on which the option was granted. If not exercised by the tenth anniversary of the date of grant, the option will lapse.

**Note 10:**
These options have been issued under the Group's Share Option Scheme. These options were awarded in accordance with the Group's Long Term Incentive Plan and are subject to the satisfaction of the performance conditions set out below. Subject to achievement of these performance conditions, options are exercisable in whole or in part at any time between the third anniversary and the tenth anniversary of the date on which the option was granted. If not exercised by the tenth anniversary of the date of grant, the option will lapse.

Performance Conditions:

i) The first patient is administered with a ReNeuron cell therapy in a fourth clinical trial,

ii) The Total Shareholder Return (TSR) of the Company must exceed that of the AIM Healthcare Index in any given three year period from date of grant. Where the TSR ranks between median and upper quartile of the index over the three-year period, the options will vest pro-rata between 25% and 100%. Where the TSR ranks below the median in the performance period, no options will vest.

iii) The business must have operated within its internal financial budgets throughout the period to vesting.

iv) The business must be a going concern (under the accepted accounting definition) at the time of any exercise of an option.

**Note 11:**
These options were issued under the Group's Share Option Scheme. Subject to the satisfaction of a performance condition, being the first patient administered with a ReNeuron cell therapy in a fourth clinical trial, the options are exercisable in whole or in part at any time between the third anniversary and the tenth anniversary of the date on which the option was granted. If not exercised by the tenth anniversary of the date of grant, the option will lapse.

## Qualifying third party indemnity

Certain directors benefited from qualifying third party indemnity provisions in place during the year and at the date of this report.

## Policy and practice on payment of creditors

It is the Group's policy, in respect of all suppliers, to agree payment terms in advance of the supply of goods and services

# Directors' report continued
for the year ended 31 March 2013

and to adhere to those payment terms. Trade payables of the Group at the year end as a proportion of amounts invoiced by suppliers during the year represent 40 days (2012: 65 days).

Trade payables of the Company at the year end as a proportion of amounts invoiced by suppliers during the year represent nil days (2012: nil days).

## Corporate Governance

As an AIM-listed Company, ReNeuron is not required to comply with the UK Corporate Governance Code (2010), a set of recommended corporate governance principles for UK public companies issued by the Financial Reporting Council. However, the directors support high standards of Corporate Governance and have established a set of corporate governance principles which they regard as appropriate for the stage of development of the Group. For example, the Company has adopted a share dealing code for directors and senior employees on substantially the same terms as AIM's model code on directors' dealings in company shares.

The Board has established an Audit Committee, Remuneration Committee and Nominations Committee with formally delegated duties and responsibilities. All of the non-executive directors are members of these committees. John Berriman chairs the Audit Committee, Simon Cartmell chairs the Remuneration Committee and Bryan Morton chairs the Nominations Committee.

The Audit Committee normally meets twice a year and has responsibility for, amongst other things, planning and reviewing the annual report and accounts and interim statements and involving, where appropriate, the external auditors. The Committee also approves external auditors' fees and ensures the auditors' independence as well as focusing on compliance with legal requirements and accounting standards.

It is also responsible for ensuring that an effective system of internal controls is maintained. The ultimate responsibility for reviewing and approving the annual financial statements and interim statements remains with the Board.

The Remuneration Committee, which meets as required, but at least once a year, has responsibility for making recommendations to the Board on the compensation of senior executives and determining, within agreed terms of reference, the specific remuneration packages for each of the executive directors. It also supervises the Share Option Scheme and sets performance conditions which must be satisfied before options granted under the Share Option Scheme can be exercised.

The Nominations Committee has responsibility for reviewing the size and composition of the Board and appointment of replacement and/or additional directors and making appropriate recommendations to the Board.

## Communications

The Group places a high priority on regular communications with its various stakeholder groups, and aims to ensure that all communications concerning the Group's activities are clear, fair and accurate. The Group maintains a regularly updated website, where users can register to be alerted when announcements or details of presentations and events are posted onto the website.

Beyond the Annual General Meeting, the Chief Executive Officer and Chief Scientific Officer meet regularly with investors and analysts to provide them with updates on the Group's business and to obtain feedback regarding the market's expectations of the Group.

## Health and safety and the environment

The Group is committed to providing a safe environment for its staff and all other parties for which the Group has a legal or moral responsibility in this area. The Group operates a Health and Safety Committee which meets monthly to monitor, review and make decisions concerning health and safety matters. The Group's health and safety policies and procedures are enshrined in the Group's documented quality systems, which encompass all aspects of the Group's day-to-day operations.

The Group is aware of its corporate responsibilities concerning the impact of its activities on the environment, and seeks to minimise this impact wherever possible. Through the various procedures and systems it operates, the Group ensures full compliance with health and safety and environmental legislation relevant to its activities.

## BIA Code

The Group is a member of the Bioindustry Association (BIA), the trade association for biotechnology companies in the UK. The Group adheres to the BIA's Best Practice Guideline on Financial & Corporate Communications.

## Directors' responsibilities statement

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the Group and Parent Company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Group for that period. In preparing these financial statements, the directors are required to:

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

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities. The directors are responsible for the maintenance and integrity of the Group website www.reneuron.com. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

## Directors' statement on disclosure of information to auditors

In accordance with Section 418 of the Companies Act, in the case of each of the persons who are directors at the time when the report is approved, the following applies:

- so far as each director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- each director has taken all the steps that he ought to have taken as a director in order to make himself aware of any audit information and to establish that the Company's auditors are aware of that information.

## Independent Auditors

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office and a resolution concerning their re-appointment will be proposed at the Annual General Meeting.

## Annual General Meeting

The Annual General Meeting of the Company will be held at the offices of Covington & Burling LLP, 265 Strand, London, WC2R 1BH on 13 September 2013 at 10:00am. The notice of the 2013 Annual General Meeting is enclosed on page 55 of this document.

By order of the Board

**Michael Hunt**
Director

ReNeuron
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# Independent auditors' report to the members of ReNeuron Group plc

We have audited the group and parent company financial statements (the ''financial statements'') of ReNeuron Group plc for the year ended 31 March 2013 which comprise the Group Statement of Comprehensive Income, the Group and Parent Company Statements of Financial Position, the Group and Parent Company Statements of Changes in Equity, the Group and Parent Company Statements of Cash flows and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

## Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on pages 20 and 21, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

## Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's and parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

## Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 March 2013 and of the group's loss and group's and parent company's cash flows for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

## Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

## Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

**Sam Taylor** (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Reading
9 August 2013

# Group Statement of Comprehensive Income

for the year ended 31 March

| | Note | 2013 £'000 | 2012 £'000 |
|---|---|---|---|
| Revenue | 5 | **17** | 40 |
| Research and development costs | 6 | **(4,786)** | (4,865) |
| General and administrative costs | 6 | **(2,319)** | (2,059) |
| **Operating loss** | | **(7,088)** | (6,884) |
| Finance income | 7 | **30** | 40 |
| Finance costs | 7 | **(1)** | (1) |
| **Loss before income tax** | | **(7,059)** | (6,845) |
| Taxation | 10 | **714** | 616 |
| **Loss and total comprehensive loss for the year** | | **(6,345)** | (6,229) |
| **Total loss and total comprehensive loss attributable to:** | | | |
| – Equity owners of the Company | | **(6,345)** | (6,229) |
| **Basic and diluted loss per ordinary share** | 12 | **(0.8p)** | (1.0p) |

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# Group and Parent Company Statements of Financial Position
as at 31 March

| | Note | Group 2013 £'000 | Group 2012 £'000 | Company 2013 £'000 | Company 2012 £'000 |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| **Non-current assets** | | | | | |
| Property, plant and equipment | 13 | **213** | 298 | **–** | – |
| Intangible assets | 14 | **1,272** | 1,272 | **–** | – |
| Investment in subsidiaries | 15 | **–** | – | **48,006** | 41,837 |
| Trade and other receivables | 16 | **135** | 135 | **–** | – |
| | | **1,620** | 1,705 | **48,006** | 41,837 |
| **Current assets** | | | | | |
| Trade and other receivables | 16 | **341** | 458 | **1** | 2 |
| Corporation tax receivable | 10 | **714** | 616 | **–** | – |
| Cash and cash equivalents | 17 | **3,547** | 3,983 | **2,877** | 3,748 |
| | | **4,602** | 5,057 | **2,878** | 3,750 |
| **Total assets** | | **6,222** | 6,762 | **50,884** | 45,587 |
| **Equity** | | | | | |
| **Equity attributable to owners of the company** | | | | | |
| Share capital | 24 | **7,748** | 6,234 | **7,748** | 6,234 |
| Share premium account | | **32,972** | 28,885 | **32,972** | 28,885 |
| Capital redemption reserve | | **8,964** | 8,964 | **8,964** | 8,964 |
| Merger reserve | | **2,223** | 2,223 | **1,858** | 1,858 |
| Warrant reserve | | **149** | 108 | **149** | 108 |
| Share-based credit reserve | | **2,000** | 1,623 | **2,000** | 1,623 |
| Retained deficit | | **(49,148)** | (42,803) | **(8,296)** | (7,573) |
| **Total equity** | | **4,908** | 5,234 | **45,395** | 40,099 |
| **Liabilities** | | | | | |
| **Non-current liabilities** | | | | | |
| Provisions | 19 | **150** | 125 | **–** | – |
| | | **150** | 125 | **–** | – |
| **Current liabilities** | | | | | |
| Trade and other payables | 18 | **1,163** | 1,394 | **5,489** | 5,488 |
| Financial liabilities: finance leases | 20 | **1** | 9 | **–** | – |
| | | **1,164** | 1,403 | **5,489** | 5,488 |
| **Total liabilities** | | **1,314** | 1,528 | **5,489** | 5,488 |
| **Total equity and liabilities** | | **6,222** | 6,762 | **50,884** | 45,587 |

The financial statements on pages 23 to 52, comprising the Group Statement of Comprehensive Income, the Group and Parent Company Statements of Financial Position, the Group and Parent Company Statements of Changes in Equity and the Group and Parent Company Statements of Cash Flows, and related notes, were approved by the Board of Directors on 9 August 2013 and were signed on their behalf by:

