

Press Release

Stem Cell Sciences plc

Preliminary Results for the year ended 31 December 2006

("Stem Cell Sciences", "SCS", "the Company" or "the Group")

7 February 2007

Stem Cell Sciences plc, the global biotechnology company focused on the commercialisation of stem cells and stem cell technologies in research and novel cell-based therapies, is pleased to announce preliminary results for the year ended 31 December 2006.

Highlights

- Revenues generating in three of four SCS business units:
 - SC Proven[®] - supply of growth formulations and other reagents for stem cell-based research
 - SC Services – custom engineering and supply of cells for drug discovery and development
 - SC Licensing – provides access to proprietary SCS technologies
- SC Therapies – stem cell-based therapeutics
 - Programmes to test SCS' proprietary stem cells in animal models of spinal cord injury and age-related macular degeneration initiated and in preparation respectively
- Exclusive license agreement signed with Millipore Corporation to develop and market the Company's serum free media for the growth of human embryonic stem cells ("hESCs") – a further licensing deal between the two companies. HEScGRO medium is the first commercially available animal component free medium for human ES growth.
- Two new licensing deals signed with major pharmaceutical companies including one evaluation license and one non-exclusive research license. Both licenses provide SCS with up-front fees, the latter also providing milestone payments and SCS technology licensing options to improvements in SCS technology.
- Opening of the new automated stem cell production facility at the Babraham Research Campus in Cambridge (UK), enabling the Company to grow and supply its novel stem cell based drug discovery and development assays for the world pharmaceutical industry. The facility also includes a state of the art robotic cell culture machine, the Compact SelecT[™].
- Strengthening of the Board with appointment of Jeremy Scudamore and David Dodd as Non-Executive Directors. Subsequent to his appointment, David Dodd was appointed Non-Executive Chairman effective 1 January 2007 with Michael Dexter continuing to serve as Senior Independent Non-Executive Director. David's significant commercial and corporate life sciences experience, having held a number of executive positions with companies such as Serologicals Corporation, Solvay Pharmaceuticals, Wyeth, Bristol-Myers Squibb and Abbott Laboratories, and excellent track record in US commercial and financial markets will be instrumental in taking Stem Cell Sciences forward to the next stage of its development.
- Expansion of US academic and commercial networks via U.S. subsidiary SCS Ilc (San Francisco, CA). SCS Ilc is focused on building sustainable academic and commercial collaborations throughout North America.

- Successful co-applicant in the European Commission approved 'ESTOOLS' programme, a world leading €12 million stem cell research programme involving both academic and commercial researchers. Stem Cell Sciences is one of three commercial partners taking part in this Framework Programme (FP) VI initiative which is being led by the University of Sheffield.
- Shareholders' approval of proposed dual listing on the Australian Stock Exchange ("ASX") in the first half of 2007 to raise up to AUS\$10m, whilst continuing to trade on the Alternative Investment Market of the London Stock Exchange ("AIM").

Peter Mountford, President and CEO of SCS, commenting on the outlook for 2007, said:

"The Company made significant progress in pursuing its strategy, particularly strengthening the infrastructure and business development. Importantly, with these solid foundations, and the successful in-licensing of several new products, SCS expects to see revenue growth in the coming year. The Board continues to be optimistic on the opportunities available to SCS and looks forward to an exciting 2007."

- Ends -

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About Stem Cell Sciences plc

Stem Cell Sciences plc (SCS, AIM: STEM) is a global biotechnology company, established in Melbourne, Australia in 1994, providing products in the burgeoning stem cell research and drug discovery markets, in addition to the targeted development of cell-based therapies for neurodegenerative disease and injury.

The Company has established a leading intellectual property (IP) and technology portfolio that enables the commercial application of stem cells in drug discovery, providing the Company with early-stage revenue streams and technology development for at scale cell production of SCS cell-based therapeutics. SCS principal focus is in neurological disease. Revenues in the neurotech market, including pharmaceuticals, devices and diagnostics, grew 10% in 2005 to US\$110 billion *Neurotech Insights, Volume 2/3 April 30 2006*.

SCS operates as a group of independent operations with laboratories in Scotland, Japan and Australia, each of which is affiliated with an academic centre of excellence. These include the Institute of Stem Cell Research (ISCR), Edinburgh, UK, RIKEN Centre for Development Biology, Kobe, Japan and the Australian Stem Cell Centre, Melbourne, Australia.

