

29 Sept 2010

Ceres Power Holdings plc

Preliminary results for the year ended 30 June 2010

Ceres Power Holdings plc (“Ceres”, “Ceres Power” or “the Group”) announces its preliminary results for the year ended 30 June 2010.

Highlights:

- First international natural gas CHP contract secured with Bord Gáis in Ireland, including £1.6m funding and volume call-off order for 16,000 products
- Initial manufacturing operations commenced in Horsham fuel cell mass production facility
- CHP boiler assemblies being manufactured by Daalderop in the Netherlands
- CHP products being built for installation in homes for commercial field trials
- UK Government Feed-in Tariff incentive announced to support mass deployment of fuel cell residential CHP
- Completed equity placing raising net £30m from new investors and existing shareholders including British Gas
- £40.9m in net cash and short-term investments at 30 June 2010

Key Achievements:

- Completed sheltered field trials of CHP units in unoccupied UK houses under Beta phase
- Product reliability issues identified during sheltered field trials being resolved
- CHP products being tested in Group’s dedicated test facilities
- Wall-mounted CHP products successfully demonstrated to customers and other key stakeholders
- Secured £1.2m in new grant funding to support investment in manufacturing capacity and expansion of test infrastructure

Results Summary

	2010	2009
	£'000	£'000
Revenue	786	952
Other operating income	570	492
Operating loss	(13,187)	(9,290)
Finance income	371	967
Loss for the financial year and total comprehensive loss	(11,723)	(7,978)
Loss per share	(15.16)p	(11.94)p
Net cash, short-term investments and financial assets	40,900	23,009

Dr. Brian Count, Chairman, commented:

“A Ceres Power CHP product will be one of the lowest cost ways to reduce the carbon footprint of homes. We are focused on installing CHP products into consumers’ homes across the country in partnership with British Gas and are confident that we can deliver sales in mid 2012 as a platform for a volume ramp-up thereafter.”

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Chairman's Statement

Business overview

The last twelve months have undoubtedly been challenging for the Group. There have been significant achievements during the year but we have also had to extend the timeline of the residential Combined Heat and Power ('CHP') commercialisation roadmap. We continue to believe that a Ceres Power fuel cell CHP product will be one of the lowest cost ways to reduce the carbon footprint of homes, offering consumers a very attractive proposition compared to grid supplied electricity and a condensing boiler and we remain confident of our ability to deliver the product in volume.

Following the successful completion of the Alpha milestone in May last year, the Group commenced the Beta phase of the CHP programme with British Gas and set itself the following priorities for the ensuing period to September 2010:

- Secure additional commercial relationships with channel partners internationally;
- Commence initial fuel cell manufacturing operations in Horsham;
- Design and build CHP products and secure regulatory certification; and
- Conduct testing of CHP products in sheltered and commercial field trials.

The Group has achieved the first two of these priorities and made good progress towards the others.

In November 2009, the Group secured an important new supply and distribution agreement with Bord Gáis Eireann for residential CHP products operating on natural gas for the Irish market (Republic of Ireland and Northern Ireland). This agreement includes milestone payments and a call-off order for products in volume and marks the Group's first international go-to-market commercial contract.

The Group successfully completed the installation and commissioning of an initial fuel cell manufacturing line in its mass manufacturing facility in Horsham. In December 2009, the Group commenced operations in Horsham, manufacturing fuel cells off the initial production line and assembling fuel cells into fuel cell stacks and Fuel Cell Modules. The capacity of this initial manufacturing line is sufficient to supply the CHP products to be deployed in the Beta and Gamma phases and initial product sales ahead of volume ramp-up.

During the Beta phase, the Group has designed and built an initial batch of CHP products and tested these units in both unoccupied houses (sheltered field trials) and in Ceres' facilities. As anticipated, the results from the testing identified a number of product reliability issues that have required both hardware and software modifications. However, these engineering changes have taken more time to resolve than was originally anticipated and this has necessitated a delay to the CE certification process with commercial field trials in occupied homes now expected to start in Q4 2010. The Group has also announced the extension of the Beta phase, to allow sufficient time to complete the required engineering iterations. As a result, we now expect that initial sales of the CHP product to British Gas will occur in mid 2012 with an accelerated volume ramp-up six months thereafter.