**Michael Hunt**
Director

Company Registered Number 05474163

# Group and Parent Company Statements of Changes in Equity
as at 31 March

| Group | Share capital £'000 | Share premium account £'000 | Capital redemption reserve £'000 | Merger reserve £'000 | Warrant reserve £'000 | Share-based credit reserve £'000 | Retained deficit £'000 | Total Equity £'000 |
|---|---|---|---|---|---|---|---|---|
| **As at 1 April 2011** | **6,199** | **28,811** | **8,964** | **2,223** | **108** | **1,271** | **(36,574)** | **11,002** |
| Issue of new ordinary shares | 35 | 74 | – | – | – | – | – | 109 |
| Share-based credit | – | – | – | – | – | 352 | – | 352 |
| Loss for the year and total comprehensive loss | – | – | – | – | – | – | (6,229) | (6,229) |
| **As at 31 March 2012** | **6,234** | **28,885** | **8,964** | **2,223** | **108** | **1,623** | **(42,803)** | **5,234** |
| Issue of new ordinary shares | 1,514 | 4,543 | – | – | – | – | – | 6,057 |
| Costs of share issue | – | (456) | – | – | – | – | – | (456) |
| Share-based credit | – | – | – | – | – | 377 | – | 377 |
| Issue of Warrants | – | – | – | – | 41 | – | – | 41 |
| Loss for the year and total comprehensive loss | – | – | – | – | – | – | (6,345) | (6,345) |
| **As at 31 March 2013** | **7,748** | **32,972** | **8,964** | **2,223** | **149** | **2,000** | **(49,107)** | **4,908** |

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# Group and Parent Company Statements of Changes in Equity
as at 31 March continued

| Company | Share capital £'000 | Share premium account £'000 | Capital redemption reserve £'000 | Merger reserve £'000 | Warrant reserve £'000 | Share–based credit reserve £'000 | Retained deficit £'000 | Total Equity £'000 |
|---|---|---|---|---|---|---|---|---|
| **As at 1 April 2011** | **6,199** | **28,811** | **8,964** | **1,858** | **108** | **1,271** | **(6,924)** | **40,287** |
| Issue of new ordinary shares | 35 | 74 | – | – | – | – | – | 109 |
| Share-based credit | – | – | – | – | – | 230 | – | 230 |
| Equity granted to employees of subsidiary | – | – | – | – | – | 122 | – | 122 |
| Loss for the year and total comprehensive loss | – | – | – | – | – | – | (649) | (649) |
| **As at 31 March 2012** | **6,234** | **28,885** | **8,964** | **1,858** | **108** | **1,623** | **(7,573)** | **40,099** |
| Issue of new ordinary shares | 1,514 | 4,543 | – | – | – | – | – | 6,057 |
| Costs of share issue | – | (456) | – | – | – | – | – | (456) |
| Share-based credit | – | – | – | – | – | 240 | – | 240 |
| Equity granted to employees of subsidiary | – | – | – | – | – | 137 | – | 137 |
| Issue of Warrants | – | – | – | – | 41 | – | – | 41 |
| Loss for the year and total comprehensive loss | – | – | – | – | – | – | (723) | (723) |
| **As at 31 March 2013** | **7,748** | **32,972** | **8,964** | **1,858** | **149** | **2,000** | **(8,296)** | **45,395** |

# Group and Parent Company Statements of Cash Flows

for the year ended 31 March

| | Note | Group 2013 £'000 | Group 2012 £'000 | Company 2013 £'000 | Company 2012 £'000 |
|---|---|---|---|---|---|
| **Cash used in operations** | 27 | **(6,637)** | (6,276) | **(468)** | (450) |
| Interest paid | | **(1)** | (1) | **–** | – |
| Income tax credit received | | **616** | 491 | **–** | – |
| **Cash used in operating activities** | | **(6,022)** | (5,786) | **(468)** | (450) |
| **Cash flows from investing activities** | | | | | |
| Capital expenditure | | **(37)** | (30) | **–** | – |
| Loans provided to subsidiaries | | **–** | – | **(6,032)** | (5,472) |
| Interest received | | **30** | 40 | **28** | 39 |
| **Net cash (used in)/generated from investing activities** | | **(7)** | 10 | **(6,004)** | (5,433) |
| **Cash flows from financing activities** | | | | | |
| Finance lease principal payments | | **(8)** | (9) | **–** | – |
| Proceeds from issuance of ordinary shares | | **6,057** | 100 | **6,057** | 100 |
| Costs of share issue | | **(456)** | – | **(456)** | – |
| **Net cash generated from financing activities** | | **5,593** | 91 | **5,601** | 100 |
| **Net decrease in cash and cash equivalents** | | **(436)** | (5,685) | **(871)** | (5,783) |
| Cash and cash equivalents at the start of year | | **3,983** | 9,668 | **3,748** | 9,531 |
| **Cash and cash equivalents at the end of year** | | **3,547** | 3,983 | **2,877** | 3,748 |

# Notes to the financial statements
for the year ended 31 March 2013 continued

## 1. General information

ReNeuron Group plc ("the Company") and its subsidiaries (together "the Group") research and develop therapies using stem cells. The Company is a public limited company incorporated and domiciled in England with registered number 05474163 and its shares are listed on the AIM market of the London Stock Exchange.

## 2. Accounting policies and basis of preparation

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all of the financial years presented for both the Group and the Company. The accounting policies relate to the Group unless otherwise stated.

### Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union, the interpretations of International Financial Reporting Interpretations Committee (IFRIC) and the Companies Act 2006 applicable to companies reporting under IFRS.

These financial statements have been prepared on a historical cost basis.

### Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiary undertakings, made up to 31 March 2013.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured, as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the Statement of Comprehensive Income.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated but considered an impairment indicator of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

The Group elected not to apply IFRS 3 'Business combinations' retrospectively to business combinations which took place prior to 1 April 2006 that have been accounted for by the merger accounting method.

### Significant accounting judgements, estimates and assumptions

The key areas that require management to make difficult, subjective or complex judgements about matters that are inherently uncertain are:

#### a) Going concern

The financial statements have been prepared on a going concern basis, which assumes that sufficient funds will be available for the Company and Group to continue in operational existence for the foreseeable future. More details are set out in note 3.

#### b) Impairment of non-financial assets

The Group assesses whether there are any indicators of impairment for all non-financial assets at each reporting date. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. These indicators include the progress towards and outcome of clinical trials and the Group's funding position. More details are set out in note 14.

## 2. Accounting policies and basis of preparation (continued)

### Foreign currency translation

The consolidated financial statements are presented in Pounds Sterling ('£'), which is the Company's functional and presentational currency. Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Statement of Comprehensive Income in the year in which they occur.

Assets and liabilities of the Company's US subsidiary are translated to Sterling at the year-end exchange rate. Redundant assets at the US subsidiary's former laboratories have been written down to a book value of zero and have no impact on present or future exchange differences. Following the closure of the Company's US subsidiary, ReNeuron Inc, its functional currency has changed to sterling. ReNeuron Inc was dormant in the year and had no transactions.

### Revenue

Revenue represents income received from royalties and licensing income arising from collaborations with third parties on receipt of cash.

### Research and development expenditure

Expenditure on product development is capitalised as an intangible asset and amortised over the expected useful life of the product concerned. Capitalisation commences from the point at which technical feasibility and commercial viability of the product can be demonstrated and the Group is satisfied that it is probable that future economic benefits will result from the product once completed. No such costs have been capitalised to date, given the early stage of the Company's intellectual property.

Expenditure on research and development activities that do not meet the above criteria, including ongoing costs associated with acquired intellectual property rights and intellectual property rights generated internally by the Group, is charged to the Statement of Comprehensive Income as incurred.

### Exceptional items

Exceptional items are those material items, which by virtue of their size or incidence, are presented separately in the Statement of Comprehensive Income to enable a full understanding of the Group's financial performance.

### Pension benefits

The Group operates a defined contribution pension scheme. Contributions payable for the year are charged to the Statement of Comprehensive Income. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the Statement of Financial Position. The Group has no further payment obligations once the contributions have been paid.

### Leases

Leasing arrangements which transfer to the Group substantially all the benefits and risks of ownership of assets are treated as finance leases, as if the asset had been purchased outright. The assets are included within the relevant category of property, plant and equipment and the capital elements of the leasing commitments are shown as obligations under finance leases. Assets held under finance leases are depreciated over the lower of their useful live and the terms of the lease. The interest element of the lease rental is included in the Group Statement of Comprehensive Income.

# Notes to the financial statements
for the year ended 31 March 2013 continued

## 2. Accounting policies and basis of preparation (continued)

### Leases (continued)

All other leases are considered operating leases, the costs of which are charged to the Group Statement of Comprehensive Income on a straight-line basis over the lease term. Benefits such as rent-free periods, and amounts received or receivable as incentives to take on operating leases, are spread on a straight-line basis over the lease term.

### Government and other grants

Revenue grants are credited to other operating income within the Group's Statement of Comprehensive Income on a case-by-case basis, assessed by the level of expenditure incurred on the specific grant project, when it is reasonably certain that amounts will not need to be repaid.

### Share-based payments

The Group has applied the requirements of IFRS 2 "Share-based payment". In accordance with the transitional provisions, IFRS 2 has been applied to all grants of equity-settled awards after 7 November 2002 that were unvested at 1 April 2006.

The Group operates a number of equity-settled, share-based compensation plans. The fair value of share-based payments under such schemes is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest and adjusted for the effect of market-based vesting conditions. Vesting periods are estimated to be two years for options issued under the deferred bonus and four years for other schemes.

The fair value calculation of share-based payments requires several assumptions and estimates. The details are disclosed in Note 26 and are calculated using the Black-Scholes model. Such assumptions could change and could affect the amount recorded. At each balance sheet date, the Group reviews its estimate of the number of options that are expected to vest and recognises any revision to original estimates in the Statement of Comprehensive Income, with a corresponding adjustment to equity.

For equity-settled share based payments where employees of subsidiary undertakings are rewarded with shares issued by the Parent Company, a capital contribution is recorded in the subsidiary, with a corresponding increase in the investment in the Parent Company.

### Warrants

Where warrants have been issued together with ordinary shares, the proportion of the proceeds received that relates to the warrants is determined by reference to the relative market values of the warrants. The proportion of the proceeds that relates to the warrants is credited to a warrant reserve within shareholders' funds.