SCS has four business units focused on key sustainable business strategies.

SC Proven[®] provides cell culture media (liquid formulations) and reagents that enable the growth and differentiation of stem cells. The first commercially available product, a novel, serum free, stem cell growth medium, has been exclusively licensed for manufacture and marketing to Chemicon, part of Millipore Corporation.

SC Licensing licenses SCS proprietary technologies, such as Internal Ribosome Entry Site (IRES) and Stem Cell Selection, for application in laboratory-based research and discovery. SCS has licensed technology to major pharmaceutical and biotechnology companies including Pfizer, Sanofi Aventis, GSK, Deltagen Inc and Lexicon Genetics Inc.

SC Services provides specialised stem cell production for basic research and drug discovery, including high-throughput applications.

SC Therapies' goal is to develop safe and effective cell-based therapies for currently incurable diseases. SCS is conducting preclinical evaluations of its neural stem cell lines in a number of therapeutic applications. The first preclinical programme being undertaken by SCS is in spinal cord injury repair. Its Japanese affiliate SCS KK will conduct preclinical studies for the treatment of Duchenne Muscular Dystrophy in 2007-8. For further information on the company please visit: www.stemcellsciences.com

Stem Cell Sciences plc
Preliminary Results for the year ended 31 December 2006
(“Stem Cell Sciences”, “SCS”, “the Company” or “the Group”)

7 February 2007

Chairman’s Statement

I am pleased to provide you with this update on the continued successful developments of Stem Cell Sciences during 2006, our first full year as a public company.

SCS is focused on the commercial application of stem cell biology, achieving current revenues through the application of our technologies in stem cell research and drug discovery, while continuing to invest our efforts long-term into the development of novel stem cell therapies for targeted neurological diseases.

This year has been highly significant for SCS operationally and in terms of growing the business. During the year the Company met a number of milestones including new agreements and collaborations, the launch of the first commercial product and the opening of new sites in Cambridge, UK and California, USA.

The opening of the new automated stem cell production facility in December 2006 at the Babraham Research Campus in Cambridge enables the Company to grow and supply its novel stem cell-based drug screens and assays for the world pharmaceutical industry using state of the art robotic cell culture equipment.

The Company also established a U.S. subsidiary in San Francisco, California which is focused on building sustainable research, development and commercial collaborations throughout North America in order to expand its global presence and pursue further developments in the US market.

Under the Company’s exclusive license agreement with Millipore Corporation, the first commercial product, ESGRO Complete™, was launched in February 2006. Later in the year the Company signed a second exclusive agreement with Millipore to develop and market the Company’s serum free media for the growth of human embryonic stem cells (“hESCs”). This product, HEScGRO™ was launched in January 2007.

In November the SC Therapies unit commenced the Company’s therapeutic programme in spinal cord injury signing a collaboration with the Regenerative Medicine Institute at the National University of Ireland, Galway, with the Group’s NS cells entering preclinical testing for spinal cord injury at the Institute.

As part of Stem Cells Sciences’ ongoing involvement in Government initiatives the Company announced its participation in the European Commission approved 'ESTOOLS' programme, a world leading €12 million stem cell research programme involving both academic and commercial researchers. Stem Cell Sciences is one of three commercial partners taking part in this Framework Programme (“FP”) VI initiative which is being led by the University of Sheffield.

Stem cells hold great promise to deliver longer-term potential as safe and effective treatments for a variety of human illnesses that are currently without cures. The Company aims to be a key provider of the cellular materials needed for these therapies. By using stem cells, scientists are already able to investigate and better understand normal body processes and those of human disease, by testing specific genes to identify their role in cells, and to discover and test new drugs in a representative 'human' environment. The ability to grow and use stem cells in the laboratory is accelerating basic research and will ensure faster and more successful drug discovery and development. The key challenges for the successful application of stem cells are robust and reproducible growth and differentiation (generation of pure populations of the desired cell type). Stem Cell Sciences has developed, and continues to methodically develop, the products and technologies needed to overcome these challenges. During 2006, the Company initiated the therapeutic evaluation of its proprietary NS cells in several areas of neurological diseases including, collaborations and evaluations to test cells in animal models of spinal cord injury, age-related macular degeneration and Duchenne's Muscular Dystrophy.

