SILENCE
THERAPEUTICS

Annual Report and Accounts 2008

Silence Therapeutics plc

Silence Therapeutics plc is a leading European RNAi company. RNA interference (RNAi), a Nobel Prize winning technology, is one of the most exciting areas of drug discovery today as it can selectively "silence" genes linked to the onset of disease, thus leading to the creation of a new class of therapeutic products, RNAi therapeutics.

Contents

Highlights 2008.

Operational

- Silence announced a collaboration agreement with AstraZeneca to develop novel approaches for the delivery of short interfering RNA (siRNA) molecules (March).
- Silence's licensing partner Quark together with Pfizer, commenced phase II clinical trials with RTP-801i-14 (PF-4523655) aimed at the acute macular degeneration (AMD) market (July). This siRNA therapeutic product candidate relies upon Silence's AtuRNAi technology. Silence received a $1.9m milestone payment from Quark.
- The US Patent and Trademark Office granted Silence's core RNAi patent application (US Patent Number 7,452,987) (November). During the year, the European Patent Office revoked in their entirety two fundamental patents held by a rival company.
- The journal, Cancer Research, published comprehensive pre-clinical data on Atu027, Silence's lead oncology drug candidate (December).
- Silence submitted a Clinical Trial Application for Atu027 to BfArM, the German regulator for drugs and medical devices (December).

Board

- Silence strengthened its Board with the appointment of Annette Clancy and Jerry Randall as non-executive directors. Jeremy Curnock Cook was named as Senior Independent Director and Chairman Iain Ross took on the additional role of chief executive.

Financial

- Revenue generated in the year was £2.21m (2007: £4.05m)
- Administrative expenses were reduced to £3.29m (2007: £4.99m)
- Research and Development expenditure increased to £6.71m (2007: £4.84m) due to continued investment in our pipeline of novel siRNA molecules.
- The cash position at year-end was £3.35m. This was increased to £6m following the £2.65m Institutional Placing in early 2009. At the end of 2007, Silence had cash of £10.17m.

Post year-end

- Silence completed a placing to raise £2.65m (net) at 18p per share. Placees included Gartmore, Fidelity and Insight.
- Quark initiated Phase I/II clinical trials with QPI – 1002, another siRNA therapeutic product candidate based upon Silence's unique proprietary chemistry being developed by Quark for use in kidney transplants.
- The European Patent Office granted a patent on protein Kinase N3 (PKN3), the target gene for Silence's lead compound Atu027.
- The Technical Board of Appeal of the European Patent Office revoked in its entirety European patent EP1 214 945 which is a fundamental competitor patent owned by Alnylam Europe AG
- In June 2009, the Company received approval from the German regulator BfArM, to commence a Phase I study on Atu027, its lead oncology programme.

Products	Indications	Partners	Research	Preclinical	Clinical	Milestones
RTP801i	Age related Macular Degeneration	Pfizer/Quark Pharma				2009: Continue Ph.II Clinical Study
AKLi-5	Acute Kidney Injury	Quark Pharma				2009: Continue Ph.I Clinical Study
QPI-1002	Prevention of Delayed Graft Function	Quark Pharma				2009: Continue Ph.I Clinical Study
Atu027/ Atu093	GI, Lung and Other Cancer	Internal				2009: Initiate Ph.I Clinical Study
RTP801i	Diabetic Retinopathy	Pfizer/Quark Pharma				2009: Pre-clinical; possible Ph.1
AHLi-11	Chemo Induced Hearing Loss	Quark Pharma				2009: Pre-clinical; possible Ph.1
Atu111	Prostate Cancer	Internal				2009: Progress Pre-clinical studies
Atu150	Liver Cancer (HCC)	Internal				2009: Progress Pre-clinical studies
5 Programs	Respiratory Possible Other	AstraZeneca				2009: Advance research toward Pre-clinical studies

Chairman's Statement.

In 2008 Silence Therapeutics made substantial progress across all facets of its business. In an extraordinary year for the world's financial markets, we were quick to adapt to the changing circumstances and we took decisive steps to minimise the impact. Recognising the need to conserve cash, we implemented cost savings across the business and re-focused our business to ensure that our expenditure is directed only to those initiatives that will create shareholder value in the short to medium term.

Consolidation within the pharmaceutical industry also required Silence to adapt and we adjusted our approach to ensure that we remain competitive in terms of technology and funding discussions. Currently we are engaged in negotiations with several major Pharma companies and are pursuing a number of agreements to broaden our technology and RNAi delivery capabilities.

The Silence Board shares the frustration of shareholders that we have not yet been able to deliver further validating deals. However, we remain confident that we are well positioned to conclude further non-dilutive collaboration deals during 2009.

We saw our core RNAi chemistry patent being granted in the US and also a grant of our PKN3 target patent in Europe

Following an institutional placing in early January that raised new funds of £2.65m net of expenses, we are confident that the £6m cash balance at that date will fund Silence well into 2010 after the steps we have taken across the business to control costs. The cash balance will be augmented by further grant and milestone income, and by the cash-generating deals that we are pursuing.

From a Research and Development perspective, 2008 was another good year with the Group successfully completing and publishing its pre-clinical data on Atu027, our lead siRNA programme, which is aimed at treating solid tumours. In December 2008 we reached a major milestone for the Group with the Clinical Trial Application (CTA) for Atu027 being submitted to the BfArM, the German regulator for drugs and medical devices. Upon receiving regulatory approval we will commence our first human clinical trial with Atu027. This trial will take the form of a dose escalation study in cancer patients and is designed to confirm the safety and tolerance of Atu027. The costs of this trial will be spread over a two year period and will be significantly less than the pre-clinical programme costs incurred over the last two years.

"In 2008 Silence Therapeutics made substantial progress across all facets of its business. In an extraordinary year for the world's financial markets, we were quick to adapt to the changing circumstances and we took decisive steps to minimise the impact"

We made excellent progress on our RNAi Intellectual property portfolio in terms of filing, issuing and granting of key patents. We saw our core RNAi chemistry patent being granted in the US and also a grant of our PKN3 target patent in Europe. Our position in the overall patent landscape was further enhanced during the year as key competitor patents in the RNAi space were revoked and/or successfully opposed.

I am pleased to report that we have made strong progress with our existing collaborations and partnerships. Quark Pharmaceuticals and Pfizer announced that they have moved RTP801i into Phase II clinical trials, and Quark's clinical development of AKLi5 for acute kidney injury has progressed. Quark also announced that it had commenced clinical trials with QPI-1002 for use in kidney transplantation. All of these products rely upon Silence's proprietary AtuRNAi chemistry and as a consequence Silence will be entitled to milestone and royalties payments during their development and commercialisation.

"we remain confident that we are well positioned to conclude further non-dilutive collaboration deals during 2009"

During the year we have worked closely with AstraZeneca and excellent progress has been made on the target-specific collaboration programme announced in 2007. In addition we have made significant progress on the siRNA delivery collaboration announced in March 2008 and already we have developed novel delivery concepts and structures. We hope to make further announcements on each of our existing partnership and licence agreements during 2009.

Recognising the costs of late-stage clinical development, the Company will continue to balance the risk and reward of partnering and/or licensing our product programmes. In addition Silence remains open to the possibility of participating in mergers and acquisitions and other moves to strengthen the Company's financial position, build its critical mass and enhance its product and technology platform.

I would like to thank the Board, management, staff and shareholders alike for their support during a challenging year and look forward to ultimately delivering value for shareholders.

Iain G Ross
Chairman

Silence takes Atu027, a novel anti-cancer drug, into the clinic

Introduction

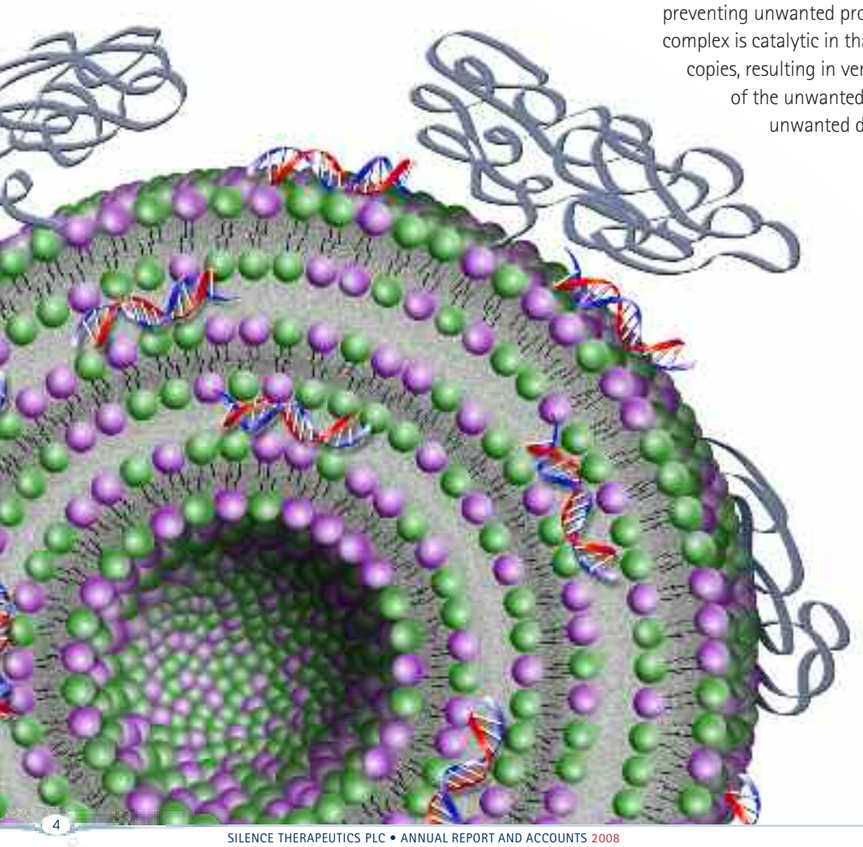
RNA interference (RNAi) offers the opportunity to develop specific and potent medicines based on the selective functional inhibition of disease-causing proteins by inhibiting their gene expression. The discovery that RNAi can, in principle, inhibit any gene in the human body represents a potential revolution in drug discovery and in 2006 the Nobel Prize in Physiology or Medicine was awarded to Andrew Z. Fire and Craig C. Mello for this observation.

Silence Therapeutics' drug candidate Atu027 belongs to this new class of drugs and in June 2009, the German regulatory authorities gave approval for this product to enter clinical trials which is a major step forward for the Company and the sector.

Scientific Background

Translation of an mRNA into protein is one of the most critical steps in the gene expression paradigm from DNA via RNA to protein. The majority of current drugs directly target proteins, which control the functions of living cells. There have been some attempts to interfere with the DNA directly by gene therapy and first generation "anti-sense" oligonucleotide molecules. Importantly, however, over the last decade an increasing number of disease-impacting genes have been identified which are not amenable to therapeutic intervention at the level of direct protein inhibition. The RNAi approach now offers a solution to this dilemma by preventing the expression of proteins before the translational step can occur.

RNAi therapeutics are primarily represented by a new class of double-stranded oligonucleotides, termed short interfering RNA (siRNA), that resemble the body's own nucleic acids. In order to fulfill their function, siRNA molecules have to enter the cytoplasm of a cell. Thereafter, the siRNA enters a protein complex called RNA-induced silencing complex (RISC). This protein complex unwinds the non-complementary strand of the siRNA and discards it, and then uses the complementary siRNA strand to bind to the target mRNA by Watson-Crick base pairing. The RISC then cleaves the target mRNA, which is subsequently degraded by cellular nucleases, thereby preventing unwanted protein expression. The RISC-siRNA complex is catalytic in that it can cleave multiple target mRNA copies, resulting in very efficient and long-term destruction of the unwanted target mRNA and thereby the unwanted disease-causing protein function.



