Proteome Sciences plc

and subsidiary undertakings

Annual Report and Accounts for the year ended 31st December 2006 including Directors' and Independent Auditors' Reports and Chairman's Statement

Registered number: 2879724

Photographs: Front Cover: Mass Spectrometry Equipment & Laboratory ; Robot Loading Samples ; HPLC Liquid Chromatography Machine

Back Cover: Proteome Sciences' research facility, Frankfurt

Directors and advisers

Directors	R.S. Harris, BPharm, FR PharmS (Chairman)* (i) (ii) C.D.J. Pearce, (Chief Executive) J.L. Malthouse, FCA (Finance Director) A.J. Green, BSc (Commercial Director) PD Dr.med.habil P.K. Schulz-Knappe (Research and Development Director) Professor W. Dawson, DSc, FR PharmS, FRSC* (i) (ii) Dr. A.E.A. Lindberg, MD Ph D * (ii) * non-executive Directors and members of the (i) Audit and (ii) Remuneration Committees
Secretary and registered office	J.L. Malthouse, FCA Coveham House Downside Bridge Road Cobham Surrey KT11 3EP
Nominated Advisers and Stockbrokers	Teather & Greenwood Limited Beaufort House 15 St. Botolph Street London EC3A 7QR
Auditors	Deloitte & Touche LLP Chartered Accountants, United Kingdom Southampton
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Chairman's Statement

For the year ended 31st December 2006

Dear Shareholder,

I am pleased to report that good progress has been made in the year under review, a period in which considerable advances have been made commercially, scientifically and in the company's intellectual property portfolio. This momentum has continued into 2007.

The profile of and interest in biomarkers has grown rapidly on the back of the US FDA's Critical Path Initiative and the major clinical problems which have resulted in a number of major drug withdrawals. Industry estimates forecast that the biomarker market is expected to quadruple to around $21.2bn by 2012 from just over $5.4bn in 2005. Proteome Sciences should be particularly well placed to exploit the prolific growth projected from biomarkers, having its core activities centred on biomarker discovery and, in particular, on biomarker validation.

The rapid expansion and acceptance of isobaric tandem mass tags to deliver quantitative mass spectrometry has provided the ideal backcloth against which Proteome Sciences has obtained allowances for its TMT1 and TMT2 patents and should enable it to conclude commercial licences for the manufacture and use of any type of isobaric tandem mass tags (TMT®). Completion of the TMT® licences remain our highest short term priority and the grants of the TMT1 and TMT2 patents put the company in an outstanding position to generate substantial revenues from a combination of licence payments, back-licence payments, product sales and royalties. The market for isobaric tandem mass tags continues to grow disproportionately fast and earlier estimates of the revenue that may be generated over the patent lives appear to have considerably underestimated the scale and importance of quantitative mass spectrometry.

An extensive marketing campaign was launched for ProteoSHOP® in the second quarter of 2006 and this has resulted in a strong level of enquiries and contracts under discussion that will be reflected in revenue in the first half of 2007 and beyond. The marketing efforts have been augmented again in the current year, with attendances and presentations more focussed towards the main biomarker and mass spectrometry conferences and meetings.

In biomarkers, further research licences were concluded in stroke and another two licences were announced in high throughput screening (HTS) in the first half of the year with two of the top ten global companies in clinical diagnostics (BioMerieux was one) and a subsequent research licence agreement with another global diagnostics player was concluded in the second half of 2006. The remaining in-vitro diagnostics companies in the global top twenty have been targeted and, as some of the earlier research licences may convert into full commercial licences later in the year, further and additional licences and licencees are expected.

In 2006, 25 patents have been granted including oesophageal cancer, acute rejection, protein sequence tags, sensitizer and tandem mass tags, and new patent applications have been made for discoveries made in colorectal cancer, renal rejection, brain damage, stroke, Alzheimer's disease and tandem mass tags.

Reagents

Not surprisingly, over the last year the rapid expansion and acceptance of isobaric tandem mass tags has attracted considerable interest from the field of research and shareholders alike. In the short term, the commercial priority for our company is concentrated on Tandem Mass Tags® and the different streams of revenue that will be generated principally from the TMT® reagent products on one side and from licencing the intellectual property relating to the field of isobaric mass labelling on the other.

The TMT® isobaric tandem mass tagging has advanced considerably over the last twelve months. A duplex reagent was initially developed that is complemented by TMTzero and a fully functioning six-plex set of mass tags. The six-plex tags provide accurate differential quantitation of protein expression in six samples simultaneously within one experiment. Powerful data using TMT® six-plex in complex samples of human plasma in renal transplant rejection was presented at the 7th Siena Meeting, 'From Genome to Proteome : Back to the Future', in September 2006.

New and different applications for TMT® have been, and continue to be, developed. At the Biomarker World Congress in Philadelphia, USA in May 2007 Proteome Sciences demonstrated the use of Tandem Mass Tags® to generate universal biological reference materials, a novel application for isobaric tandem mass tags for which further patent applications have been filed.

This heralds a range of universal reference materials based on TMT®, the development of which has been validated with complex human samples to show dramatic improvements in the reproduceability and comparability of proteomics studies for biomarker discovery. Biological reference materials for exact and reliable absolute quantitation for biomarker validation and measurement have also been demonstrated that will add to this growth. In light of these developments, TMT®, for the first time, can now be applied as a consumable product in the high volume/high value applications in clinical trials and compound development/testing.

Chairman's Statement (continued)

Highly specialist skills are required to undertake protein separation and identification for biomarker discovery. Notwithstanding these, the real bottleneck hampering most biomarker studies is no longer the discovery process but the ability to undertake biomarker validation efficiently and in a timely and effective manner. Using chemical mass tags and peptide synthesis, ProteoSHOP® is now able to provide proprietary solutions to these issues. The cost and timescales for developing multiplex assays in drug development restrict the use of antibody methods, which typically can cost between $1 and $3m per protein and take between 18 to 36 months to implement. Proteome Sciences has established and presented strategies for new multiplex assays using proprietary chemical tags that can be developed quickly (in three months) and inexpensively. These provide high value applications to a very broad mass spectrometry user base and with the ability to measure a number of biomarkers simultaneously. This will address and open up substantial new revenues and markets.

Since December 2006, the encouraging progress reflected in the patent prosecution process for TMT1 and TMT2 has been crystallised with the grants and/or allowances of TMT1 patents in the US, Europe and Canada and the grants for TMT2 in Europe and Canada. The allowances of these patents in the US and Europe have provided Proteome Sciences broad claims across the field of isobaric tandem mass tagging with the ability to exploit TMT® in these substantial markets, both as a product in its own right and for third party licences for the manufacture or use of any type of isobaric mass tags.

Initial estimates for isobaric tandem mass tags in 2005 projected sales into hundreds of millions dollars over the TMT® patent lives. These figures appear conservative and with three products currently available, the market continues to grow at a rapid pace and may have already increased to between $600m and $1.4bn. The latest patent grants should now enable Proteome Sciences to complete commercialisation of TMT® through outlicencing and thus to generate strong revenue through licence income, product sales and royalties. The goal is to have licences concluded and to have TMT® products launched in the market in the second half of the year.

Biomarkers

The proprietary research undertaken internally and through collaborative partners is applied to discover and validate a broad portfolio of biomarkers for diagnostic and prognostic uses in major human and veterinary diseases, for the evaluation of new compounds and for measuring and monitoring the efficacy of treatment.

In stroke, two research licences for high throughput screening (HTS) were announced with top ten global companies in clinical diagnostics in the first half of 2006, one of which was BioMerieux. A further research licence agreement with another global diagnostics player was reported in September, taking the number of stroke licences concluded to date to four. It is expected that these earlier research licences may convert into full commercial licences when the testing and integration processes are completed later this year, and further additional licences and licencees are anticipated with the remaining global top 20 diagnostics companies. Good new data has been generated from the recently sourced stroke and stroke mimic samples to validate further existing biomarkers and to identify additional biomarkers for inclusion on the HTS stroke panels. A new biomarker in blood, NDKA, that discriminates stroke from a range of mimic pathologies, correlates with the clinical outcome of patients and could further improve the performance of our stroke panel for stroke treatment and management.

Patents were granted in the US and Europe in December 2006 and January 2007 respectively for 'Diagnostic Assay for Stroke' by measuring the levels of heart fatty acid binding protein or brain fatty acid binding protein (FABPs, two of our proprietary biomarkers found in the blood of stroke patents). This was further validation of the patentability of proteomic biomarkers in the two largest economic markets and underpins the value and importance of Proteome Sciences' extensive intellectual property portfolio in biomarkers. This will enhance the continuing licensing process and should stimulate a number of other major global players in clinical diagnostics to include and develop our biomarkers as in-vitro diagnostic tests.

The research effort in brain diseases using cerebrospinal fluid has been highly successful with the identification of approximately 200 novel candidate biomarkers with potential applications across a diverse range of brain disorders. A targeted approach to extend and leverage this valuable resource is underway. The data, results and intellectual property from this research should create outstanding opportunities for commercial exploitation over many years which will arise from research reagents and disease specific diagnostic and prognostic markers.

A study demonstrating the power of the TMT® sixplex isobaric tandem mass tags for biomarker discovery using mass spectrometry was undertaken in plasma from renal transplant samples. This demonstrated the power and accuracy of relative quantitation across several hundred proteins and resulted in the discovery of novel differentially expressed biomarkers that confirmed and extended the validation of results previously announced and added significantly to the candidate biomarkers discovered from an earlier 2-DE study.

The advantage of the TMT® sixplex was that it identified a greater number of novel candidate biomarkers of renal transplant rejection and provided direct quantitative comparison of protein abundance when compared with the previous 2-DE study of the same samples. This confirms the power and utility of isobaric mass labels for the rapid discovery and validation of biomarkers and the impact that they will have on the future of proteomics.

In Alzheimer's disease (AD), Proteome Sciences co-authored a high profile publication in the peer reviewed journal 'Brain' with Kings College, Institute of Psychiatry, London that confirmed the identification of two protein biomarkers in blood from a 500 patient study in the UK. This has been followed by another study comparing 50 disease versus 50 control patients using a combination of three different proteomic approaches that has revealed 36 differentially expressed proteins in blood, ten of which were common to more than one method. These are being evaluated for their utility to diagnose and monitor AD progression.

Following the previous identification of 37 tau phosphorylation sites, a virtual library of small molecule 'hits' was built to validate the new targets. A selection of compounds with drug-like properties has been established and the subsequent stage will involve testing the compound activities.

From the vCJD programme, patents have been filed for plasma protein markers in vCJD and Huntington's disease and a patent filed for a novel test identifying disease specific peptide fragmentation. These protein markers are being further validated as are the large set of BSE samples, where candidate biomarkers are being assessed for suitability for panel inclusion.

In lung and oesophageal cancer research, Proteome Sciences has developed a quality-controlled immunohistochemical assay for assessing the levels of Annexin 1 and 2 protein expression in tissue from patients with various types of lung cancer. The expression of Annexins in non-small cell lung cancers may provide an important new diagnostic for the early identification of tumour cells from lung biopsies compared with normal cells and for inflammatory cells migrating to the lung. Plasma samples have been received and processed from patients with colon cancer to be added to and to further validate the 22 differentially expressed proteins discovered in tissue earlier in the year.

ProteoSHOP®

The development and availability of qPST to increase the coverage of proteins in combination with 2-DE in the second quarter of 2006 was the catalyst to embark on an extensive marketing campaign for ProteoSHOP®. Moving into 2007 this process has been augmented by the introduction of a family of TMT® isobaric tandem mass tags (TMT®zero, TMT®duplex and TMT®sixplex) and the introduction of TMT® calibrator for absolute quantitation with multipoint-calibration, TMT® labelled reference materials and TMT® with MRM to accelerate biomarker candidate evaluation for clinical diagnostics, pre-clinical and clinical drug development and systems biology approaches.

The benefits of the expanded technical developments and applications will be reflected in the revenue line in the first half of 2007 and we expect that the additional interest generated will convert into further ProteoSHOP® strategic alliances and contracts. In April 2007, a ProteoSHOP® research contract was announced with Onconome Inc for the analysis of prostate and colon cancer materials.

A co-marketing agreement was announced in March 2006 with Medical Solutions plc, a company specialising in immunohistochemistry with automated image analysis in histopathology. The combination of the two companies complementary technologies provides customers with a one-stop-shop from biomarker discovery through to implementation in diagnostics and drug development.

Veri-Q

No material events of significance have taken place at Veri-Q since last September.

The quality of oligonucleotides is often compromised by the incomplete removal (de-protection) of certain chemical groups required for proper chemical synthesis which creates inaccurate and misleading results. Veri-Q has shown that the presence of these impurities also has a substantial effect on the performance of gene expression analysis using microarrays.