The Company recognises that the development of new cell-based therapies will require the support and participation of multiple organisations and individuals including governments, universities, clinicians, financiers, patients and patient support groups, on a world-wide and collaborative basis. To this purpose, the Company continues to build a global network of operations to facilitate interaction and access to key contributing academic and commercial organisations around the world.

In addition to achieving commercial progress and in several areas of research and development, the Company continued to strengthen its board of Directors through new additions and organising for the long-term commercial success. In July 2006, Jeremy Scudamore joined our board as a Non-Executive Director, which was followed by my joining in October, 2006 and subsequent appointment as Non-Executive Chairman on 1 January 2007.

It is an honour to work with my fellow board members and the management team in continuing to successfully develop Stem Cell Sciences. On behalf of the board, I would like to thank Dr Mike Dexter for his leadership and service as Chairman over the past 3½ years. We are pleased that Mike will continue to serve on the board as Senior Independent Non-Executive Director.

Finally, the Board would like to thank the Company's employees for their continued commitment in building the success of SCS, as well as, thank you, our shareholders, for your continued support of this exciting company. It is the Board's focus to build increased shareholder value, while developing a highly competitive organisation, serving customers world wide through the successful application of our products, technologies and services in stem cell biology.

David A Dodd
Chairman

6 February 2007

Operating and Financial Review

Stem Cell Sciences was pleased to celebrate numerous significant milestones in 2006 including several new collaborative research and licensing agreements, additional technology in-licensing and the openings of our new US office and our automated cell production facility in Cambridge, UK.

Our agreements with organisations such as NeuroDiscovery Ltd, the Regenerative Medicine Institute ("REMEDI") at the National University of Ireland, Galway, Millipore Inc., the University of Nice, Sophia Antipolis, the Centre National de la Recherche Scientifique ("CNRS") and additional new technologies in-licensed from the University of Edinburgh, provide a mixture of revenue generating licenses, new product opportunities and technology development programmes for SCS.

Importantly, our achievements in 2006 are consistent with the Company's business plan and efforts to further expand Stem Cell Sciences' position as a leader in the stem cell field. A delay in anticipated revenue flow, in part due to the delay in commissioning our automated production facility and the late closure of a recent pharmaceutical company out-licensing deal have limited SCS total revenues (including other operating income) to a marginal increase over our 2005 figures.

Financial Review

The Company reports turnover of £0.7m (2005: £0.8m) for the year ended 31 December 2006, comprising £0.5m project deliverables and royalties and £0.2m product sales. The delay in anticipated revenue flow has resulted in a slight decrease over our 2005 figures. However, we were pleased to report an increase in royalties received and an associated broadening of our revenue base from our core business units, SC Proven and SC Services.

Other operating income of £0.4m (2005: £0.2m) represents grant income from the UK and European research consortia. Expansion to Research and Development activities led to an increase in operating costs of 12% to £3.7m. Capital expenditure for the year of £0.6m represented the considerable investment made in the Cambridge automated cell-production facility.

Net cash outflow from operations was £2.4m and, after allowing for cash inflows from investment returns and taxation received, the cash outflow before new financing was £2.8m. The overall decrease in cash in the year was £2.8m; net funds at the end of the year were £2.5m. Cash balances held are invested in interest bearing accounts. The current cash resources are forecast by the directors to be sufficient to enable the Group to continue to trade until August 2007.

In October 2006, SCS announced it was considering a dual listing on the Australian Stock Exchange to raise up to AUS\$10m which will be used to fund and accelerate current business development and research activities. As the shares were trading at below nominal value in order to facilitate the fundraising the Company undertook a capital reorganisation which was approved by shareholders at the EGM held on 1 November 2006. Each of the issued and unissued Ordinary Shares of £0.50 each in the capital of the Company were subdivided into one Ordinary Share of £0.01 and one Deferred Share of £0.49. On 9 November 2006 the Company issued one Ordinary Share for £0.46 and used part of the proceeds received from that issue to buy back all of the Deferred Shares that were in issue. Following the buyback of the Deferred Shares by the Company all of the Deferred Shares were cancelled.