A prerequisite for siRNAs to function as gene silencing drugs in humans is to overcome obstacles such as stability in body fluids and the avoidance of immune reactions. Silence Therapeutics` scientists have overcome these obstacles by inventing novel and proprietary siRNA molecules, termed AtuRNAi, which have been stabilized against nuclease degradation and are not recognized as foreign objects by our immune system. Major milestones for Silence Therapeutics` AtuRNAi molecules towards becoming novel therapeutic drugs have been documented by the progress of Silence Therapeutics partners Pfizer and Quark Biotech both of whom are testing the in-licensed Silence technologies in several clinical trials for ocular and kidney diseases.

With Atu027 Silence Therapeutics is now further advancing the development of AtuRNAi therapeutics by formulating the siRNA molecules in a specific delivery vehicle. The delivery vehicle, termed AtuPLEX, is designed to transport the AtuRNAi inside the human body to the site of disease, after systemic intravenous administration. Pre-clinical studies in animals have shown the safety and efficacy of this novel and proprietary lipid-based delivery system after i.v. administration. The key features of the formulation are designed in such a way that the delivery vehicle will transport the siRNA to the vasculature of tumour cells and upon binding will transport the siRNA into the cell. Once inside the cell the AtuRNAi will detach from the delivery vehicle and initiate the destruction of the target mRNA. The result is down-regulation of disease-impacting protein product, and therefore inhibition of tumour growth and metastasis (the spread of tumour cells from the original tumour site to secondary sites in the human body).

Atu027 specifically turns down or silences the protein expression of PKN3, a kinase protein involved in cancer growth and metastasis formation. PKN3 has been identified and characterized by Silence Therapeutics scientists as a key player in tumour growth and metastasis by supplying the tumour cells with nutrients for growth and the capabilities to spread (to metastasize) to distant organs and tissues. The tumour vasculature is the target for Atu027. The liposomal Atu027 complex is designed to target the vascular compartment delivering PKN3-siRNA into the cytoplasm of endothelial cells where it acts catalytically to silence PKN3 mRNA expression. When administered by systemic intravenous injection the PKN3-siRNA-lipoplex showed strong efficacy in several animal models predictive for human diseases. In particular, Silence has documented statistically significant inhibition of tumour growth and metastases for prostate, lung, breast and pancreatic cancers with significant inhibition of metastasis formation.

The preclinical safety profile of Atu027 was assessed according to regulatory guidelines and Atu027 is now ready to enter the clinic for first-in-man studies. Atu027 has the potential to address an unmet medical need and may become a new therapeutic option for patients with advanced solid tumour cancers and an inadequate response to standard therapy. The first clinical study will address safety, tolerability and pharmacokinetics in such patients.

All tumours require a blood supply to grow and to spread to distant organs and tissues. Based on the data obtained in the preclinical studies, Silence Therapeutics demonstrated that the inhibition of PKN-3 expression leads to tumour shrinkage and inhibition of metastases. Therefore Atu027 therapy should, in principle, be applicable to all solid tumours. This opportunity will be explored in further studies in patients with a variety of tumours.

Immediate Outlook

- Commencement of the first clinical programme for Atu027 is a major development in the oncology field and Silence shareholders will be kept apprised of its progress through clinical development.
- A key feature of RNAi technology is the possibility to deliver in the same vehicle more than one siRNA; therefore the opportunity exists to develop therapeutics for diseases which are the result of several malfunctioning genes, and Silence intends to research these opportunities.
- The successful testing of the AtuPLEX formulation to target the vasculature has shown the validity of this drug development platform, and Silence is now evolving its delivery platforms in order that it can apply its proprietary technologies to develop products for indications outside oncology.

Financial Review.

Despite the turmoil in world financial markets over the past year, the group continued to expand its research and development activities. Expenditure on R&D rose from £3.19m in 2006 to £4.84m in 2007 and then to £6.71m in 2008.

The Group has continued to generate revenues from its existing development partnerships and gain access to grant financing.

The figures are skewed by the sharp movements in exchange rates between sterling and euros over the past 18 months. Stripping out the impact of those fluctuations, on a like-for-like basis the investment in our core RNAi technology rose by 26% during the year. The Group has continued to generate revenues from its existing development partnerships and gain access to grant financing. Group turnover in 2008 amounted to £2.21m from milestone and grant income, compared to £1.55m from those sources in 2007. However, the absence of new licence income in 2008 (2007: £2.5m) resulted in an overall fall in turnover to £2.21m from £4.05m.

Group administration costs were reduced during the year to £3.29m, from £4.99m in 2007. The Group reduced general administration costs by more than 10%, and the charges attributable to option expenses fell by £1.5m.

Outlook

At the start of the new financial year, the Group raised £2.65m net of expenses through a placing of 15 million new shares at 18p to a small number of existing shareholders. This increased our cash balances to £6m. Through a combination of existing partnership arrangements and new deals, the Board is confident that additional resources will become available during 2009 to enable it to enhance its technology and value. In the meantime, the Group has refocused some of its expenditure on its core technology and has instituted cost reduction measures that will result in savings of over £0.5m in a full year.

The Group will continue to add value to its portfolio of RNAi-based assets by expanding and developing its technology, either alone or with selected development partners. The Board continues its commitment to maintaining a strong cash balance relative to current cash usage, enabling a secure basis for the planning of future activities.

Melvyn Davies
Finance Director

Board and Senior Management.

Iain Ross *

Chairman and Group CEO

Iain Ross BSc (Hons) Biochemistry, is an experienced business entrepreneur with more than 25 years experience in the pharmaceutical and biotechnology sector. Between 1980 and 1995 he held senior commercial positions with companies in the UK and internationally, including Sandoz AG, Fisons plc, Hoffmann-La Roche AG and Celltech Group Plc where he was a main board director from 1991 to 1995. Since 1995 he has undertaken and provided input to a number of biotech turnarounds and start-ups as a board member on behalf of banks and private equity groups. From 1995 to 2000 he was CEO of Quadrant Healthcare plc and in 2001/2002 as Chairman and CEO he was responsible for the operational and financial turnaround of Allergy Therapeutics Ltd. Mr. Ross has raised substantial funds both publicly and privately, has been involved in four Initial Public Offerings and has direct experience of mergers and acquisitions both in the UK and USA. Currently Mr. Ross is Chairman of Biomer Technology Ltd and is a Non-Executive Director of Powerstax Ltd. Mr Ross is a Chartered Director of the UK Institute of Directors, a Trustee of the Breast Cancer Haven and a member of the Council of Royal Holloway College, London University.

Thomas Christély

Chief Operating Officer

Thomas Christély has more than 19 years experience in finance and corporate and business development. His track record includes multiple financing transactions as well as M&A, divestments and strategic restructurings and more than 9 years in cross-border management at board level. Mr. Christély joined Silence Therapeutics AG in 2001 as CFO and became COO in 2002 prior to being appointed its CEO in 2006. From 1996 to 2000, he held the position of Senior VP and CFO at OXO Chemie AG, a Swiss pharmaceutical company, and founded its subsidiary OXO Chemie Inc. in San Francisco, where he stayed from 1997 to 2000. Mr. Christély was managing partner of the investment firm Löschen & Partner, Hamburg and Moscow, from 1992 to 1995. He worked in mergers & acquisitions of Enskilda Corporate Finance, London from 1989 to 1992. Mr. Christély has also worked for two international accounting and consultancy firms and for the Commission of the European Union in Brussels. After his studies in Hamburg and Geneva, he received degrees in Business Administration (equivalent to MBA) and Law from the University of Hamburg and was admitted as attorney-at-law.

Melvyn Davies *

Finance Director & Company Secretary

Melvyn Davies is the Finance Director and Company Secretary of the group. Mr. Davies qualified as a Chartered Accountant in 1981 and was a partner with a medium sized firm of London based Chartered Accountants for five years until 1994, specialising in the more complex audit and accounting issues. He has 25 years experience advising and assisting both large and small businesses across a wide range of industry sectors. Mr. Davies has advised the Group since its foundation in 1992 and joined the Board in 1994 to help prepare for its initial public offering in 1995. Since then he has been instrumental in negotiating licensing and collaboration agreements and securing several rounds of fundraising in the process of moving the Group onto the Alternative Investment Market and to a full London Listing before moving the shares back to AIM in 2004. Following the restructuring of the Group in 2005, his main responsibilities are to control and direct the Group's governance, financial and taxation affairs.

Dr. Klaus Giese

Chief Scientific Officer

Dr. Klaus Giese has over 19 years of relevant experience in both the US and Europe, including the management of more than 20 international collaborations with pharmaceutical and biotech companies and more than five years in cross-border management as CSO. Dr. Giese joined Silence Therapeutics AG in 1999, where he continues his position as CSO. Prior to Silence Therapeutics, Dr. Giese was Group Leader at Chiron Corporation, Emeryville, CA from 1994 to 1998 where he was responsible for coordinating and managing part of Chiron's obesity and oncology program. His efforts in this program included the development of several different gene expression profiling approaches and the development of a novel high-throughput screening assay to identify inhibitors of HIV-1 transcription. Prior to joining Chiron, Dr. Giese acted as research scientist and postdoctoral fellow at the Howard Hughes Medical Institute, University of California, San Francisco, as well as at the Max-Planck-Institute for Molecular Genetics in Berlin. Dr. Giese studied Biochemistry at the Free University of Berlin, where he also received his Ph.D.

Dr. John Lucas

General Counsel and Vice President, Intellectual Property

Dr. John Lucas brings over 18 years of legal, intellectual property and research experience to Silence Therapeutics. Prior to Joining Silence Therapeutics, Dr. Lucas was Vice President of Intellectual Property at Metabasis Therapeutics, a biopharmaceutical company in La Jolla, California. At Metabasis he served as the Company's first in-house counsel and was responsible for a wide range of legal matters including intellectual property, contracts and agreements and corporate compliance. Prior to Metabasis, Dr. Lucas held the position of Vice President, Intellectual Property at Transform Pharmaceuticals of Lexington Massachusetts, which specialized in small molecule drug form and formulation. In addition to his other duties at Transform, he was heavily involved in the company's business strategy which culminated in the acquisition of Transform by Johnson and Johnson. Dr. Lucas also served as Vice President, World-wide Intellectual Property at Genset of Paris, France and as Patent Examiner with the United States Patent and Trademark Office. Dr. Lucas holds a J.D. from George Washington University and a Ph.D. in molecular genetics from Ohio State University. He also holds a M.S. in microbiology and a B.Ed. from Ohio University. In addition, Dr. Lucas' scientific experience includes a post-doctoral fellowship in cancer research at the National Cancer Institute, National Institutes of Health in Bethesda, Maryland.

Jeremy Curnock Cook *

Non-Executive Director

Jeremy Curnock Cook is Executive Chairman of Bioscience Managers Limited, a corporate and investment advisory company. Mr. Curnock Cook founded Bioscience Managers Limited in February 2001, following his time at N.M. Rothschild & Sons Limited. During his 13 years at Rothschild, Mr. Curnock Cook created and led the Rothschild Bioscience Unit - the international and multidisciplinary team responsible for the investment advisory and management of a number of funds. Prior to joining Rothschild, Mr. Curnock Cook founded the International Biochemicals Group (IBG) in 1975, and built an 80-person company which he sold to Royal Dutch Shell in 1985. Mr. Curnock Cook has served on more than 30 boards of directors in the life science sector in the UK, Europe, USA, Canada, Japan and Australia and his current directorships include Biocompatibles International plc and Targeted Genetics Inc (USA).

Dr. David U'Prichard *

Non-Executive Director

Prior to joining the Board of Silence Therapeutics, Dr. David U'Prichard was Chief Executive Officer and a member of the Board of Directors of 3-Dimensional Pharmaceuticals, Inc., Yardley PA ("3DP") from 1999-2003. During that time he took 3DP public and secured major collaborations with Bristol-Myers Squibb and Johnson & Johnson. In March 2003, 3DP become a part of Johnson & Johnson Pharmaceutical R&D. From 1997 to 1999, Dr. U'Prichard served as Chairman of Research and Development at SmithKline Beecham, where he oversaw the entry of approximately ten compounds into global development; four compounds into Phase III trials and six compounds into early clinical trials. Additionally, he was involved in several major restructuring efforts at the company. Prior to SmithKline Beecham, Dr. U'Prichard worked for ICI/Zeneca from 1986 to 1997, as Executive Vice President and International Research Director from 1994 to 1997.

