

**RESULTS FOR THE YEAR ENDED 31<sup>st</sup> DECEMBER 2006  
HIGHLIGHTS**

- Commercialisation
  - Allowances for TMT1 and TMT2 patents for isobaric tandem mass tags in US and Europe.
  - Substantial revenues should be generated from licence payments, back-licence payments, product sales and royalties for the manufacture and use of any type of isobaric mass tags.
  - Market for isobaric tandem mass tags growing disproportionately fast.
  - Biological reference materials – new consumable products for TMT in high volume/high value applications for clinical trials and compound development.
  - Multiplex assays using proprietary tags can be developed quickly and inexpensively.
  - Broad mass spectrometry user base to open up significant new revenues and markets.
  - Targeting to have licences concluded and TMT products launched in 2007.
  - Three licences announced for high throughput screening in stroke.
  - Discussions with other global top twenty clinical diagnostics companies.
  - NDKA – new blood biomarker for early diagnosis, treatment and management of stroke.
  - Grant of FABP patents for stroke in US and Europe.
  - Novel biomarkers in colorectal cancer and AD.
  - Highly accurate quantitative TMT® sixplex data from plasma samples of renal rejection.
- ProteoSHOP®
  - ProteoSHOP® marketing campaign continued.
  - Strong levels of interest will be reflected in revenue in the first half of 2007.
  - Cross-platform protein validation increases coverage and data confidence.
- Veri-Q Inc.
  - Development of further antibodies against the de-protecting groups underway.
  - High profile scientific papers in Analytical Biochemistry and Nucleic Acid Research.
- Intronn Inc.
  - Issuance of SMaRT® patents in US, Europe, Australia and Canada.
  - NIH grant awarded for SMaRT® with RNAi.
  - In-vivo proof of principle for haemophilia.
  - Seeking the right strategic partner/alliances for clinical and commercial development and funding for clinical trials.
- Financial
  - Headline loss (excluding non-cash items and associates) £4.66m (2005 : £4.17m).
  - Loss after tax £6.38m (2005 : £6.90m).
  - Net cash outflow from operating activities £4.47m (2005: £4.91m).
  - Cash balance £0.30m (2005 : £2.59m).
  - Additional £4m working capital provided by loan facility from CEO
  - Consistent and predictable cash burn expected.
- Current Outlook
  - Highest short term priority is to complete the out-licensing of TMT® and have TMT® products launched in 2007.
  - Earlier stroke biomarker research licenses should convert into full commercial licenses
  - Licensing activity in Alzheimer's disease biomarkers.
  - Benefits of the addition of TMT®, biological reference materials and MRM to ProteoSHOP® to be seen in revenue in the first half of 2007.
  - Ideally positioned to exploit the strong growth projected for biomarkers and isobaric tandem mass tagging and to convert it into revenue and profits.

Commenting on these results, Christopher Pearce, Chief Executive of Proteome Sciences, said:

“We are delighted to have now obtained allowances for our TMT<sup>®</sup> patents that provide us with broad protection for the manufacture and use of any type of isobaric mass tags. The market for isobaric tandem mass tags is growing disproportionately fast and we expect to generate substantial revenues from licence payments, back-licence payments, product sales and royalties for TMT<sup>®</sup> and it is our intention to have TMT<sup>®</sup> products launched and to complete the outlicencing process in the second half of the year.

Our ProteoSHOP<sup>®</sup> activities have benefited from the expanded technical developments and applications from the addition of TMT<sup>®</sup>, biological reference materials and MRM that will, for the first time, take us into high volume/high value applications for clinical trials and compound development. This will be reflected in ProteoSHOP<sup>®</sup> revenue in the first half of 2007.

With a substantial number of patents granted and new applications filed over the period covering discoveries made across a range of different diseases, we expect to see further licencing activity for our biomarkers. We are optimistic that the earlier research licences in stroke should convert into full commercial licences when their integration processes are coming to completion later this year. This should be reflected through significant licence fees and royalties.