The proposed flotation, which has received the approval of shareholders of the Company in a general meeting, is at an advanced stage and has been publicly announced. Costs of £230,000 are held in prepayments in relation to work carried out by professional advisers in relation to the flotation to the extent that these are costs which will be treated as issue costs in relation to the new shares to be issued on the proposed flotation. While there can be no certainty either that the proposed flotation will be successful or that it will raise the required funds, the Directors are of the opinion that, taking into account existing facilities available to the Company and the expected proceeds from the Australian flotation, the funds available to the Group will be sufficient for trading requirements for at least twelve months from the date of these financial statements. The Company is progressing with the Listing and a further update will be provided in due course.

Share Based Payments

During the year the Company has implemented FRS20 Share Based payments, which increased administrative expenses by £130,000. This represents a notional charge in respect of employee and director share options. The notional charge has not impacted on the reported net assets, since the charge in the profit and loss account is balanced by a credit to the reserves. Group cash flow is also unaffected.

Performance of SC Business Units

SC PROVEN®: SUPPLY OF GROWTH MEDIA AND REAGENTS

SC Proven is responsible for the development and commercialisation of stem cell culture media, cell lines and other reagents required to grow, differentiate and apply stem cells to a variety of research applications. SC Proven® is a registered trademark of the Company and products released under this trademark generate trade mark fees, upfront licensing and renewal fees, milestone payments and royalty income for SCS.

In 2005 the Company's SC Proven® business unit established a manufacturing and distribution channel with Chemicon Inc., now part of Millipore Corporation, for its serum free stem cell culture media products. The first SC Proven® product for growth of mouse embryonic stem cells, ESGRO Complete™, was launched in February 2006 and has been well received and broadly adopted by those organisations trialling the product.

A further agreement for HEScGRO™, a serum free cell culture media to enable improved growth of human embryonic stem cells, was announced with Chemicon in October 2006 and commercial sales commenced in January 2007. SCS believes that this product is the first commercially available animal component-free medium in the industry that offers improved methods for growing human embryonic stem cells without the need for animal serum.

The current world market for cell culture media and reagents has been estimated at US\$950m, rising to US\$1.8bn by 2010. Stem cell media products represent a small component of this market although this is expected to grow as research in this relatively new area of science expands through increasing government research investment.

The Company is continuing to develop new cell culture media products suitable for use with its mouse and human NS cells, and is also refining and developing media for the production and differentiation of human multi-potent adipocyte-derived stem ("hMADS") cells into fat, bone and muscle cells. SCS will continue to source new discoveries to improve and expand on its SC Proven® range.

SC LICENSING: PROVIDING ACCESS TO PROPRIETARY STEM CELL TECHNOLOGIES

This SC business unit sub-licenses the Company's proprietary portfolio of stem cell technologies to the biotechnology and pharmaceutical industries.

Over the course of the year SCS continued to develop and strengthen its existing licensing arrangements, signing two pharmaceutical licencing deals, as well as seeking additional avenues for out licensing its technology. To develop market penetration in the USA, SCS established a U.S. subsidiary in San Francisco, California, and expanded its global business team with the addition of a Group Business Development Manager.

The Company completed two pharmaceutical licensing deals in 2006 including its first out-licensing evaluation programme for NS cells and a non-exclusive licensing agreement. Both licenses provide SCS with up-front fees, the latter also providing milestone payments and SCS technology licensing options to improvements in SCS technology.

In July 2006, the Company in-licensed a novel human stem cell, hMADS cell, from the University of Nice, Sophia Antipolis and the Centre National de la Recherche Scientifique ("CNRS"). The cells are capable of producing fat and bone at very high efficiency, and will be suited for drug discovery in such areas as obesity and osteoporosis. SCS holds worldwide exclusive rights to commercialise these cells for drug discovery in the field of obesity and an exclusive option in the field of osteoporosis. SCS is currently progressing negotiations to out-license the hMADS technology.

SC SERVICES: CUSTOM ENGINEERING AND SUPPLY OF CELLS FOR RESEARCH AND DRUG DISCOVERY

In December 2006 SCS opened a new automated cell production facility at the Babraham Research Campus in Cambridge, UK, enabling the Company to grow and supply its novel stem cell based drug screens and assays for the pharmaceutical industry using state of the art robotic cell culture equipment. The new facility is equipped with robotic devices for automated, parallel production of multiple cell lines and the Company will continue to expand services for contract engineering and cell supply of Embryonic Stem ("ES") cells, hMADS and NS cells.