Two high profile scientific papers have now been published, one in Nucleic Acids Research 'Assessing incomplete deprotection of microarray oligonucleotides in situ' and the second, in Analytical Biochemistry entitled 'Quality assessment of commercial small interfering RNA and DNA : Monoclonal antibodies and a high-throughput chemiluminescence assay'. The content of these articles, and pilot projects undertaken highlight the prospects of these QC reagents and should accelerate the outlicencing process for RNAi and DNA microarrays. The programme to develop further antibodies against the deprotecting groups is underway and this process should be concluded shortly.

Intronn
Since the publication of the interim results, steady progress has continued through 2006 into the current year. This follows the outstanding performance of the science in the previous year with in-vivo proof of principle for dyslipidemia, AAT and haemophilia nearly 12 months ahead of schedule.

With the development of the high throughput screen and the in-vivo proof of principles completed for SMaRT®, the research was focused accordingly to contain costs by moving to smaller facilities and to make Intronn self sufficient from grants and its other resources in order to concentrate on the preparation and design of clinical trials for two high-value lead programmes, dyslipidemia and haemophilia.

Intronn continues to work hard to establish the right strategic partners/alliances for the clinical and commercial development of SMaRT®, and is in negotiations to secure further funding to move it into clinical trials. This process has been assisted by the recent issuance of SMaRT® patents in the US, Europe, Australia and Canada. Intronn was awarded a NIH grant to use SMaRT® in combination with RNAi and has submitted a major NIH grant application in July. Further developments are expected in the second half of the year.

Results
The financial results for the twelve month period ended 31st December 2006 show a headline loss (being the loss for the financial year excluding non-cash costs and share of associate company's losses) of £4,656,000 compared with £4,166,673 in 2005. Non cash costs (amortisation of goodwill, amounts written off fixed asset investments, depreciation and National Insurance on notional share option gains, as extracted from the profit and loss account) were £855,987 against £1,262,689. The period to 31st December 2006 also contains a share of associate's losses at Intronn Inc. of £372,487 (2005: £735,684). Under FRS 20 "share-based payment" the Company is required to recognise an expense in the profit and loss account in respect of share options and awards under the Long Term Incentive Plan. The charge is based on the fair value of the option at the time of grant, calculated using the Black Scholes option pricing model and expensed to the profit and loss account over the related vesting period of the option. The resulting charge in 2006 was £462,661 compared to £731,659 in 2005.

The loss on ordinary activities after taxation for the twelve month period ended 31st December 2006 was £6,377,135 (2005: £6,896,705). The net cash outflow from operating activities for the year was £4,465,256 (2005: £4,908,985).

At the year end, cash held on deposit stood at £304,225 (2005: £2,587,155).

The cash spend in 2006 was consistent with previous years and this pattern is expected to continue in 2007. The licences announced and the commercialisation anticipated, combined with grant income and the R&D tax credit, should provide significant cash inflows and have a positive effect on the financial requirements of the Company. As previously announced, a loan facility of up to £6 million has been made available to the Company from C.D.J. Pearce, the Chief Executive, details of which are disclosed in Notes 18 and 30 to the accounts.

The directors have assumed that the timing of the cash inflows from the anticipated commercial income will be appropriate to meet the cash requirements of the business; however, due to the current cash burn, the timing of receipt of the aforementioned cash inflows is important and therefore there can be no certainty regarding the availability of funding for the next 12 months.

Having regard to the assumptions made in respect of the timing of receipt of the anticipated commercial income, combined with grant income, and the R&D tax credit and other cash inflows, including the loan facility of up to £6 million made available by C.D.J. Pearce, the directors continue to adopt the going concern basis in preparing the accounts, and accordingly the financial statements do not contain any adjustments that would result if sufficient commercial income were not to be received on a timely basis.

In relation to the loan facility from C.D.J. Pearce, the Directors of the Company, (with the exception of C.D.J. Pearce who, in view of his interest in the transaction, has taken no part in the consideration thereof), having consulted with its nominated adviser, consider that the terms of this transaction are fair and reasonable insofar as shareholders are concerned.

As previously announced, the Company filed a claim on 29th December 2005 in the District Court of Frankfurt am Main ("the Court") against Sanofi-Aventis Deutschland GmbH ("Sanofi-Aventis") under which it is seeking damages of up to €30 million for, amongst other things, the breach of certain warranties provided by Sanofi-Aventis at the time of the acquisition of Xzillion Proteomics GmbH & Co KG (now Proteome Sciences R&D GmbH & Co KG) on 4th July 2002. The process has moved ahead in the second half of 2006 and into 2007, but, to date, there have been no major developments.

Chairman's Statement (continued)

Full provision of all costs arising in 2006 in connection with the claim has been made in the 2006 financial statements. Whilst it is not possible to predict the outcome of this matter, the Directors are pursuing this action vigorously and will keep shareholders informed of material developments.

Current Outlook

The considerable advances that have been made by the Company over the period, particularly in respect to TMT®, both in terms of the development of a family of TMT® products and through the grant of patents should enable us to now fulfill the commercial expectations that have been anticipated for some time. Our goal is to have TMT® products launched in the market in the second half of the year and to complete the outlicencing of TMT® to generate strong revenue through licence income, product sales and royalties.

On the biomarker activities, we are optimistic that the earlier research licences that have been concluded in stroke should convert into full commercial licences when the testing and integration processes are nearing completion later this year and that additional licences will be forthcoming from further of the global top 20 diagnostics companies and that we should also start to see licencing activity from the biomarkers that we have discovered in Alzheimer’s disease.

The development and availability of qPST, provided the catalyst to embark on an extensive marketing campaign for ProteoSHOP®. This has been continued in 2007 with the introduction of the TMT® family, in particular for use in absolute quantitation, for biological reference materials and with MRM to accelerate biomarker candidate evaluation for clinical drug development and trials. The benefits of the expanded technical developments and applications will be seen in revenue in the first half of 2007 and that the additional interest generated will convert into further ProteoSHOP® strategic alliances and contracts.

Proteome Sciences is ideally positioned to exploit the prolific growth projected for biomarkers and to maximise its opportunities from Tandem Mass Tagging®, both from TMT® as a product and from the manufacture and use of any type of isobaric tandem mass tags.

Against this background, the prospects for our company look very promising and we look forward to realizing that potential in the current year.

Finally, I would like to take this opportunity to thank our employees in the UK and overseas, and our collaborators for their determination and commitment to the progress achieved over the last twelve months.

Steve Harris
Chairman

29th June, 2007

Directors' report
For the year ended 31st December 2006

The Directors present their annual report on the affairs of the Group, together with the financial statements and independent auditors' report, for the year ended 31st December 2006.

Directors' responsibilities
The directors are responsible for preparing the Annual Report and the financial statements. The directors have chosen to prepare the accounts for the Company and the Group in accordance with United Kingdom Generally Accepted Accounting Practice.

Company law requires the directors to prepare such financial statements for each financial year which give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice (UK GAAP), of the state of the affairs of the Company and of the Group and of the profit or loss of the Company for that period and comply with UK GAAP and the Companies Act 1985. In preparing those financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;

- make judgements and estimates that are reasonable and prudent, and

- state whether applicable accounting standards have been followed.

The Directors are responsible for keeping proper accounting records which 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 1985. They are also responsible for the system of internal control, 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.

Principal activity and business review
The company is required to set out in this report a review of the business of the group during the financial year ended 31st December, 2006, and of the position of the group at the end of that financial year and a description of the principal risks and uncertainties facing the group. Other information that fulfils the requirements of the Business Review can be found in the Chairman's Statement on pages 3 to 7 and in the Financial Statements on pages 19 to 48.

The principal activity of the Group is research and development primarily in the field of proteomics, both through proprietary research and through collaborative agreements with a number of prestigious academic institutions.

The Group is involved in research to identify biomarkers, primarily in blood, the presence of which may be used to identify specific disease states, and in the development of associated diagnostic techniques and clinical applications. The Group's research largely concentrates on proteins relating to neurological diseases, neurodegeneration, cardiovascular, cancers, rejection after solid organ transplantation, diabetes and obesity.

The Group has a specialist chemistry division, engaged in chemical and peptide synthesis, that has developed a range of reagents that include isobaric tandem mass tagging (TMT®), protein sequence tags (PST®) and Sensitizer® reagents. ProteoSHOP provides external access by way of strategic alliance or research services to the technology and processes required in biomarker discovery and validation.

Intronn Inc., an associate company in which the Group has an interest of 42.69%, (assuming full conversion of Intronn Inc.'s convertible stocks), has developed a proprietary method for modification of gene expression, spliceosome mediated RNA technology, or SMaRT™, with a broad spectrum of potential applications, ranging from RNA therapies for inherited genetic disorders, cancer, cholesterol, haemophilia, repair of genetic mutations (such as those causing cystic fibrosis) and to addressing the modification of gene expression in plants.

Directors' report (continued)

Veri-Q Inc., a subsidiary company in which the Group has an interest of 76.9%, is developing technologies for the quality control of synthetic oligonucleotides, and is well placed to benefit from the anticipated expansion of antisense and RNA interference therapeutics.

There have been no significant changes in the company's principal activities in the year under review, nor are the directors aware, at the date of this report, of any major likely changes in the company's activities in the next year.

Further details of the Group's performance during the year and expected future developments are contained in the Chairman's statement.

Principal risks and uncertainties

Licencing arrangements and uncertainty of commercialisation
The Company intends to sub-licence its discoveries to third parties. Three licencing agreements were entered into during 2006 but there can be no assurance that such licencing arrangements will be successful. It is also uncertain whether commercial tests can be developed and will be successful in the market.

Competition and technology
The international biotechnology industry is subject to rapid and substantial technological change. There can be no assurance that developments by others will not render the Company's developments obsolete or uncompetitive.

Dependence on key personnel
The Company depends on its ability to attract and retain qualified management and scientific personnel. Competition for such personnel is intense. Whilst the Company has entered into employment arrangements with its key personnel with the aim of securing their services for minimum terms, the retention of their services cannot be guaranteed.

Patent applications and proprietary rights
The Company seeks patent protection for protein biomarkers identified which may be of diagnostic value. Successful commercialisation of these biomarkers may depend on the establishment of such patent protection. The Company also seeks patent protection for its proprietary technology.

There is no assurance that the Company's pending applications will result in the grant of patents or that the scope of protection offered by any patents will be as planned or whether any such patents ultimately will be upheld as valid by a court of competent jurisdiction in the event of a legal challenge. If the Company fails to obtain patents for its technology and is required to rely on unpatented proprietary technology, no assurance can be given that the Company can meaningfully protect its rights in such unpatented proprietary products and techniques.

Litigation
As noted in the Chairman's statement on page 6, the company has filed a claim in the District Court of Frankfurt am Main against Sanofi-Aventis Deutschland GmbH ("Sanofi-Aventis") under which it is seeking damages of up to €30 million, for, amongst other things, the breach of certain warranties provided by Sanofi-Aventis at the time of the acquisition of Xzillion Proteomics GmbH & Co. KG (now Proteome Sciences R&D GmbH & Co. KG). The claim is being defended by Sanofi-Aventis but although the Directors are continuing to pursue this action vigorously, it is not possible to predict the outcome of this matter.

Directors' report (continued)

Financial risks

The Company's current financial position regarding expected cash inflows is set out in Note 2(b) and other than the risks related to going concern discussed in that note, the Company has a relatively simple financial structure which reduces the range of financial risks to which it is exposed. Its only borrowings consist of a loan from C.D.J. Pearce, the Chief Executive of the Company, full details of which are set out in Note 18 to these Accounts. Monitoring of financial risk is part of the Board's continuing risk management process.

As disclosed in Note 2 (o) to these Accounts (in which full details of the Company's policy with regard to the management of financial risks are set out) the Company has not to date used derivative transactions and it is not the Company's policy to undertake any trading in financial instruments.

Results and dividends

Following the loss after tax of £6,377,135 (2005: £6,896,705 (as re-stated)) incurred in the year, the Directors do not recommend the payment of a dividend (2005 : £nil). The Group results are described in the profit and loss account on page 19.

Directors and their interests

The Directors who served during the year are as shown below:

R.S. Harris	Non-Executive, Chairman
C.D.J. Pearce	Chief Executive
J.L. Malthouse	Finance Director
A.J. Green	Commercial Director
Dr. P. Schulz-Knappe	Research and Development Director (appointed as a Director on 5th September, 2006)
Professor W. Dawson	Non-Executive
Dr. A.E.A. Lindberg	Non-Executive

In accordance with the Company's articles, R.S. Harris and J.L. Malthouse retire by rotation at the next Annual General Meeting and, being eligible, offer themselves for re-election. Dr. P. Schulz-Knappe, who was appointed by the Board on 1st August, 2006, offers himself for election at the Annual General Meeting.

The Directors at 31st December 2006 and their interests in the share capital of the Company were as follows:

a) Beneficial interests in Ordinary Shares:

Name of Director	31st December 2006 Number of Ordinary Shares of 1p each	31st December 2005 * Number of Ordinary Shares of 1p each
R.S. Harris	153,000	153,000
C.D.J. Pearce	5,654,951	5,654,951
J.L. Malthouse	300,000	300,000
A.J. Green	-	-
Dr. P. Schulz-Knappe	-	-
Professor W. Dawson	15,124	15,124
Dr. A.E.A. Lindberg	-	-

No changes in the beneficial interests of the Directors took place between 31st December 2006 and 29th June, 2007.