With a similar pattern of cash burn expected and the prospect of substantial revenue being derived from TMT<sup>®</sup>, ProteoSHOP<sup>®</sup> and our biomarker portfolio, we are ideally positioned to exploit the strong growth projected for biomarkers and isobaric tandem mass tagging and to convert that potential into revenue and profit.”

**ENDS**

**Attached:** Full text of Chairman’s statement, consolidated profit and loss account, consolidated balance sheet, consolidated cashflow statement and notes to the financial information.

**For further information please contact:**

**Proteome Sciences plc**

www.proteomics.com  
Christopher Pearce, Chief Executive

Tel: +44 (0)1932 865065  
Email: [christopher.pearce@proteomics.com](mailto:christopher.pearce@proteomics.com)

James Malthouse, Finance Director

Email: [james.malthouse@proteomics.com](mailto:james.malthouse@proteomics.com)

**Public Relations**

**IKON Associates**

Adrian Shaw  
Tel: +44 (0)1483 535102  
Mobile: +44 (0)797 9900733  
Email: [adrian@ikonassociates.com](mailto:adrian@ikonassociates.com)

**Coast Communications**

Matt Baldwin  
Tel: +44 (0)1233 503200  
Mobile: +44 (0)7930 439739  
Email: [matt@coastcommunications.co.uk](mailto:matt@coastcommunications.co.uk)

**Nominated Adviser**

**Teather & Greenwood**  
Gareth Price / Thilo Hoffman

Tel: +44 (0)20 7426 9000

## **Notes to Editors:**

**Proteome Sciences plc** applies high sensitivity proteomics to identify and characterise differential protein expression in diseases for diagnostic, prognostic and therapeutic applications. It has discovered blood biomarkers principally for stroke, vCJD, BSE, brain damage, solid organ transplant rejection and Alzheimer's disease. The main focus of its research currently addresses neurological, neurodegenerative, oncology and cardiovascular conditions.

In addition to its own proprietary biomarkers, Proteome Sciences has developed ProteoSHOP® (Proteome Sciences High Output Proteomics), a toolbox that offers high sensitivity and high throughput gel and gel-free proprietary technologies for the identification and validation of potential biomarkers and drug targets, including specialisation in membrane proteins and protein phosphorylation.

The Company has developed a range of specialist reagents to improve the performance and quantitation of protein separation and characterisation with mass spectrometry, bioinformatics, statistics and pattern recognition. These include Sensitizer®, PST®, qPST™ and TMT®. Proteome Sciences has patent allowances in the major global jurisdictions for isobaric tandem mass tags (TMT®) for the manufacture and use of any type of isobaric mass tags.

Commercialisation is actively pursued across the portfolio of the Company's programmes and technologies with licensing deals signed in biomarkers for Stroke and TSEs and for ProteoSHOP®.

Proteome Sciences has its headquarters in Cobham, Surrey in the UK and has laboratories at Kings College Hospital, London and Frankfurt Innovations Zentrum (FIZ), Frankfurt. It employs 32 full time scientists in addition to its corporate and business development staff, and has collaborative research agreements with leading academic institutes. The Company is listed on the Alternative Investment Market.

## **Chairman's Statement**

For the year ended 31<sup>st</sup> 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<sup>®</sup>). Completion of the TMT<sup>®</sup> 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<sup>®</sup> 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<sup>®</sup> and the different streams of revenue that will be generated principally from the TMT<sup>®</sup> reagent products on one side and from licencing the intellectual property relating to the field of isobaric mass labelling on the other.

## Chairman's Statement

For the year ended 31<sup>st</sup> December 2006

The TMT<sup>®</sup> 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<sup>®</sup> 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<sup>®</sup> 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<sup>®</sup> 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<sup>®</sup>, the development of which has been validated with complex human samples to show dramatic improvements in the reproducibility 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<sup>®</sup>, 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.

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<sup>®</sup> 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<sup>®</sup> 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<sup>®</sup> 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<sup>®</sup> 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<sup>®</sup> products launched in the market in the second half of the year.

## **Chairman's Statement**

For the year ended 31<sup>st</sup> December 2006

### **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 patients). 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<sup>®</sup> 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<sup>®</sup> 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.