Peter Reynolds *

Non-Executive Director

Peter Reynolds has spent over 30 years as a director of a range of both public and private companies. Currently, he is a director of a number of companies including Chairman of Eckoh Technologies plc and a non-executive director of Swallow Ventures Limited. Peter Reynolds is Chairman of Silence Therapeutics's Remuneration Committee and a member of Silence Therapeutics's Audit Committee.

Prof. Dr Bernd Wetzel *

Non-Executive Director

Prof. Dr. Bernd Wetzel is a member of the advisory and supervisory board of several biotech companies. Originally trained as a synthetic and theoretical organic chemist, during almost 30 years in the global pharmaceutical industry he has acquired extensive experience in many disease areas and enabling technologies, in strategic research and development and management across functions and sites. Since 1982, Professor Wetzel served in various senior management positions of Boehringer Ingelheim, amongst them Chief Scientific Officer and member of the board of Boehringer Germany. In 1997 he was appointed Head of Worldwide Research and Non-Clinical Development with responsibility for Boehringer's international research sites, a position he held until the end of 2002. In 1990, Bernd Wetzel was appointed Honorary Professor at the Ludwig Maximilian University in Munich, lecturing in Medicinal Chemistry.

Jerry Randall *

Non-Executive Director

Mr. Randall is a qualified Chartered Accountant and is Chief Financial Officer of Sinclair Pharmaceuticals plc which he joined in 2000 as part of a management buy-in team. Prior to this, Mr. Randall worked in corporate finance with Gambit Corporate Finance and had previously been involved in two other buy-ins. He acted as adviser to both private and quoted companies between 1993 and 2000, in both the capacity of nominated adviser and in practice with KPMG. During this period, he was involved in a number of flotations and transactions on the Official List, Unlisted Securities Market and the Alternative Investment Market, as well as raising private equity.

Annette Clancy *

Non-Executive Director

Ms. Clancy has had a distinguished career spanning 30 years with GlaxoSmithKline (GSK). She has 15 years experience in Business Development, leading GSK's global Transactions and Alliance Management teams for the past 3 years, and during her tenure she and her team have been responsible for concluding a large number of research, development and commercial business collaborations on behalf of GSK. Prior to her role in Business Development, Ms. Clancy held a number of positions in Clinical Research, R&D project management and Commercialization. Ms. Clancy has a BSc (Hons) Pharmacology from Bath University

* Member of the Board of Directors

The Directors present their report and the financial statements for the year ended 31 December 2008.

Review of the business

The Group carries out research and development of pharmaceutical products. In particular the Group is focussing on the development of its RNAi technology, which is currently moving from the pre-clinical into clinical development phase. The Group's key performance indicators are the cash position in relation to cash flow, the expenditure on research and development activities and the development milestones reached, together with the signing of research collaborations and licences to bring in both development partners and revenues. Details of the financial performance, including comments on the cash position and research and development expenditure, are given in the Financial Review above. The product development pipeline is also shown above with a briefing on the Group's technology. The Chairman's Statement provides details of the Group's progress during the year against all its performance targets.

The Group recorded a loss for the year before taxation of £7,434,641 (2007: £5,243,897). Further details are given in the preceding Financial Review.

Directors

The Directors who served at any time during the year and their interests in the shares of the Company were:

	Ordinary shares of 1p each at	
	31 December 2008	1 January 2008
Chairman		
I G Ross	345,801	194,316
Executive Directors		
J S Vick (resigned 17 July 2008)	n/a	nil
J M Davies	112,125	62,125
Non- Executive Directors		
J L Curnock Cook	151,687	140,328
A Clancy (appointed 1 July 2008)	0	n/a
J A P Randall (appointed 1 July 2008)	50,000	n/a
H R P Reynolds	384,550	172,408
I N H Rugheimer (resigned 30 June 2008)	n/a	nil
D C U'Prichard	50,000	nil
B O Wetzel	22,720	nil

The interests of the Directors in the share options of the Company are set out in note 18 to the financial statements.

Substantial Interests

At 29 May 2009 the Company had been informed of the following substantial interests of over 3% of the issued share capital of the Company:

	Number	Percentage of Issued Share Capital
Credit Agricole Chevreux Ltd	5,926,641	4.39%
Fidelity International Ltd	5,786,931	4.29%
Gartmore Investment Ltd	8,000,000	5.93%
HBOS plc	6,691,977	4.96%
Insight Investments Ltd	6,753,852	5.01%
WAM Strategy Portfolio (EUR)	4,105,270	3.04%

Corporate Governance

The Board continues to give careful consideration to the principles of corporate governance as set out in the Combined Code ("the Code") appended to the Listing Rules issued by the Financial Services Authority. Although the Company is not required to comply with the Code as its shares are traded on AIM, the Board has implemented most but not all of the Code provisions. It is the opinion of the Directors that not all of the provisions of the Code are either relevant or desirable for a Company of this size.

The Board meets regularly and has ultimate responsibility for the management of the Group and sub-committees, comprising of non-executive Directors, meet as and when required to deal with Remuneration and Audit matters.

Committee Structure

Remuneration: Peter Reynolds (Chairman), Jeremy Curnock Cook, David U'Prichard

Audit: Jerry Randall (Chairman), Jeremy Curnock Cook, Peter Reynolds

Nominations: Iain Ross (Chairman), Annette Clancy, David U'Prichard, Bernd Wetzel

Remuneration Committee

The Group has established a Remuneration Committee comprising of three non-executive directors to determine and review the emolument packages of the Directors of both the parent and subsidiary companies. The Committee meets at least twice a year and is responsible for setting the Group's overall policy on executive remuneration and employment conditions, including setting the specific remuneration, benefits and terms of employment for each Executive Director.

The Board of Directors has considered the Remuneration Committee's proposals in respect of the remuneration of the Directors and senior executives and has accepted them without substantial revision.

Audit Committee

The Board seeks to present a balanced and understandable assessment of the Group's position and prospects in all interim, final and price-sensitive reports and information required to be presented by statute.

The Audit Committee comprises three non-executive directors and its terms of reference include keeping under review the scope and results of the external audit and its cost-effectiveness. The committee reviews the independence and objectivity of the external auditors, including the nature and extent of non-audit services supplied by them to the Group.

Shareholder Communications

The Company uses its corporate website (www.silence-therapeutics.com) to ensure that the latest announcements, press releases and published financial information are available to all shareholders and other interested parties.

The AGM is used to communicate with both institutional shareholders and private investors and all shareholders are encouraged to participate. Separate resolutions are proposed on each issue so that they can be given proper consideration and there is a resolution to approve the Annual Report and Accounts. The Company counts all proxy votes and will indicate the level of proxies lodged on each resolution after it has been dealt with by a show of hands.

Compliance with BIA Code

The Group is a member of the BioIndustry Association (BIA) and has complied with the BIA code of best practice throughout the year. The BIA code consists of principles and provisions relating to corporate governance, access to external advice, release of sensitive information and public announcements concerning the Group's products and technology. The Code, which is obligatory for members of the BIA, is designed to operate with reference to the particular circumstances of biotechnology companies.

Directors' responsibilities for the financial statements

The Directors are responsible for preparing the Annual Report and Financial Statements in accordance with applicable law and regulations. Company law requires the Directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the Company and the Group and of the profit or loss of the Group for the period.

The Financial Statements for the Group are prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and the Board has also elected to prepare Financial Statements for the Company in accordance with IFRSs.

In preparing the 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
- state whether applicable IFRS have been followed, subject to any material departures disclosed and explained in the financial statements
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Insofar as the Directors are aware:

- there is no relevant audit information of which the Company's auditors are unaware; and
- the directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of the financial statements may differ from legislation in other jurisdictions.

RISK FACTORS

The Group's principal activity is biotechnology research and development. As with any business in this sector, there are risks and uncertainties relevant to the Group's business. Certain of these risk factors affect the majority of businesses, some are common to businesses in the biotechnology sector and others are more specific to the Group.

Risks common to most businesses

- Failure to maintain legal and regulatory compliance
- New accounting standards causing a material adverse impact on reported financial results
- Failure to balance product portfolio against market projections and demands
- Increasing cost and decreasing availability of insurance
- Lack of control over external economic factors affecting business
- Unforeseen events which would be classified as force majeure, e.g., fire, flood, loss of utilities
- Inability to access sufficient resources to trade as a going concern

Risks applicable to the biotechnology sector and the Group

Clinical and regulatory risk

- The nature of pharmaceutical development is such that drug candidates may not be successful due to an inability to demonstrate in a timely manner the necessary safety and efficacy in a clinical setting to the satisfaction of appropriate regulatory bodies, such as the Food and Drug Administration (FDA) in the US and the European Medicines Agency (EMEA) in Europe. The Group will have limited control over the type and cost of trial required to obtain regulatory approval.
- The Group will rely on third parties to conduct clinical trials. If these third parties do not successfully carry out their contractual duties or meet expected deadlines, the programs of the Group may be delayed or the Group may not be able to obtain regulatory approval for its products. Any failure or delay of projects in development or clinical trials could have an adverse effect on the business.
- With the prime focus of the Group being on such a new area of technology, there can be no assurance that the Group's products will receive and maintain regulatory approval.

Product development risk

- The Group is involved at the leading edge of a revolutionary technology. Within the pharmaceutical sector more drugs fail in development than progress to market and there is no guarantee that the Group will be able to successfully develop this new technology or bring any of the drug candidates it is developing to market. Further, the drugs that the Group does bring to market may not be commercially successful.
- The Group has no track record of successful development and registration of any product and will need to acquire or gain access to relevant additional expertise.
- In order to progress the Group's product development plans it may be desirable or necessary to find collaborators on certain projects. The Group cannot guarantee that it will be able to find and maintain suitable collaborators under acceptable terms, or that, once found, such collaborators will devote sufficient resources to the collaboration to make it commercially successful.
- The Group's suppliers may encounter unexpected difficulties in the design and construction of manufacturing processes and the scale-up of production to viable commercial levels or may otherwise be unable to supply materials to the Group in a timely manner.
- Competition for employees in the biotechnology sector may lead to increased costs or decreased availability of staff. As a result, the Group may be unable to recruit or retain certain important employees. This could weaken the Group's scientific and management capabilities and could delay or halt the development of products and technologies.

Competition risk

- RNAi technology is attracting increased interest and with that is increased competition. Competitors in the sector may have greater financial, human and other resources and more experience to develop competing products or technology.
- Many companies are trying to develop competing technologies and one or more of these may restrict the potential commercial success of the Group's products or render them obsolete.
- Increasing competition may also have an adverse effect on the timing or scale of commercialisation of the Group's technology.

Intellectual property risk

- Intellectual property issues from challenges by others or lack of protection for its own products may negatively impact the Group. Other companies may have or develop intellectual property that restricts the Group's freedom of use or imposes high additional costs to obtain licenses.
- The Group may be unable to successfully establish and protect its intellectual property which is significant to the Group's competitive position.
- The Group's intellectual property may become invalid or expire before its products are successfully commercialised.

Financial risk

- There are very high costs of product development, where products have lead times to market of many years.
- The lack of a substantial recurrent revenue stream and the significant resources needed for ongoing investment in its R&D pipeline require the Group to gain access to additional funding from licensing, capital markets or elsewhere. There can be no assurances that such funding will be achieved on favourable terms, if at all.
- Additional funding will be required to give the Group time to reach profitability. If the Group is unable to raise those funds, there may be insufficient finance for product development or operations and consequent delay, reduction or elimination of development programmes could result.
- The Group has a small portfolio of products. Success or failure with individual products could have a significant impact on the share price. This in turn may make it difficult for the Group to continue funding its development programme.
- The Group may be unable to secure adequate insurance at an acceptable cost.