This significant investment by SCS is central to the Company's near term revenue flow and longer-term business strategy. So called high throughput screening is applicable to both drug discovery and discovery of regulatory molecules for enhancing the production of stem cells in the laboratory; indeed one of SCS' most promising media products is based on a combination of three molecules first identified as drug candidates. By up-scaling cell based screening capability for the drug discovery industry, SCS also enhances its ability to identify the regulatory molecules which underpin the Company's core competency – stem cell regulation.

In July 2006, the Company announced a collaborative agreement with NeuroDiscovery Limited through its UK-based subsidiary, NeuroSolutions Limited. The collaboration aims to provide high-value contract services to biopharmaceutical companies and to supply them with native human neurones, validated for known ion channels and receptors that are tuned to their drug discovery needs. The initial focus of the collaboration will be on targets that are relevant to the future treatment of major neurological diseases.

A recent report stated that about half of all pharmaceutical company screening groups in lead discovery recently expressed an interest in obtaining primary, stem and progenitor cells for cell-based screening. Under the NeuroSolutions collaboration, the stem cell derivation, cell growth and differentiation skills of SCS will be combined with NeuroDiscovery's specialised electrophysiology techniques. The companies will combine their automated cell production and high-throughput patch-clamping equipment to produce functionally validated cells suited for industry's current drug discovery needs.

SC THERAPIES: STEM CELL-BASED THERAPEUTICS

The use of stem cells to repair diseased or damaged tissue (termed "Regenerative Medicine") is expected to lead to significant new therapeutic opportunities in medicine in the next decade or so. It is thought that many intractable diseases may be curable using this technology. SC Therapies is focused on the development of cell therapies for central nervous system ("CNS") diseases. Stem cells of the CNS represent a core scientific competency of the Company and its collaborating international network.

Initial research is being directed to developing and characterising cell lines of potential therapeutic value in the treatment of Parkinson's disease, age related macular degeneration (eye disease), epilepsy and Duchenne's Muscular Dystrophy ("DMD"), the latter through its Japanese affiliate, SCS KK.

In November 2006 the Company signed a collaborative agreement with the Regenerative Medicine Institute ("REMEDI") at the National University of Ireland, Galway. SCS' NS cells have commenced preclinical testing for spinal cord injury at the Institute. The initial study will examine the ability of the NS cells to provide functional improvements in models of spinal cord injury. Results from the initial study are expected in the first quarter of 2007. If this study proves successful, SCS and REMEDI plan to expand the collaboration with more extensive testing.

Intellectual Property

Stem Cell Sciences has secured exclusive rights to a high quality intellectual ("IP") portfolio for efficient production, genetic engineering and the selection of stem cells for use in drug discovery.

In January 2006 the Company signed a technology transfer agreement with the University of Edinburgh, which provides the basis for continued formal collaboration in the area of stem cell research. SCS continues to enhance its IP portfolio through in-licensing and internal development.

As mentioned above, the Company secured exclusive rights to hMADS cell for use in drug discovery in the field of obesity and an exclusive option in the field of osteoporosis. This patent pending technology is expected to have immediate and significant benefits when used for drug discovery.

Major Government and Not-for-profit Initiatives

Stem Cell Sciences recognises the importance of collaborating with government and not-for-profit funded initiatives in the stem cell field. The Company has established itself on a global basis with operations in Europe, Asia and Australia participating in collaborative research programmes of this nature. A principle objective of the Company's foundation and on-going operations is to try to return benefit to those that invest, including regional governments seeking to build wealth on local innovation.

In August 2006 the Company announced its participation in the European Commission approved 'ESTOOLS' programme, a world leading €12 million stem cell research programme involving both academic and commercial researchers. Stem Cell Sciences is one of three commercial partners taking part in this Framework Programme ("FP") VI initiative which is being led by the University of Sheffield. Stem Cell Sciences brings its technologies and expertise to the project and plans to use any discoveries to supply improved cell based drug screening and toxicology options to the pharmaceutical and biotechnology industries. In the longer term, all these technologies will mesh together to help the Company deliver new stem cell therapies.

Strategy

The Company's strategy is to expand the product pipeline and accelerate the technology development needed to provide high quality cells for therapeutic use, by working in partnership with academia, industry and governments. SCS develops and protects the core technology needed for cell supply in stem cell-based academic and pharmaceutical research.