Where warrants have been issued as recompense for services supplied these are considered equity settled share-based payments and are accounted for in accordance with IFRS 2. The fair value of warrants, calculated using the Black-Scholes model, is charged to the Statement of Comprehensive Income over the period the services are received and a corresponding credit is made to the warrant reserve.

### Intangible assets

Intangible assets, relating to intellectual property rights acquired through licensing or assigning patents and know-how are carried at historical cost less accumulated amortisation and any provision for impairment, where the useful life of the asset is finite and the asset is likely to generate economic benefits exceeding costs. Where a finite useful life of the acquired intangible asset cannot be determined, the asset is not subject to amortisation but is tested for impairment annually or more frequently whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. There is no identifiable useful life of the asset at this time. No amortisation other than historical impairment has been charged to date, as the products underpinned by the intellectual property rights are not yet available for commercial use.

## 2. Accounting policies and basis of preparation (continued)

### Property, plant and equipment

Property, plant and equipment are stated at cost, net of depreciation and any provision for impairment. Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for its intended use. Depreciation is calculated so as to write off the cost less their estimated residual values, on a straight-line basis over the expected useful economic lives of the assets concerned. The principal annual periods used for this purpose are:

| | |
|---|---|
| Leasehold improvements | Term of the lease |
| Plant and equipment | 3-8 years |
| Computer equipment | 3-5 years |

### Investments

Investments are shown at cost less any provision for impairment.

### Current income tax

The credit for current income tax is based on the results for the year, adjusted for items which are non-assessable or disallowed. It is calculated using tax rates that have been enacted or substantially enacted at the financial year end.

### Deferred tax

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred tax is determined using tax rates and laws that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

### Cash and cash equivalents

Cash and cash equivalents in the cash flow statement and the Statements of Financial Position include cash in hand and deposits held on call with banks with original maturities of three months or less.

### Capital redemption reserve

S733 Companies Act 2006 provides that where shares of a company are redeemed or purchased wholly out of the Company's profits, or by a fresh issue, the amount by which the Company's issued share capital is diminished on cancellation of the shares shall be transferred to a reserve called the 'capital redemption reserve'. It also provides that the reduction of the Company's share capital shall be treated as if the capital redemption reserve were paid-up capital of the Company.

# Notes to the financial statements
for the year ended 31 March 2013 continued

## 2. Accounting policies and basis of preparation (continued)

### Provisions

Provisions are recognised when the Group has an obligation as a result of past events, for which it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated.

### Contractual milestone payments

The Group is expected to incur future contractual milestone payments linked to the future development of its therapeutic programmes. These costs will be recognised as and when a contractual milestone has been achieved.

### Accounting developments

The following new standards, new interpretations and amendments to standards and interpretations are mandatory for the first time for the financial year ending 31 March 2013, but are not currently relevant for the Group:

Amendment to IFRS 7, Financial Instruments: Transfers of financial assets (effective 1 July 2011). The standard is not applicable to the Group as the amendment requires additional disclosures for those entities that sell, factor, securitise, lend or otherwise transfer financial assets to other parties.

Amendment to IFRS 1 on hyperinflation and fixed dates (effective 1 January 2013). The standard is not applicable to the Group as the amendment relates to first time adoption of IFRS and the Group is not impacted by involvement in any hyper-inflationary territories.

Amendment to IAS 12, "Income taxes" on deferred taxation (effective 1 January 2013). The standard is not applicable to the Group as the amendment relates to the treatment of deferred taxation on investment properties.

The following new standards, new interpretations and amendments to standards and interpretations have been issued but are not effective for the financial year ending 31 March 2013 and have not been adopted early:

Amendment to IAS 1, "Presentation of financial statements" on OCI (effective 1 July 2012). The amendment aims to improve the consistency and clarity of the presentation of items of other comprehensive income (OCI). The standard is not applicable to the Group.

IFRS 13, "Fair Value measurement" (effective 1 January 2013). The standard aims to improve consistency and reduce complexity by providing a precise definition of fair values and a single source of fair value measurement and disclosure requirements to use across IFRSs; the standard is not applicable to the Group.

IAS 19 (revised 2011), "Employee benefits" (effective 1 January 2013). The standard is not applicable to the Group as there is no defined benefit pension scheme.

Amendment to IFRS 1 on hyperinflation and fixed dates (effective 1 January 2013). The standard is not applicable to the Group as it is not a first time adopter of IFRS.

Amendment to IFRS 1, "First time adoption" on government grants (effective 1 January 2013). The standard is not applicable to the Group as it is not a first time adopter of IFRS.

Amendment to IFRS 7, on Financial instruments assets and liabilities offsetting (effective 1 January 2013). The standard relates to the disclosure of the impact of off-setting financial assets and liabilities on the balance sheet. The standard is not applicable to the Group.

Annual improvements 2011 (effective 1 January 2013). The standard is not applicable to the Group.

IFRIC 20 "Stripping costs in the production phase of a surface mine" (effective 1 January 2013). The standard is not applicable to the Group.

## 3. Going concern

ReNeuron's lead therapeutic candidate for stroke is in clinical development and it has other therapeutic candidates in pre-clinical development. The Group is expected to incur significant further costs as it continues to develop its therapies and technologies through clinical development.

Subsequent to the financial year end the Company announced on 22 July 2013 that it had raised £25.35 million, before expenses, by means of a Placing to shareholders, together with a £7.8m grant package from the Welsh Government to establish a cell manufacturing and development facility in South Wales over the next two years. Following completion of the Placing, the directors expect that the Group's financial resources will be sufficient to support operations until the third quarter of 2016. Consequently, the going concern basis has been adopted in the preparation of these financial statements.

## 4. Segment analysis

The Group has identified the Chief Executive Officer as the Chief Operating Decision Maker (CODM). The CODM manages the business as one segment, the development of cell-based therapies. Since this is the only reporting segment, no further information is included. The information used internally by the CODM is the same as that disclosed in the financial statements.

## 5. Revenue

Revenue represents income received from royalties and licensing income arising from collaborations with third parties. The Group's revenue derives wholly from assets in the United Kingdom. Analysed by location of customer, all revenue is derived from the United States of America.

## 6. Expenses by nature

| | **2013 £'000** | 2012 £'000 |
|---|---|---|
| **Loss before tax is stated after charging:** | | |
| **Research and development costs:** | | |
| Employee benefits (note 9) | **1,657** | 1,091 |
| Depreciation of property, plant and equipment (note 13) | **103** | 133 |
| Other expenses | **3,026** | 3,641 |
| **Total research and development costs** | **4,786** | 4,865 |
| **General and administrative costs:** | | |
| Employee benefits (note 9) | **890** | 812 |
| Legal and professional fees | **383** | 305 |
| Depreciation of property, plant and equipment (note 13) | **19** | 17 |
| Operating lease charges: | | |
| – land and buildings | **241** | 243 |
| Dilapidations provision | **25** | 25 |
| Other expenses | **761** | 657 |
| **Total general and administrative costs** | **2,319** | 2,059 |
| **Total research and development costs and general and administrative costs** | **7,105** | 6,924 |

During the year the Group obtained services from the Group's auditor and its associates as detailed below:

# Notes to the financial statements
for the year ended 31 March 2013 continued

## 6. Expenses by nature (continued)

| | Group 2013 £'000 | 2012 £'000 |
|---|---|---|
| **Services provided by the Group's auditor** | | |
| Fees payable to the Company's auditor for the audit of the Parent Company and consolidated financial statements | **17** | 15 |
| Fees payable to the Company's auditor and its associates for other services: | | |
| – The audit of the Company's subsidiaries pursuant to legislation | **20** | 20 |
| – Tax compliance services | **–** | – |
| **Total** | **37** | 35 |

## 7. Net interest received/(paid)

| | 2013 £'000 | 2012 £'000 |
|---|---|---|
| Interest receivable on short-term bank deposits | **30** | 40 |
| Finance lease interest | **(1)** | (1) |
| Net interest receivable | **29** | 39 |

## 8. Directors' emoluments

The directors are the key management personnel for the Group. Only the directors have authority and responsibility for planning, directing and controlling the activities of the Group, and are thus the only people considered to be key management per IAS 24.

| | 2013 £'000 | 2012 £'000 |
|---|---|---|
| **Aggregate emoluments:** | | |
| Emoluments in respect of qualifying services | **613** | 554 |
| Pension contributions | **33** | 33 |
| | **646** | 587 |

| | 2013 £'000 | 2012 £'000 |
|---|---|---|
| **Highest paid director:** | | |
| Emoluments in respect of qualifying services | **238** | 221 |
| Pension contributions | **17** | 17 |
| | **255** | 238 |

Two directors (2012: two) had retirement benefits accruing to them under defined contribution pension schemes in respect of qualifying services.

None of the directors exercised share options during the year (2012: none).

## 8. Directors' emoluments (continued)

Directors' emoluments include the following amounts payable to third parties:

£17,496 (2012: £16,248) payable to XKE Capital Ltd in respect of directors' fees for Mark Docherty, and £22,500 (2012: £21,048) payable to Dr Paul Harper, trading as BioMedicon, in respect of directors' fees.

### Directors' emoluments including share-based payments

| | **2013 £'000** | 2012 £'000 |
|---|---|---|
| Salaries and other short-term employee benefits | **613** | 556 |
| Pension contributions | **33** | 33 |
| Share-based payments | **240** | 230 |
| | **886** | 819 |

## 9. Employee information

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

| | **2013 Number** | 2012 Number |
|---|---|---|
| **By activity:** | | |
| Research and development | **18** | 15 |
| Administration | **5** | 4 |
| | **23** | 19 |

| **Group** | **2013 £'000** | 2012 £'000 |
|---|---|---|
| **Staff costs:** | | |
| Wages and salaries | **1,866** | 1,295 |
| Social security costs | **206** | 160 |
| Share-based payment charge | **377** | 352 |
| Pension costs (see note 23) | **98** | 96 |
| | **2,547** | 1,903 |

The Company had no employees during the year.

# Notes to the financial statements
for the year ended 31 March 2013 continued

## 10. Tax credit on loss on ordinary activities

| | 2013 £'000 | 2012 £'000 |
|---|---|---|
| **United Kingdom research and development tax credit at 11% (2012: 12.5%)** | | |
| Current year | **714** | 616 |
| | **714** | 616 |

No corporation tax liability arises on the results for the year due to the loss incurred. No deferred tax asset has been identified, as there are currently no foreseeable profits.