This list should not be considered an exhaustive statement of all potential risks and uncertainties.

Going concern

After making enquiries, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Further details are given in Note 2.3 to the Financial Statements. For this reason the Directors continue to adopt the going concern basis in preparing the financial statements.

Payment of creditors

It is the Group's policy to make payments to creditors in accordance with individually agreed terms, generally within 30 days either of the invoice date or from the end of the month the invoice was raised. Using the method set out in the Companies Act, the ratio for the Group of trade creditors at the year end to total costs was 29 days (2007: 22 days).

On behalf of the board

Melvyn Davies
Secretary
4 June 2009

Report of the Independent Auditor.

To the members of SILENCE THERAPEUTICS PLC

We have audited the group and parent company financial statements (the "financial statements") of Silence Therapeutics plc for the year ended 31 December 2008 which comprise the consolidated income statement, the consolidated balance sheet, the consolidated statement of changes in equity, the parent company balance sheet, the parent company statement of changes in equity, the consolidated and parent company cash flow statements and notes 1 to 25. 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 International Financial Reporting Standards (IFRSs) as adopted for use in the European Union 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 whether the financial statements have been 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 other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. The other information comprises only the Highlights, the Chairman's Statement, the Technology Briefing, the Financial Review, the Board and Senior Management information and the Directors' Report. 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 other information.

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.

Opinion

In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Group's affairs as at 31 December 2008 and of its loss for the year then ended;
- the parent company financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Act 1985, of the state of the parent company's affairs as at 31 December 2008;
- 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

In forming our opinion on the financial statements, which is not qualified, we have considered the adequacy of the disclosures made in note 2.3 of the financial statements concerning the ability of the Company to continue as a going concern. The Group had a net cash outflow during the year ended 31 December 2008 of £6.82m and at 31 December 2008 had cash balances of £3.35m. In early January 2009, the Company raised £2.65m (net of costs) through a share placement, increasing the group's cash position at that time to £6m.

The matters explained in note 2.3 to the financial statements indicate 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 any adjustments that would result if the Company were unable to continue as a going concern.

Grant Thornton UK LLP

Grant Thornton UK LLP

Registered Auditor
Chartered Accountants
London
4 June 2009

Consolidated Income Statement.

Year Ended 31 December 2008

	Note	2008	2007
		£	£
Revenue	3	2,208,699	4,046,974
Research and development costs		(6,712,032)	(4,842,529)
Gross loss		(4,503,333)	(795,555)
Administrative expenses		(3,288,304)	(4,992,159)
Operating loss	5	(7,791,637)	(5,787,714)
Finance income	7	356,996	543,817
Loss for the year before taxation		(7,434,641)	(5,243,897)
Taxation credit for the year	8	-	136,019
Loss for the year after taxation		(7,434,641)	(5,107,878)
Loss per share (basic and diluted)	9	(6.20)p	(4.39)p

The accompanying accounting policies and notes form an integral part of these financial statements.

Consolidated Balance Sheet.

At 31 December 2008

	Note	2008	2007
		£	£
Non-current assets			
Property, plant and equipment	10	535,909	398,764
Goodwill	11	8,611,087	6,653,990
Other intangible assets	12	812,696	779,703
		9,959,692	7,832,457
Current assets			
Trade and other receivables	14	998,702	1,340,860
Tax recoverable		70,000	130,000
Cash and cash equivalents	15	3,350,187	10,174,389
		4,418,889	11,645,249
Liabilities - current			
Trade and other payables	16	934,601	1,801,946
		934,601	1,801,946
Net assets		13,443,980	17,675,760
Equity			
Share capital	18	1,199,134	1,198,835
Capital reserves	19	47,010,414	46,465,165
Translation reserve		3,291,489	636,594
Retained loss		(38,057,057)	(30,624,834)
Total equity		13,443,980	17,675,760

The financial statements were approved by the Board of Directors on 4 June 2009.

I G Ross **J M Davies**

Directors

The accompanying accounting policies and notes form an integral part of these financial statements.

Consolidated Statement of Changes in Equity.

Year ended 31 December 2008

	Share capital	Capital reserves	Translation reserve	Retained loss	Total
	£	£	£	£	£
At 1 January 2007	1,130,650	40,212,619	(47,466)	(25,589,190)	15,706,613
Changes in equity for 2007					
Exchange differences arising on consolidation of foreign operations	-	-	684,060	-	684,060
Net income recognised directly in equity	-	-	684,060	-	684,060
Loss for the year ended 31 December 2007	-	-	-	(5,107,878)	(5,107,878)
Total recognised income and expense for the year	-	-	684,060	(5,107,878)	(4,423,818)
Recognition of share-based payments	-	1,221,952	-	-	1,221,952
Transfer upon exercise of options in year	-	(72,234)	-	72,234	-
Shares issued in the year	68,185	5,102,828	-	-	5,171,013
Movement in the year	68,185	6,252,546	684,060	(5,035,644)	1,969,147
At 31 December 2007	1,198,835	46,465,165	636,594	(30,624,834)	17,675,760
Changes in equity for 2008					
Exchange differences arising on consolidation of foreign operations	-	-	2,654,895	-	2,654,895
Net income recognised directly in equity	-	-	2,654,895	-	2,654,895
Loss for the year ended 31 December 2008	-	-	-	(7,434,641)	(7,434,641)
Total recognised income and expense for the year	-	-	2,654,895	(7,434,641)	(4,779,746)
Recognition of share-based payments	-	544,158	-	-	544,158
Transfer upon exercise of options in year	-	(1,687)	-	1,687	-
Transfer upon lapse of vested options in year	-	(731)	-	731	-
Shares issued in the year	299	3,509	-	-	3,808
Movement in the year	299	545,249	2,654,895	(7,432,223)	(4,231,780)
At 31 December 2008	1,199,134	47,010,414	3,291,489	(38,057,057)	13,443,980

Company Balance Sheet.

At 31 December 2008

	Note	2008	2007
		£	£
Non-current assets			
Investment in subsidiary undertakings	13	19,917,264	13,679,474
Current assets			
Trade and other receivables		65,747	-
Cash and cash equivalents	15	1,914,188	9,567,224
		1,979,935	9,567,224
Liabilities - current			
Trade and other payables	16	146,774	-
		146,774	-
Net assets		21,750,425	23,246,698
Equity			
Share capital	18	1,199,134	1,198,835
Capital reserves	19	46,826,498	46,281,249
Retained loss		(26,275,207)	(24,233,386)
Total equity		21,750,425	23,246,698

The financial statements were approved by the Board of Directors on 4 June 2009.

I G Ross **J M Davies**

Directors

The accompanying accounting policies and notes form an integral part of these financial statements.

The accompanying accounting policies and notes form an integral part of these financial statements.

Company Statement of Changes in Equity.

Year ended 31 December 2008

	Share capital	Capital reserves	Retained loss	Total
	£	£	£	£
At 1 January 2007	1,130,650	40,028,703	(21,166,991)	19,992,362
Loss for the year ended 31 December 2007	-	-	(3,138,629)	(3,138,629)
Recognition of share-based payments	-	1,221,952	-	1,221,952
Transfer upon exercise of options in year	-	(72,234)	72,234	-
Shares issued in the year	68,185	5,102,828	-	5,171,013
Movement in the year	68,185	6,252,546	(3,066,395)	3,254,336
At 31 December 2007	1,198,835	46,281,249	(24,233,386)	23,246,698
Loss for the year ended 31 December 2008	-	-	(2,041,821)	(2,041,821)
Recognition of share-based payments	-	544,158	-	544,158
Transfer upon exercise of options in year	-	(1,687)	-	(1,687)
Transfer upon lapse of vested options in year	-	(731)	-	(731)
Shares issued in the year	299	3,509	-	3,808
Movement in the year	299	545,249	(2,041,821)	(1,496,273)
At 31 December 2008	1,199,134	46,826,498	(26,275,207)	21,750,425

Cash Flow Statements.

Year ended 31 December 2008

	Group		Company	
	2008	2007	2008	2007
Cash Flow from operating activities	£	£	£	£
Loss before taxation	(7,434,641)	(5,243,897)	(2,041,821)	(3,138,629)
Adjustments for:				
Depreciation charges	116,489	78,069	-	-
Amortisation charges	306,916	240,021	-	-
Impairment of goodwill	-	153,915	-	-
Loss on sale of property, plant and equipment	307	39	-	-
Charge for the year in respect of Share-based payments	544,158	1,221,952	125,353	934,375
Foreign exchange movement	73,410	25,856	-	-
Impairment provision against loan to subsidiary	-	-	596,533	728,797
Recovery of loan provided for in previous years	(31,000)	(36,000)	(31,000)	(36,000)
Finance income	(253,634)	(507,817)	(198,464)	(430,243)
	(6,677,995)	(4,067,862)	(1,549,399)	(1,941,700)
Decrease/(increase) in trade and other receivables	668,891	(608,407)	(65,747)	-
(Decrease)/increase in trade and other payables	(1,032,708)	756,997	146,774	-
Cash (absorbed) by operations	(7,041,812)	(3,919,272)	(1,468,372)	(1,941,700)
Taxation received	60,000	86,019	-	-
Net cash (outflow) from operating activities	(6,981,812)	(3,833,253)	(1,468,372)	(1,941,700)

Year ended 31 December 2008

	Group		Company	
	2008	2007	2008	2007
Cash Flow from investing activities	£	£	£	£
Investment in subsidiary undertakings	-	-	(6,308,552)	(532,210)
Loans to subsidiary undertakings	-	-	(109,384)	(732,153)
Recovery of loan made in previous years	31,000	36,000	31,000	36,000
Finance income	253,634	507,817	198,464	430,243
Additions to property, plant and equipment	(135,584)	(306,463)	-	-
Additions to intangible assets	(135,752)	(224,769)	-	-
Net cash generated from/(used in) investing activities	13,298	12,585	(6,188,472)	(798,120)
Cash flows from financing activities				
Proceeds from issue of share capital	3,808	5,171,013	3,808	5,171,013
(Decrease)/increase in cash & cash equivalents	(6,964,706)	1,350,345	(7,653,036)	2,431,193
Cash and cash equivalents at start of year	10,174,389	8,824,044	9,567,224	7,136,031
Net (decrease)/increase in the year	(6,964,706)	1,350,345	(7,653,036)	2,431,193
Effect of exchange rate fluctuations on cash held	140,504	-	-	-
Cash and cash equivalents at end of year	3,350,187	10,174,389	1,914,188	9,567,224
Cash and cash equivalents includes				
Instant access bank accounts	3,350,187	10,174,389	1,914,188	9,567,224

The accompanying accounting policies and notes form an integral part of these financial statements.

1 General Information

1.1 Group

Silence Therapeutics plc ("Silence Therapeutics" or "the Company") and its subsidiaries (together "the Group") are primarily involved in the research and development of novel pharmaceutical products. Silence Therapeutics plc, a public limited company incorporated and domiciled in England, is the Group's ultimate parent company. The address of Silence Therapeutics' registered office is 22 Melton Street, London NW1 2EP and the principal place of business is The Royal Institution of Great Britain, 21 Albemarle Street, London W1S 4BS.

1.2 Company income statement

The Company has taken advantage of section 230 of the Companies Act 1985 and has not included its own profit and loss account in these financial statements. The loss for the financial year dealt with in the accounts of the Company, including provision against the loans to and investment in subsidiary companies, amounted to £2,041,821 (2007: loss £3,138,629).

2. Principal Accounting Policies

2.1 Basis of consolidation

The financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the EU and on the historical cost basis.

The Group has not adopted the following new International Financial Reporting Standards and International Accounting Standards that have been issued but are not yet effective:

		Effective from:
IFRS2:	Share-based payments (as amended)	1 January 2009
IFRS3:	Business combinations (revised 2008)	1 July 2009
IFRS8:	Operating segments	1 January 2009
IAS1:	Presentation of financial statements (revised 2007)	1 January 2009
IAS27:	Consolidated and separate financial statements (revised 2008)	1 July 2009
IAS32:	Financial instruments: Presentation (as amended)	1 January 2009

None of these are expected to have a significant impact on the financial statements.