The Company intends to continue commercialising its immediate research product opportunities from its SC Proven® business unit (cell culture media and supportive reagents) via manufacturing, marketing and distribution agreements with major research product providers such as Millipore. SCS retains all rights to SCS products and technologies for therapeutic applications.

SCS is developing further business opportunities in stem cell-based industrial research via technology licensing, custom engineering and production of cells, and the provision of collaborative research support for biotechnology and pharmaceutical company partners under its SC Licensing and SC Services business units.

SCS is also leveraging its technology platform to secure supportive intellectual property via cross-licensing of its technology with the biotechnology and pharmaceutical companies.

Current trading and outlook

The Company made significant progress in pursuing its strategy, particularly strengthening the infrastructure and business development. Importantly, with these solid foundations, and the successful in-licensing of several new products, SCS expects to see revenue growth in the coming year.

The Board continues to be optimistic on the opportunities available to SCS and looks forward to an exciting 2007.

Peter Mountford
President and CEO

6 February 2007

- Ends -

For further information, please contact:

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Stem Cell Sciences plc
Consolidated profit and loss account
for the year ended 31 December 2006

	<i>Note</i>	2006 £'000	2005 £'000 Restated
Turnover	2	742	847
Cost of sales		(157)	-
Gross profit		<u>585</u>	<u>847</u>
Administrative expenses		(2,505)	(2,481)
Research and development costs		(1,197)	(836)
Other operating income		367	194
Group operating loss		<u>(2,750)</u>	<u>(2,276)</u>
Share of operating loss of associate		(468)	(512)
Total operating loss		<u>(3,218)</u>	<u>(2,788)</u>
Other interest receivable and similar income		178	130
Loss on ordinary activities before taxation		<u>(3,040)</u>	<u>(2,658)</u>
Tax credit on loss on ordinary activities	3	62	139
Loss for the financial year		<u>(2,978)</u>	<u>(2,519)</u>
Loss per ordinary share		<u>(13.3)p</u>	<u>(13.6)p</u>
Basic and diluted loss per share	4	<u>(13.3)p</u>	<u>(13.6)p</u>

Turnover and loss on ordinary activities before taxation for the current and previous year relate wholly to continuing activities.

Consolidated statement of total recognised gains and losses
for the year ended 31 December 2006

	2006 £'000	2005 £'000 Restated
Loss for the financial year		
Group	(2,510)	(2,007)
Share of loss of associate	(468)	(512)
Total loss for the financial year	<u>(2,978)</u>	<u>(2,519)</u>
Net exchange differences on the retranslation of overseas investments	(119)	(11)
Unrealised gain on dilution of interest in associate	126	776
Total recognised gains and losses relating to the financial year	<u>(2,971)</u>	<u>(1,754)</u>

Stem Cell Sciences plc
Consolidated balance sheet
at 31 December 2006

	2006 £'000	2006 £'000	2005 £'000
Fixed assets			
Tangible assets		656	115
Investment in associate		284	710
		<u>940</u>	<u>825</u>
Current assets			
Debtors	646		322
Cash at bank and in hand	2,463		5,227
	<u>3,109</u>		<u>5,549</u>
Creditors: amounts falling due within one year	<u>(1,142)</u>		<u>(737)</u>
Net current assets		<u>1,967</u>	<u>4,812</u>
Total assets less current liabilities		<u>2,907</u>	<u>5,637</u>
Creditors: amounts falling due after more than one year		<u>(111)</u>	<u>-</u>
Net assets		<u>2,796</u>	<u>5,637</u>
Capital and reserves			
Called up share capital		223	11,151
Share premium account		2,297	2,297
Capital redemption reserve		10,928	-
Foreign exchange reserve		(144)	(25)
Merger reserve		(1,248)	(1,248)
Profit and loss account		(9,260)	(6,538)
Total shareholders' funds		<u>2,796</u>	<u>5,637</u>

Stem Cell Sciences plc
Consolidated cash flow statement
for the year ended 31 December 2006