A reduction in the main rate of corporation tax to 24% from 1 April 2012 was announced in the March 2012 UK Budget on 21 March 2012. A further reduction in the UK corporation tax rate to 23% was substantively enacted in July 2012 and was effective from 1 April 2013. These changes were substantively enacted by the balance sheet date and, therefore, are included in these financial statements.

In addition to the changes in rates of Corporation tax disclosed above further changes to the UK Corporation tax rates were introduced as part of the Finance Bill 2013 on 2 July 2013. These include reductions to the main rate to reduce the rate to 21% from 1 April 2014 and to 20% from 1 April 2015. This rate reduction had not been substantively enacted by the balance sheet date and, therefore, is not included in these financial statements.

At 31 March 2013 the company had tax losses of approximately £47 million (2012: £41 million) available to carry forward against profits in future periods. The deferred tax asset in relation to these losses has not been recognised and therefore the effect of the proposed changes is not material (see note 22).

| | 2013 £'000 | 2012 £'000 |
|---|---|---|
| Loss before income tax | **(7,059)** | (6,845) |
| Loss before income tax multiplied by the UK small profits rate of tax for small companies of 20% (2012: 21%) | **(1,412)** | (1,437) |
| Effects of: | | |
| – difference between depreciation and capital allowances | **(43)** | (56) |
| – expenses not deductible for tax purposes | **27** | (170) |
| – losses not recognised | **638** | 1,035 |
| – other short term timing differences | **76** | 12 |
| | **(714)** | (616) |

## 11. Loss for the financial year

As permitted by Section 408 of the Companies Act 2006, the Parent Company's Statement of Comprehensive Income for the current year has not been presented in these financial statements. The Parent Company's loss and total comprehensive loss for the financial year was £723,000 (2012: £649,000).

## 12. Basic and diluted loss per ordinary share

The basic and diluted loss per share is calculated by dividing the loss for the financial year of £6,345,000 (2012: £6,229,000) by 748,685,036 shares (2012: 619,946,923 shares), being the weighted average number of Ordinary 1p shares in issue during the year.

Potential ordinary shares are not treated as dilutive as the entity is loss making.

## 13. Property, plant and equipment

| | Leasehold improvements £'000 | Plant and equipment £'000 | Computer equipment £'000 | Total £'000 |
|---|---|---|---|---|
| **Cost:** | | | | |
| At 1 April 2011 | 1,635 | 842 | 104 | 2,581 |
| Additions | – | 25 | 5 | 30 |
| **At 31 March 2012** | **1,635** | **867** | **109** | **2,611** |
| **Accumulated depreciation** | | | | |
| At 1 April 2011 | 1,306 | 776 | 81 | 2,163 |
| Charge for the year | 120 | 17 | 13 | 150 |
| **At 31 March 2012** | **1,426** | **793** | **93** | **2,313** |
| **Net book amount:** | | | | |
| **At 31 March 2012** | **209** | **74** | **15** | **298** |
| **Cost:** | | | | |
| At 1 April 2012 | 1,635 | 867 | 109 | 2,611 |
| Additions | – | 26 | 11 | 37 |
| **At 31 March 2013** | **1,635** | **893** | **120** | **2,648** |
| **Accumulated depreciation** | | | | |
| At 1 April 2012 | 1,426 | 793 | 94 | 2,313 |
| Charge for the year | 88 | 18 | 16 | 122 |
| **At 31 March 2013** | **1,514** | **811** | **110** | **2,435** |
| **Net book amount:** | | | | |
| **At 31 March 2013** | **121** | **82** | **10** | **213** |

# Notes to the financial statements
for the year ended 31 March 2013 continued

## 13. Property, plant and equipment (continued)

The figures stated above include assets held under finance leases as follows:

| | Plant and equipment £'000 |
|---|---|
| **Cost** | |
| At 31 March 2011 | 64 |
| Additions | – |
| **At 31 March 2012** | **64** |
| **Accumulated depreciation** | |
| At 31 March 2011 | 31 |
| Charge for the year | 8 |
| **At 31 March 2012** | **39** |
| **Cost** | |
| At 31 March 2012 | 64 |
| Additions | – |
| **At 31 March 2013** | **64** |
| **Accumulated depreciation** | |
| At 31 March 2012 | 39 |
| Charge for the year | 7 |
| **At 31 March 2013** | **46** |
| **Net book amount** | |
| **At 31 March 2013** | **18** |

The Company had no property, plant or equipment at 31 March 2013 (2012: £nil).

## 14. Intangible assets

| | Licence fees £'000 | Intellectual property rights not amortised £'000 | Total £'000 |
|---|---|---|---|
| **Cost** | | | |
| At 1 April 2011 and at 31 March 2012 | 1,884 | 5,824 | 7,708 |
| **Accumulated amortisation and impairment** | | | |
| At 1 April 2011 and at 31 March 2012 | 1,884 | 4,552 | 6,436 |
| **Net book amount** | | | |
| At 31 March 2012 | – | 1,272 | 1,272 |
| **Cost** | | | |
| At 1 April 2012 and at 31 March 2013 | 1,884 | 5,824 | 7,708 |
| **Accumulated amortisation and impairment** | | | |
| At 1 April 2012 and at 31 March 2013 | 1,884 | 4,552 | 6,436 |
| **Net book amount** | | | |
| **At 31 March 2013** | **–** | **1,272** | **1,272** |

Based on the nature of the intangible assets held by the Group it is not appropriate to perform a discounted cash flow calculation to consider its carrying value. The directors have instead used fair value less costs to sell.

Intangible assets relate to intellectual property rights acquired through licensing or assigning patents and know-how and are carried at historic cost less accumulated amortisation, where the useful life of the asset is finite and the asset is likely to generate economic benefits exceeding costs. Where a finite useful life of the acquired intangible asset cannot be determined, the asset is not subject to amortisation but is tested annually for impairment.

Based on the nature of the intangible assets held by the Group being early in their development, the directors have reviewed the intangible assets for impairment individually, as set out below by considering the fair value less costs to sell. The key assumption used when concluding that an impairment is not required is the market capitalisation value of the business.

As at 31 March 2013, the Group balance sheet intangible assets of £1.27m relate to in-licensed intellectual property including key patents concerning the use of neural stem cells in certain therapeutic areas targeted by the Group. These cells are currently in use in both the clinical and pre-clinical programmes undertaken by the Group. In the event that any one of the Group's therapies proved to be commercially successful, the value of the Group's intangible assets would be significantly higher than the current carrying value. As such, the directors see no reason to reduce the carrying value of this intellectual property.

The Company holds no intangible assets.

# Notes to the financial statements
for the year ended 31 March 2013 continued

## 15. Investments in subsidiaries

Investments in subsidiary companies:

### Company

| Net Book amount | 2013 £'000 | 2012 £'000 |
|---|---|---|
| At start of the year | **41,837** | 36,242 |
| Investment in subsidiary | **6,032** | 5,472 |
| Capital contribution arising from IFRS 2 charge | **137** | 123 |
| **Net book amount at 31 March** | **48,006** | 41,837 |

The Directors review at each year end the carrying value of the fixed asset investments in the principle subsidiaries. In light of the recent fundraising the Directors are comfortable that the value remains higher than the carrying value as shown above.

For equity-settled share based payments where employees of subsidiary undertakings are rewarded with shares issued by the Parent Company, a capital contribution is recorded in the subsidiary, with a corresponding increase in the investment in the Parent Company. There has been no impairment to investments in subsidiaries in the year.

The Company's investments comprise interests in Group undertakings, details of which are shown below:

| Name of undertaking | ReNeuron Holdings Limited | ReNeuron Limited | | ReNeuron (UK) Limited | ReNeuron Inc. |
|---|---|---|---|---|---|
| Country of incorporation | England and Wales | England and Wales | | England and Wales | Delaware USA |
| Description of shares held | £0.10 Ordinary Shares | £0.001 ordinary shares | £0.10 A ordinary shares | £0.10 ordinary shares | $0.001 Common Stock |
| Proportion of nominal value of shares held by the Company | 100% | 100% | 100% | 100% | 100% |
| Nature of business | Holding | Pharma | | Holding | Dormant |
| **Loss for the year £'000** | (34) | (5,556) | | (34) | (nil) |
| **Net assets / (liabilities) £'000** | 905 | (55,646) | | 17,520 | (3,729) |

ReNeuron Limited, ReNeuron Holdings Limited and ReNeuron, Inc., are held directly by ReNeuron Group plc. ReNeuron (UK) Limited is held directly by ReNeuron Holdings Limited.

The principal activity of ReNeuron Holdings Limited was to act as holding company for ReNeuron Limited prior to the reconstruction of the Group in 2007. ReNeuron Limited is the only trading company in the Group. ReNeuron, Inc. ceased trading on 30 September 2008.

## 16. Trade and other receivables

| | Group | | Company | |
|---|---|---|---|---|
| | **2013 £'000** | 2012 £'000 | **2013 £'000** | 2012 £'000 |
| **Current:** | | | | |
| Other receivables | **112** | 121 | **1** | 2 |
| Prepayments and accrued income | **229** | 337 | **–** | – |
| | **341** | 458 | **1** | 2 |
| **Non-current:** | | | | |
| Lease deposit – repayable in 2015, at current value | **135** | 135 | **–** | – |
| **Total trade and other receivables** | **476** | 593 | **1** | 2 |

## 17. Cash and cash equivalents

| | Group | | Company | |
|---|---|---|---|---|
| | **2013 £'000** | 2012 £'000 | **2013 £'000** | 2012 £'000 |
| Cash at bank and in hand | **3,547** | 3,983 | **2,877** | 3,748 |

## 18. Trade and other payables

| | Group | | Company | |
|---|---|---|---|---|
| | **2013 £'000** | 2012 £'000 | **2013 £'000** | 2012 £'000 |
| Trade payables | **487** | 956 | **3** | 4 |
| Other taxation and social security | **52** | 44 | **–** | – |
| Accruals | **624** | 394 | **–** | – |
| Amounts owed to Group undertakings | **–** | – | **5,486** | 5,484 |
| **Total payables falling due within one year** | **1,163** | 1,394 | **5,489** | 5,488 |

Amounts owed to Group undertakings are not interest bearing and have no fixed repayment date. There are no fixed repayment terms in respect of the amounts owed to Group undertakings, which represent the funding of ongoing research and development requirements.