* or date of appointment if later

Directors and their interests (continued)

b) Number of Ordinary Shares under option:

		Number at 31st December 2005*	Granted in the year	Exercised in the year	Lapsed in the year	Number at 31st December 2006	Exercise price (pence)	Date of grant
C.D.J. Pearce	(ii)	433,124	-	-	-	433,124	45p	20th April 2000
	(ii)	126,190	-	-	-	126,190	89p	12th January 2001
	(ii)	500,000	-	-	-	500,000	69.25p	5th June 2002
	(ii)	555,743	-	-		555,743	50.5p	29th January 2003
	(ii)	264,255	-	-	-	264,255	117.5p	9th July 2004
	(iv)	450,000	-	-	-	450,000	37p	3rd June 2005
		2,329,312	-	-	-	2,329,312		
J.L. Malthouse	(ii)	200,000	-	-	-	200,000	61p	30th March 2000
	(ii)	51,671	-	-	-	51,671	89p	12th January 2001
	(ii)	325,000	-	-	-	325,000	69.25p	5th June 2002
	(ii)	342,653	-	-	-	342,653	50.5p	29th January 2003
	(ii)	159,574	-	-	-	159,574	117.5p	9th July 2004
	(iv)	375,000	-	-	-	375,000	37p	3rd June 2005
		1,453,898	-	-	-	1,453,898		
A.J. Green	(i)	52,631	-	-	-	52,631	57p	17th June 2002
	(ii)	297,369	-	-	-	297,369	57p	17th June 2002
	(ii)	350,495	-	-	-	350,495	50.5p	29th January 2003
	(ii)	157,021	-	-	-	157,021	117.5p	9th July 2004
		857,516	-	-	-	857,516		

* or date of appointment if later

(i) Denotes options granted under the Approved Scheme which was adopted in 1995. The options are exercisable on or after the third anniversary of the date of the grant (or, if earlier, the date on which any shares in the Company are first admitted to the Official List of the London Stock Exchange) and will lapse on the tenth anniversary of the date of grant.

(ii) Denotes options granted under the Unapproved Scheme which was adopted in 1994. The options are exercisable on or after the third anniversary of the date of grant (or, if earlier, the date on which any shares in the Company are first admitted to the Official List of the London Stock Exchange) and will lapse on the seventh anniversary of the date of grant.

Directors and their interests (continued)

(iii) No options to Directors lapsed during the year.

(iv) On 3rd June 2005 options were granted to C.D.J. Pearce and J.L. Malthouse to replace options under the Unapproved Share Option Scheme which lapsed on the 19th May 2005, when the company was in a close period.

The options, which are on similar terms to those lapsing on the 19th May 2005, are exercisable after one month from the date of grant, except if the Company enters into an unforeseen close period during that month in which case the new options will be exercisable for a period of one month from the end of that close period.

The options granted were as follows:

	Number of Shares	**Exercise Price Per Share**
C.D.J. Pearce	450,000	37p
J.L. Malthouse	375,000	37p

(v) On 20th April, 2007 an option over 433,124 Ordinary Shares of 1p each at an exercise price of 45p was granted to C.D.J. Pearce to replace a similar option under the Unapproved Share Option Scheme, which lapsed on that date, when the company was in a close period. The option, which is on similar terms to the one that lapsed on the 20th April, is exercisable for a period of one month from the end of the close period, except if the Company enters into an unforeseen close period during that month in which case the new options will be exercisable for a period of one month from the end of that close period.

c) Directors' interests in the Long-Term Incentive Plan ("LTIP"):
The maximum number of shares to be allocated to the directors under the LTIP, in each case for an aggregate consideration of £1, are as follows:

		Number at 31st December 2005	**Granted in the Year**	**Number at 31st December 2006**	**First Vesting Date**
(i)	C.D.J. Pearce	425,675	-	425,675	1st October 2007
(ii)	J.L. Malthouse	198,648	-	198,648	1st October 2007
(iii)	A.J. Green	184,459	-	184,459	1st October 2007
(iv)	P. Schulz-Knappe	-	319,444	319,444	1st August 2009

The entitlement to shares under the LTIP is subject to achieving the performance conditions referred to in the LTIP section on page 15. The figures shown are maximum entitlements and the actual number of shares (if any) will depend on these performance conditions being achieved.

Awards made have no performance retesting facility.

The market price at the date of grant of the above awards numbered (i) to (iii) was 74p, and for the award numbered (iv) was 36p.

Directors' report (continued)

d) As set out in Note 18 (i) and (ii) to these Accounts, C.D.J. Pearce has made a loan facility available to the Company which can be converted, at Mr. Pearce's option, into Ordinary Shares of the Company at the lower of market price on the date of conversion or the average price over the lowest consecutive ten day trading period since the 29th June, 2006 (the date on which details of the original loan agreement were disclosed).

e) The market price of the Ordinary Shares at 29th December 2006 was 58.5p and the range during the year was 33.5p to 72.25p.

Non-executive Directors

R. Steve Harris, Chairman, is a Fellow of the Royal Pharmaceutical Society. Until June 1995 he was Director of Development and Licensing at Medeva plc. He has worked in the pharmaceutical industry for 43 years including ICI, Merck Sharp & Dohme, Eli Lilly, Boots, Reckitt and Colman, and Gensia. He is a non-executive Director of Skye Pharma plc, Premier Research plc, Advanced Medical Solutions plc and is the non-executive Chairman of Sinclair Pharma plc and Convé plc.

Professor William Dawson retired from Eli Lilly and Company in August 1996 after 27 years' service, 14 as Research Director in the UK and latterly as Director of Technology Acquisition, Europe. He is a Director of Bionet Limited, Pharmovation Limited, Novolytics Limited, Antitope Limited and a Governor of the University of Brighton and of De Montfort University, a Fellow of the Royal Pharmaceutical Society and of the Royal Society of Chemistry.

Dr. Alf A. Lindberg retired from his position as Executive Vice President of Research & Development at Aventis Pasteur in 2001. Before that he held the same position at Wyeth Vaccines between 1992 and 1995. From 1982 to 1992 he was Professor of Clinical Bacteriology at the Huddinge University Hospital, Karolinska Institute, Stockholm, Sweden. He is a consultant to the biotech and pharmaceutical industry and a non-executive Director of Avant Immunotherapeutics in the United States of America, Pharmexa A/S and Curalogic A/S in Denmark and Catella Healthcare Investment and Eurocine Vaccines in Sweden.

Substantial shareholdings

As at 22nd June, 2007, the Company had received notification, in accordance with Sections 198 to 208 of the Companies Act 1985 of the following significant interests in the ordinary share capital of the Company:

Name of Holder	Number of Ordinary Shares	Percentage of issued Ordinary Share Capital
C.D.J. Pearce	5,654,951	4.30
Sanofi-Aventis Deutschland GmbH	14,982,811	11.40
Man Financial Limited	9,200,701	7.00
Credit Agricole Cheuvreux International Limited	9,206,199	7.00
Fidelity International Limited & FMR Corp.	4,625,665	3.52

Disabled employees

Applications for employment by disabled persons are always fully considered, bearing in mind the aptitudes of the applicant concerned. In the event of members of staff becoming disabled every effort is made to ensure that their employment with the Group continues and that appropriate training is arranged. It is the policy of the Group that the training, career development and promotion of disabled persons should, as far as possible, be identical with that of other employees.

Directors' report (continued)

Employee consultation
The Group places considerable value on the involvement of its employees and has continued its previous practice of keeping them informed on matters affecting them as employees and on the various factors affecting the performance of the Group. This is achieved through formal and informal meetings and by circulation of copies of the interim and annual accounts. Employee representatives are consulted regularly on a wide range of matters affecting their current and future interests.

Corporate Governance
Although, as a Company listed on the Alternative Investment Market of the London Stock Exchange, the Company is not required to make a formal statement setting out the extent of its compliance with the Combined Code on Corporate Governance issued by the Financial Reporting Council in July 2003 (the "Combined Code"), the policy of the Board of Directors of the Company (the "Board") is to try to manage the affairs of the Company in accordance with the principles of the Combined Code insofar as it considers it practical to do so and is appropriate for a company of its size.

The Company has formalised the following matters by Board resolution:

- a formal schedule of Board responsibilities;
- the procedure for Directors to take independent professional advice if necessary, at the Company's expense;
- the procedure for the nomination and appointment of non-executive Directors, for specified periods and without automatic re-appointment; and
- establishment of and written terms of reference for an audit committee and remuneration committee.

Internal control
The Board has overall responsibility for ensuring that the Group maintains a system of internal control to provide them with reasonable assurance regarding the reliability of financial information used within the business and for publication and that assets are safeguarded. There are inherent limitations in any system of internal control and accordingly even the most effective system can provide only reasonable, and not absolute, assurance with respect to the preparation of accurate financial information and the safeguarding of assets.

The key features of the internal control system that operated throughout the year are described under the following headings:-

- *Control environment:* particularly the definition of the organisation structure and the appropriate delegation of responsibility to operational management.

- *Identification and evaluation of business risks and control objectives:* particularly through a formal process of consideration and documentation of risks and controls which is periodically undertaken by the Board.

- *Main control procedures:* which include the setting of annual and longer term budgets and the monthly reporting of performance against them, agreed treasury management and physical security procedures, formal capital expenditure and investment appraisal and approval procedures and the definition of authorisation limits (both financial and otherwise).

- *Monitoring:* particularly through the regular review of performance against budgets and the progress of research activities undertaken by the Board.

The Board reviews the operation and effectiveness of this framework on a regular basis. The Directors consider that there have been no weaknesses in internal controls that have resulted in any losses, contingencies or uncertainties requiring disclosures in the accounts.

Directors' report (continued)

Going concern

Having regard to the assumptions made in respect of the timing of receipt of the anticipated commercial income and the other cash inflows, including the loan facility of up to £6 million made available by Christopher Pearce, the Chief Executive (see notes 18(i) and 30 to the accounts for details of the conditions relating to this loan facility), the directors continue to adopt the going concern basis in preparing the accounts and accordingly the financial statements do not contain any adjustments that would result if sufficient commercial income were not to be received on a timely basis. Given the above, there is a material uncertainty which may cast significant doubt as to the company's ability to continue as a going concern.

Remuneration committee report

The Remuneration Committee is made up of three non-executive Directors, Professor W. Dawson, R.S. Harris and Dr. A.E.A. Lindberg. The role of the Committee is to make recommendations to the Board, within its agreed terms of reference, on the Company's framework of executive remuneration and its cost and to determine specific remuneration packages for each of the executive Directors. The remuneration of non-executive Directors is fixed by the Board as a whole.

The remuneration policy for Executive Directors and senior employees is to ensure that they are rewarded competitively and in line with their individual performance.

Full details of the remuneration packages of individual Directors and information on share options and long-term incentive schemes are set out in note 8 to the accounts and in the Directors' report. Following a review by Halliwell Consulting of the existing executive remuneration and share option arrangements, proposals for the adoption of new share plans were approved by shareholders on 4th August 2004, and the Committee views the Long-Term Incentive Plan, introduced in 2004, as the most appropriate vehicle for long-term incentivisation for executive directors and other key executives.
All employees, except for participants in the LTIP, can be granted options over shares in the Company under the Company's 2004 Share Option Plan, under which both Enterprise Management Incentive options and unapproved options may be granted.

The share option schemes are designed to incentivise employees to achieve genuine performance targets, and options are normally granted annually, in line with market practice.

The objectives of the LTIP are to align the interests of executives with those of shareholders by making a significant part of remuneration dependent on the success of management in delivering superior returns to shareholders, and to ensure that the total remuneration package is sufficiently competitive in the relevant markets to attract and retain high-calibre executives.

Awards under the LTIP are made subject to performance conditions determined by the Committee. Executive directors currently receive a maximum annual award of 150% of annual base salary, payable in shares over a three year vesting period.

The release of shares to participants will depend upon growth in Proteome Sciences' total shareholder return (TSR) over a three-year performance period relative to a comparator group of companies at the start of that period. TSR is the aggregate of share price growth and the value of dividend payments during the performance period. No shares will be released unless the Company's TSR performance is in the median position of the comparator group with full vesting only if the Company is in the upper quartile. 30% of the award will vest if performance is at the median, and where performance is between the 50th and 75th percentiles awards will vest on a straight line basis.

TSR was selected by the Committee to be the appropriate measure for this plan as it believes it to be a long-term indication of financial success and one which is acceptable to shareholders.

Directors' report (continued)

In view of the Company's dependence on its key executives, the service contracts of Mr. Pearce and Mr. Malthouse were amended during 1997 to provide for a notice period of not less than 2 years. A.J. Green and Dr. P. Schulz-Knappe have contracts with a notice period of one year.