	<i>Note</i>	2006	2005
		£'000	£'000
Cash flow statement			
Cash outflow from operating activities	6	(2,396)	(1,797)
Returns on investments and servicing of finance	7	152	130
Taxation		121	102
Capital expenditure and financial investment	7	(636)	(34)
Cash outflow before financing		<u>(2,759)</u>	<u>(1,599)</u>
Financing	7	-	5,809
(Decrease)/increase in cash in the year		<u>(2,759)</u>	<u>4,210</u>

Reconciliation of net cash flow to movement in net funds

(Decrease)/increase in cash in the year		(2,759)	4,210
Foreign exchange movements		(5)	3
Movement in net funds in the year		<u>(2,764)</u>	<u>4,213</u>
Net funds at the start of the year		5,227	1,014
Net funds at the end of the year	8	<u>2,463</u>	<u>5,227</u>

Stem Cell Sciences plc

Notes

1 Accounting policies

The preliminary financial information has been prepared on the basis of the accounting policies set out in the most recent set of financial statements for the year ended 31 December 2005 except that in this preliminary financial information FRS 20 'Share-based payments' has been adopted for the first time. The accounting policy under this new standard is set out below together with an indication of the effects of its adoption.

Annual accounts

The financial information set out above does not constitute the Company's statutory accounts for the years ended 31 December 2006 or 2005. Statutory accounts for 2005 have been delivered to the Registrar of Companies, and those for 2006 will be delivered in due course. The auditors have reported on those accounts; their report was (i) unqualified, (ii) included a reference to the matters referred to in the Basis of Preparation note below to which the auditors drew attention by way of emphasis without qualifying their report and (iii) did not contain a statement under section 237 (2) or (3) of the Companies Act 1985.

Basis of preparation

The financial statements have been prepared in accordance with applicable Accounting Standards and under the historical cost accounting rules.

The financial statements are prepared on a going concern basis which the directors believe to be appropriate for the following reasons.

The Group is involved in the research, development and commercialisation of stem cells and stem cell technology. At this stage of its development it has limited revenue arising from licensing arrangements, contract research and product sales and its costs exceed its revenue. The Group will continue to absorb cash until its products are commercialised.

The Group's current cash resources are forecast by the directors as being sufficient to enable it to continue to trade until August 2007. The Group is proposing a flotation on the Australian Stock Exchange in H1 2007 to raise up to AUS\$10 million which will be used to fund the start up costs of its manufacturing facility, develop its presence in the US and begin pre trials into neural and other cell therapies in addition to supporting its ongoing research and development activities. The proposed flotation, which has received the approval of shareholders of the company in a general meeting, is at an advanced stage and has been announced publicly. Costs of £230,000 are held in prepayments in relation to work carried out by professional advisers in relation to the flotation to the extent that these are costs which will be treated as issue costs in relation to the new shares to be issued on the proposed flotation.

While there can be no certainty either that the proposed flotation will be successful or that it will raise the required funds, the Directors are of the opinion that, taking into account existing facilities available to the Group and the expected proceeds from the Australian flotation, the funds available to the Group will be sufficient for the Group's trading requirements for at least twelve months from the date of these financial statements.

However, as noted there can be no certainty in relation to these matters, which may cast significant doubt on the Group's ability to continue as a going concern. The Group may, therefore, be unable to continue realising its assets and discharging its liabilities in the normal course of business but the financial statements do not include any adjustments that would result from either its planned flotation not taking place or raising insufficient funds.

Notes (continued)

Carrying value of investment in associate company

The Group holds 24.8% of an associate company, Stem Cell Sciences KK, a company incorporated in Japan, which is equity accounted in the consolidated financial statements. The carrying value of the investment at 31 December 2006 was £284,000. Stem Cell Sciences KK is also involved in research and development and currently its costs exceed its revenues. The associate's cash resources are forecast by the directors of that company to be sufficient to enable it to continue to trade until July 2007. It has carried out several successful fund raisings over the last few years and it proposes to carry out a further fund raising in March 2007. While there can be no certainty that its proposed fund raising will be successful or will raise the required funds, the Directors of the Company are of the opinion that, taking into account existing funds available to the associate and the expected proceeds from its fund raising, the funds available to that company will be sufficient for its trading requirements for at least twelve months from the date of these financial statements and that the carrying value in the Group financial statements is therefore appropriate. Were the associate's fund raising to fail or be insufficient, the Group's investment would have to be written down to reflect an impairment.