# Notes to the financial statements
for the year ended 31 March 2013 continued

## 19. Provisions

| | Group 2013 £'000 | 2012 £'000 |
|---|---|---|
| Balance as at 1 April | **125** | 100 |
| Charged to the Statement of Comprehensive income | **25** | 25 |
| **Balance as at 31 March** | **150** | 125 |

The Company had no provisions at 31 March 2013 (2012: nil). Provisions are in respect of building dilapidations. The provision is expected to be utilised on expiry of the lease in 2015.

## 20. Financial liabilities

Future minimum payments under finance leases are as follows:

| | Group 2013 £'000 | 2012 £'000 |
|---|---|---|
| Within one year | **1** | 11 |
| In more than one year but not more than five years | **–** | – |
| Total gross payments | **1** | 11 |
| Less finance charges included above | **–** | (2) |
| Present value of payments | **1** | 9 |

The Company had no financial liabilities at 31 March 2013 (2012: £nil).

## 21. Financial instruments

The financial risks faced by the Group include interest rate risk, foreign currency risk, liquidity risk and risk associated with cash held on deposit with financial institutions.

The Group's main objective in managing its financial instruments, is to seek to maximise the returns from funds held on deposit balanced with the need to safeguard the assets of the business. The Group does not enter into forward currency contracts.

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

Cash and short-term investments fluctuate considerably depending on the timing of fund-raising activities. All cash balances and short-term investments are held at leading banking institutions (Barclays Bank in the UK and Barclays Global Investors in Ireland). Cash balances held at 31 March 2013 include £0.08m (2012: £0.02m) held in US dollars to mitigate against potential adverse currency movements in respect of the Group's forthcoming US Dollar denominated liabilities.

At 31 March 2013 and 31 March 2012, none of the receivables were aged over three months. No receivables were impaired. Non-current receivables are not discounted as the impact of discounting would not be material.

All of the Group's receivables are denominated in Pounds Sterling. The fair values of the receivables are equivalent to the current book values.

The Group's payables are denominated in Pounds Sterling. The fair values of the payables are equivalent to the current book values.

## 21. Financial instruments (continued)

### Ageing risk profile of the Group's financial liabilities

The Group's financial liabilities consist of:

| | Group | |
|---|---|---|
| | **2013 £'000** | 2012 £'000 |
| Finance leases – due in one year or less | **1** | 9 |
| Other payables | **1,163** | 1,394 |
| | **1,164** | 1,403 |

The Company had no financial liabilities at 31 March 2013 (2012: £nil).

### Company risk profile of the Group's cash and cash equivalents

| | **2013** | | 2012 | |
|---|---|---|---|---|
| **Currency** | **Cash at bank and in hand £'000** | **Total £'000** | Cash at bank and in hand £'000 | Total £'000 |
| Sterling | **3,460** | **3,460** | 3,959 | 3,959 |
| United States Dollar | **84** | **84** | 21 | 21 |
| Euro | **3** | **3** | 3 | 3 |

The Group maintains cash and bank balances in Pounds Sterling for UK based operating currencies. Following the closure of ReNeuron Inc., US Dollar balances previously held in the US were transferred to the UK. None of the US Dollar balances are interest earning. In the current and prior years, cash balances are held in current and deposit accounts at floating interest rates based on LIBOR. Foreign exchange and interest rate movements would have a trivial impact on the financial assets and liabilities.

### Fair values of financial assets and financial liabilities

The following table provides a comparison by category of the carrying amounts and the fair value of the Group's financial assets and liabilities at 31 March 2013. Fair value is the amount at which a financial instrument could be exchanged in an arm's length transaction between informed and willing parties, other than a forced or liquidation sale and excludes accrued interest.

Primary financial instruments held or issued to finance the Group's operations:

| | **2013** | | 2012 | |
|---|---|---|---|---|
| | **Book value £'000** | **Fair value £'000** | Book value £'000 | Fair value £'000 |
| Cash at bank and in hand | **3,547** | **3,547** | 3,983 | 3,983 |
| Receivables: non-current | **135** | **135** | 135 | 135 |
| Receivables: current | **112** | **112** | 120 | 120 |
| Payables | **1,163** | **1,163** | 1,274 | 1,274 |

Book values and fair values are the same because there is immediate access to the asset.

# Notes to the financial statements
for the year ended 31 March 2013 continued

## 21. Financial instruments (continued)

### Currency risk profile
The Group's functional currency is Pounds Sterling, and the majority of its expenditure is denominated in that currency.

The only assets and liabilities denominated in currencies other than Pounds Sterling relate to currency accounts held in the UK for bill payment, and the short term assets and liabilities denominated in Euros and US Dollars held by the Group.

### Capital management
The Group's key objective in managing its capital is to safeguard its ability to continue as a going concern. The Group also strives to optimise the balance of cash spend between research and development and general and administrative expenses and, in so doing, maximise progress achieved for all pipeline products.

## 22. Deferred taxation

The analysis of the potential deferred tax assets of the Group is as follows:

| | **Amount not recognised 2013 £'000** | Amount not recognised 2012 £'000 |
|---|---|---|
| Tax effect of timing differences because of: | | |
| Excess of depreciation over capital allowances | **(47)** | 263 |
| Short term timing differences not recognised | **533** | 105 |
| Losses carried forward | **9,408** | 9,505 |
| | **9,894** | 9,873 |

No corporation tax liability arises on the results for the year due to the loss incurred. No deferred tax asset has been recognised, as there are currently no foreseeable profits.

The analysis of the deferred tax assets of the Company is as follows:

| | **Amount not recognised 2013 £'000** | Amount Not recognised 2012 £'000 |
|---|---|---|
| Tax effect of timing differences because of: | | |
| Losses carried forward | **426** | 346 |
| | **426** | 346 |

## 23. Pension scheme obligations

The Group operates defined contribution pension schemes for UK employees and directors. The assets of the schemes are held in separate funds and are administered independently of the Group. The total pension cost during the year was £98,000 (2012: £96,000). There were no prepaid or accrued contributions to the scheme at the year-end (2012: nil).

## 24. Share Capital

| | 2013 £'000 | 2012 £'000 |
|---|---|---|
| Authorised<br>Unlimited (2012: Unlimited) | **Unlimited** | Unlimited |
| Issued and fully paid<br>774,827,700 ordinary shares of 1p each (2012: 623,403,084 of 1p each) | **7,748** | 6,234 |

From 1 October 2009, the Companies Act 2006 abolished the requirement for a company to have an authorised share capital. The Company's articles were amended to effect this by special resolution on 12 March 2010.

On 27 April 2012 the Company announced that it had raised gross proceeds of approximately £5.4 million by means of a Placing through the issue of 134,037,500 Placing Shares at 4p per share and a further £0.7m through the issue of 17,387,116 Open Offer Shares at 4p per share. Following completion of the Placing and Open Offer the total number of ordinary shares of 1p each in ReNeuron is issue was 774,827,700,

On 22 July 2013 the Company announced that it had raised gross proceeds of approximately £25.35 million by means of a Placing through the issue of 1,014,000,000 Placing Shares at 2.5p per share. Following completion of the Placing the total number of ordinary shares of 1p each in ReNeuron in issue was 1,788,827,700.

## 25. Warrants

In conjunction with the April 2012 Placing, investors were issued Warrants to subscribe for Ordinary Shares, with each Warrant entitling the holder to subscribe for Ordinary Shares at a price of 6 pence per Ordinary Share. A total of 134,037,500 Warrants were issued, one for each Placing share subscribed for. Warrants are exercisable within 2 years of the date of issue.

There were no services transferred in exchange for the majority of the warrants, and as such their value was included in the subscription price and no fair value charge should be applied to these items, except for the warrants issued to Cenkos Securities plc in exchange for brokerage services. Cenkos Securities plc were issued 4,125,000 warrants and these have been accounted for under IFRS 2, using a Black-Scholes model to calculate a fair value for each warrant. The calculated fair value from the model is 0.98p, which has produced a charge of £40,563 that has been expensed in operating expenses in full in the year.

## Warrant instrument with Novavest Growth Fund Limited

Novavest Growth Fund Limited has the right to subscribe for 58,239 ReNeuron Limited ordinary shares at a price of £17.16 per ordinary share. Pursuant to a put/call agreement dated 6 November 2000, on exercise of such warrant, shares acquired by Novavest in ReNeuron Limited will be exchanged for 582,390 ordinary shares of ReNeuron (UK) Limited. The Company intends in due course to enter into an agreement with Novavest whereby if the warrant is exercised, the ReNeuron Limited shares acquired by Novavest are exchanged directly for 582,390 ordinary shares of the Company.

## 26. Share options

The Group operates Share Option Schemes for directors and employees of group companies and specific consultants. Options have been issued through a combination of an Inland Revenue approved EMI scheme and unapproved schemes. During the year, the number of options and associated exercise prices for those options issued in August 2005, August 2006, August 2007, August 2009 and August 2010 were adjusted in accordance with the Rules of the Scheme for the dilution of option values as a result of the variation in share capital since their issue.

The award of share options to executive directors and selected senior management of the Group are now made in accordance with the Group's Deferred Share-based Bonus Plan and Long Term Incentive Plan, constituting the total share-based remuneration for these individuals.