## **Chairman's Statement**

For the year ended 31<sup>st</sup> December 2006

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<sup>®</sup>**

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<sup>®</sup>. Moving into 2007 this process has been augmented by the introduction of a family of TMT<sup>®</sup> isobaric tandem mass tags (TMT<sup>®</sup>zero, TMT<sup>®</sup>duplex and TMT<sup>®</sup>sixplex) and the introduction of TMT<sup>®</sup> calibrator for absolute quantitation with multipoint-calibration, TMT<sup>®</sup> labelled reference materials and TMT<sup>®</sup> 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<sup>®</sup> strategic alliances and contracts. In April 2007, a ProteoSHOP<sup>®</sup> 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.

## **Chairman's Statement**

For the year ended 31<sup>st</sup> December 2006

### **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 outlicensing 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<sup>®</sup>, 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<sup>®</sup>, 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<sup>®</sup> patents in the US, Europe, Australia and Canada. Intronn was awarded a NIH grant to use SMaRT<sup>®</sup> 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.

## **Chairman's Statement**

For the year ended 31<sup>st</sup> December 2006

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 £4 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 £4 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.

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<sup>®</sup>, both in terms of the development of a family of TMT<sup>®</sup> 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<sup>®</sup> products launched in the market in the second half of the year and to complete the outlicensing of TMT<sup>®</sup> to generate strong revenue through licence income, product sales and royalties.

## **Chairman's Statement**

For the year ended 31<sup>st</sup> December 2006

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<sup>®</sup>. This has been continued in 2007 with the introduction of the TMT<sup>®</sup> 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<sup>®</sup> 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<sup>®</sup>, both from TMT<sup>®</sup> 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

## Unaudited consolidated profit and loss account

For the year ended 31<sup>st</sup> December 2006

	<b>2006</b>	<b>2005</b>
	<b>£</b>	<b>(as re-stated)</b>
	<b>£</b>	<b>£</b>
<b>Turnover</b> – continuing operations	68,469	16,200
Cost of sales	(47,928)	(11,340)
<b>Gross profit</b>	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	(462,661)	(731,659)
Administrative expenses	(6,403,496)	(6,645,496)
<b>Operating loss</b> – continuing operations	(6,382,955)	(6,640,636)
Share of associate's operating loss	(372,487)	(735,684)
<b>Group operating loss</b> – continuing operations	(6,755,442)	(7,376,320)
Interest receivable and similar income	44,835	140,628
Amounts written off fixed asset investment	-	(112,878)
Interest payable and similar charges	(36,637)	(882)
<b>Loss on ordinary activities before taxation</b>	(6,747,244)	(7,349,452)
Tax credit on loss on ordinary activities	370,109	452,747
<b>Loss for the financial year</b>	(6,377,135)	(6,896,705)
Headline loss	(4,656,000)	(4,166,673)
<b>Loss per share</b>		
Basic and diluted loss per share	(4.85p)	(5.34p)
Headline loss per share	(3.54p)	(3.22p)

### Unaudited 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 3 to this statement.

	<b>2006</b>	<b>2006</b>	<b>2005</b>	<b>2005</b>
	<b>£</b>	<b>Loss per share pence</b>	<b>£</b>	<b>(as re-stated) Loss per share pence</b>
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
<b>Headline loss</b>	(4,656,000)	(3.54)	(4,166,673)	(3.22)