Share-based payments

FRS 20 Share-based payments has been adopted in the current year. As a result of the introduction of FRS20, a share-based charge has been made to the loss for the financial year of £130,000 (*December 2005: £138,000*). There is a corresponding credit to the profit and loss reserves, and accordingly there is no net effect on net assets at the end of each of the periods.

The share option programmes allow employees to acquire shares of the Company. The fair value of options granted after 7 November 2002 and those not yet vested as at 1 January 2006 is recognised as an employee expense with a corresponding increase in equity. The fair value is measured at the date of grant and spread over the period during which the employees become unconditionally entitled to options. The fair value of the options granted is measured using an option pricing model, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest except where variations are due only to share prices not achieving the threshold for vesting.

2 Segmental information

	Australia £'000	Japan £'000	UK £'000	Total £'000
Year ended and as at 31 December 2005	Restated		Restated	Restated
Turnover	835	-	12	847
Group operating loss	(422)	-	(1,854)	(2,276)
Share of operating loss of associate	-	(512)	-	(512)
Interest receivable	14	-	116	130
Group loss before taxation	(408)	(512)	(1,738)	(2,658)
Net assets				
Segmental net assets	318	-	4,609	4,927
Associate's net assets	-	710	-	710
Total net assets 2005	318	710	4,609	5,637
Year ended and as at 31 December 2006				
Turnover	651	-	91	742
Group operating loss	(777)	-	(1,973)	(2,750)
Share of operating loss of associate	-	(468)	-	(468)
Interest receivable	10	-	168	178
Group loss before taxation	(767)	(468)	(1,805)	(3,040)
Net assets/(liabilities)				
Segmental net assets/(liabilities)	(766)	-	3,278	2,512
Associate's net assets	-	284	-	284
Total net assets/(liabilities) 2006	(766)	284	3,278	2,796

Notes (continued)

3 Taxation

	2006 £'000	2005 £'000
<i>Tax on loss on ordinary activities:</i>		
Current tax:		
Overseas taxation credit	62	139

The tax credit for the year and previous financial year relates to overseas credits received relating to research and development

4 Loss per share

Loss per share is calculated as follows:

	2006 Loss £'000	2005 Loss £'000 Restated	2006 Loss pence per share	2005 Loss pence per share Restated
Basic	(2,978)	(2,519)	(13.3)p	(13.6)p
Diluted	(2,978)	(2,519)	(13.3)p	(13.6)p

The weighted average number of shares used in each calculation is as follows:

	2006 Number of shares	2005 Number of shares
Average number of shares in issue during the year	22,301,194	18,470,017

The loss attributable to ordinary shares and the number of ordinary shares for the purpose of calculating the diluted earnings per share are identical to those used for basic earnings per share. The exercise of share options would have the effect of reducing the loss per share and consequently is not taken into account in the calculation for diluted loss per share.

5 Reconciliation of movements in shareholders' funds

	2006 £'000	2005 £'000 Restated
Loss for the financial year	(2,978)	(2,519)
Net proceeds from share issues	-	5,814
Credit in relation to share based payments	130	138
Unrealised foreign exchange gain/(loss)	(119)	(11)
Unrealised gain on dilution of interest in associate	126	776
Net addition to/(reduction) in shareholders' funds	(2,841)	4,198
Opening shareholders' funds	5,637	1,439
Closing shareholders' funds	2,796	5,637

6 Reconciliation of operating loss to operating cash flows

	2006 £'000	2005 £'000 Restated
Group operating loss	(2,750)	(2,276)
Charge in respect of share based payments	130	138
Depreciation	91	30
Increase in debtors	(633)	(171)
Increase in creditors	766	482
Net cash outflow from operating activities	(2,396)	(1,797)

Notes *(continued)***7 Analysis of cash flows**

	2006	2005
	£'000	£'000
Returns on investments and servicing of finance		
Interest received	152	130
Net cash inflow from returns on investment and servicing of finance	152	130
Capital expenditure and financial investment		
Purchase of tangible fixed assets	636	34
Net cash outflow from capital expenditure and financial investment	636	34
Financing		
Issue of ordinary share capital	-	5,809
Net cash inflow from financing	-	5,809

8 Analysis of net funds

	At beginning of year £'000	Cash flow £'000	At end of year £'000
Cash in hand and at bank	5,227	(2,764)	2,463