# Notes to the financial statements
for the year ended 31 March 2013 continued

## 26. Share options (continued)

Total options existing over ordinary 1p shares in companies in the Group as at 31 March 2013 are summarised below:

| Date of Grant | Number of shares at 1 April 2012 | *Adjusted during the year | Granted during the year | Lapsed during the year | **As at 31st March 2013** | Note | Exercise Price | **Date from which exercisable | Date of expiry |
|---|---|---|---|---|---|---|---|---|---|
| August 2005 | 467,172 | 20,174 | – | – | **487,346** | 1 | 5.06p | August 2005 | July 2014 |
| August 2005 | 4,071,750 | 175,836 | – | – | **4,247,586** | 1 | 5.06p | August 2005 | July 2014 |
| August 2005 | 4,923,976 | 212,638 | – | – | **5,136,614** | 2 | 12.65p | August 2008 | August 2015 |
| August 2006 | 1,957,872 | 84,550 | – | – | **2,042,422** | 2 | 5.07p | August 2009 | August 2016 |
| August 2006 | 945,832 | 40,845 | – | – | **986,677** | 2 | 7.6p | August 2009 | August 2016 |
| August 2007 | 3,579,254 | 154,569 | – | – | **3,733,823** | 3 | 12.2p | August 2010 | August 2017 |
| August 2007 | 1,649,426 | 71,230 | – | – | **1,720,656** | 3 | 21.79p | August 2010 | August 2017 |
| August 2009 | 2,412,005 | 104,160 | – | – | **2,516,165** | 4 | 4.85p | August 2012 | August 2019 |
| August 2009 | 2,236,933 | – | – | – | **2,236,933** | 5 | 1.0p | August 2011 | August 2019 |
| August 2009 | 3,486,365 | – | – | – | **3,486,365** | 6 | 1.0p | August 2012 | August 2019 |
| August 2010 | 2,577,752 | 111,318 | – | – | **2,689,070** | 3 | 4.43p | August 2013 | August 2020 |
| August 2010 | 1,723,185 | – | – | – | **1,723,185** | 5 | 1.0p | August 2012 | August 2020 |
| August 2010 | 5,777,665 | – | – | – | **5,777,665** | 7 | 1.0p | August 2013 | August 2020 |
| August 2011 | 4,300,000 | 185,692 | – | – | **4,485,692** | 8 | 4.31p | August 2014 | August 2021 |
| August 2011 | 8,468,611 | – | – | (466,667) | **8,001,944** | 9 | 1.0p | August 2014 | August 2021 |
| September 2012 | – | – | 7,005,000 | – | **7,005,000** | 10 | 3.3p | September 2015 | September 2022 |
| September 2012 | – | – | 7,708,030 | – | **7,708,030** | 11 | 1.0p | September 2015 | September 2022 |
| **Total** | **48,577,798** | **1,161,012** | **14,713,030** | **(466,667)** | **63,985,173** | | | | |

* The number of share options and exercise price for share options issued under notes 1, 2, 3, 4 and 8 below were adjusted during the year in accordance with the Rules of the Scheme to reflect the dilution of option values as a result of the variation in share capital since their issue.

** The exercise periods indicate the earliest dates for which the options are exercisable subject to meeting the performance conditions disclosed below. As at 31 March 2013 the performance conditions in notes 4, 6, 7, 8, 9, 10 and 11 had not been met. Performance conditions in relation to Note 3 were met in the current year.

**Note 1:**
These options were issued in August 2005 following the Group's Admission to the AIM market. The new share options replaced those previously held under an earlier share option scheme, which have now lapsed. These options were issued through a combination of an Inland Revenue approved EMI scheme and an unapproved scheme and are exercisable from the date of grant, as the relevant performance condition had been satisfied, being the Admission of the Ordinary Shares in the Company.

**Note 2:**
These options were issued under the Group's Share Option Scheme. Subject to the satisfaction of a performance condition, being the first patient administered with a ReNeuron cell therapy in Phase I/II trials, the options are exercisable in whole or in part at any time between the third anniversary and the tenth anniversary of the date on which the option was granted. If not exercised by the tenth anniversary of the date of grant, the option will lapse.

**Note 3:**
These options were issued under the Group's Share Option Scheme. Subject to the satisfaction of a performance condition, being the successful completion of an initial clinical trial of a ReNeuron cell therapy, the options are exercisable in whole or in part at any time between the third anniversary and the tenth anniversary of the date on which the option was granted. If not exercised by the tenth anniversary of the date of grant, the option will lapse.

## 26. Share options (continued)

**Note 4:**
These options were issued under the Group's Share Option Scheme. Subject to the satisfaction of a performance condition, being the first patient administered with a ReNeuron cell therapy in a second clinical trial, the options are exercisable in whole or in part at any time between the third anniversary and the tenth anniversary of the date on which the option was granted. If not exercised by the tenth anniversary of the date of grant, the option will lapse.

**Note 5:**
These options have been issued under the Group's Share Option Scheme. The options were awarded in accordance with the Group's Deferred Share-based Bonus Plan in respect of corporate and personal objectives achieved in the financial year ending 31 March 2009 and as such carry no further performance conditions. The options are exercisable in whole or in part at any time between the second anniversary and the tenth anniversary of the date on which the option was granted. If not exercised by the tenth anniversary of the date of grant, the option will lapse.

**Note 6:**
These options have been issued under the Group's Share Option Scheme. These options were awarded in accordance with the Group's Long Term Incentive Plan and are subject to the satisfaction of the performance conditions set out below. Subject to achievement of these performance conditions, options are exercisable in whole or in part at any time between the third anniversary and the tenth anniversary of the date on which the option was granted. If not exercised by the tenth anniversary of the date of grant, the option will lapse.

Performance Conditions:

i) The first patient is administered with a ReNeuron cell therapy in a second clinical trial,

ii) The Total Shareholder Return (TSR) of the Company must exceed that of the FTSE All-Share Pharmaceutical and Biotechnology Index in any given three year period from date of grant. Where the TSR ranks between median and upper quartile of the index over the three-year period, the options will vest pro-rata between 25% and 100%. Where the TSR ranks below the median in the performance period, no options will vest.

iii) The business must have operated within its internal financial budgets throughout the period to vesting.

iv) The business must be a going concern (under the accepted accounting definition) at the time of any exercise of an option.

**Note 7:**
These options have been issued under the Group's Share Option Scheme. These options were awarded in accordance with the Group's Long Term Incentive Plan and are subject to the satisfaction of the performance conditions set out below. Subject to achievement of these performance conditions, options are exercisable in whole or in part at any time between the third anniversary and the tenth anniversary of the date on which the option was granted. If not exercised by the tenth anniversary of the date of grant, the option will lapse.

Performance Conditions:

i) The first patient is administered with a ReNeuron cell therapy in a second clinical trial,

ii) The Total Shareholder Return (TSR) of the Company must exceed that of the AIM Healthcare Index in any given three year period from date of grant. Where the TSR ranks between median and upper quartile of the index over the three-year period, the options will vest pro-rata between 25% and 100%. Where the TSR ranks below the median in the performance period, no options will vest.

iii) The business must have operated within its internal financial budgets throughout the period to vesting.

iv) The business must be a going concern (under the accepted accounting definition) at the time of any exercise of an option.

# Notes to the financial statements
for the year ended 31 March 2013 continued

## 26. Share options (continued)

**Note 8:**
These options were issued under the Group's Share Option Scheme. Subject to the satisfaction of a performance condition, being the first patient administered with a ReNeuron cell therapy in a third clinical trial, the options are exercisable in whole or in part at any time between the third anniversary and the tenth anniversary of the date on which the option was granted. If not exercised by the tenth anniversary of the date of grant, the option will lapse.

**Note 9:**
These options have been issued under the Group's Share Option Scheme. These options were awarded in accordance with the Group's Long Term Incentive Plan and are subject to the satisfaction of the performance conditions set out below. Subject to achievement of these performance conditions, options are exercisable in whole or in part at any time between the third anniversary and the tenth anniversary of the date on which the option was granted. If not exercised by the tenth anniversary of the date of grant, the option will lapse.

Performance Conditions:

i) The first patient is administered with a ReNeuron cell therapy in a third clinical trial,

ii) The Total Shareholder Return (TSR) of the Company must exceed that of the AIM Healthcare Index in any given three year period from date of grant. Where the TSR ranks between median and upper quartile of the index over the three-year period, the options will vest pro-rata between 25% and 100%. Where the TSR ranks below the median in the performance period, no options will vest.

iii) The business must have operated within its internal financial budgets throughout the period to vesting.

iv) The business must be a going concern (under the accepted accounting definition) at the time of any exercise of an option.

**Note 10:**
These options were issued under the Group's Share Option Scheme. Subject to the satisfaction of a performance condition, being the first patient administered with a ReNeuron cell therapy in a fourth clinical trial, the options are exercisable in whole or in part at any time between the third anniversary and the tenth anniversary of the date on which the option was granted. If not exercised by the tenth anniversary of the date of grant, the option will lapse.

**Note 11:**
These options have been issued under the Group's Share Option Scheme. These options were awarded in accordance with the Group's Long Term Incentive Plan and are subject to the satisfaction of the performance conditions set out below. Subject to achievement of these performance conditions, options are exercisable in whole or in part at any time between the third anniversary and the tenth anniversary of the date on which the option was granted. If not exercised by the tenth anniversary of the date of grant, the option will lapse.

Performance Conditions:

i) The first patient is administered with a ReNeuron cell therapy in a fourth clinical trial,

ii) The Total Shareholder Return (TSR) of the Company must exceed that of the AIM Healthcare Index in any given three year period from date of grant. Where the TSR ranks between median and upper quartile of the index over the three-year period, the options will vest pro-rata between 25% and 100%. Where the TSR ranks below the median in the performance period, no options will vest.

iii) The business must have operated within its internal financial budgets throughout the period to vesting.

iv) The business must be a going concern (under the accepted accounting definition) at the time of any exercise of an option.

## 26. Share options (continued)

### Fair value charge

As stated previously, the Group has prepared fair value charges for options covered by notes 2 to 11 above. The calculations have been estimated based on the Black-Scholes model. Key data and assumptions used are:

| Date of Grant | Exercise price Pence | Share price at date of grant Pence | Risk free rate % | Assumed time to exercise Years | Assumed volatility % | Fair value per option Pence |
|---|---|---|---|---|---|---|
| August 2009 | 4.850 | 5.750 | 4.29 | 5 | 125.3 | 4.930 |
| August 2009 | 1.000 | 5.750 | 4.29 | 5 | 125.3 | 5.450 |
| August 2010 | 4.430 | 4.925 | 3.08 | 5 | 112.9 | 3.980 |
| August 2010 | 1.000 | 4.925 | 3.08 | 5 | 112.9 | 4.560 |
| August 2011 | 4.310 | 4.500 | 2.41 | 5 | 104.6 | 3.470 |
| August 2011 | 1.000 | 4.500 | 2.41 | 5 | 104.6 | 4.080 |
| September 2012 | 3.300 | 3.300 | 1.65 | 5 | 98.7 | 3.510 |
| September 2012 | 1.000 | 3.300 | 1.65 | 5 | 98.7 | 4.020 |

The risk free rate is taken from the average yields on government gilt edged stock. Volatility for August 2005 options was taken from analysis of peer groups, whereas volatilities for later options were taken from actual data following flotation. No assumption of dividend yield has been included. An attrition rate of 10% pa has been used in applying these values over an assumed vesting period of 4 years.