Notwithstanding this delay to the CHP programme, the Group has made significant progress during the year in developing the CHP product to meet the British Gas market requirements specification and building a fuel cell manufacturing capability to underpin the volume product launch. The Group also

recently successfully conducted CHP product demonstrations for Directors of British Gas and Calor Gas at its new installer training area in Horsham.

In December 2009, we raised £30 million (after expenses) through a placing of 19 million new shares with existing shareholders and new investors. I would like to thank British Gas and our other major investors for their strong support during this fundraising. This has significantly strengthened the Group's balance sheet and has enabled the Group to continue to invest in the operational capabilities to deliver product in volume.

The Board is focused on installing CHP products in consumers' homes and conducting the Beta field trials in partnership with British Gas. Successful completion of these commercial field trials in preparation for initial product sales in mid 2012 should help create substantial shareholder value and assist our customers in meeting their strategic commitments to a low-carbon world.

Increasing support for microgeneration technologies

In my report to shareholders last year, I referred to the increased support for cleaner technologies and the launch of a number of fiscal incentive programmes to stimulate the development and deployment of low-carbon technologies. I am pleased to report that this trend has continued.

In the UK there have been a number of very welcome developments designed to stimulate residential microgeneration technologies. In April 2010, the UK Government implemented a Feed-in Tariff enabling customers installing microgeneration devices like the Group's residential fuel cell CHP product to receive a financial incentive for generating electricity in their homes. This is a welcome development and should accelerate early uptake of our product by increasing the financial benefits to households. There is also increasing support to develop different consumer finance packages including 'Pay as you Save' that help to finance the up-front purchase price of low-carbon products such as residential fuel cell CHP.

In July 2010, the UK Government's Department of Energy and Climate Change (DECC) launched a consultation on the country's Microgeneration Strategy. This consultation will examine how best to stimulate mass market deployment of microgeneration in the UK and bring energy self-production in reach of every household. We welcome this consultation and look forward to working with DECC to explore ways in which mass market deployment of microgeneration can help address the challenges of energy efficiency, fuel poverty and energy security.

Up to 40% of the UK's electricity can be generated in peoples' homes and many new jobs can be created through supporting industries established to commercialise low-carbon technologies. We look forward to working with the UK Government to design cost-effective programmes that will stimulate mass market uptake of microgeneration and encourage the development of high technology industries in the UK.

People

The Board was pleased to appoint Dr. Phil Whalen as an Executive Director in January 2010. Phil joined the Group in July 2009 as Technology Director having been Chief Technology Officer of Invensys plc and previously Director of Technology Strategy at Honeywell International Inc. Phil is responsible for technology development, systems engineering and controls & electronics at Ceres and has helped to build an experienced and committed team.

The Group has continued to strengthen its senior management team recruiting experienced personnel in manufacturing, product engineering and supply chain management.

During the year, the Group announced that it had transferred its corporate headquarters from Crawley to Horsham, reflecting the shift in the Group's focus to volume manufacturing. The facility in Crawley is now the Group's dedicated Technology Centre.

During the year, our employees have been presented with, and have risen to, a series of challenges and the Board would like to thank them for their outstanding commitment during the year and their contribution to the continued growth and development of the business.

Brian Count
Chairman

Chief Executive's Review

Business Review

I am pleased to report that Ceres Power has made significant progress in delivering some of the key priorities that I set out in last year's Annual Report; however in some areas our progress has been slower than we had planned, reflecting the inherent challenges in developing and commercialising innovative breakthrough technology.

We have continued to invest in the business to develop our operational capabilities in order to take the Group's compact, wall-mounted CHP product through to market in volume.

Residential CHP products

The Group commenced the Beta phase of the British Gas residential Combined Heat and Power ('CHP') programme following the sign-off of the Alpha phase in May 2009. The Beta phase involves a significant design iteration of the CHP product incorporating the refinements for product functionality and design for manufacture that were identified from the Alpha phase testing.