Creditor payment policy

It is the policy of the Group to agree appropriate terms and conditions for its transactions with suppliers (by means ranging from standard written terms to individually negotiated contracts) and that payment should be made in accordance with those terms and conditions, providing that the supplier has also complied with them. As the Company owed no amounts to trade creditors at 31st December 2006, the number of days to be shown in this Report, to comply with the provisions of paragraph 12(3) of Part VI of Schedule 7 to the Companies Act 1985, is nil (2005: nil). The equivalent figure for the Group is 44 days (2005: 33 days).

Auditors

In the case of each of the persons who are directors of the Company at the date when this report was approved:

- so far as each of the directors is aware, there is no relevant audit information (as defined in the Companies Act 1985) of which the Company's auditors are unaware; and
- each of the directors has taken all steps that he ought to have taken as a director to make himself aware of any relevant audit information (as defined in the Companies Act 1985) and to establish that the Company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s234ZA of the Companies Act 1985.

The directors will place a resolution before the Annual General Meeting to re-appoint Deloitte & Touche LLP as auditors for the ensuing year.

Liability insurance for Company officers

As permitted by the Companies Act 1985 (as amended), the Company has purchased insurance cover for the Directors against liabilities that might arise in relation to the Company.

Special business at the Annual General Meeting

At the Annual General Meeting of the Company to be held on 27th July, 2007, as well as the routine business, the following items will be proposed as Special Business:

i) An Ordinary Resolution (Resolution 6), as set out in the Notice on page 49, will be proposed to renew the Directors' authority to allot relevant securities up to an aggregate nominal amount of £433,836.15 which represents approximately 33 per cent of the current issued Ordinary Share capital of the Company as at 29th June, 2007. The authority will lapse five years from the date on which the resolution is passed. The Directors do not have any present intention of exercising this authority.

ii) Resolution 7, which is set out in the Notice on page 50, will be proposed as a Special Resolution of the Company. The Resolution will renew the Directors' authority under Section 95 of the Companies Act 1985 to disapply pre-emption rights, thereby enabling the allotment of a limited number of shares for cash up to an aggregate nominal amount of £13,146.55, representing 10 per cent of the current issued Ordinary Share capital of the Company as at 29th June, 2007. The proposed authority, if granted, will expire at the conclusion of the next Annual General Meeting after the passing of the Resolution or the period of fifteen months after the passing of the Resolution, whichever is the earlier.

Coveham House
Downside Bridge Road
Cobham,
Surrey KT11 3EP
29th June, 2007

By order of the Board,

J.L. Malthouse
Company Secretary

To the Members of Proteome Sciences plc

We have audited the group and parent company financial statements (the "financial statements") of Proteome Sciences plc for the year ended 31st December 2006 which comprise the consolidated profit and loss account, the consolidated statement of total recognised gains and losses, the consolidated and Company balance sheets, the consolidated cash flow statement and the related notes 1 to 30. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the other information contained in the Annual Report as described in the contents section, and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any further information outside the Annual Report.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's and company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Independent auditors' report (continued)

For the year ended 31st December 2006

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the group's and the parent company's affairs as at 31st December 2006 and of the group's loss for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

Emphasis of matter – Going concern

Without qualifying our opinion, we draw attention to the disclosures made in note 2(b) of the financial statements concerning the Group's ability to continue as a going concern. The Group incurred a net loss of £6,377,135 during the year ended 31st December 2006, with a headline loss of £4,656,000 (being the loss for the financial year excluding non-cash costs and share of associate company losses) and a net cash outflow from operating activities of £4,465,256. This, along with other matters as set forth in Note 2(b), indicate the existence of a material uncertainty which may cast significant doubt about the Group and Company's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the Group and Company were unable to continue as a going concern.

Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
Southampton, United Kingdom

Date: 29th June, 2007

Consolidated profit and loss account

For the year ended 31st December 2006

	Notes	2006 £	2005 (as re-stated) £
Turnover – continuing operations	2, 3	68,469	16,200
Cost of sales		(47,928)	(11,340)
Gross profit		20,541	4,860
Administrative expenses excluding non-cash items		(5,054,848)	(4,764,026)
Amortisation of goodwill		(648,960)	(648,960)
Depreciation		(291,682)	(425,843)
National Insurance on notional share option gains		54,655	(75,008)
Share-based payment	23	(462,661)	(731,659)
Administrative expenses	4	(6,403,496)	(6,645,496)
Operating loss – continuing operations		(6,382,955)	(6,640,636)
Share of associate's operating loss	16	(372,487)	(735,684)
Group operating loss – continuing operations		(6,755,442)	(7,376,320)
Interest receivable and similar income	5 (i)	44,835	140,628
Amounts written off fixed asset investment	15	-	(112,878)
Interest payable and similar charges	5 (ii)	(36,637)	(882)
Loss on ordinary activities before taxation	3, 6	(6,747,244)	(7,349,452)
Tax credit on loss on ordinary activities	9	370,109	452,747
Loss for the financial year	23	(6,377,135)	(6,896,705)
Headline loss		(4,656,000)	(4,166,673)
Loss per share			
Basic and diluted loss per share	10	(4.85p)	(5.34p)
Headline loss per share		(3.54p)	(3.22p)

Reconciliation of loss per share to headline loss per share

The headline loss and headline loss per share is presented by the Directors as an additional measurement of financial performance. The calculations of headline loss per ordinary share are based on the following losses and on the numbers of shares shown in note 10.

	2006 £	2006 Loss per share pence	2005 £	2005 (as re-stated) Loss per share pence
Loss for the financial year	(6,377,135)	(4.85)	(6,896,705)	(5.34)
Add back/(deduct):				
Amortisation of goodwill	648,960	0.50	648,960	0.50
Amounts written off fixed asset investment	-	-	112,878	0.09
Depreciation	291,682	0.22	425,843	0.33
National Insurance on notional share option gains	(54,655)	(0.04)	75,008	0.06
Share of associate's operating loss	372,487	0.28	735,684	0.57
Share based payment	462,661	0.35	731,659	0.57
Headline loss	(4,656,000)	(3.54)	(4,166,673)	(3.22)

Consolidated statement of total recognised gains and losses

For the year ended 31st December 2006

	2006	2005 (as re-stated)
	£	£
Loss for the financial year	(6,377,135)	(6,896,705)
(Loss)/Gain on foreign currency translation	(92,375)	73,840
Gain on deemed part disposal of associate	-	111,536
Total recognised gains and losses relating to the year	(6,469,510)	(6,711,329)
Prior year adjustment (note 22)	(1,333,310)	
Total recognised gains and losses since last annual report	(7,802,820)	

A Statement of movements on reserves is given in note 23.

Consolidated balance sheet
As at 31st December 2006

	Notes	2006	2005 (as re-stated)
		£	£
Fixed assets			
Intangible assets	11, 12	3,569,281	4,218,241
Tangible assets	13	546,509	489,058
Investments in associates	16	562,328	954,837
Other investments	15	-	-
		4,678,118	5,662,136
Current assets			
Debtors	17	673,998	1,326,592
Cash held on deposit as short term investment		-	1,900,000
Cash at bank and in hand		304,225	687,155
		978,223	3,913,747
Creditors: Amounts falling due within one year	18	(3,570,290)	(1,433,260)
Net current (liabilities)/assets		(2,592,067)	2,480,487
Total assets less current liabilities		2,086,051	8,142,623
Creditors: Amounts falling due after more than one year	19	(188,043)	(188,043)
Provisions for liabilities and charges	20	(49,282)	(103,937)
Net assets		1,848,726	7,850,643
Capital and reserves			
Called-up share capital	21	1,314,654	1,314,512
Share premium account	23	29,150,563	29,145,773
Equity reserve	23	1,795,971	1,333,310
Other reserve	23	10,755,000	10,755,000
Profit and loss account	23	(41,167,462)	(34,697,952)
Shareholders' funds	24	1,848,726	7,850,643

Signed on behalf of the Board

C.D.J. Pearce Director

J.L. Malthouse Director
29th June, 2007

The accompanying notes are an integral part of this consolidated balance sheet.

Company balance sheet
As at 31st December 2006

	Notes	2006	2005 (as re-stated)
		£	£
Fixed assets			
Investments	14	36,567,231	32,271,149
Current assets			
Debtors	17	4	4
Cash held on deposit as short term investment		-	1,900,000
Cash at bank and in hand		171,545	522,354
		171,549	2,422,358
Creditors: Amounts falling due within one year	18	(1,875,144)	(247,333)
Net current (liabilities)/assets		(1,703,595)	2,175,025
Total assets less current liabilities		34,863,636	34,446,174
Provisions for liabilities and charges	20	(49,282)	(103,937)
Net assets		34,814,354	34,342,237
Capital and reserves			
Called-up share capital	21	1,314,654	1,314,512
Share premium account	23	29,150,563	29,145,773
Group reconstruction reserve	23	1,082,244	1,082,244
Equity reserve	23	1,795,971	1,333,310
Profit and loss account	23	1,470,922	1,466,398
Shareholders' funds	24	34,814,354	34,342,237

Signed on behalf of the Board

C.D.J. Pearce Director

J.L. Malthouse Director

29th June, 2007

The accompanying notes are an integral part of this Company balance sheet.

Consolidated cash flow statement

For the year ended 31st December 2006

	Notes	2006	2005
		£	£
Net cash outflow from operating activities	25	(4,465,256)	(4,908,985)
Returns on investments and servicing of finance	26	8,198	139,746
Taxation		891,968	-
Capital expenditure and financial investment	26	(357,411)	(181,334)
Cash outflow before use of liquid resources and financing		(3,922,501)	(4,950,573)
Management of liquid resources	26	1,900,000	(100,000)
Financing	26	1,639,571	5,111,785
(Decrease)/increase in cash in the year	27	(382,930)	61,212

The accompanying notes are an integral part of this consolidated cash flow statement.

1 Principal activity

The principal activity of the Group is research and development, primarily in the field of proteomics, both through proprietary research and through collaborative agreements with a number of prestigious academic institutions.

2 Accounting policies

The principal accounting policies are summarised below. They have all been applied consistently throughout the year and the preceding year.

a) Basis of accounting

The financial statements are prepared under the historical cost convention in accordance with applicable United Kingdom accounting standards.

b) Basis of preparation – Going concern

The cash spend in 2006 was consistent with previous years and this pattern is expected to continue in 2007. The licences announced this year to date and the commercialisation anticipated should provide significant cash inflows and have a positive effect on the financial requirements of the Company. In addition, in order to provide further working capital, a loan facility of up to £6 million has been made available to the Company from C.D.J. Pearce, the Chief Executive, full details of which are disclosed in Notes 18 and 30 to the accounts.

The directors have assumed that the timing of the cash inflows from the anticipated commercial income will be appropriate to meet the cash requirements of the business; however, due to the current cash burn, the timing of receipt of the aforementioned cash inflows is important and therefore there can be no certainty regarding the availability of funding for the next 12 months.

Having regard to the assumptions made in respect of the timing of receipt of the anticipated commercial income and the other cash inflows, including the loan facility of up to £6 million made available by C.D.J. Pearce, the directors continue to adopt the going concern basis in preparing the accounts, and accordingly the financial statements do not contain any adjustments that would result if sufficient commercial income were not to be received on a timely basis.

Given the above, there is a material uncertainty which may cast significant doubt as to the company's ability to continue as a going concern and therefore it may be unable to realise its assets and discharge its liabilities in the normal course of business.

c) Basis of consolidation

The Group financial statements consolidate the accounts of Proteome Sciences plc and all its subsidiary undertakings made up to 31st December 2006 using the acquisition method of accounting. The results of subsidiaries acquired or sold are consolidated for the periods from or to the date on which control passed.

No profit and loss account is presented for Proteome Sciences plc as provided by section 230 of the Companies Act 1985. The Company's profit for the year, determined in accordance with the Act, was £4,524 (2005: profit : £17,963).

d) Turnover

Turnover represents earned income from collaborative agreements, licence fees, option fees, revenue grants and customers in respect of goods supplied and services rendered. Such income is recognised in the period in which the goods or services are provided unless it is related to the achievement of specified objectives in which case it is recognised when those objectives have been met. All amounts exclude Value Added Tax.

Revenues from collaborative research agreements which are related to time are recognised evenly over the period specified in the respective agreements. Revenues from collaborative research agreements which are related to the achievement of specified objectives are recognised when those objectives have been met. The balance of advance payments are treated as deferred income.

2 Accounting polices (continued)

e) Intangible assets - goodwill

Goodwill arising on the acquisition of subsidiary undertakings and businesses, representing any excess of the fair value of the consideration given over the fair value of the identifiable assets and liabilities acquired, is capitalised and written off on a straight line basis over its useful economic life, which is ten years. The Directors believe that ten years is a suitable period over which to amortise the goodwill based on the expected benefits to be derived from the technology acquired.

Provision is made for any impairment.