A reconciliation of option movements over the year to 31 March 2013 is shown below:

| | **2013** | | 2012 | |
|---|---|---|---|---|
| | **Number of options '000** | **Weighted average exercise price Pence** | Number of options '000 | Weighted average exercise price Pence |
| Outstanding at 1 April | **48,578** | **5.30** | 34,427 | 6.70 |
| Adjusted | **1,161** | **8.32** | 1,382 | 9.50 |
| Granted | **14,713** | **2.10** | 12,769 | 2.20 |
| Lapsed | **(467)** | **1.00** | – | – |
| Outstanding at 31 March | **63,985** | **4.46** | 48,578 | 5.30 |
| Exercisable at 31 March | **20,592** | **9.30** | 14,604 | 7.50 |

The share price on 31 March 2013 was 3.0 pence (2012: 5.0p).

# Notes to the financial statements
for the year ended 31 March 2013 continued

## 26. Share options (continued)

The pattern of exercise price and life is shown below:

| | 2013 | | | | 2012 | | | |
|---|---|---|---|---|---|---|---|---|
| Range of Exercise Prices | **Weighted average exercise price** | **Number of options** | **Weighted average remaining life (years) Expected** | **Contractual** | Weighted average exercise price | Number of options | Weighted average remaining life (years) Expected | Contractual |
| 1p | **1p** | **28,934,122** | **3.42** | **8.05** | 1p | 21,692,759 | 3.60 | 8.90 |
| Up to 10p | **4.4p** | **24,459,958** | **2.89** | **6.63** | 5.1p | 16,732,383 | 1.62 | 6.38 |
| 10p to 20p | **12.5p** | **8,870,437** | **3.26** | **3.26** | 13.0p | 8,503,230 | 1.47 | 4.47 |
| 20p to 30p | **21.8p** | **1,720,656** | **4.42** | **4.42** | 22.7p | 1,649,426 | 2.35 | 5.35 |
| Total | | **63,985,173** | | | | 48,577,798 | | |

## 27. Cash used in operations

| | Group | | Company | |
|---|---|---|---|---|
| | **Year ended 31 March 2013 £'000** | Year ended 31 March 2012 £'000 | **Year ended 31 March 2013 £'000** | Year ended 31 March 2012 £'000 |
| **Loss before income tax** | **(7,059)** | (6,845) | **(723)** | (649) |
| Adjustment for: | | | | |
| Interest received | **(30)** | (40) | **(28)** | (39) |
| Interest payable | **1** | 1 | **–** | – |
| Depreciation of property, plant and equipment | **122** | 150 | **–** | – |
| Provisions movement | **25** | 25 | **–** | – |
| Share-based payment charges | **418** | 352 | **281** | 230 |
| Fees payable in ordinary shares | **–** | 9 | **–** | 9 |
| Changes in working capital | | | | |
| Receivables | **116** | (100) | **1** | 3 |
| Payables | **(231)** | 172 | **1** | (4) |
| **Cash used in operations** | **(6,637)** | (6,276) | **(468)** | (450) |

## 28. Operating lease commitments – minimum lease payments

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

| | Group | |
|---|---|---|
| | **2013 Land and buildings £'000** | 2012 Land and buildings £'000 |
| Not later than one year | **243** | 243 |
| Later than one year and not later than five years | **241** | 484 |
| **Total lease commitments** | **484** | 727 |

The operating lease commitment is in respect of the lease of the Group's offices and laboratories. The Company had no financial commitments at 31 March 2013 (2012: £nil).

### Contractual milestone payments

The Group is expected to incur future contractual milestone payments linked to the future development of its therapeutic programmes. These costs will be recognised as and when a contractual milestone has been achieved.

## 29. Contingent liabilities

The Group had no contingent liabilities as at 31 March 2013.

## 30. Related party disclosures

### Transactions with Biomedicon

Dr Paul Harper, trading as Biomedicon, recharged directors' fees of £22,500 (2012: £21,042) in respect of services provided by him.

### Transactions with Angel Biotechnology plc

During the year the Company contracted cell manufacturing services of £427,000 (2012: £747,000) from Angel Biotechnology plc, of whom Dr Paul Harper was a director.

### Transactions with XKE Capital Limited

XKE Capital Ltd recharged directors' fees of £17,496 (2012: £16,042) in respect of directors' fees provided by Mark Docherty.

# Notes to the financial statements
for the year ended 31 March 2013 continued

## 30. Related party disclosures (continued)

### Parent Company and subsidiaries

The Parent Company is responsible for financing and setting Group strategy. ReNeuron Limited carries out the Group strategy, employs all the UK staff including the directors, and owns and manages all of the Group's intellectual property. The proceeds of the issue of shares by the Parent Company are passed when required to ReNeuron Limited as a loan, and ReNeuron Limited makes payments, including the expenses of the Parent Company.

| **Company: transactions with subsidiaries:** | **2013 £'000** | 2012 £'000 |
|---|---|---|
| **Purchases and Staff:** | | |
| Parent company expenses paid by subsidiary | **468** | 456 |
| **Transactions involving Parent Company shares:** | | |
| Share options | **137** | 122 |
| **Cash management:** | | |
| Loans to subsidiary | **6,032** | 5,472 |

| **Company: Year end balance of loan** | **2013 £'000** | 2012 £'000 |
|---|---|---|
| **Loan to subsidiary** | **40,036** | 34,004 |

## 31. Post Balance Sheet event

Subsequent to the financial year end the Company announced on 22 July 2013 that it has raised £25.35 million, before expenses, by means of a Placing to shareholders, together with a £7.8m grant package from the Welsh Government to establish a cell manufacturing and development facility in South Wales. The Company will move its principal operations to this facility as it is phased in over the next two years. The necessary Shareholder resolutions to approve the Placing were passed at a General Meeting of the Company on 7 August 2013.

# Glossary of scientific terms

**Age related macular degeneration**
A medical condition which usually affects older adults that results in a loss of vision in the centre of the visual field because of damage to the retina.

**Cell banking**
A process for the controlled preparation of a cell therapy product, resulting in a large number of vials of frozen cells.

**Cell line**
Cells that can be sustained or grown in a laboratory culture medium. Cell lines may comprise a family of cells isolated from a single tissue or organ or may be clonally derived from a single ancestor cell.

**Cell therapy**
A process by which healthy cells are introduced into a tissue or an organ to reconstruct or promote regeneration in order to treat disease.

**Critical Limb Ischaemia**
Critical limb ischaemia is the end-stage of peripheral arterial disease, where a progressive decrease in blood flow to limbs can lead to gangrene and amputation.

**Diabetes**
A disease characterised by absolute or relative insulin insufficiency and high blood sugar.

**Diabetic retinopathy**
Damage to the retina caused by complications of diabetes, which can eventually lead to blindness.

**Differentiation**
The maturation of a stem cell into a functional cell.

**Indication**
The use for which a drug or therapy is intended.

**Ischaemic stroke**
The most common type of stroke (over 80% of cases) which happens when a clot blocks an artery that carries blood to the brain.

**Neural stem cells**
Cells within the brain which can both make more of themselves and also mature into neurons, oligodenrocytes and glia (supporting cells).

**Neurodegenerative**
A varied assortment of CNS disorders characterised by gradual and progressive loss of neural tissue.

**Neurons**
A nervous system cell able to conduct electrical impulses.

**Peripheral arterial disease**
A condition in which reduced blood supply to the limbs causes cramping, chronic pain, and in extreme cases loss of limb.

**Phase I clinical trial**
The assessment of the safety of a biologically active substance in patients or healthy volunteers.

**Phase II clinical trial**
A clinical trial designed to evaluate the efficacy of a treatment or drug for the condition it is intended to treat.

**Phase III clinical trial**
A large scale clinical trial of a treatment or drug that in Phase I and Phase II has been shown to be both efficacious and safe.

**Regenerative medicine**
A newer approach in medicine aimed at restoring function to damaged body organs and tissues.

**Retinal disease**
A general term which describes any damages to the light sensing membrane in the eye that can affect vision.

**Retinitis pigmentosa**
The name given to a group of inherited diseases of the retina that all lead to a gradual progressive reduction in vision.

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# Glossary of scientific terms continued

**Stem cell**
A cell that is both able to reproduce itself and, depending on its stage of development, to generate all or certain other cell types within the body or within the organ from which it is derived.

**Stroke**
Damage to a group of nerve cells in the brain due to interrupted blood flow, caused by a blood clot or blood vessel bursting. Depending on the area of the brain that is damaged, a stroke can cause coma, paralysis, speech problems and dementia.

# Notice of Annual General Meeting

## RENEURON GROUP PLC

*(incorporated and registered in England and Wales with registered no. 5474163)*

**(the "Company")**

**NOTICE OF ANNUAL GENERAL MEETING**

NOTICE IS HEREBY GIVEN that, the Annual General Meeting of the Company will be held at the offices of Covington & Burling LLP, 265 Strand, London WC2R 1BH on 13 September 2013 at 10.00 a.m. to consider, and if thought fit, pass the following resolutions, of which Resolutions 1 to 6 will be proposed as ordinary resolutions and Resolutions 7 and 8 will be proposed as special resolutions.

**ORDINARY BUSINESS**

1. To receive and adopt the Company's Annual Report and Accounts for the financial year ended 31 March 2013 and the Directors' Report, and the Independent Auditors' Report on those accounts.
2. To reappoint as a Director, Mark Docherty, who is retiring by rotation in accordance with Article 122 of the Company's Articles of Association and who, being eligible, is offering himself for reappointment.
3. To reappoint as a Director, Simon Cartmell, who is retiring by rotation in accordance with Article 122 of the Company's Articles of Association and who, being eligible, is offering himself for reappointment.
4. To reappoint as a Director, Professor Sir Chris Evans, who having been appointed since the previous annual general meeting is retiring in accordance with Article 114 of the Company's Articles of Association and who, being eligible, is offering himself for reappointment.
5. To reappoint PricewaterhouseCoopers LLP as auditors of the Company from the conclusion of this Annual General Meeting until the conclusion of the next annual general meeting of the Company at which accounts are laid and to authorise the Directors to determine the remuneration of the auditors.