The principal accounting policies adopted are set out below.

2.2 Basis of consolidation

The group financial statements consolidate those of the Company and its controlled subsidiary undertakings drawn up to 31 December 2008. Control is achieved where the Company has the power to govern the financial and operating policies of the entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring accounting policies into line with those used for reporting the operations of the Group. All intra-group transactions, balances, income and expenses are eliminated on consolidation.

2.3 Going concern

The financial statements have been prepared on a going concern basis which assumes that the group will continue in operational existence for the foreseeable future.

The group had a net cash outflow for 2008 of £6.96m and at 31 December 2008 had cash balances of £3.35m. In early January 2009, the group raised £2.65m (net of costs) through a share placement, increasing the cash position to £6m.

The directors have reviewed the working capital requirements of the group for the next 12 months and are confident that these can be met. The directors have a reasonable expectation that further finances will become available during the course of the year through grants, milestone and licence fee payments, relating to either new or existing agreements. The directors note that there is a material uncertainty as to the exact timing and source of these funds and that the failure to receive sufficient funding from these sources would cast significant doubt on the Group's ability to continue as a going concern. The directors have also taken a number of steps to reduce administration costs and to restrict the research and development expenditure to core areas pending the availability of additional funds.

The directors consider that the continued adoption of the going concern basis is appropriate and the accounts do not reflect any adjustments that would be required if they were to be prepared on any other basis.

2.4 Business combinations

The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 are recognised at their fair values at the acquisition date.

In arriving at the cost of acquisition, the fair value of the shares issued by the Company is taken to be the mid-market price of those shares at the date of issue. Where this figure exceeds the nominal value of the shares, the excess amount is treated as an addition to the share premium account.

2.5 Goodwill

Goodwill arising on the acquisition of a subsidiary represents the excess of the cost of acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary at the date of acquisition. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses.

On disposal of a subsidiary, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

2.6 Revenue recognition

The Group's income consists of licence fees, milestone and option payments, grant income and fees from research and development collaborations. Income is measured at the fair value of the consideration received or receivable.

Licence fees, option and milestone payments are recognised in full on the date that they are contractually receivable in those circumstances where:-

- the amounts are not time related,
- the amounts are not refundable,
- the licensee has unrestricted rights to exploit the technology within the terms set by the licence, and
- the Group has no further contractual duty to perform any future services.

Where such fees or receipts require future performance or financial commitments on behalf of the Group, the revenue is recognised pro rata to the services or commitments being performed.

Revenues from work or other research and testing carried out for third parties are recognised when the work to which they relate has been performed.

Government grants are dealt with as per note 2.7 below.

All time related receipts in respect of annual licence fees or similar technology access fees are recognised as revenue on a straight line basis over the period of the underlying contract.

2.7 Government grants

Government grants towards the cost of staff employed in research and development activities are recognised as income over the periods necessary to match them with the related costs. Grants amounting to £863,578 were recognised as Revenue in the year ended 31 December 2008 (2007: nil).

Government grants towards the cost of plant and equipment are treated as a reduction in the cost of the asset to which they relate. Grants amounting to £53,477 were recognised in this way for the year ended 31 December 2008 (2007: £11,160).

There were no unfulfilled conditions or contingencies attaching to these grants.

2.8 Foreign currency translation

Silence Therapeutics' consolidated financial statements are presented in Sterling (£), which is also the functional currency of the parent company. The individual financial statements of each group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency).

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are included in profit or loss for the period. When a gain or loss on a non-monetary item is recognised directly in equity, any exchange component of that gain or loss is also recognised directly in equity. When a gain or loss on a non-monetary item is recognised in profit or loss, any exchange component of that gain or loss is also recognised in profit or loss.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations (including comparatives) are expressed in Sterling using exchange rates prevailing on the balance sheet date. Income and expense items (including comparatives) are translated at the actual exchange rates. Exchange differences arising, if any, are recognised in equity. Cumulative translation differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

2.9 Defined contribution pension funds

The group pays contributions related to salary to certain UK employees' individual pension schemes. The pension cost charged against profits represents the amount of the contributions payable to the schemes in respect of the accounting period. No separate provision is made in respect of non-UK employees.

2.10 Property, plant and equipment

The Group holds no property assets.

All plant and equipment is stated in the accounts at its cost of acquisition less a provision for depreciation.

Depreciation is charged to write off the cost less estimated residual values of plant and equipment on a straight line basis over their estimated useful lives. All plant and equipment is estimated to have useful lives of between 3 and 5 years. Estimated useful lives and residual values are reviewed each year and amended if necessary.

2.11 Other intangible assets and research and development activities

Intellectual property rights

Other intangible assets include both acquired and internally developed intellectual property used in research and operations. These assets are stated at cost less amortisation.

Acquired intellectual property rights are capitalised on the basis of the costs incurred to acquire the specific rights.

Internally generated intellectual property rights are recognised as intangible assets, stated at cost incurred to establish and maintain those rights, and are subject to the same subsequent measurement method as externally acquired intellectual property. However, until completion of the development project, the assets are subject to impairment testing only as described below. Amortisation commences upon completion of the asset.

Amortisation is applied to write off the cost less residual value of the intangible assets on a straight line basis over their estimated useful life. The principal rate used is 10% per annum. Amortisation is included within research and development costs.

Capitalisation of research and development costs

Costs associated with research activities are treated as an expense in the period in which they are incurred.

Costs that are directly attributable to the development phase of an internal project will only be recognised as intangible assets provided they meet the following requirements:

- an asset is created that can be separately identified,
- the technical feasibility exists to complete the intangible asset so that it will be available for sale or use and the group has the intention and ability so to do,
- it is probable that the asset created will generate future economic benefits either through internal use or sale,
- sufficient technical, financial and other resources are available for completion of the asset, and
- the expenditure attributable to the intangible asset during its development can be reliably measured.

Careful judgement by the Group's management is applied when deciding whether recognition requirements for development costs have been met. This is necessary as the economic success of any product development is uncertain and may be subject to future technical problems at the time of recognition. Judgements are based on the information available at each balance sheet date.

To date, no development costs have been capitalised in respect of the internal projects other than costs directly associated with arising intellectual property rights on the grounds that the costs to date are either for the research phase of the projects or, if relating to the development phase then the work so far does not meet the recognition criteria set out above.

2.12 Impairment testing of goodwill, other intangible assets and property, plant and equipment

At each balance sheet date, the Group assesses whether there is any indication that the carrying value of any asset may be impaired. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

In the case of goodwill and any intangible asset with either an indefinite useful life or which is not yet ready for use, the Group tests for impairment at each balance sheet date.

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Goodwill is allocated to those cash-generating units that are expected to benefit from synergies of the related business combination and represent the lowest level within the Group at which management controls the related cash flows.

Individual assets or cash-generating units that include goodwill and other intangible assets with an indefinite useful life, or those not yet available for use, are tested for impairment at least annually. All other individual assets or cash-generating units are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of fair value, reflecting market conditions less costs to sell, and value in use, based on an internal discounted cash flow evaluation. Impairment losses recognised for cash-generating units to which goodwill has been allocated are credited initially to the carrying amount of goodwill. Any remaining impairment loss is charged pro rata to the other assets in the cash generating unit.

2.13 Investments in subsidiaries

Investments in subsidiaries comprise shares in the subsidiaries and loans from the Company. Investment in shares of the subsidiaries are stated at cost less provisions for impairment. Loans to subsidiaries are recorded at fair value.

2.14 Financial instruments

Financial assets and financial liabilities are recognised on the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument.

Financial assets can be divided into the following categories: loans and receivables, financial assets at fair value through profit or loss, available-for-sale financial assets and held-to-maturity investments. Financial assets are assigned to the different categories by management on initial recognition, depending on the purpose for which the instruments were acquired. The designation of financial assets is re-evaluated at every reporting date at which a choice of classification or accounting treatment is available.

Derecognition of financial instruments occurs when the rights to receive cash flows from investments expire or are transferred and substantially all of the risks and rewards of ownership have been transferred. An assessment for impairment is undertaken at least at each balance sheet date whether or not there is objective evidence that a financial asset or a group of financial assets is impaired.

Trade receivables

Trade receivables are measured at initial recognition at fair value plus, if appropriate, directly attributable transaction costs and are subsequently measured at amortised cost using the effective interest method. Appropriate allowances for estimated irrecoverable amounts are recognised in profit or loss when there is objective evidence that the asset is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at an effective interest rate computed at initial recognition.

Loans receivable

Loans receivable are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group or Company provides money directly to a debtor with no intention of trading the receivables. Loans receivable are measured at initial recognition at fair value plus, if appropriate, directly attributable transaction costs and are subsequently measured at amortised cost using the effective interest method, less provision for impairment. Any change in their value is recognised in profit or loss.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits that are readily convertible to a known amount of cash and are subject to an insignificant risk of change in value.

Financial liabilities and equity

Financial liabilities and equity instruments issued by the Group are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. A financial liability is a contractual obligation to either deliver cash or another financial asset to another entity or to exchange a financial asset or financial liability with another entity, including obligations which may be settled by the Group using its equity instruments. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The accounting policies adopted for specific financial liabilities and equity instruments are set out below.

Financial liabilities

At initial recognition, financial liabilities are measured at their fair value plus, if appropriate, any transaction costs that are directly attributable to the issue of the financial liability. After initial recognition, all financial liabilities are measured at amortised cost using the effective interest method.

Equity instruments

Equity instruments issued by the Group are recorded at the proceeds received net of direct issue costs.

2.15 Operating leases

All leases are operating leases and the payments made under them are charged to the profit and loss account on a straight line basis over the lease term.

2.16 Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event and it is probable that the Group will be required to settle that obligation. Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material.

2.17 Share-based payments

The Group issues equity-settled share-based payments to certain employees and advisers. Equity-settled share-based payments are measured at fair value (excluding the effect of non market-based vesting conditions) at the date of grant. The fair value so determined is expensed on a straight-line basis over the vesting period, based on the Group's estimate of the number of shares that will eventually vest and adjusted for the effect of non market-based vesting conditions.

Fair value is measured using a Binomial pricing model. The key assumptions used in the model have been adjusted, based on management's best estimate, for the effects of non-transferrability, exercise restrictions and behavioural considerations.

2.18 Equity

Share capital is determined using the nominal value of shares that have been issued.

The Share premium account includes any premiums received on the initial issuing of the share capital. Any transaction costs associated with the issuing of shares are deducted from the Share premium account, net of any related income tax benefits.

The Merger reserve represents the difference between the nominal value and the market value at the date of issue of shares issued in connection with the acquisition by the Group of an interest in over 90% of the share capital of another company.

Equity-settled share-based payments are credited to a Share-based payment reserve as a component of equity until related options or warrants are exercised.

Foreign currency translation differences are included in the Translation reserve.

Retained loss includes all current and prior period results as disclosed in the income statement.

2.19 Taxation

The tax credit recognised in the Income Statement represents the sum of the tax currently payable or receivable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Tax receivable arises from the UK legislation regarding the treatment of certain qualifying research and development costs, allowing for the surrender of tax losses attributable to such costs in return for a tax rebate.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

2.20 Critical accounting judgements and key sources of estimation uncertainty

In the process of applying the entity's accounting policies, management makes estimates and assumptions that have an effect on the amounts recognised in the financial statements. Although these estimates are based on management's best knowledge of current events and actions, actual results may ultimately differ from those estimates.

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are those relating to:

- the capitalisation or otherwise of development expenditure;
- the ability of the Group to operate as a "going concern";
- the carrying value of the Company's investment in its subsidiaries;
- the future recoverability of goodwill and other intangible assets; and
- the corresponding review for impairment of those assets.