Goodwill arising on acquisitions in the year ended 31st December 1997 and earlier periods was written off to reserves in accordance with the accounting standard then in force. As permitted by the current accounting standard, the goodwill previously written off to reserves has not been reinstated in the balance sheet. On disposal or closure of a previously acquired business, the attributable amount of goodwill previously written off to reserves is included in determining the profit or loss on disposal.

f) Research and development expenditure and patent costs

Research and development expenditure and patent costs (comprising legal fees and other direct costs incurred in obtaining patents) are written off in the year of expenditure.

g) Tangible fixed assets

Tangible fixed assets are stated at cost net of depreciation and any provision for impairment. Depreciation is provided at rates calculated to write off the cost, less estimated residual value, of each asset on a straight-line basis over its expected useful life as follows:

Laboratory equipment, fixtures and fittings	5 years (20% per annum)
Motor vehicles	4 years (25% per annum)

h) Investments

Fixed asset investments are shown at cost less provision for impairment. Provisions are made for permanent diminutions in value. Provisions for temporary fluctuations in value are not made. In the Company's accounts, investments in subsidiary undertakings are stated at cost less amounts written off. Only dividends receivable are credited to the Company's profit and loss account.

i) Taxation

Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the Group's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

A net deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted. Deferred tax assets and liabilities are not discounted.

Notes to the financial statements (continued)

2 Accounting polices (continued)

j) Pension costs

The Group operates both defined benefit and defined contribution pension schemes.

For defined contribution schemes the amounts charged to the profit and loss account are the contributions payable in the year. They are included as part of staff costs. Past service costs are recognised immediately in the profit and loss account if the benefits have vested.

The two defined benefit schemes are multi-employer schemes, with the assets of the scheme held separately from those of the Group, in separate trustee administered funds. The Group's share of the net assets and liabilities are not separately identifiable. The majority of the employees of the scheme are employees of companies other than group companies. The amounts charged to the profit and loss account are the contributions payable in the year.

k) Foreign currency

In the accounts of individual undertakings, transactions denominated in foreign currencies are recorded in the local currency at actual exchange rates as of the date of the transaction (or, where appropriate, at the rate of exchange in a related forward exchange contract). Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are reported at the rates of exchange prevailing at that date (or, where appropriate, at the rate of exchange in a related forward exchange contract). Any gain or loss arising from a change in exchange rates subsequent to the date of the transaction is included as an exchange gain or loss in the profit and loss account.

The results of overseas subsidiary undertakings and their balance sheets are translated at the closing rates of exchange for the year. Exchange differences arising on the translation of the opening net assets or liabilities and results of such overseas operations are dealt with through reserves.

l) Leases

Leasing agreements, which transfer to the Group substantially all the benefits and risks of ownership of an asset, are treated as if the asset had been purchased outright. The assets are included in fixed assets and the capital element of the leasing commitments is shown as obligations under finance leases. The lease rentals are treated as consisting of capital and interest elements. The capital element is applied to reduce the outstanding obligations and the interest element is charged against profit in proportion to the reducing capital element outstanding. Assets held under finance leases are depreciated over their lease term to their expected residual values. Hire purchase transactions are dealt with similarly, except that assets are depreciated over their useful lives.

Costs in respect of operating leases are charged on a straight-line basis over the lease term.

m) Government grants

Government grants relating to tangible fixed assets are treated as deferred income and released to the profit and loss account over the expected useful lives of the assets concerned. Other grants are credited to the profit and loss account as the related expenditure is incurred.

Where grants are repayable if the related project achieves commercial success, the balance is recorded within creditors and released to the profit and loss account in the event that the project did not achieve commercial success.

n) Share based payments

On 1st January, 2006, the Group applied the requirements of FRS 20 Share-based Payment. In accordance with the transition provisions, FRS 20 has been applied to all grants after 7th November, 2002 that were unvested as of 1st January, 2006. The adoption of this standard represents a change in accounting policy and hence a prior year adjustment has been made in the financial statements (see note 22).

The Group issues equity-settled payments to certain employees. Equity-settled share-based payments are measured at fair value at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group’s estimate of shares that will eventually vest.

Fair value is measured by use of the Black-Scholes pricing model. The expected life used in the model has been adjusted, based on management’s best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

See Note 22 for further description of the share-based payment plans.

o) Derivatives and other financial instruments

The Group's financial instruments comprise cash, liquid resources and various items, such as trade debtors and trade creditors, that arise directly from its operations. The main purpose of these financial instruments is to raise finance for the Group's operations.

The Group does not enter into derivative transactions. It has been, throughout the period under review, the Group's policy that no trading in financial instruments shall be undertaken. The main risks arising from the Group's financial instruments are interest rate risk and foreign currency risk. The Board reviews and agrees policies for managing each of these risks and they are summarised below. These policies have remained unchanged during the year.

Interest rate risk

The Group finances its operations through existing funds placed on the money markets. The risk is that movements in interest rates will affect investment income from cash on deposit. The risk is managed by monitoring of banking arrangements.

Borrowings

Interest-bearing loans are recorded at the proceeds received, net of direct issue costs. Finance charges are accounted for on an accrual basis in the profit or loss account using the effective interest rate method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

Foreign currency risk

The Group has one overseas subsidiary which operates in Germany and whose revenues and expenditure are denominated mainly in euros and two overseas subsidiaries which operate in the United States of America and whose revenues and expenditure are denominated mainly in US dollars.

The Group does not use foreign currency contracts.

p) Associates

In the Group financial statements, investments in associates are accounted for using the equity method. The consolidated profit and loss account includes the Group’s share of associates’ profits less losses, while the Group’s share of the net assets of the associates is shown in the consolidated balance sheet.

Notes to the financial statements (continued)

3 Segment information

All amounts derive from the Company's principal activity.

Geographical segments:

	United Kingdom		Germany		US		Group	
	2006	2005 (as re-stated)	2006	2005	2006	2005	2006	2005
	£	£	£	£	£	£	£	£
Turnover by destination and origin:								
Sales to third parties	68,469	16,200	-	-	-	-	68,469	16,200
Segment loss	(4,074,071)	(4,522,797)	(2,245,094)	(2,184,192)	(436,277)	(782,209)	(6,755,442)	(7,489,198)
Net interest receivable/(payable)	6,650	136,882	1,583	2,925	(35)	(61)	8,198	139,746
Loss on ordinary activities before tax	(4,067,421)	(4,385,915)	(2,243,511)	(2,181,267)	(436,312)	(782,270)	(6,747,244)	(7,349,452)
Segment net assets/(liabilities) (excluding associates)	1,109,366	6,897,238	196,247	(543)	(19,215)	(889)	1,286,398	6,895,806
Share of associates' net assets / goodwill					562,328	954,837	562,328	954,837
Net assets					543,113	953,948	1,848,726	7,850,643

4 Administrative expenses

	2006	2005 (as re-stated)
	£	£
Administrative expenses excluding research and development	3,534,073	3,513,677
Research and development expenses	2,869,423	3,131,819
Administrative expenses	6,403,496	6,645,496

5 (i) Interest receivable

Interest receivable represents income arising from bank deposits.

(ii) Interest payable and similar charges

	2006	2005
	£	£
Bank loans, overdrafts and other loans	36,637	882

Notes to the financial statements (continued)

6 Loss on ordinary activities before taxation

Loss on ordinary activities before taxation is stated after charging/(crediting):

	2006	2005
	£	£
Depreciation and amounts written off tangible fixed assets		
- owned	291,682	425,843
- held under hire purchase contracts	-	-
Research and development	2,869,423	3,131,819
Amortisation of goodwill	648,960	648,960
Amortisation of associate company goodwill	90,485	90,485
Amounts written off fixed asset investment	-	112,878
Operating lease rentals		
- other	213,592	184,330
Auditors' remuneration (see below)	93,000	73,000
(Profit)/loss on sale of fixed assets	-	(5,805)
Government grants	413,996	119,580

The analysis of auditors' remuneration is as follows :

	2006	2005
	£	£
Fees payable to the Company's auditors for the audit of the Company's annual accounts	27,000	26,000
Fees payable to the Company's auditors for other services to the Group		
- The audit of the Company's subsidiaries pursuant to legislation	7,000	7,000
Total audit fees	34,000	33,000
Tax services	41,000	32,000
Other services	18,000	8,000
Total non-audit fees	59,000	40,000

7 Staff costs

The average monthly number of employees (including executive Directors) was:

	2006	2005
	Number	Number
Research and development	32	32
Administration	7	7
	39	39

Their aggregate remuneration (including that of executive Directors) comprised:	£	£
Wages and salaries	1,859,182	2,035,144
Social security costs	247,593	373,480
Other pension costs (see note 28)	156,390	182,291
	2,263,165	2,590,915

Social security costs shown above include a credit of £54,655 (2005: charge of £75,008) in respect of a decrease (2005: increase) in the provision for notional National Insurance contributions payable on unrealised share options gains.

Notes to the financial statements (continued)

8 Directors' remuneration and transactions

The Directors' emoluments in the year ended 31st December 2006, excluding pension costs, were:

	Basic salary £	Benefits in kind £	2006 £	2005 £
Executive Directors				
C.D.J. Pearce	119,526	8,176	127,702	232,545
J.L. Malthouse	77,026	23,927	100,953	161,787
A.J. Green	130,000	2,783	132,783	132,172
Dr. P. Schulz-Knappe (i)	47,548	-	47,548	-
Dr. S.C. Steiner (ii)	-	-	-	127,503
Non-Executive Directors				
Prof. W. Dawson	13,750	-	13,750	27,500
R.S. Harris	19,000	-	19,000	38,000
Dr.A.E.A.Lindberg	12,500	-	12,500	25,000
	419,350	34,886	454,236	744,507

(i) Appointed as a Director on 1st August, 2006.

(ii) Resigned as a Director on 30th September, 2005.

(iii) The remuneration of the Executive Directors is decided by the Remuneration Committee.

(iv) Aggregate emoluments disclosed above do not include any amounts for the value of options to subscribe for Ordinary Shares in the Company granted to or held by the Directors.

(v) No options were exercised by Directors during the year.

(vi) Details of the options in place and of awards under the Company's Long-Term Incentive Plan are given in the Directors' Report on pages 11 to 13.

(vii) By agreements dated 1st July, 2006 certain directors have agreed to waive all or part of their salaries with effect from that date. These agreements will remain in force until the Company or the director serves notice of termination thereof by giving one day's prior written notice.

(viii) Subject to the provisions of (ix) below, in the event that there is, in the reasonably held opinion of the director notified in writing to the Company, a successful licensing round, funding round, merger, material business acquisition or takeover by or of the Company, the Company has agreed to make to the director a payment (net of tax and other deductions) of an amount equal to the amount of the Remuneration that would have been payable to the director up to the date of making such payment (or the end of the period from 1st July, 2006 to such date as is notified by the director under this clause (the "Period"), whichever occurs first) had the director not waived his entitlement to receive payment of such amount pursuant to (vii) above, provided that after a payment has been made pursuant to this clause, no further sum shall be payable pursuant to (ix) below.

(ix) If any of the following events occurs before the payment referred to in (viii) above is paid, the director shall no longer be entitled to receive any payment pursuant to (viii) above (whether or not an event of the type referred to in (viii) occurs or has occurred) and the Company shall upon the first of such following events occurring become liable to pay to the director an amount (net of tax and other deductions) equal to the amount of the Remuneration that would have been payable to the director up to the date of making such payment (or the end of the Period, whichever occurs first) had the director not waived his entitlement to receive payment of such amount pursuant to (viii) above:

(a) Termination of the director's employment with the Company.

Notes to the financial statements (continued)

8 Directors' remuneration and transactions (continued)

(b) The making of any proposal to amend the director's contract of service which the Director reasonably regards as involving a material adverse change in the rates of remuneration or the main terms of employment.

(c) Any insolvency event in respect of the Company, including the passing of any resolution to wind up (whether voluntarily or otherwise but not for the purpose of a solvent reconstruction or amalgamation), any composition with creditors and the appointment of a receiver or administrator to any material part of the Company's business or assets.

Provided that payment pursuant to this paragraph (ix) shall be made on one occasion only and after such payment has been made, no further amounts shall be payable to the director pursuant to this paragraph.

(x) A provision of £548,000 has been made in the 2006 accounts to cover amounts which may become payable under (viii) above, and which relates to salaries waived and the related employee's national insurance thereon in that year.

The number of Directors in pension schemes is as follows:

	2006	**2005**
Money purchase pension schemes	3	3

Pension costs in the year ended 31st December 2006 were as follows:

	2006	**2005**
	£	**£**
C.D.J. Pearce	22,500	22,500
J.L. Malthouse	16,812	16,812
A.J. Green	12,000	12,000
	51,312	51,312

Dr. S.C. Steiner's basic salary in 2005 included an allowance of £10,125 to enable her to make her own pension arrangements.

Directors' transactions

a) Professor W. Dawson is a shareholder in Bionet Ltd which provided consultancy services to the Company during the year at a cost of £6,684 (2005: £7,485).

b) Save as disclosed in (a) above and in note 18 (i), no Director had a material interest in any contract of significance with the Company in either year.