The design, procure, build and test stages within the Beta phase are intended to validate in-field product performance and reliability including installation, service and maintenance. The testing phase includes operating CHP products in unoccupied houses (sheltered field trials) followed by CHP products being installed and operating in consumers' homes (commercial field trials). In parallel, additional CHP products and sub-systems also undergo a rigorous programme of accelerated life testing in the Group's Horsham and Crawley sites. In total, parts for up to 100 Beta units have been procured.

In Q1 2010, the Group installed two initial CHP units in unoccupied houses as part of the sheltered field trials. The results from these trials, together with those from additional CHP products tested at the Group's facilities, highlighted the product's unique differentiators but also identified a number of product reliability issues. The systems engineering challenges associated with achieving the required product reliability and operating control strategy have required modifications to both hardware and software. The modifications involve working closely with the Group's supply chain partners to design, procure, build and test replacement components and software code. This has taken longer than originally anticipated resulting in the announcement in July 2010 of a delay to CE certification and the start of commercial field trials from Q3 2010 into Q4 2010.

The Group is continuing to build and test CHP products in its facilities and has successfully addressed the majority of the product reliability issues identified. In parallel, the Group is working to resolve the remaining issues and completing the rigorous safety case for the final phase of CE certification. The installation of the first wave of CHP products in consumers' homes will begin during Q4 2010, following completion of the CE certification process.

In light of the need to improve product reliability and the associated delay to the CE certification process and commencement of the commercial field trials, the Group has reviewed the overall go-to-market CHP programme with British Gas that was originally published in June 2008. Based on this review, the Board has decided to extend the Beta phase of the programme and we now expect initial product sales to commence in mid 2012. We are working closely with British Gas to prepare for these initial product sales and an accelerated volume ramp-up six months thereafter.

The Group has also recently successfully conducted demonstrations of its CHP product for Directors of British Gas and Calor Gas at its new installer training area in Horsham. Significant progress has been made in developing the CHP product to meet the requirements for a successful mass market product. The Group has worked closely with British Gas engineers to simplify the CHP installation, service and maintenance processes, to facilitate installation in the widest range of housing types and thereby maximise the addressable market opportunity.

In readiness for commencing the commercial field trials, the Group is implementing a dedicated in-field product support capability along with supporting business systems to respond to in-field needs in association with its commercial partners.

Feed-in Tariff

The introduction of the Feed-in Tariff ('FIT') on 1 April 2010 offers consumers installing small-scale low-carbon electricity generators, like the Group's residential fuel cell CHP product, a financial incentive for all electricity generated on-site. The FIT is designed to stimulate a significant increase in the amount of locally produced green electricity as a contribution to the wider shift of the UK energy mix to low-carbon generation and lead to greater consumer awareness of energy related issues.

A household installing a Ceres Power CHP product would receive, for the expected ten year lifetime of the product, a generation payment of 10p/kWh for all electricity generated plus an additional export payment of 3p/kWh for any electricity that is not consumed in the home and is fed back into the grid. Households will still retain the savings on their energy bills (by consuming the electricity generated on-site rather than buying electricity from the grid) in addition to receiving the annual FIT payments. Ceres estimates that for a typical UK household the impact of the FIT would be to add an annual cashback to the household of hundreds of pounds in addition to the annual energy bill savings from operating the CHP product.

An objective of the FIT is to provide long-term certainty for investors and consumers whilst recognising that it is important to review and adapt it as circumstances change (e.g. technology costs). A review of the FIT is expected to be undertaken every three years beginning in 2013, with an interim review to help establish the appropriate FIT level that will apply after the first 30,000 residential CHP products have been installed.

Ceres Power's business model is to address the annual boiler installation market, which in the UK is approximately 1.5 million units per annum. The Ceres CHP product will be priced at a premium to conventional condensing boilers so that the annual electricity bill savings from the product provide an attractive payback on the initial investment. If the FIT payments over the ten year period are capitalised as a single up-front payment (for example by assignment to an energy supplier or a bank, as permitted under the FIT legislation), this would significantly reduce the price and potentially further accelerate market uptake. Alternative consumer financing schemes such as 'Pay As You Save' are being trialed by organisations including the Energy Saving Trust. British Gas is the only energy supplier chosen for the 'Pay As You Save' trial in the UK.