The Group expends considerable sums on its development projects, with its total research and development costs for 2008 amounting to £6,712,032 (2007: £4,842,529). The Board has decided not to capitalise any development costs to date as it would not be able to prove reliably that such costs could be recovered due to the risk factors involved. Therefore, all such costs have been treated as expenses as they were incurred. Any decision to treat part of those costs as capital items could have a significant impact on the Group's results and balance sheet.

As explained in note 2.3 above, the accounts are drawn up on the going concern basis which assumes that the Group will be able to access sufficient funds to continue to operate for the foreseeable future. If the accounts were to be drawn up on the basis that this assumption was not valid then there could be material changes to the carrying values of both assets and liabilities.

The Group's main activities are carried out by subsidiary companies which are financed by ongoing investment by the parent company. These investments are carried in the books of the parent company at cost less provisions for impairment. The carrying value at 31 December 2008 is £19,917,264 (2007: £13,679,474). The key assumptions concerning the carrying value of the investments in, and loans to, subsidiaries relate to the continuing progress of the research and development programmes. As noted below, there are a number of risks and uncertainties around those assumptions and the crystallisation of any of those risks could have a significant impact on the assessment of the carrying value of the investment shown in the accounts of the parent company.

Goodwill is carried in the accounts at a value of £8,611,087 at 31 December 2008 (2007: £6,653,990). The movement in the year represents an adjustment in respect of fluctuations in foreign exchange rates.

Other intangible assets have a carrying value at 31 December 2008 of £812,696 (2007: £779,703) and details of the movement in the year, the capitalisation and amortisation policy and the basis of the impairment review are set out in note 12.

The key assumptions concerning the carrying value, or otherwise, for both the goodwill and other intangible assets relate to the continuing progress of the Group's research and development programmes, which are subject to risks common to all biotechnology businesses. These risks include the impact of competition in the specific areas of development, the potential failure of the projects in development or clinical trials and the possible inability to progress projects due to regulatory, manufacturing or intellectual property issues or the lack of available funds or other resources. Furthermore, the crystallisation of any of these risks could have a significant impact on the assessment of the value of both goodwill and other intangible assets.

3. Revenue

All revenue in the year was from licence and service fees generated by European operations. The analysis of revenues by geographical destination is:

	2008	2007
	£	£
Europe	1,113,749	2,844,910
North America	1,094,950	1,202,064
	2,208,699	4,046,974

4. Segment Reporting

2008 Business Segments	RNAi Therapeutics	Immunotherapy	Group Unallocated	Consolidated
	£	£	£	£
Revenue	2,182,699	26,000	-	2,208,699
Operating loss	(5,787,779)	(271,759)	(1,732,099)	(7,791,637)
Net finance income	81,817	47,595	227,584	356,996
Net loss for the year before taxation	(5,705,962)	(224,164)	(1,504,515)	(7,434,641)
Segment assets	11,960,517	463,752	1,954,312	14,378,581
Segment liabilities	767,254	46,200	121,147	934,601
Costs to acquire property, plant and equipment	135,584	-	-	135,584
Costs to acquire intangible assets	135,752	-	-	135,752
Depreciation and amortisation	420,412	2,993	-	423,405
Charge for non-cash expenses: share-based payments charge	418,805	-	125,353	544,158

2007 Business Segments	RNAi Therapeutics	Immunotherapy	Group Unallocated	Consolidated
	£	£	£	£
Revenue	3,994,974	52,000	-	4,046,974
Operating loss	(1,829,201)	(1,058,347)	(2,900,166)	(5,787,714)
Net finance income	42,153	35,421	466,243	543,817
Net loss for the year before taxation	(1,787,048)	(1,022,926)	(2,433,923)	(5,243,897)
Segment assets	9,161,135	766,426	9,550,145	19,477,706
Segment liabilities	675,651	1,126,295	-	1,801,946
Costs to acquire property, plant and equipment	297,536	8,927	-	306,463
Costs to acquire intangible assets	224,769	-	-	224,769
Depreciation and amortisation	311,507	6,583	-	318,090
Impairment of goodwill	153,915	-	-	153,915
Charge for non-cash expenses: share-based payments charge	286,261	1,316	934,375	1,221,952

The business segments operate within the same geographic areas for the purpose of IAS 14: Segment Reporting and thus there is no Geographic segmental analysis to report

5. Operating Loss

	2008	2007
	£	£
This is stated after crediting:		
Utilisation of provision against premises costs	-	115,342
and after charging:		
Depreciation of property, plant and equipment	116,489	78,069
Amortisation of intangibles	306,916	240,021
Impairment of goodwill	-	153,915
Share-based payments charge	544,158	1,221,952
Auditors' remuneration		
- audit of parent company	45,318	35,000
- non-audit services:		
audit of subsidiary	10,000	9,650
nominated adviser fees	-	20,028
Operating lease payments on offices	-	130,219

Fees payable to auditors other than the auditors of the Company amounted to £19,761 (2007: £16,743).

6. Directors and staff costs

Staff costs, including Directors' remuneration, during the year were as follows:

	2008	2007
	£	£
Wages and salaries	2,867,764	2,743,116
Compensation for loss of office	282,296	-
Social security costs	364,977	328,287
Pension costs	25,083	24,250
	3,540,120	3,095,653

The average number of employees, including both Executive and Non-Executive Directors, during the year was 51 (2007: 46).

There are no employees of the parent company itself other than the directors (2007: nil).

Management remuneration paid and other benefits supplied to the Directors during the year was as follows:

Remuneration	662,200	1,090,805
Benefits in kind	4,379	3,409
Compensation for loss of office	253,667	-
	920,246	1,094,214
(Credit)/charge in respect of share-based payments	(37,700)	909,478
Pension contributions to defined contribution schemes for 1 director (2007: 1 director)	17,500	17,500
	900,046	2,021,192

Included in the amounts shown above are payments to third parties amounting to £85,000 for the services of certain directors (2007: £60,000).

The amounts set out above include remuneration to the highest paid director as follows:

	2008	2007
	£	£
Remuneration	143,000	315,000
Benefits in kind	1,173	-
Compensation for change in employment contract	-	200,000
Compensation for loss of office	253,667	-
	367,840	515,000

7. Finance income

The finance income comprises:

	2008	2007
	£	£
Bank interest receivable	253,634	503,570
Other interest receivable	-	4,247
Release of provision against loan	31,000	36,000
Exchange differences	72,362	-
	356,996	543,817

8. Taxation

The credit for the year is made up as follows:

	2008	2007
	£	£
Corporate Taxation on the results for the year		
UK	-	-
Non-UK	-	-
Research and development tax credit (UK)	48,000	130,000
Adjustment in respect of prior years (UK)	(48,000)	6,019
Taxation credit for the year	-	136,019

The credit for UK Corporation Tax arises from the Group taking advantage of the legislation regarding the treatment of certain qualifying research and development costs.

A reconciliation of the tax credit appearing in the income statement to the tax credit that would result from applying the standard rate of tax to the results for the year is:

	2008	2007
	£	£
Loss per accounts	(7,434,641)	(5,243,897)
Tax credit at the standard rate of corporation tax averaged between the two countries of operation of 29.8% (2007: 30%)	(2,215,728)	(1,573,169)
Impact of costs disallowable for tax purposes	163,580	277,600
Impact of income not taxable	(9,239)	(10,800)
Deferred tax in respect of temporary differences	(749)	(362)
Impact of unrelieved tax losses not provided for	2,062,136	1,306,731
Sub-total	nil	nil
Relief and refund available in respect of R&D expenditure	48,000	130,000
Adjustment to that relief in respect of prior periods	(48,000)	6,019
Taxation credit for the year	nil	136,019

Estimated tax losses of £36,000,000 (2007: £34,000,000) are available for relief against future profits.

The deferred tax asset not provided for in the accounts based on the estimated tax losses and the treatment of the equity settled share based payments, net of any other temporary differences, is approximately £10,200,000 (2007: £9,600,000).

9. Loss per Share

The calculation of the loss per share is based on the loss for the financial year after taxation of £7,434,641 (2007: loss £5,107,878) and on the weighted average of 119,885,617 (2007: 116,296,656) ordinary shares in issue during the year.

The options outstanding at 31 December 2008 and 31 December 2007 are considered to be non-dilutive in that their conversion into ordinary shares would not increase the net loss per share. Consequently, there is no diluted loss per share to report for either year.

10. Property, plant & equipment

Group	Scientific Equipment £	Office Equipment & Furniture £	Total £
Cost			
At 1 January 2007	1,784,418	1,007,763	2,792,181
Additions	255,369	51,094	306,463
Disposals	(39,014)	(23,771)	(62,785)
Translation adjustment	174,503	86,706	261,209
At 31 December 2007	2,175,276	1,121,792	3,297,068
Additions	109,996	25,588	135,584
Disposals	(192,225)	(86,611)	(278,836)
Translation adjustment	627,708	304,362	932,070
At 31 December 2008	2,720,755	1,365,131	4,085,886
Depreciation			
At 1 January 2007	1,691,265	954,019	2,645,284
Charge for the year	40,354	37,715	78,069
Eliminated on disposal	(38,976)	(23,770)	(62,746)
Translation adjustment	156,004	81,693	237,697
At 31 December 2007	1,848,647	1,049,657	2,898,304
Charge for the year	66,750	49,739	116,489
Eliminated on disposal	(192,223)	(86,306)	(278,529)
Translation adjustment	525,279	288,434	813,713
At 31 December 2008	2,248,453	1,301,524	3,549,977
Net book value			
As at 31 December 2007	326,629	72,135	398,764
As at 31 December 2008	472,302	63,607	535,909

11. Goodwill

The carrying amount of goodwill is wholly attributable to the acquisition of Silence Therapeutics AG in 2005.

	2008 £	2007 £
Balance at start of year	6,653,990	6,239,679
Impairment of goodwill (see below)	-	(153,915)
Translation adjustment	1,957,097	568,226
Balance at end of year	8,611,087	6,653,990

The Group tests annually for impairment, or more frequently if there are indications that goodwill might be impaired. Apart from goodwill, the Group, through Silence Therapeutics AG, also holds other intangible assets, and the impairment review implemented in respect of those definite life assets is described below. This impairment review is carried out at both the group level and by each company.

The impairment review in respect of goodwill has been carried out upon Silence Therapeutics AG as a whole.

At the date of acquisition, Silence Therapeutics AG had goodwill of €218,787 in its own accounts regarding acquisitions it had made in previous years. As part of the 2007 impairment review, it was decided that due to advances in technology there was no longer any continuing benefit from those acquisitions and therefore provision was made in full against that sum.

As primarily a research and development group, the use of discounted cash flow or similar tools forms just one component of the overall assessment of potential impairment, given the inherent risks and uncertainties in the sector and the long timespans involved. In reviewing the carrying value of goodwill, the Board has considered the known and anticipated cash flows from current licence arrangements, restricted to the next five years, weighted as to probability and discounted to current values. In addition, the Board has considered the probability of further licence deals as well as the group's own exploitation of its technology and other longer term indicators of impairment.

Revenue has been generated from deals made in 2007 and before by Silence Therapeutics AG and the Board considers this a strong indication of the longer term revenue generating capacity of Silence Therapeutics AG's underlying technology. The Group has also made progress in further developing that technology, thus enhancing the revenue generating capacity. The Group continues to hold numerous discussions with interested pharmaceutical partners with a view to signing further outlicencing deals which will generate a mixture of initial licence fees, milestone payments and royalties.