**SPECIAL BUSINESS**

6. That the Directors of the Company be and are hereby generally and unconditionally authorised, pursuant to section 551 of the Companies Act 2006 (the "2006 Act") to:

   (a) allot ordinary shares and to grant rights to subscribe for or to convert any security into ordinary shares, in the Company (all of which shares and rights are hereafter referred to as "Relevant Securities") representing up to £5,962,758.99 in nominal value in aggregate of shares; and

   (b) allot Relevant Securities (other than pursuant to paragraph (a) above) representing up to £5,962,758.99 in nominal value in aggregate of shares in connection with a rights issue, open offer, scrip dividend, scheme or other pre-emptive offer to holders of ordinary shares where such issue, offer, dividend, scheme or other allotment is proportionate (as nearly as may be) to the respective number of ordinary shares held by them on a fixed record date (but subject to such exclusions or other arrangements as the Directors may deem necessary or expedient to deal with legal or practical problems under the laws of any overseas territory, the requirements of any regulatory body or any stock exchange in any territory, in relation to fractional entitlements, or any other matter which the Directors consider merits any such exclusion or other arrangements),

   provided that in each case such authority shall expire (unless previously renewed, varied or revoked by the Company in general meeting) 15 months after the date of the passing of this resolution or at the conclusion of the next annual general meeting of the Company following the passing of this resolution, whichever occurs first, save that the Company may before such expiry, variation or revocation make an offer or agreement which would or might require such relevant securities to be allotted after such expiry, variation or revocation and the Directors may allot relevant securities pursuant to such an offer or agreement as if the authority conferred hereby had not expired or been varied or revoked.

# Notice of Annual General Meeting continued

7. That the Directors are hereby empowered pursuant to section 570 of the 2006 Act:

   (a) subject to and conditionally upon the passing of Resolution 6 to allot equity securities (as defined by section 560 of the 2006 Act) for cash pursuant to the authority conferred by Resolution 6 as if section 561 of the 2006 Act did not apply to such allotment; and

   (b) to sell ordinary shares if, immediately before such sale, such shares are held as treasury shares (within the meaning of section 724 of the 2006 Act) as if section 561 of the 2006 Act did not apply to such sale,

   provided that such powers:

   (1) shall be limited to:

      (i) the allotment of equity securities (or sale of ordinary shares) representing up to £5,962,758.99 in nominal value in aggregate of shares pursuant to the authority conferred by paragraph (b) of Resolution 6;

      (ii) the allotment of equity securities (or sale of ordinary shares) representing up to £1,788,827.70 in nominal value in aggregate of shares in connection with the grant of options (or other rights to acquire ordinary shares) in accordance with the rules of the Company's share options schemes (as varied from time to time) or otherwise to employees, consultants and/or Directors of the Company and/or any of its subsidiaries; and

      (iii) the allotment of equity securities (or sale of ordinary shares), otherwise than pursuant to sub-paragraphs (i) and (ii) (inclusive) above, representing up to £1,788,827.70 in nominal value in aggregate of shares; and

   (2) shall, expire 15 months after the passing of this resolution or at the conclusion of the next annual general meeting of the Company following the passing of this resolution, whichever occurs first, but so that the Company may before such expiry, revocation or variation make an offer or agreement which would or might require equity securities to be allotted (or ordinary shares to be sold) after such expiry, revocation or variation and the Directors may allot equity securities (or sell ordinary shares) in pursuance of such offer or agreement as if such powers had not expired or been revoked or varied.

8. That existing Article 98.1 of the Company's Articles of Association, be and is hereby amended with immediate effect, by the insertion at the end of the last line of such Article 98.1, after the words "*and an appointment of proxy which is not deposited, delivered or received in a manner so permitted shall be invalid*" of the following further words: "*, provided always that the Board may at its discretion determine that in calculating the periods mentioned in this Article 98.1, that no account shall be taken of any part of a day that is not a working day*".

9 August 2013
*By Order of the Board*
Patrick Huggins
Company Secretary

*Registered office*
10 Nugent Road
Surrey Research Park
Guildford
Surrey GU2 7AF

NOTES

(1) In this Notice "ordinary shares" shall mean ordinary shares in the capital of the company, having a nominal value of 1 pence per share.

(2) A shareholder entitled to attend and vote at the meeting is also entitled to appoint one or more proxies to attend, speak and vote on a show of hands and on a poll instead of him or her. A proxy need not be a member of the Company. Where a shareholder appoints more than one proxy, each proxy must be appointed in respect of different shares comprised in his or her shareholding which must be identified on the proxy form. Each such proxy will have the right to vote on a poll in respect of the number of votes attaching to the number of shares in respect of which the proxy has been appointed. Where more than one joint shareholder purports to appoint a proxy in respect of the same shares, only the appointment by the most senior shareholder will be accepted as determined by the order in which their names appear in the Company's register of members. If you wish your proxy to speak at the meeting, you should appoint a proxy other than the chairman of the meeting and give your instructions to that proxy.

(3) A corporation which is a shareholder may appoint one or more corporate representatives who have one vote each on a show of hands and otherwise may exercise on behalf of the shareholder all of its powers as a shareholder provided that they do not do so in different ways in respect of the same shares.

(4) To be effective, an instrument appointing a proxy and any authority under which it is executed (or a notarially certified copy of such authority) must be deposited at the offices of Computershare Investor Services plc, The Pavilions, Bridgwater Road, Bristol BS99 6ZY, at not later than 10.00 a.m. on 11 September 2013 except that should the meeting be adjourned, such deposit may be made not later than 48 hours before the time of the adjourned meeting. A Form of Proxy is enclosed with this notice. Shareholders who intend to appoint more than one proxy may photocopy the Form of Proxy prior to completion. Alternatively, additional Forms of Proxy may be obtained by contacting Computershare Investor Services plc on 0870 707 1272. The Forms of Proxy should be returned in the same envelope and each should indicate that it is one of more than one appointments being made. Completion and return of the Form of Proxy will not preclude shareholders from attending and voting in person at the meeting.

(5) A "Vote Withheld" option has been included on the Form of Proxy. The legal effect of choosing the "Vote Withheld" option on any resolution is that the shareholder concerned will be treated as not having voted on the relevant resolution. The number of votes in respect of which there are abstentions will however be counted and recorded, but disregarded in calculating the number of votes for or against each resolution.

(6) In accordance with Regulation 41 of the Uncertificated Securities Regulations 2001, the Company specifies that only those shareholders registered in the register of members of the Company as at the close of business on the day which is two days before the day of the meeting shall be entitled to attend, or vote (whether in person or by proxy) at the meeting in respect of the number of shares registered in their names at the relevant time. Changes after the relevant time will be disregarded in determining the rights of any person to attend or vote at the meeting.

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# Explanatory Notes to the business of the Annual General Meeting

**Resolution 1** - The Company's Annual Report and Accounts for the financial year ended on 31 March 2013 and the Directors' Report and the Independent Auditors' Report on those accounts will be presented to shareholders for approval.

**Resolutions 2 and 3** - In accordance with Article 122 of the Company's Articles of Association, which requires that at every annual general meeting of the Company at least one third of the Directors for the time being retire from office by rotation, having so retired by rotation in accordance with Article 122, each of the following Directors is standing for reappointment by the shareholders at the Annual General Meeting:

- Mark Docherty, who is a non-executive Director of the Company; and
- Simon Cartmell, who is a non-executive Director of the Company.

**Resolution 4** - In accordance with Article 114 of the Company's Articles of Association, every Director who has been appointed since the last annual general meeting of the Company is required to retire from office. Professor Sir Chris Evans, having been appointed as a non-executive Director since the last annual general meeting therefore retires and, being eligible, offers himself for reappointment by the shareholders at the Annual General Meeting.

**Resolution 5** - At every annual general meeting at which accounts are presented to shareholders, the Company is required to appoint an auditor to serve until the next such annual general meeting. PricewaterhouseCoopers LLP have confirmed that they are willing to continue as the Company's auditors for the next financial year. The Company's shareholders are asked to reappoint them and to authorise the Director's to determine their remuneration, which will, in accordance with the Company's practice concerning good corporate governance, be subject to the recommendation of the Audit Committee.

**Resolution 6** - This resolution seeks to authorise the Directors to allot shares, subject to the normal pre-emption rights reserved to shareholders contained in the 2006 Act. Previously the Association of British Insurers ("ABI") recommended that a company seek an annual authority to allot up to a third of their issued share capital; however the ABI has issued further guidelines permitting a company to seek authority to allot an additional third of the issued share capital provided such additional third is reserved for fully pre-emptive rights issues. Sub-paragraph (b) of Resolution 6 seeks to reflect the spirit of the change in the ABI's recommendation, though covers a broader range of offers, issues and allotments.

**Resolution 7** - Pursuant to section 561 of the 2006 Act existing shareholders of the Company have a right of pre-emption in relation to future issues of shares. Sub-paragraph (1)(i) of Resolution 7 allows the disapplication of pre-emption rights to allow the issue of shares to existing shareholders, for example, by way of a rights issue or open offer. The limit imposed in respect of the grant of options pursuant to sub-paragraph 1(ii) of Resolution 7 represents 10 per cent. of the issued share capital of the Company. The limit imposed in respect of the general disapplication pursuant to sub-paragraph 1(iii) of Resolution 7 represents 10 per cent. of the issued share capital of the Company. The Directors consider it important that they have the authorities set out in sub-paragraphs (1)(ii) and (1)(iii), which would allow them to grant options and issue shares to incentivise employees, Directors and consultants and to issue shares generally for other purposes.

**Resolution 8** - The time limits for the appointment or termination of a proxy appointment have been altered by the 2006 Act. Section 327 of the 2006 Act provides that any part of a day that is not a working day may be excluded from counting towards the period of time, not exceeding 48 hours, for receipt by the Company of Forms of Proxy in advance of a general meeting. The amendment to Article 98.1 of the Company's Articles of Association is to incorporate this change into the Company's Articles of Association.

# Shareholders Notes

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# Shareholders Notes

ReNeuron

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