Technology

The Group has continued to make good progress towards achieving the British Gas market requirements in preparation for initial sales of its mains natural gas integrated, wall-mounted CHP product. The CHP product has met the Beta performance targets, achieving net AC electrical efficiency of over 34% at rated

power, with total CHP product efficiency of more than 85%. The CHP boiler has achieved more than 96% net efficiency at 25kW thermal. Electrical efficiencies measured on fuel cell stacks and Fuel Cell Modules were 58% and 44% respectively. CHP products and Fuel Cell Modules have been subjected to multiple rapid thermal cycles from cold to full operating temperature as well as repeated rapid electrical load-following between <10% to 100% rated power without showing any measurable degradation in electrical efficiency or power output. These wall-mounted CHP products were built using fuel cells from the Group's initial manufacturing line in Horsham and CHP boiler assemblies from Daalderop and the performance of the CHP product has been validated by independent third party testing companies. With efficiency and cycling ability demonstrated, the main focus will now be on improved reliability and durability of the product together with optimisation of product performance in real homes.

The Group has developed a rigorous, real-life computer model to predict the economic savings for Ceres CHP products in UK houses. The techno-economic modeling approach adopted includes realistic CHP product behaviour (e.g. starting up/shutting down and different operating points in response to changing load/time factors) within a complete home energy system (e.g. central heating controls, electricity needs, hot water storage and actual tapping cycles) based on heat and power usage data over a complete annual cycle collected at five minute intervals from a range of actual UK houses.

The model confirms that substantial annual energy bill savings are available to consumers installing a Ceres Power CHP product. For example, for an actual typical UK house with two occupants and an annual electricity demand of 4,618kWh, the predicted annual energy bill savings delivered by a Ceres CHP product is £286 with a further £350 in annual FIT cashback payments, making a total annual consumer benefit of £636. This data, the model and methodology and the results have been validated by an independent third party expert in energy system modelling.

Manufacturing

During the year, the Group successfully completed the fit-out of its fuel cell mass manufacturing facility in Horsham and the installation and commissioning of an initial manufacturing line. In December 2009, the Group commenced operations in Horsham, manufacturing fuel cells on the initial production line and assembling fuel cells into stacks and Fuel Cell Modules. The Group has made significant process improvements to increase capacity and yield of key processes and this is expected to continue through the Beta and Gamma phases as well as thereafter as manufacturing volumes increase. The current initial line has sufficient capacity to manufacture fuel cells and assemble Fuel Cell Modules to meet the requirements of the Beta and Gamma phases through to initial sales. A combination of on-going process improvements and manufacturing optimisation to improve quality, together with additional investment, will enable scale up beyond initial sales.

The Group has worked with its CHP assembly partner Daalderop to ensure that the CHP boiler assembly is designed for volume manufacture with components being pre-assembled into five key sub-assemblies. This has been successfully achieved and Daalderop is now manufacturing CHP boiler assemblies in its volume plant based in Tiel, in the Netherlands.

Operations

During the year the Group has continued to recruit experienced engineers and senior managers in controls & electronics, systems engineering, supply chain management and product testing. The average number of people employed by the Group during the year increased by 33% to 100. A significant investment has also been made in installing the initial fuel cell manufacturing line in Horsham as well as the construction

and commissioning of newly expanded test facilities at the Horsham and Crawley sites. The Group has completed the first phase of the new test facilities with new performance and durability test stands now operational and has commenced the second phase that is due for completion in H1 2011. The UK Government's Technology Strategy Board is providing financial support of £0.8 million to facilitate this important new test infrastructure.

During the year Ceres has continued to develop its operational and business systems with the implementation of an Enterprise Resource Planning system and enhancements to its quality processes. The system provides the Group's financial accounting and reporting information and will support internal and external activities relating to manufacturing, supply chain management and procurement as part of the Group's scale-up plans. Work is continuing on the development and roll-out of the Group's wider Quality Management Systems.

Commercial

In my review last year, I set securing additional commercial relationships with go-to-market channel partners internationally as a priority for the Group. I am pleased to report that in November 2009, the Group secured an important new supply and distribution agreement with Bord Gáis Eireann ('BGE') for residential CHP products operating on natural gas for the Irish market (Republic of Ireland and Northern Ireland). This marks the Group's first international customer contract as part of its expansion plans beyond the UK.