## Unaudited consolidated balance sheet

As at 31<sup>st</sup> December 2006

	2006	2005
	£	(as re-stated) £
<b>Fixed assets</b>		
Intangible assets	3,569,281	4,218,241
Tangible assets	546,509	489,058
Investments in associates	562,328	954,837
Other investments	-	-
	<u>4,678,118</u>	<u>5,662,136</u>
<b>Current assets</b>		
Debtors	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
	<u>978,223</u>	<u>3,913,747</u>
<b>Creditors: Amounts falling due within one year</b>	<u>(3,570,290)</u>	<u>(1,433,260)</u>
<b>Net current (liabilities)/assets</b>	<u>(2,592,067)</u>	<u>2,480,487</u>
<b>Total assets less current liabilities</b>	2,086,051	8,142,623
	(188,043)	(188,043)
<b>Provisions for liabilities and charges</b>	<u>(49,282)</u>	<u>(103,937)</u>
<b>Net assets</b>	<u>1,848,726</u>	<u>7,850,643</u>
<b>Capital and reserves</b>		
Called-up share capital	1,314,654	1,314,512
Share premium account	29,150,563	29,145,773
Equity reserve	1,795,971	1,333,310
Other reserve	10,755,000	10,755,000
Profit and loss account	<u>(41,167,462)</u>	<u>(34,697,952)</u>
<b>Shareholders' funds</b>	<u>1,848,726</u>	<u>7,850,643</u>

## Unaudited consolidated statement of total recognised gains and losses

For the year ended 31<sup>st</sup> 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	<u>(6,469,510)</u>	<u>(6,711,329)</u>
Prior year adjustment	<u>(1,333,310)</u>	
Total recognised gains and losses since last annual report	<u>(7,802,820)</u>	

## Unaudited consolidated cash flow statement

For the year ended 31<sup>st</sup> December 2006

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

### Reconciliation of operating loss to operating cash flows

	<b>2006</b>	<b>2005</b>
	<b>£</b>	<b>(as re-stated)</b>
	<b>£</b>	<b>£</b>
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)
<b>Net cash outflow from operating activities</b>	<u>(4,465,256)</u>	<u>(4,908,985)</u>

## Notes to the financial information

1. The Group has changed its accounting policy during the year in respect of the adoption of FRS20 “share-based payment”. The comparative figures in this unaudited statement 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:

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

2. Following the loss for the financial year of £6,377,135, the Directors do not recommend the payment of a dividend.
3. a. The calculation of the loss per share for the year ended 31st December 2006 is based on the loss for the financial period of £6,377,135 and on 131,467,466 Ordinary Shares, being the weighted average number of shares in issue and ranking for dividend during the period (year ended 31st December 2005 – re-stated loss £6,896,705, weighted average number of Ordinary Shares in issue and ranking for dividend, 129,243,696).
- b. The losses used to calculate the headline loss per share are as follows:

	<b>2006</b>	<b>2006</b>	<b>2005</b>	<b>2005</b>
		<b>Loss per</b>		<b>(as re-stated)</b>
		<b>share</b>		<b>Loss per</b>
	<b>£</b>	<b>pence</b>	<b>£</b>	<b>share</b>
				<b>pence</b>
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
<b>Headline loss</b>	<u>(4,656,000)</u>	<u>(3.54)</u>	<u>(4,166,673)</u>	<u>(3.22)</u>

The headline loss per share is presented by the Directors as an additional measure of financial performance.

## Notes to the financial information

4. The preceding financial information does not constitute statutory accounts as defined in Section 240 of the Companies Act 1985. The financial information for the year to 31st December 2005 is based on the statutory accounts for that year. These accounts, upon which the auditors issued an unqualified opinion, and which did not contain any statement under Section 237(2) or (3) of the Companies Act 1985, have been delivered to the Registrar of Companies.

The statutory accounts for the year ended 31st December 2006 will be finalised on the basis of the financial information presented by the Directors in this preliminary announcement and will be posted to shareholders today. After that time, they will also be available at the Company's registered office: Coveham House, Downside Bridge Road, Cobham, Surrey KT11 3EP.

5. Whilst it is anticipated that the company will receive an unqualified audit report for the year ended 31st December, 2006, the audit report will contain the following additional paragraph:

*“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), indicates the existence of a material uncertainty which may cast significant doubt about the company's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the company was unable to continue as a going concern.”

6. (a) 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 will be 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:

- (i) C.D.J. Pearce ceasing to be an executive director of the company.
- (ii) A general offer to the shareholders of the company being announced to acquire its issued share capital.
- (iii) The occurrence of any of the usual events of default attaching to this sort of agreement.

- (b) 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).