9 Tax credit on loss on ordinary activities

	2006	**2005**
	£	**£**
UK Corporation tax – R&D tax credit	394,962	526,000
Overseas tax charge	(26,576)	(43,499)
Adjustment in respect of prior period	1,723	(29,754)
Group tax credit for the year	370,109	452,747

The UK Corporation tax credit relates to research and development tax credits claimed under the Finance Act 2000.

Notes to the financial statements (continued)

9 Tax credit on loss on ordinary activities (continued)

At 31st December 2006 there were tax losses available for carry forward of approximately £30.8 million (2005: £27.3 million).

The tax credit and trading losses to be carried forward for the year are subject to the agreement of the Inland Revenue.

Factors affecting the tax credit for the period
The tax credit for the period is lower than the standard rate of corporation tax in the UK. The differences are explained below:

	2006	2005 (as re-stated)
	£	£
Group loss on ordinary activities before tax	(6,747,244)	(7,349,452)
Tax credit on Group loss at standard UK Corporation tax rate of 30%	2,024,173	2,204,836
Effects of:		
Expenses not deductible for tax purposes	(519,771)	(492,144)
Fixed asset timing differences	(39,332)	(64,459)
R&D enhancement	324,029	352,178
Losses surrendered for R&D tax credit	(740,048)	(1,002,762)
Current year tax losses not recognised	(1,049,051)	(997,649)
Effect of overseas tax	(26,576)	(43,499)
R&D tax credit claimed	394,962	526,000
Adjustment in respect of prior period	1,723	(29,754)
Group tax credit for the year	370,109	452,747

Deferred tax assets of approximately £9.2 million (2005: £8.2 million) relating to losses, and approximately £8,000 (2005: £18,000) relating to fixed asset timing differences have not been recognised as the directors are not certain of their recovery. The assets will be recovered if the group makes sufficient taxable profits in the future against which the losses can be utilised.

10 Loss per ordinary share
The calculations of basic and diluted loss per ordinary share are based on the following losses and numbers of shares.

	Basic and Diluted 2006	2005 (as re-stated)
	£	£
Loss for the financial year	(6,377,135)	(6,896,705)

	2006 Number of shares	2005 Number of shares
Weighted average number of ordinary shares:	131,467,466	129,243,696

The loss attributable to ordinary shareholders and weighted average number of ordinary shares for the purpose of calculating the diluted earnings per ordinary share are identical to those used for basic earnings per ordinary share. This is because the exercise of share options would have the effect of reducing the loss per ordinary share and is therefore not dilutive under the terms of Financial Reporting Standard 22.

Notes to the financial statements (continued)

11 Intangible fixed assets - patents

The movement in the year was as follows:

Group	**Patent costs**
	£
Cost : 1st January 2006 and 31st December 2006	94,799
Amortisation : 1st January 2006 and 31st December 2006	94,799
Net book value : 31st December 2005 and 31st December 2006	-

12 Intangible fixed assets - goodwill

	Goodwill
	£
Cost	
1st January 2006 and 31st December 2006	6,489,601
Amortisation	
1st January 2006	2,271,360
Charge for the year	648,960
31st December 2006	2,920,320
Net book value	
31st December 2005	4,218,241
31st December 2006	3,569,281

Goodwill relates to the acquisition of Proteome Sciences R&D GmbH & Co. KG in the year ended 31st December 2002. The goodwill is being amortised over 10 years.

Notes to the financial statements (continued)

13 Tangible fixed assets

Tangible fixed assets comprise laboratory equipment, fixtures and fittings and motor vehicles held by the Group. The movement in the year was as follows:

	Laboratory equipment, fixtures and fittings	Motor vehicles	Total
	£	£	£
Cost			
1st January 2006	2,167,816	19,150	2,186,966
Exchange adjustments	(32,656)	-	(32,656)
Additions during the year	357,411	-	357,411
Disposals during the year	(13,183)	-	(13,183)
31st December 2006	2,479,388	19,150	2,498,538
Depreciation			
1st January 2006	1,697,110	798	1,697,908
Exchange adjustments	(24,378)	-	(24,378)
Eliminated on disposals	(13,183)	-	(13,183)
Charge for the year	286,894	4,788	291,682
31st December 2006	1,946,443	5,586	1,952,029
Net book value			
31st December 2005	470,706	18,352	489,058
31st December 2006	532,945	13,564	546,509

The Company owned no fixed assets during either the current or preceding financial year.

14 Fixed asset investments

Company	Cost of shares in subsidiary undertakings	Loans to subsidiary undertakings	Associate undertakings	Total
	£	£	£	£
At 1st January 2006 as previously stated	2,246,749	25,316,062	3,375,028	30,937,839
Prior year adjustment in respect of FRS20	1,333,310	-	-	1,333,310
At 1st January 2006 as restated	3,580,059	25,316,062	3,375,028	32,271,149
Additional investment in the year	462,661	3,833,421	-	4,296,082
At 31st December 2006	4,042,720	29,149,483	3,375,028	36,567,231

Of the additional investment in the year, £462,661 represents a capital contribution between the Company and certain of its subsidiaries, reflecting the provision of equity instruments in the Company to subsidiary company employees under FRS20.

Notes to the financial statements (continued)

14 Fixed asset investments (continued)

Principal Group investments

The Company has investments in the following subsidiary undertakings, which affect the net assets of the Group:

Principal subsidiary undertakings	Country of incorporation and operation	Principal activity	Description and proportion of shares held by the Company	Description and proportion of shares held by the Group
Proteome Sciences R&D Verwaltungs GmbH	Germany	Administrative Company	100% Share Capital	100% Share Capital
Proteome Sciences R&D GmbH & Co. KG	Germany	Research Company	100% Partnership Interest	100% Partnership Interest
Xzillion GmbH & Co. KG	Germany	Administrative Company	100% Partnership Interest	100% Partnership Interest
Proteome Sciences, Inc.	U.S.A.	Research Company	100% Common Stock	100% Common Stock
Electrophoretics Limited	United Kingdom	Administrative and Research Company	100% Ordinary Shares	100% Ordinary Shares
Veri-Q Inc.	U.S.A.	Research Company	76.9% Common Stock	76.9% Common Stock
Phenomics Limited	United Kingdom	Dormant	100% Ordinary Shares	100% Ordinary Shares

(i) The investments in Proteome Sciences, Inc., Electrophoretics Limited and Phenomics Limited comprise the entire issued share capital of each subsidiary undertaking and carry 100% of the voting rights.

Notes to the financial statements (continued)

15 Other investments

Group

	£
Cost at 1st January 2006 and 31st December 2006	225,756
Amounts written off at 1st January 2006 and 31st December, 2006	(225,756)
Net Book Value at 31st December 2005 and 31st December 2006	-

The Group owns shares of $0.001 common stock of Geneva Proteomics, Inc. which is incorporated in Delaware, United States of America, and shares of CHF100 in Europroteome SA, which is incorporated in Switzerland. Geneva Proteomics Inc. is currently closing down its operations, and filed a certificate of dissolution in March 2005. At this stage it is not possible to determine the extent of any repayment of capital to shareholders, and therefore the Directors believe that it is prudent to continue to hold a provision against the carrying cost of this investment.

Europroteome SA is currently in insolvency proceedings.

16 Investments in associates

		Group £
(i)	**Share of associate's net (liabilities)/assets**	
	At 1st January 2006	185,712
	Exchange adjustments	(20,022)
	Share of retained loss for the year	(282,002)
	At 31st December 2006	(116,312)
(ii)	**Goodwill**	
	Cost	
	At 1st January 2006 and at 31st December 2006	904,853
	Amortisation	
	At 1st January 2006	135,728
	Charge for the year	90,485
	At 31st December 2006	226,213
	Net book value of goodwill	678,640
	Net book value of investments in associates	562,328

(iii) The Group's share of capital commitments of associates at 31st December 2006 was £nil (31st December 2005: £nil).

16 Investments in associates (continued)

(iv) At 31st December 2006 the Company's investment in Intronn Inc consisted of:

- 3,000,000 shares of Common stock, $0.001 par value
- 300,913 shares of Series A Convertible Preferred stock, $0.001 par value.
- 5,833,333 shares of Series A-1 Convertible Preferred Stock, $0.001 par value.

The total issued capital of Intronn Inc at 31st December 2006 was as follows.

	Number
Shares of Common Stock, $0.001 par value	5,494,269
Series A Convertible Preferred Stock, $0.001 par value	5,361,148
Series A-1 Convertible Preferred Stock, $0.001 par value	7,499,999

The holders of the Series A Preferred Stock have the right to convert, at the option of the holder at any time, into shares of Common Stock of Intronn Inc at a ratio of one share of Series A Preferred Stock for each 1.25 shares of Common Stock, and have the right to that number of votes equal to the aggregate number of shares of Common Stock issuable upon conversion of such shares.

The holders of the Series A-1 Preferred Stock have the right to convert, at the option of the holder at any time, into shares of Common Stock of Intronn Inc. at a ratio of one share of Series A-1 Preferred Stock for each share of Common Stock, and have the right to that number of votes equal to the aggregate number of shares of Common Stock issuable upon conversion of such shares.

Upon full conversion of the Series A Convertible Preferred Stock the Company would own 42.69% of Intronn Inc's Common Stock.

(v) The following information is given in respect of the group's share of the results and net assets of Intronn Inc, which is incorporated in the United States of America.

	2006	**2005**
	£	**£**
Turnover	358,309	246,747
Loss before tax	(282,002)	(645,199)
Taxation	-	-
Fixed assets	17,020	83,626
Current assets	70,468	239,354
Liabilities	(203,800)	(137,268)
Net (liabilities)/assets	(116,312)	185,712

Notes to the financial statements (continued)

16 Investments in associates (continued)

The share of associate's operating loss as presented in the profit and loss account comprises the following:

	2006	2005
	£	£
Continuing operations	282,002	645,199
Amortisation of goodwill	90,485	90,485
	372,487	735,684

17 Debtors

	Group 2006	Company 2006	Group 2005	Company 2005
	£	£	£	£
Amounts falling due within one year:				
R&D tax credit recoverable	394,962	-	1,011,391	-
Trade debtors	896	-	-	-
Other debtors	22,502	-	-	-
VAT	28,183	4	42,633	4
Prepayments and accrued income	227,455	-	272,568	-
	673,998	4	1,326,592	4

18 Creditors: Amounts falling due within one year

	Group 2006	Company 2006	Group 2005	Company 2005
	£	£	£	£
Loan (Note)	1,634,637	1,634,637	-	-
Trade creditors	36,301	-	27,518	-
Loan repayable to subsidiary company	-	240,505	-	247,333
Taxation	34,762	-	164,860	-
Other creditors:				
- social security and PAYE	51,857	-	117,024	-
- other creditors	348,097	2	279,334	-
Accruals and deferred income	1,464,636	-	844,524	-
	3,570,290	1,875,144	1,433,260	247,333

Note:

(i) On 29th June, 2006 the company entered into an agreement with C.D.J. Pearce, the Chief Executive of the company, under which he agreed to provide an unsecured loan facility of up to £2m to the company. The loan facility was available from the 1st August, 2006 and carries interest at 2.5% above the base rate of Barclays Bank Plc.

It is repayable on seven days notice, or immediately in the event of:

(a) C.D.J. Pearce ceasing to be an executive director of the company.

(b) A general offer to the shareholders of the company being announced to acquire its issued share capital.

(c) The occurrence of any of the usual events of default attaching to this sort of agreement.

18 Creditors: Amounts falling due within one year (continued)

Please refer to Note 30 for changes made to the loan facility in 2007.

19 Creditors: Amounts falling due after more than one year

	Group 2006 £	Company 2006 £	Group 2005 £	Company 2005 £
Other creditors – government grants	188,043	-	188,043	-
Government grants falling due:				
From two to five years	188,043	-	188,043	-

20 Provisions for liabilities and charges

	Group £	Company £
Provision for notional National Insurance on unrealised share option gains		
At 1st January 2006	103,937	103,937
Credited to profit and loss account in the year	(54,655)	(54,655)
At 31st December 2006	49,282	49,282

This provision relates to National Insurance contributions which will become payable on exercise of share options. The share options can be exercised between 30th March 2003 and 9th July 2011. The amount payable is dependent on the Company's share price at the date of exercise of the options. The provision has been calculated based on the share price at the balance sheet date of 58.5p per share (2005 : 71p) and on the assumption that all employees will exercise their share options and that the rate of National Insurance contributions will be 12.8% (2005 : 12.8%).

21 Share capital

	2006 £	2005 £
i) Authorised		
230,000,200 (2005: 180,000,200) Ordinary Shares of 1p each	2,300,002	1,800,002
49,998 Redeemable Ordinary Shares of £1 each	49,998	49,998
1,063,822 5% (gross) Redeemable Preference Shares of £1 each (voting)	1,063,822	1,063,822
786,178 5% (gross) Redeemable Preference Shares of £1 each (non-voting)	786,178	786,178
	4,200,000	3,700,000

The 5% (gross) Redeemable Preference Shares (voting) and the 5% (gross) Redeemable Preference Shares (non-voting) entitle the holders in priority to any payment of dividend to the holders of Ordinary Shares to payment of a fixed non-cumulative preferential dividend at the gross rate of 5 per cent per annum.