Bord Gáis Energy, the retail arm of BGE, is Ireland's leading dual fuel energy supplier selling natural gas and electricity to all market segments. BGE also provides domestic appliance servicing to customers, focusing on boiler service and repair. BGE has recently announced a major energy efficiency Home Services Initiative offering homeowners a full-scale energy efficiency service.

Under the agreement, BGE is paying £1.6 million in milestone payments to Ceres Power during the development and trialing phase, including an up-front payment of £1 million which was received in February 2010. In addition, BGE has agreed to place a call-off order for 16,000 CHP products over a four-year period for the Irish market, conditional upon successful completion of the development and trialing phase and agreement of standard commercial terms. With more than 2.5 million homes in the island of Ireland with relatively poor overall energy efficiency levels, Ceres and BGE intend to maximise sales of the CHP product by addressing both the installed base as well as the annual boiler replacement market.

The Group is continuing to explore longer term opportunities for CHP products in other international markets in conjunction with potential channel partners, and in particular in those countries where the Group's unique flexible generation technology can reduce strain on the electricity network and enable the development of a 'smart grid'.

Financial

Commercial revenue for the year decreased to £0.8 million (2009: £1.0 million), reflecting the Group's accounting policy of recognising up-front milestone payments from development contracts as revenue when earned, based on costs incurred over the Beta and Gamma phases. The difference between milestone payments received and revenue recognised in the Consolidated Statement of Comprehensive Income is recorded on the balance sheet as £3.2 million (2009: £ 3.0 million) of deferred income. Other operating income arising from government grants was £0.6 million (2009: £0.5 million).

Operating costs for the year increased by 35% to £14.5 million (2009: £10.7 million) as planned. This increase arose partly from the annualised effect of the investments that were made last year in people and the Horsham manufacturing facility together with the additional spend in the current year. The spend in the current year consists of additional recruitment of experienced senior managers and control systems and systems engineering staff together with the development, procurement and other costs of the Beta phase.

Interest receivable fell by 42% to £0.5 million (2009: £0.8 million) primarily as a result of lower average interest rates for the year. During the year the Group recorded a fair value loss of £0.1 million arising on the redemption of the holding of UK Government gilts in December 2009; this unwinds the cumulative net gain recorded in the previous year. The Group recorded an income tax credit of £1.1 million (2009: £0.3 million) representing the estimated R&D tax credit due in respect of 2010 of £0.6 million plus an adjustment of £0.5 million received in respect of 2009.

The loss for the financial year attributable to shareholders rose by 47% to £11.7 million (2009: £8.0 million). This reflects the additional costs incurred in the Beta phase and the scaling-up of the Group's fuel cell manufacturing operations. The average number of shares in issue during the year increased to 77.3 million primarily as a result of the effect of the placing (2009: 66.8 million), and the loss per ordinary share increased by 27% to 15.16 pence (2009: 11.94 pence).

The net cash used in operating activities increased by £6.5 million to £10.0 million (2009: £3.5 million) primarily due to the £3.8 million increase in operating expenses and the absence of the favourable working capital movement of £3.9 million that was recorded in 2009. Cash outflow attributable to the purchase of property, plant and equipment (net of £0.3 million grants received) was £2.6 million (2009: £2.1 million) largely relating to the purchase of fuel cell manufacturing and stack assembly equipment and test infrastructure, resulting in a total equity-free cash outflow for the year of £12.3 million. In December 2009, the Group issued 19 million new shares at 165 pence per share, raising £30.0 million (net of expenses). As a result of this placing, cash inflow from financing activities increased by £30.1 million to £30.2 million (2009: £0.1 million).

Following the placing, the Group's balance sheet remains strong with £40.9 million (2009: £23.0 million) in net cash and cash equivalents and short-term investments at the year end. The Group's treasury policy is to invest all surplus funds in short-term low-risk 'AAA'- rated money market funds and short-term deposits at banks with high credit ratings. The primary objective is capital preservation by investing in low-risk, high quality investments.