Consequently, it is the view of the Board that no impairment of the Group's goodwill has occurred during the year

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12. Other Intangible Assets

	Licences	Internally Generated Patents & Patent Applications	Total
	£	£	£
Cost			
At 1 January 2007	1,849,728	310,626	2,160,354
Additions	6,228	218,541	224,769
Translation adjustment	170,840	38,716	209,556
At 31 December 2007	2,026,796	567,883	2,594,679
Additions	10,429	125,323	135,752
Translation adjustment	597,663	185,459	783,122
At 31 December 2008	2,634,888	878,665	3,513,553
Amortisation			
At 1 January 2007	1,365,107	66,758	1,431,865
Charge for the year	193,168	46,853	240,021
Translation adjustment	134,775	8,315	143,090
At 31 December 2007	1,693,050	121,926	1,814,976
Charge for the year	230,070	76,846	306,916
Translation adjustment	531,802	47,163	578,965
At 31 December 2008	2,454,922	245,935	2,700,857
Net book value			
As at 31 December 2007	333,746	445,957	779,703
As at 31 December 2008	179,966	632,730	812,696

The licences included above have finite useful lives estimated to be of 10 years from date of initial acquisition, over which period the assets are amortised. The Group's internally generated patent costs above represent expenses connected with filings for patent registration in respect of technology that has been developed by the Group for use in revenue generating activities. These costs are amortised on a straight line basis over 10 years, commencing upon the completion of the relevant asset. The charge for amortisation is included within Research and Development costs in the income statement.

The Group tests for possible impairment of definite-lived intangible assets on a regular basis. If indicators of possible impairment exist, such as a change of use of the asset, a reduction in operating cash flow or a change in technology the Company compares the discounted cash flows related to the asset to the carrying value of the asset. If the carrying value is greater than the discounted cash flow amount, an impairment charge is recorded for the amount necessary to reduce the carrying value of the asset to fair value. Fair value for the purpose of the impairment tests is determined based on current market value or discounted future cash flows. In determining the fair value, certain assumptions are made concerning, for example, estimated cash flow and growth of the Group's operations.

13. Investments

Company	2008	2007
	£	£
Investment in subsidiary undertakings	19,917,264	13,679,474

The investment in subsidiary undertakings is made up as follows:

	Investment at cost	Impairment provision	Net Total
	£	£	£
Shares in subsidiary undertakings			
At 1 January 2007	11,899,383	(203,000)	11,696,383
Additions	819,786	(6,991)	812,795
At 31 December 2007	12,719,169	(209,991)	12,509,178
Additions	6,724,938	-	6,724,938
At 31 December 2008	19,444,107	(209,991)	19,234,116
Loans to subsidiary undertakings			
At 1 January 2007	22,533,618	(21,373,670)	1,159,948
Additions	732,154	(721,806)	10,348
At 31 December 2007	23,265,772	(22,095,476)	1,170,296
Additions	109,384	(596,532)	(487,148)
At 31 December 2008	23,375,156	(22,692,008)	683,148
Total investment			
As at 31 December 2007	35,984,941	(22,305,467)	13,679,474
As at 31 December 2008	42,819,263	(22,901,999)	19,917,264

Subsidiary Companies:

The principal activity of all subsidiaries is the research and development of pharmaceutical products.

Name	Place of incorporation and operation	Principal technology area	Proportion of ownership interest
Silence Therapeutics AG	Germany	RNAi therapeutics	100%
Stanford Rook Ltd	England	Immunotherapy	100%
Innopeg Ltd	England	not active	100%

The Company has made additional investment in its operating subsidiaries, Stanford Rook Limited and Silence Therapeutics AG. Silence Therapeutics plc has made an impairment provision against the investment and loans to Stanford Rook Limited and Innopeg Limited to the extent that they are deemed to be not recoverable. No impairment provision has been made against the investment in Silence Therapeutics AG as the Directors believe that the fair value exceeds the cost of investment to date.

14. Trade & other receivables

	Group 2008	Company 2008	Group 2007	Company 2007
	£	£	£	£
Trade receivables	692,009	-	200,505	-
Other receivables	96,362	65,747	60,030	-
Prepayments	210,331	-	1,080,325	-
	998,702	65,747	1,340,860	-

The directors consider that the carrying amount of trade and other receivables approximates to their fair value. Fair values have been calculated by discounting cash flows at prevailing interest rates. See also note 24.

No interest is charged on outstanding trade receivables.

15. Cash & cash equivalents

	Group 2008	Company 2008	Group 2007	Company 2007
	£	£	£	£
Cash at bank	3,350,187	1,914,188	10,174,389	9,567,224

Cash at bank comprises of balances held by the Group in current and short-term bank deposits with a maturity of three months or less. The carrying amount of these assets approximates to their fair value. The deposits held at bank are treated as cash equivalents under the definitions of IAS 7: Cash Flow Statements. Although the sums are held on short term fixed rate deposit, they are instantly available to the Group but only by breaking the terms of the deposit which may incur minor penalties. During the year, the effective rates of interest on fixed rate deposits ranged between 4.75% and 6.05% per annum.

16. Trade & other payables

	Group 2008	Company 2008	Group 2007	Company 2007
	£	£	£	£
Trade payables	432,887	55,512	615,316	-
Social security and other taxes	23,225	-	272,082	-
Deferred revenues	95,635	-	37,103	-
Accruals and other payables	382,854	65,635	877,445	-
Amounts due to group companies	-	25,627	-	-
	934,601	146,774	1,801,946	-

Trade payables and accruals principally comprise amounts outstanding for trade purchases and continuing costs. The directors consider that the carrying amount of trade and other payables approximates to their fair value. Fair values have been calculated by discounting cash flows at prevailing interest rates. See also note 24.

17. Deferred taxation

	2008	2007
	£	£
The following are the major deferred tax liabilities and assets recognised by the Group:		
Deferred tax liability:		
In respect of intangible assets	228,000	235,000
Liability	228,000	235,000
Less: offset of deferred tax asset below	(228,000)	(235,000)
	Nil	Nil
Deferred tax asset:		
In respect of available tax losses	10,200,000	9,600,000
In respect of share based payments	812,000	708,000
Deferred tax asset	11,012,000	10,308,000
Less: offset against deferred tax liability	(228,000)	(235,000)
provision against asset	(10,784,000)	(10,073,000)
Asset	Nil	Nil

18. Share Capital

	2008	2007
	£	£
Authorised: 1,000,000,000 ordinary shares of 1p each	10,000,000	10,000,000
Allotted called up and fully paid:		
119,913,392 (2007: 119,883,536) ordinary shares	1,199,134	1,198,835

The group has only one class of share. All ordinary shares have equal voting rights and rank pari passu for the distribution of dividends and repayment of capital.

Details of the shares issued by the Company during the current and previous years are as follows.

Number of shares in issue at 1 January 2007		113,064,951
Shares issued during 2007		
• Upon the conversion of warrants at 1p per share	2,731,739	
• Upon the exercise of staff share options at 12.75p per share	162,188	
• Upon the exercise of staff share options at 23p per share	300,000	
• Upon the exercise of staff share options at 27p per share	200,000	
• Issue of shares for cash at 146p to collaboration partner	3,424,658	
Total issued in the year		6,818,585
Number of shares in issue at 31 December 2007		119,883,536
Shares issued during 2008		
• Upon the exercise of staff share options at 12.75p per share		29,856
Number of shares in issue at 31 December 2008		119,913,392

The Group operates both an Inland Revenue Approved Share Option Scheme and an Unapproved Share Option Scheme. All Directors and UK employees are eligible for both schemes. The Group has also granted options to certain Directors and employees under the auspices of an Enterprise Management Incentive Scheme.

At 31 December 2008 there were options outstanding over 22,058,911 (2007: 17,601,728) unissued ordinary shares and warrants outstanding over 925,926 unissued ordinary shares.

Details of the options outstanding are as follows:

Exercise date:	Number	Exercise Price
At any time up to 30 September 2009	1,000,000	75p
At any time up to 2 January 2012	7,500	42.0p
At any time up to 10 October 2012	20,000	19.0p
At any time up to 27 May 2014	900,000	27.0p
At any time up to 6 October 2014	20,000	28.5p
At any time up to 24 July 2015	8,850,000	23.0p
At any time up to 25 July 2016	901,412	12.75p
At any time up to 23 November 2016	825,000	43.0p
Between 24 November 2009 and 23 November 2016	375,000	43.0p
At any time up to 29 May 2017	43,334	109p
Between 31 March 2009 and 29 May 2017	10,000	109p
Between 31 October 2009 and 29 May 2017	16,666	109p
Between 31 March 2010 and 29 May 2017	10,000	109p
At any time up to 26 July 2017	334,000	127p
Between 26 July 2009 and 26 July 2017	334,000	127p
Between 26 July 2010 and 26 July 2017	332,000	127p
At any time up to 14 December 2017	193,335	67.75p
Between 14 December 2009 and 14 December 2017	193,334	67.75p
Between 14 December 2010 and 14 December 2017	193,331	67.75p
Between 7 May 2009 and 6 May 2018	36,667	41.5p
Between 7 May 2010 and 6 May 2018	36,667	41.5p
Between 7 May 2011 and 6 May 2018	61,666	41.5p
At any time up to 25 September 2018	400,000	29.5p
Between 26 September 2009 and 25 September 2018	5,000	29.5p
Between 26 September 2010 and 25 September 2018	5,000	29.5p
Between 26 September 2011 and 25 September 2018	5,000	29.5p
Between 5 December 2009 and 4 December 2018	1,916,669	20p
Between 5 December 2010 and 4 December 2018	2,716,682	20p
Between 5 December 2011 and 4 December 2018	2,316,648	20p
Total	22,058,911	

The options granted to any director during the year and the options held by the Directors at the beginning and end of the year are as follows:

Director	At 1 January 2008	Granted/ (Exercised) in the year	At 31 December 2008	Exercise price	Earliest date of exercise	Latest date of exercise
				Pence		
I G Ross						
- Unapproved scheme	500,000		500,000	27p	28/05/04	27/05/14
- Unapproved Scheme	1,000,000		1,000,000	23p	25/07/05	24/07/15
- Unapproved Scheme	1,000,000		1,000,000	23p	25/07/06	24/07/15
- Unapproved Scheme	1,000,000		1,000,000	23p	25/07/07	24/07/15
- Unapproved Scheme	1,000,000		1,000,000	23p	25/07/08	24/07/15
- Unapproved Scheme	150,000		150,000	43p	24/11/07	23/11/16
- Unapproved Scheme	125,000		125,000	43p	24/11/08	23/11/16
- Unapproved Scheme	125,000		125,000	43p	24/11/09	23/11/16
- Unapproved Scheme		1,100,000	1,100,000	20p	05/12/09	04/12/18
J M Davies						
- EMI scheme	200,000		200,000	27p	28/05/07	28/05/14
- Unapproved Scheme	250,000		250,000	23p	25/07/05	24/07/15
- Unapproved Scheme	300,000		300,000	23p	25/07/06	24/07/15
- Unapproved Scheme	350,000		350,000	23p	25/07/07	24/07/15
- Unapproved Scheme	400,000		400,000	23p	25/07/08	24/07/15
- Unapproved Scheme	75,000		75,000	43p	24/11/07	23/11/16
- Unapproved Scheme	62,500		62,500	43p	24/11/08	23/11/16
- Unapproved Scheme	62,500		62,500	43p	24/11/09	23/11/16
- Unapproved Scheme		750,000	750,000	20p	05/12/09	04/12/18
J L Curnock Cook						
- Unapproved Scheme	50,000		50,000	23p	25/07/05	24/07/15
- Unapproved Scheme	60,000		60,000	23p	25/07/06	24/07/15
- Unapproved Scheme	70,000		70,000	23p	25/07/07	24/07/15
- Unapproved Scheme	70,000		70,000	23p	25/07/08	24/07/15
- Unapproved Scheme	200,000		200,000	75p	30/09/07	30/09/09
- Unapproved Scheme		350,000	350,000	20p	05/12/09	04/12/18
H R P Reynolds						
- Unapproved scheme	200,000		200,000	27p	28/05/04	27/05/14
- Unapproved Scheme	50,000		50,000	23p	25/07/05	24/07/15
- Unapproved Scheme	60,000		60,000	23p	25/07/06	24/07/15
- Unapproved Scheme	70,000		70,000	23p	25/07/07	24/07/15
- Unapproved Scheme	70,000		70,000	23p	25/07/08	24/07/15
- Unapproved Scheme	200,000		200,000	75p	30/09/07	30/09/09
- Unapproved Scheme		350,000	350,000	20p	05/12/09	04/12/18
D C U'Prichard						
- Unapproved Scheme	50,000		50,000	23p	25/07/05	24/07/15
- Unapproved Scheme	60,000		60,000	23p	25/07/06	24/07/15
- Unapproved Scheme	70,000		70,000	23p	25/07/07	24/07/15
- Unapproved Scheme	70,000		70,000	23p	25/07/08	24/07/15
- Unapproved Scheme	200,000		200,000	75p	30/09/07	30/09/09
- Unapproved Scheme		350,000	350,000	20p	05/12/09	04/12/18