Notes to the financial statements (continued)

21 Share capital (continued)

Every registered holder of the 5% (gross) Redeemable Preference Shares (voting) and the 5% (gross) Redeemable Preference Shares (non-voting) has the right to receive notice of and to attend but not to speak or vote at any general meeting unless, in the case of a registered holder of 5% (gross) Redeemable Preference Shares (voting), either:

(i) any of the 5% (gross) Redeemable Preference Shares (voting) required to be redeemed have not been redeemed on the due date (in which case the holder of such Preference Shares has the right to speak and vote on any Resolution at a general meeting of the Company): or

(ii) the business of the general meeting includes a Resolution varying the rights attaching to the 5% (gross) Redeemable Preference Shares (voting) (in which case the holders of such Preference Shares shall be entitled to speak and vote on that Resolution only): or

(iii) the business of the general meeting includes consideration of a Resolution for winding-up the Company or reducing its share capital or any share premium account or capital redemption reserve.

In the circumstances described in (i) to (iii) above, registered holders of 5% (gross) Redeemable Preference Shares (voting) are entitled to one vote each on a show of hands or, on a poll, to one vote in respect of each fully paid 5% (gross) Redeemable Preference Share and any registered holder of 5% (gross) Redeemable Preference Shares may call a poll.

All members of the Company shall rank pari passu with each other in respect of any distribution on a return of capital save that the holders of the 5% (gross) Redeemable Preference Shares (voting) and the 5% (gross) Redeemable Preference Shares (non-voting) shall only be entitled to receive up to a sum equal to the amount paid up thereon and are not entitled to any further rights of participation in the assets of the Company.

Both classes of 5% (gross) Redeemable Preference Shares are redeemable at the option of the Company, at any time on written notice to the holders of those shares but, in any event must be redeemed at par by 31st December 2019. They are classified as non-equity.

ii) Allotted and called-up	**2006** **£**	**2005** **£**
131,465,447 Ordinary Shares of 1p each (2005: 131,451,147)	1,314,654	1,314,512

	Ordinary Shares of 1p each **£**
At 1st January 2006	1,314,512
Issued on the exercise of options	142
At 31st December 2006	1,314,654

During the year the Company allotted 14,300 Ordinary Shares with a nominal value of £142 and at a premium of £4,790 in connection with the exercise of share options.

Notes to the financial statements (continued)

21 Share capital (continued)

iii) Options and Warrants

At 31st December 2006 options had been granted and were still outstanding in respect of the Company's Ordinary Shares of 1p under the Company's share option schemes as follows:

		Number of shares	Amount of capital £	Subscription price	Dates normally exercisable		
Approved							
	(1)	101,694	1,016.94	59p	17.05.04	-	18.05.11
	(2)	63,829	638.29	47p	23.08.04	-	23.08.11
	(3)	40,164	401.64	34.5p	01.10.04	-	01.10.11
	(4)	52,631	526.31	57p	17.06.05	-	17.06.12
	(5)	60,301	603.01	49.75p	25.11.05	-	25.11.12
		318,619					
Unapproved							
	(6)	200,000	2,000.00	61p	30.03.03	-	30.03.07
	(7)	433,124	4,331.24	45p	20.04.03	-	20.04.07
	(8)	177,861	1,778.61	89p	12.01.04	-	12.01.08
	(9)	50,848	508.48	59p	17.05.04	-	17.05.08
	(10)	80,000	800.00	28.75p	05.10.04	-	05.10.08
	(11)	67,500	675.00	37.25p	25.04.05	-	25.04.09
	(12)	825,000	8,250.00	69.25p	05.06.05	-	05.06.09
	(13)	297,369	2,973.69	57p	17.06.05	-	17.06.09
	(14)	4,000	40.00	44.5p	31.07.05	-	31.07.09
	(15)	10,000	100.00	41.5p	26.09.05	-	26.09.09
	(16)	50,251	502.51	49.75p	25.11.05	-	25.11.09
	(17)	1,248,891	12,488.91	50.5p	29.01.06	-	29.01.10
	(18)	50,000	500.00	62.25p	28.04.06	-	28.03.10
	(19)	50,000	500.00	63p	02.04.06	-	02.04.10
	(20)	50,000	500.00	156.5p	12.11.06	-	12.11.10
	(21)	306,600	3,066.00	221.5p	18.12.06	-	18.12.10
	(22)	11,300	113.00	143p	24.04.07	-	24.04.11
	(23)	60,000	600.00	88.5p	30.04.07	-	30.04.11
	(24)	580,850	5,808.50	117.5p	09.07.07	-	09.07.11
Granted under separate Option Deeds							
	(25)	825,000	8,250.00	37p	Note f		
		5,378,594					

Options under both schemes may also be exercised from the date on which any shares in the Company are first admitted to the Official List of the London Stock Exchange.

On 20th April, 2007 an option over 433,124 Ordinary Shares of 1p each at an exercise price of 45p was granted to C.D.J. Pearce to replace a similar option under the Unapproved Share Option Scheme, which lapsed on that date, when the company was in a close period. The option, which is on similar terms to the one that lapsed on the 20th April, 2007 is exercisable for a period of one month from the end of the close period, except if the Company enters into an unforeseen close period during that month in which case the new options will be exercisable for a period of one month from the end of that close period.

21 Share capital (continued)

The above options were granted in the following periods:

a) Year to 31st December 2000 - (136) and (7).
b) Year to 31st December 2001- (1) to (3) and (8) to (10).
c) Year to 31st December 2002 - (4) to (5) and (11) to (16).
d) Year to 31st December 2003 – (17) to (21).
e) Year to 31st December 2004 – (23) to (24).
f) Year to 31st December 2005 – (25)

On 3rd June 2005 options were granted to C.D.J. Pearce and J.L. Malthouse to replace options under the Unapproved Share Option Scheme which lapsed on 19th May 2005, when the company was in a close period.

The options, which are on similar terms to those lapsing on the 19th May 2005, are exercisable for a period of one month from the date of grant, except if the Company enters into an unforeseen close period during that month in which case the new options will be exercisable for a period of one month from the end of that close period.

(iv) Long-Term Incentive Plan ("LTIP")
At 31st December 2005, the maximum number of the Company's Ordinary Shares of 1p each to be potentially allocated under the LTIP was as follows:

Number at 31st December 2005	Granted in the Year	Number at 31st December 2006	First Vesting Date
808,782	-	808,782	1st October 2007
100,000	-	100,000	6th December 2007
-	319,444	319,444	10th August 2009
908,782	319,444	1,228,226	

(v) 2004 Share Option Plan
At 31st December 2006 options had been granted and were still outstanding in respect of the Company's Ordinary Shares of 1p under the Company's 2004 Share Option Plan as follows:

Number of Shares	Amount of Capital (£)	Subscription Price	Dates Normally Exercisable
10,000	100.00	92.5p	15.7.08 – 15.7.15
13,587	135.87	92p	19.7.08 – 19.7.15
5,000	50.00	52p	5.4.09 – 5.4.16
5,000	50.00	41p	18.4.09 – 18.4.16
5,000	50.00	41.5p	3.5.09 – 3.5.16
15,000	150.00	43p	9.6.09 – 9.6.16
53,587	535.87		

22 Share based payments
As described in the Director's report on page 15 the company issues equity-settled share based payments under the 2004 Share Option Plan. Such payments were also made under the Company's Approved and Unapproved share option schemes, both of which are now closed to new participants.

Notes to the financial statements (continued)

22 Share based payments (continued)

In addition, in 2004 the company entered into a Long Term Incentive Plan for its directors and some of its staff. The plan is being accounted for as an equity settled scheme and has potential vesting dates from 1st October 2007 to 1st August 2009 with any award being linked to share performance related targets. The maximum award under the scheme is 1,228,226 shares. A charge to the income statement of £120,700 (2005: £129,737) was made during the year.

	Approved Scheme		Unapproved Scheme	
	Options	**Weighted average exercise price (p)**	**Options**	**Weighted average exercise price (p)**
Outstanding at 31st December, 2004	795,874	68.7	6,082,970	79.1
Granted during the year	-	-	825,000	37.0
Forfeited during the year	(291,574)	107.0	(1,428,914)	76.1
Exercised during the year	(171,381)	38.6	(7,462)	33.5
Outstanding at 31st December, 2005	332,919	50.7	5,471,594	73.6
Forfeited during the year	-	-	(93,000)	209.0
Exercised during the year	(14,300)	34.5	-	-
Outstanding at 31st December, 2006	318,619	51.4	5,378,594	71.3
Exercisable at 31st December, 2006	318,619	51.4	3,901,444	71.1
Exercisable at 31st December, 2005	332,919	50.7	2,199,953	60.3

The weighted average share price at the date of exercise for share options exercised during the period was 72.25p.

	2004 Share Option Plan		LTIP	
	Options	**Weighted average exercise price (p)**	**Maximum Number of Shares**	**Weighted average fair value per share (£)**
Outstanding at 31st December, 2004	25,000	75.0	1,164,187	37.0
Granted during the year	39,891	92.1	-	-
Forfeited during the year	(25,000)	75.0	(255,405)	37.0
Outstanding at 31st December, 2005	39,891	92.1	908,782	37.0
Granted during the year	30,000	43.9	319,444	18.0
Forfeited during the year	(16,304)	92.0	-	-
Outstanding at 31st December, 2006	53,587	65.2	1,228,226	32.1
Exercisable at 31st December, 2006	-	-		
Exercisable at 31st December 2005	-	-		

The options outstanding at 31st December, 2006 had a weighted average remaining contractual life as follows:

	No. of Months
Approved Scheme	59.9
Unapproved Scheme	32.1
2004 Share Option Plan	108.2
LTIP	14.9

Notes to the financial statements (continued)

22 Share based payments (continued)

The inputs into the Black-Scholes model were as follows:

	2005	2006
Weighted average share price	50.7p – 73.6p	51.4p – 71.1p
Weighted average exercise price	50.7p – 73.6p	51.4p – 71.1p
Expected volatility	98.1% - 67.4%	98.1% - 67.4%
Expected life	4 years	4 years
Risk free rate	3.9% - 5.1%	3.9% - 5.1%
Expected dividends	None	None

Prior Year adjustment

The Group has changed its accounting policy during the year in respect of the adoption of FRS20 "share-based payment". The comparative figures in the primary statements and notes have been restated to reflect the new policy. The adoption of FRS 20 for the year to 31st December 2005 has impacted upon the results and financial position of the Company as follows:

	Group 2005
	£
Profit and loss account	
Administrative expenses	(731,659)
Decrease in profit for the financial year	(731,659)
Balance Sheet	
Equity reserve	1,333,310
Profit and loss deficit	(1,333,310)
Increase / (decrease) in net assets	-

23 Reserves

Group	Other Reserve	Equity reserve	Share premium account	Profit and loss account	Total
		£	£	£	£
At 1st January 2006 as previously stated	10,755,000	-	29,145,773	(34,697,952)	5,202,821
Prior year adjustment in respect of FRS 20	-	1,333,310	-	-	1,333,310
At 1st January 2006 as restated	10,755,000	1,333,310	29,145,773	(34,697,952)	6,536,131
Share issues	-	-	4,790	-	4,790
Loss on foreign currency translation	-	-	-	(92,375)	(92,375)
Retained loss for the year	-	-	-	(6,377,135)	(6,377,135)
Share-based payment charge	-	462,661	-	-	462,661
At 31st December 2006	10,755,000	1,795,971	29,150,563	(41,167,462)	534,072

The cumulative amount of goodwill written off against reserves was £2,987,741 (2005: £2,987,741).

The amounts transferred to the Equity Reserve are for charges made in respect of the requirements of FRS 20 share-based payment.

Notes to the financial statements (continued)

23 Reserves (continued)

Company

	Share premium account	Group reconstruction reserve	Equity Reserve	Profit and loss account	Total
	£	£	£	£	£
At 1st January 2006 as previously stated	29,145,773	1,082,244	-	1,466,398	31,694,415
Prior year adjustment in respect of FRS20	-	-	1,333,310	-	1,333,310
At 1st January 2006 as restated	29,145,773	1,082,244	1,333,310	1,466,398	33,027,725
Share issues	4,790	-	-	-	4,790
Retained profit for the year	-	-	-	4,524	4,524
Share based payment charge	-	-	462,661	-	462,661
31st December 2006	29,150,563	1,082,244	1,795,971	1,470,922	33,499,700

Of total reserves shown in the Company's balance sheet, the following amounts are regarded as non-distributable or otherwise:

	2006	2005 (as re-stated)
	£	£
Non-distributable		
- share premium	29,150,563	29,145,773
- group reconstruction reserve	1,082,244	1,082,244
Distributable		
- equity reserve	1,795,971	1,333,310
- profit and loss account	1,470,922	1,466,398
Total reserves	33,499,700	33,027,725

The Company has taken advantage of Group reconstruction relief as allowed by section 132 of the Companies Act 1985.