Outlook

The Board and senior management team are focused on the successful completion of the Beta phase of the residential CHP programme with British Gas and building the operational capabilities to enable us to deliver initial product sales in mid 2012, as a platform for a volume ramp-up. To achieve these goals, our priorities for the next twelve months are to achieve CE certification of the CHP product, install CHP products in occupied consumers' homes and commence commercial field trial testing in preparation for initial sales.

I look forward to reporting on the successful delivery of these objectives.

Peter Bance
Chief Executive Officer

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 June 2010

	Note	Year ended 30 June 2010 £'000	Year ended 30 June 2009 £'000
Revenue		786	952
Operating costs	2	(14,543)	(10,734)
Other operating income		570	492
Operating loss		(13,187)	(9,290)
Fair value (loss) / gain on gilts		(119)	119
Interest receivable		490	848
Loss before income tax		(12,816)	(8,323)
Income tax credit		1,093	345
Loss for the financial year and total comprehensive loss		(11,723)	(7,978)
 Loss per £0.05 ordinary share expressed in pence per share:			
Basic and diluted loss per share	3	(15.16)p	(11.94)p

CONSOLIDATED BALANCE SHEET

As at 30 June 2010

	Note	30 June 2010 £'000	30 June 2009 £'000
Assets			
Non-current assets			
Property, plant and equipment		4,381	3,243
Other receivables		81	81
Total non-current assets		4,462	3,324
Current assets			
Trade and other receivables		1,045	428
Derivative financial instruments		27	-
Current tax receivable		620	320
Short-term investments	6	25,000	-
Financial assets at fair value through profit or loss	6	-	9,803
Cash and cash equivalents	6	15,900	13,206
Total current assets		42,592	23,757
Liabilities			
Current liabilities			
Trade and other payables		(4,172)	(3,664)
Derivative financial instruments		-	(28)
Total current liabilities		(4,172)	(3,692)
Net current assets		38,420	20,065
Non-current liabilities			
Other payables		(2,158)	(1,966)
Provisions for other liabilities and charges		(107)	(30)
Total non-current liabilities		(2,265)	(1,996)
Net assets		40,617	21,393
Equity			
Share capital	4	4,309	3,344
Share premium account		64,821	35,551
Other reserve		7,463	7,463
Profit and loss account (deficit)		(35,976)	(24,965)
Total equity		40,617	21,393

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 30 June 2010

	Note	Year ended 30 June 2010 £'000	Year ended 30 June 2009 £'000
Cash flows from operating activities			
Cash used in operations	5	(10,820)	(3,900)
Income tax received		793	425
Net cash used in operating activities		(10,027)	(3,475)
Cash flows from investing activities			
Purchase of property, plant and equipment		(2,814)	(2,088)
Capital grant contributions to property, plant and equipment		252	-
Redemption/(purchase) of financial assets at fair value through profit or loss		9,553	(10,000)
Movement in short-term investments		(25,000)	-
Finance income received		454	1,216
Net cash used in investing activities		(17,555)	(10,872)
Cash flows from financing activities			
Proceeds from issuance of ordinary shares		31,556	93
Net expenses of shares issued		(1,321)	-
Net cash generated from financing activities		30,235	93
Net increase/(decrease) in cash and cash equivalents		2,653	(14,254)
Exchange gains/(losses) on cash and cash equivalents		41	(16)
		2,694	(14,270)
Cash and cash equivalents at beginning of year		13,206	27,476
Cash and cash equivalents at end of year		15,900	13,206

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2010

	Share capital £'000	Share premium account £'000	Other reserve £'000	Profit and loss account (deficit) £'000	Total £'000
At 1 July 2008	3,337	35,465	7,463	(17,635)	28,630
Comprehensive income					
Loss for the financial year	-	-	-	(7,978)	(7,978)
Total comprehensive income	-	-	-	(7,978)	(7,978)
Transactions with Owners					
Issue of shares, net of costs	7	86	-	-	93
Share-based payments charge	-	-	-	648	648
Transactions with owners	7	86	-	648	741
At 30 June 2009	3,344	35,551	7,463	(24,965)	21,393
Comprehensive income					
Loss for the financial year	-	-	-	(11,723)	(11,723)
Total comprehensive income	-	-	-	(11,723)	(11,723)
Transactions with owners					
Issue of shares, net of costs	965	29,270	-	-	30,235
Share-based payments charge	-	-	-	712	712
Transactions with owners	965	29,270	-	712	30,947
At 30 June 2010	4,309	64,821	7,463	(35,976)	40,617

Notes to the preliminary announcement

1. Basis of preparation

The preliminary announcement for the year ended 30 June 2010 has been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union as at 30 June 2010. The financial information contained in this preliminary announcement does not constitute statutory accounts as defined in Section 434 of the Companies Act 2006. The financial information has been extracted from the financial statements for the year ended 30 June 2010, which have been approved by the Board of Directors and on which the auditors have reported without qualification. The financial statements will be delivered to the Registrar of Companies after the Annual General Meeting. The financial statements for the year ended 30 June 2009, upon which the auditors reported without qualification, have been delivered to the Registrar of Companies.

2. Operating costs

Operating costs are split as follows:

	Year ended 30 June 2010 £'000	Year ended 30 June 2009 £'000
Research and development costs	9,907	6,308
Administrative expenses	4,636	4,426
	<u>14,543</u>	<u>10,734</u>

3. Loss per share

Basic and diluted loss per £0.05 ordinary share are calculated by dividing the loss for the financial year attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the year. Given the losses during the year, there is no dilution of losses per share in the year ended 30 June 2010 or in the previous year.

The loss for the financial year ended 30 June 2010 was £11,723,000 (2009: £7,978,000) and the weighted average number of £0.05 ordinary shares in issue during the year ended 30 June 2010 was 77,349,920 (2009: 66,813,275).

Notes to the preliminary announcement

4. Share capital

	2010		2009	
	Number	£'000	Number	£'000
Authorised				
Ordinary shares of £0.05 each	100,000,000	5,000	100,000,000	5,000
Allotted, called up and fully paid				
At 1 July	66,874,075	3,344	66,740,675	3,337
Allotted under share option schemes	303,539	15	7,700	1
Allotted under warrant schemes	-	-	125,700	6
Allotted on cash placing	19,000,000	950	-	-
Ordinary shares of £0.05 each at 30 June	86,177,614	4,309	66,874,075	3,344

During the year the Company issued 19,000,000 ordinary shares of £0.05 each, in a placing approved by shareholders on 14 December 2009, for a cash consideration of £31,350,000 (excluding issue costs of £1,321,580). Also 303,539 ordinary shares of £0.05 each were issued on the exercise of employee share options for cash consideration of £206,347.

5. Cash used in operations

	Year ended 30 June 2010 £'000	Year ended 30 June 2009 £'000
Loss before income tax	(12,816)	(8,323)
Adjustments for:		
Fair value loss/(gain) on UK Government gilts	119	(119)
Other finance income	(490)	(848)
Depreciation of property, plant and equipment	1,115	879
Share-based payments charge	712	648
Operating cash flows before movements in working capital	(11,360)	(7,763)
(Increase)/decrease in trade and other receivables	(477)	28
Increase in trade and other payables	940	3,818
Increase in provisions	77	17
Decrease in working capital	540	3,863
Cash used in operations	(10,820)	(3,900)

Notes to the preliminary announcement

6. Net cash, short-term investments and financial assets

	30 June 2010 £'000	30 June 2009 £'000
Cash at bank and in hand	1,033	688
Money market funds	5,826	9,518
Short-term bank deposits < 3 months	9,041	3,000
Cash and cash equivalents	15,900	13,206
UK Government gilts (financial assets at fair value through profit or loss)	-	9,803
	15,900	23,009
Short-term investments (bank deposits > 3 months)	25,000	-
	40,900	23,009

The Group typically places surplus funds into pooled money market funds, bank deposits with durations of up to twelve months and UK Government gilts with durations of up to twelve months. The Group's treasury policy restricts investments in short-term sterling money market funds to those which carry short-term credit ratings of at least two of AAAM (Standard & Poor's), Aaa/MR1+ (Moody's) and AAA V1+ (Fitch) and deposits with banks having a minimum long-term rating of AA-/AA-/Aa3 and short-term rating of F1+/A-1/P-1 for banks which the UK Government holds less than 25% ordinary equity.