24 Reconciliation of movements in shareholders' funds

	Group		Company	
	2006	2005 (as re-stated)	2006	2005 (as re-stated)
	£	£	£	£
(Loss)/profit for the financial period	(6,377,135)	(6,896,705)	4,524	17,963
(Loss)/gain on foreign currency translation	(92,375)	73,840	-	-
Gain on deemed part-disposal of associate	-	111,536	-	-
New share capital subscribed (net of issue costs)	4,932	5,026,939	4,932	5,026,939
Share-based payment	462,661	731,659	462,661	731,659
Net reduction in shareholders' funds	(6,001,917)	(952,731)	472,117	5,776,561
Opening shareholders' funds	7,850,643	8,803,374	34,342,237	28,565,676
Closing shareholders' funds	1,848,726	7,850,643	34,814,354	34,342,237

Notes to the financial statements (continued)

25 Reconciliation of operating loss to operating cash flows

	2006	2005 (as re-stated)
	£	£
Operating loss	(6,382,955)	(6,640,636)
Depreciation charges	291,682	425,843
Amortisation charges	648,960	648,960
Share-based payment	462,661	731,659
(Decrease)/increase in provisions	(54,655)	75,008
Profit on sale of tangible fixed assets	-	(5,805)
Increase in debtors	(924)	(139,862)
Increase/(decrease) in creditors	569,975	(4,152)
Net cash outflow from operating activities	(4,465,256)	(4,908,985)

26 Analysis of cash flows

	2006	2005
	£	£
Returns on investments and servicing of finance		
Interest received	44,835	140,628
Interest paid	(36,637)	(882)
Net cash inflow	8,198	139,746
Capital expenditure and financial investment		
Purchase of tangible fixed assets	(357,411)	(187,855)
Sale of investments	-	21
Sale of tangible fixed assets	-	6,500
Net cash outflow	(357,411)	(181,334)
Management of liquid resources		
Decrease/(Increase) in cash held on deposit	(1,900,000)	(100,000)
Financing		
Issue of ordinary share capital	4,934	5,026,939
Loans received	1,634,637	84,846
Net cash inflow	1,639,571	5,111,785

27 Analysis and reconciliation of net debt

	Debt due within 1 Year	Cash held on deposit as short term investment	Cash at bank and in hand	Net funds/ (debt)
	£	£	£	£
31st December 2005	-	1,900,000	687,155	2,587,155
Cash flow	(1,634,637)	(1,900,000)	(382,930)	(3,917,567)
31st December 2006	(1,634,637)	-	304,225	(1,330,412)

Notes to the financial statements (continued)

27 Analysis and reconciliation of net debt (continued)

	2006	2005
	£	£
(Decrease)/increase in cash in the year	(382,930)	61,212
Cash (inflow)/outflow from (decrease)/increase in liquid resources	(1,900,000)	100,000
Cash inflow from increase in debt and lease financing	(1,634,637)	-
Change in net (borrowings)/funds resulting from cash flows	(3,917,567)	161,212
Net funds at 1st January 2006	2,587,155	2,425,943
Net (borrowings)/funds at 31st December 2006	(1,330,412)	2,587,155

28 Guarantees and other financial commitments

a) Capital commitments

At the end of the year the Company and Group had capital commitments amounting to nil (2005: £nil).

b) Lease commitments

The Group leases certain land and buildings on short-term operating leases. The rents payable under these leases are subject to renegotiation at various intervals specified in the leases. The Group pays insurance, maintenance and repairs of these properties.

The minimum annual rentals under the foregoing leases are as follows:

	Group 2006	Group 2005
	£	£
Operating leases which expire		
- within 1 year	-	-
- within 2-5 years	163,074	106,479
- over 5 years	-	59,531
	163,074	166,010

c) Pension arrangements

As a result of the acquisition of Proteome Sciences R&D Verwaltungs GmbH and Proteome Sciences R&D GmbH & Co KG from Aventis Research & Technologies GmbH & Co. KG, the Group contributes to two defined benefit pension schemes in Germany. Both schemes are multi-employer defined benefit schemes administered by Pensions Kasse der Mitarbeiter der Hoechst-Gruppe. The schemes' assets are held in separately administered funds. The other employers who contribute to the schemes are not members of the Group. The Group has not been able to identify its share of the underlying assets and liabilities of the schemes. Accordingly the schemes have been accounted for as defined contributions schemes. The Group's contributions to the schemes are included within the amount charged to the profit and loss account in respect of pension contributions.

No information is available about any surplus or deficit that exists in the schemes.

29 Derivatives and other financial instruments

The notes to the accounts provide an explanation of the role that financial instruments have had during the year in creating or changing the risks the Group faces in its activities. The explanation summarises the objectives and policies for holding or issuing financial instruments and similar contracts and the strategies for achieving those objectives that have been followed during the period.

Notes to the financial statements (continued)

29 Derivatives and other financial instruments (continued)

The numerical disclosures in this note deal with financial assets and financial liabilities as defined in FRS 13: Derivatives and other financial instruments.

As permitted by FRS 13, short-term debtors and creditors have been excluded from the disclosures, other than the currency disclosures.

Currency exposures
Currency exposures comprise the monetary assets and liabilities of the Group that are not denominated in the operating currency of the operating unit.

Interest rate profile
The Group has no financial assets other than sterling cash deposits of £nil (2005: £1,900,000) which are part of the financing arrangements of the Group and cash at bank and in hand of £304,225 (2005: £687,155). The sterling cash deposits comprise deposits placed on the money market at call monthly rates.

The interest rate on floating rate financial assets is linked to Libor rates.

Save as disclosed in note 18 above, the Group has no other financial liabilities.

Loan
At 31st December, 2006 the Group had a loan of £1,634,637 from C.D.J. Pearce, the Chief Executive of the Company, full details of which are set out in Note 18 (i) above.

30 Subsequent events

(a) On the 21st February 2007 it was announced that C.D.J. Pearce had agreed to increase the total size of the facility to up to £4m, on the same terms, save that in view of the size of the loan facility, it was agreed that security for the loan should be charged against the company's patent portfolio up to the value of the loan outstanding and that the loan should be convertible, at Mr. Pearce's option, into ordinary shares of the Company at the lower of market price on the date of conversion or the average price over the lowest consecutive ten day trading period since the 29th June 2006 (the date on which details of the original loan agreement were disclosed).

(b) On the 29th June 2007 the company entered into a further loan agreement, on the same terms as the agreement dated 21st February 2007, with C.D.J. Pearce, the Chief Executive of the company, which increased the total size of the facility to up to £6m.

Proteome Sciences plc

(Registered in England No: 2879724)

Notice of meeting

Notice is hereby given that the 13th Annual General Meeting of Proteome Sciences plc will be held at The Institute of Chartered Accountants, One Moorgate Place, Moorgate, London EC2R 6EA on Friday 27th July, 2007 at 11:00am, for the purpose of considering and, if thought fit, passing the following Resolutions of which numbers 1 to 6 will be proposed as ordinary Resolutions and number 7 as a special Resolution.

Ordinary Business

1 To receive the financial statements and the reports of the Directors and of the auditors for the year ended 31st December 2006.

2 To re-appoint R.S. Harris as a Director.

3 To re-appoint J.L. Malthouse as a Director.

4 To appoint Dr. P. Schulz-Knappe as a Director.

5 To re-appoint Deloitte & Touche LLP as auditors of the Company and to authorise the Directors to fix their remuneration.

Special Business

Ordinary Resolutions

6 THAT:

pursuant to and in accordance with Section 80 of the Companies Act 1985 ("the Act") and in substitution for any unexercised authority in that behalf, the Directors be and are hereby generally and unconditionally authorised to exercise all powers of the Company to allot relevant securities having an aggregate nominal amount of £433,836.15 until the expiry of five years from the passing of this Resolution. Pursuant to such authority, the Directors may, before the expiry of such five year period, make an offer or enter into an agreement which would or might require relevant securities to be allotted after the expiry of such period and the Directors may allot relevant securities in pursuance of such an offer as if the authority conferred hereby had not expired.

Words and expressions defined in or for the purposes of Part IV of the Act shall have the same meanings in this Resolution.

Special Resolution

7 THAT:

subject to, and upon Resolution 6 above, having been passed and becoming effective, the Directors be and are hereby authorised and empowered pursuant to Section 95 of the Companies Act 1985 (the "Act") to allot equity securities of the Company for cash pursuant to the authority conferred upon them by Resolution 6 above, as if Section 89(1) of the Act did not apply to such allotment provided that the authority and power in this Resolution shall be limited:

(a) to the allotment of equity securities in connection with a rights issue or any other pre-emptive offer in favour of holders of equity securities where the equity securities respectively attributable to the interests of such holders are proportionate (as nearly as may be) to the respective amounts of equity securities held by them subject only to such exclusions or other arrangements as the Directors may consider appropriate to deal with fractional entitlements or legal or practical difficulties under the laws or the rules or regulations of any jurisdiction, stock exchange or other regulatory body whatsoever; and

(b) to the allotment (otherwise than pursuant to sub-paragraph (a) above) of equity securities which are or are to be wholly paid up in cash up to an aggregate nominal amount of £13,146.55.

and provided further that the authority and power conferred by this Resolution shall expire at the conclusion of the next Annual General Meeting of the Company or the period of fifteen months from the passing of this Resolution, whichever is the earlier, unless such authority is renewed or extended at or prior to such time, save that the Company may before such expiry make any offer, agreement or other arrangement which would or might require equity securities to be allotted otherwise than in accordance with Section 89 of the Act after the expiry of this authority and the Directors may then allot equity securities in pursuant of such an agreement as if the authority and power hereby conferred had not expired.

Words and expressions defined in or for the purposes of Part IV of the Act shall have the same meanings in this Resolution.

By order of the Board

Coveham House
Downside Bridge Road,
Cobham
Surrey KT11 3EP

J.L. Malthouse
Secretary

29th June, 2007

Notes:

A member of the Company entitled to attend and vote at this meeting may appoint one or more proxies to attend and, on a poll, vote on his behalf. In accordance with Article 90, any such appointment is valid only if the instrument of proxy is deposited with the Company's registrars, not less than 48 hours before the time appointed for holding the meeting. A proxy need not also be a member of the Company. A form of proxy is enclosed; completion of an instrument of proxy will not prevent members from attending and voting in person should they wish to do so.

Form of proxy for use by holder of Ordinary Shares at the 13th
ANNUAL GENERAL MEETING of
PROTEOME SCIENCES plc
to be held on Friday 27th July, 2007 at 11:00am.

I/We (1) ....
of ....
being (a) member(s) of the above-named company hereby appoint the chairman of the meeting (2) or ……………………………………......as my/our proxy and to vote for me/us and on my/our behalf at the Company's Annual General Meeting to be held on Friday 27th July, 2007 at 11:00am, at The Institute of Chartered Accountants, One Moorgate Place, Moorgate, London EC2R 6EA, and at any adjournment thereof.

Dated this... day of 2007

Signature(s) ....

Please indicate with an X in the space below how you wish your votes to be cast. If no instructions are given as to how the proxy shall vote, on any particular matter, the proxy will abstain or vote as he thinks fit.

Resolution	**For**	**Against**
Ordinary Business		
1. To receive the financial statements		
2. To re-appoint R.S. Harris as a Director		
3. To re-appoint J.L. Malthouse as a Director		
4. To appoint Dr. P. Schulz-Knappe as a Director		
5. To re-appoint Deloitte & Touche LLP as auditors		
Special Business		
6. To renew the Directors' authority to allot shares		
7. To renew the Directors' authority to disapply pre-emption rights for the allotment of shares		

(1) Fill in your name(s) and address(es) in block capitals.

(2) A member may appoint a proxy of his own choice and if any other proxy is preferred, strike out 'the chairman of the meeting' and add the name of the proxy or proxies desired and initial the alteration.

NOTES

(a) This form of proxy duly completed must, to be valid for use at the meeting, be deposited, together with the power of attorney or other authority (if any) under which it is signed or a notarially certified copy thereof, with the Company's registrars, not less than forty-eight hours before the time for holding the meeting or adjourned meeting. A proxy may only vote on a poll.

(b) A corporation may execute either under seal or under the hand of an officer or attorney so authorised.

(c) In the case of joint holders of shares, any one of such holders may vote but, if two or more joint holders are present in person or by proxy, the vote of the senior will be accepted to the exclusion of the votes of the other joint holders and for this purpose seniority is determined by the order in which the names stand in the register.

(d) A member may appoint as his proxy any one or more persons whether members of the Company or not. Appointment of a proxy will not preclude a member from attending and voting in person at the meeting.

Third fold and tuck in

Please affix postage

Capita Registrars
The Registry
34 Beckenham Road
BECKENHAM
Kent BR3 4BR

First fold

Second fold