Director	At 1 January 2008	Granted/ (Exercised) in the year	At 31 December 2008	Exercise price	Earliest date of exercise	Latest date of exercise
				Pence		
B O Wetzel						
- Unapproved Scheme	50,000		50,000	23p	25/07/05	24/07/15
- Unapproved Scheme	60,000		60,000	23p	25/07/06	24/07/15
- Unapproved Scheme	70,000		70,000	23p	25/07/07	24/07/15
- Unapproved Scheme	70,000		70,000	23p	25/07/08	24/07/15
- Unapproved Scheme	200,000		200,000	75p	30/09/07	30/09/09
- Unapproved Scheme		350,000	350,000	20p	05/12/09	04/12/18
A Clancy						
- Unapproved Scheme		200,000	200,000	29.5p	26/09/08	25/09/18
J Randall						
- Unapproved Scheme		200,000	200,000	29.5p	26/09/08	25/09/18
Sub Total	8,600,000	3,650,000	12,250,000			
Directors who left in the year						
J S Vick						
- Unapproved Scheme	500,000			127p	26/07/08	26/07/17
- Unapproved Scheme	500,000			127p	26/07/09	26/07/17
- Unapproved Scheme	500,000	Not		127p	26/07/10	26/07/17
- Unapproved Scheme	500,000	applicable		64.75p	21/12/08	21/12/17
- Unapproved Scheme	500,000			64.75p	21/12/09	21/12/17
- Unapproved Scheme	500,000			64.75p	21/12/10	21/12/17
I N H Rugheimer						
- Unapproved Scheme	50,000			23p	25/07/05	24/07/15
- Unapproved Scheme	60,000	Not		23p	25/07/06	24/07/15
- Unapproved Scheme	70,000	applicable		23p	25/07/07	24/07/15
- Unapproved Scheme	70,000			23p	25/07/08	24/07/15
- Unapproved Scheme	200,000			75p	30/09/07	30/09/09
Total	12,050,000					

None of the options granted under any of the schemes have any future performance or qualifying conditions attached to them, other than remaining as an employee. The Remuneration Committee did not believe that the inclusion of such conditions for staff or Directors was appropriate at the time of granting these options.

The market price of the shares at the year end was 18p per share (31 December 2007: 68.5p).

During the year, the minimum and maximum prices were 12p and 73p per share respectively.

At both 31 December 2008 and 31 December 2007, the Group had outstanding warrants over 925,926 shares that are convertible at 27p per share. All warrants may be exercised at any time up to 24 July 2010.

19. Capital Reserves

GROUP	Share Premium Account £	Merger Reserve £	Share-Based Payment Reserve £	Total £
At 1 January 2007	32,185,514	6,140,874	1,886,231	40,212,619
On shares issued in the year	4,965,754	-	-	4,965,754
On options exercised during the year	137,057	-	(72,234)	64,823
On warrants converted during the year	676,105	-	(676,105)	-
On options issued during the year	17	-	1,221,952	1,221,969
Movement in the year	5,778,933	-	473,613	6,252,546
At 31 December 2007	37,964,447	6,140,874	2,359,844	46,465,165
On options exercised during the year	3,509	-	(1,687)	1,822
On vested options lapsed during the year	-	-	(731)	(731)
On options issued during the year	-	-	544,158	544,158
Movement in the year	3,509	-	541,740	545,249
At 31 December 2008	37,967,956	6,140,874	2,901,584	47,010,414

COMPANY	Share Premium Account £	Merger Reserve £	Share-Based Payment Reserve £	Total £
At 1 January 2007	32,185,514	5,956,958	1,886,231	40,028,703
On shares issued in the year	4,965,754	-	-	4,965,754
On options exercised during the year	137,057	-	(72,234)	64,823
On warrants converted during the year	676,105	-	(676,105)	-
On options issued during the year	17	-	1,221,952	1,221,969
Movement in the year	5,778,933	-	473,613	6,252,546
At 31 December 2007	37,964,447	5,956,958	2,359,844	46,281,249
On options exercised during the year	3,509	-	(1,687)	1,822
On vested options lapsed during the year	-	-	(731)	(731)
On options issued during the year	-	-	544,158	544,158
Movement in the year	3,509	-	541,740	545,249
At 31 December 2008	37,967,956	5,956,958	2,901,584	46,826,498

Due to the size of the Retained Loss, the Company has no distributable reserves.

20. Equity-settled share-based payments

The Company has two share option schemes open to all employees of the Group. Options are exercisable at a price equal to the market price of the Company's shares on the date of grant.

In the Inland Revenue Approved Scheme the vesting period is three years and should the options remain unexercised they lapse after ten years from the date of grant. The options also lapse after six months following the employee leaving the Group.

Under the Unapproved Share Option Scheme, the options vest at dates set by the Board at the time the option is granted. The options lapse after three months following the employee leaving the Group.

As part of the fee structure in respect of the acquisition of Silence Therapeutics AG and the subsequent fundraising in mid-2005, the Group issued warrants to its advisers which could be exercised at any time within 5 years from the date of issue. Most of those warrants have been converted into shares, see note 19 above. The holders may convert the remaining warrants into a maximum of 925,926 ordinary shares at a price of 27p per share.

Details of the share options and warrants outstanding at the year end are as follows:

	2008 Number	2008 Weighted average exercise price – p	2007 Number	2007 Weighted average exercise price – p
Options				
Outstanding at the beginning of the year	17,601,728	47.18p	12,603,916	24.37p
Granted during the year	7,559,999	20.98p	5,660,000	94.99p
Lapsed during the year	3,072,960	94.23p	-	-
Exercised during the year	29,856	12.75p	662,188	21.70p
Outstanding at the year end	22.058,911	31.69p	17,601,728	47.18p
Exerciseable at the year end	4,231,229	31.36p	9,315,712	29.45p
Warrants				
Outstanding at the beginning of the year	925,926	27.00p	3,657,665	7.58p
Granted during the year	-	-	-	-
Lapsed during the year	-	-	-	-
Exercised during the year	-	-	2,731,739	1.00p
Outstanding at the year end	925,926	27.00p	925,926	27.00p
Exerciseable at the year end	925,926	27.00p	925,926	27.00p

The weighted average share prices at each date when share options were exercised during the year were:

Date option exercised	Weighted average share price – p
5 December 2008	16.75p

The options outstanding at the year end have a weighted average remaining contractual life of 7.7 years (2007: 8.0 years). The exercise price of the options outstanding at the year end range from 12.75p to 127p per share. Full details are given in note 18 above.

During the year the group issued the following options:

Date of issue	Number	Exercise price	Weighted average fair value
7 May 2008	135,000	41.5p	25.654p
26 September 2008	475,000	29.5p	16.191p
5 December 2008	6,949,999	20.0p	10.543p

Those fair values were calculated using a Binomial model. The inputs into the model were as follows:

	2008	2007	2006
Weighted average share price	30.509p	88.596p	27.65p
Weighted average exercise price	20.981p	94.989p	28.34p
Expected volatility	85-115%	72-78%	50-72%
Risk free rate	3.05-4.48%	4.56-5.52%	4.7-4.71%
Expected dividend yield	Nil	Nil	Nil

Expected volatility was determined using as a base the share price movements recorded over the previous 4 years and taking into account any specific factors impacting during that period.

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.

The Group recognised total charges of £544,158 (2007: £1,221,952) related to equity-settled share-based payment transactions during the year.

21. Capital commitments

There were no capital commitments at 31 December 2008 or 31 December 2007.

22. Contingent liabilities

There were no contingent liabilities at 31 December 2008 or at 31 December 2007.

23. Commitments under operating leases

There were no commitments under operating leases at 31 December 2008 or at 31 December 2007.

24. Financial instruments and risk management

The Group's financial instruments comprise primarily cash and various items such as trade debtors and trade creditors which arise directly from its operations. The main purpose of these financial instruments is to provide working capital for the Group's operations. The Group does not utilise complex financial instruments or hedging mechanisms in respect of its non-sterling operations.

Financial assets by category

The categories of financial assets (as defined by International Accounting Standard 39: Financial Instruments: Recognition and Measurement – IAS39) included in the balance sheet and the heading in which they are included are as follows:

	Group 2008	Company 2008	Group 2007	Company 2007
	£	£	£	£
Current assets				
Trade and other receivables	998,702	65,747	1,340,860	-
Cash and cash equivalents	3,350,187	1,914,188	10,174,389	9,567,224
Categorised as loans and receivables	4,348,889	1,979,935	11,515,249	9,567,224

All amounts are short term and none are past due at the reporting date.

Financial liabilities by category

The categories of financial liabilities (as defined by IAS39) included in the balance sheet and the heading in which they are included are as follows:

	Group 2008	Company 2008	Group 2007	Company 2007
	£	£	£	£
Current liabilities				
Trade and other payables	934,061	146,774	1,801,946	-
Categorised as financial liabilities measured at amortised cost	934,061	146,774	1,801,946	-

All amounts are short term and payable in 0 to 3 months.

Credit risk

The maximum exposure to credit risk at the reporting date by class of financial asset was:

	Group 2008	Company 2008	Group 2007	Company 2007
	£	£	£	£
Loans and receivables	4,418,889	1,979,935	11,645,249	9,567,224

Interest rate risk

The nature of the Group's activities and the basis of funding are such that the Group has significant liquid resources. The Group uses these resources to meet the cost of future research and development activities. Consequently, it seeks to minimise risk in the holding of its bank deposits while maintaining a reasonable rate of interest. The Group is not financially dependent on the income earned on these resources and therefore the risk of interest rate fluctuations is not significant to the business. Nonetheless, the Directors take steps to secure rates of interest which generate a return for the Group by depositing sums which are not required to meet the immediate needs of the Group in interest-bearing deposits. Other balances are held in interest-bearing, instant access accounts. All deposits are placed with main clearing banks to restrict both credit risk and liquidity risk. The deposits are placed for the short term, between one and three months, to provide flexibility and access to the funds and to avoid locking into potentially unattractive interest rates.

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Liquidity risk

The Group's liquid resources are invested having regard to the timing of payments to be made in the ordinary course of the Group's activities. All financial liabilities are payable in the short term (between 0 and 3 months) and the Group maintains adequate bank balances in either instant access or short term deposits to meet those liabilities as they fall due.

Currency risk

The group operates in a global market with income possibly arising in a number of different currencies, principally in Sterling, US Dollars or Euros. The majority of the operating costs are incurred in Euros with the rest predominantly in Sterling. The Group does not hedge potential future income, since the existence, quantum and timing of such income cannot be accurately predicted.

Financial assets and liabilities denominated in Euros and translated into Sterling at the closing rate were:

	Group 2008	Company 2008	Group 2007	Company 2007
	£	£	£	£
Financial assets	1,979,450	-	1,335,923	-
Financial liabilities	(767,255)	-	(552,600)	-
Net financial assets	1,212,195	-	783,323	-

The following table illustrates the sensitivity of the net result for the year and the reported financial assets of the Group in regards to the exchange rate for Sterling:Euro.

For a number of years this exchange rate has operated within a relatively close trading range prior to a sharp fall in Sterling towards the end of 2007, which has continued through 2008 such that the closing exchange rate is approximately 25% different from the opening rate. The table shows the impact of a further fall or strengthening of Sterling against the Euro by 20%.

	2008 As reported	if Sterling rose 20%	if Sterling fell 20%
	£	£	£
Group result for the year	(7,434,641)	(6,977,089)	(7,979,591)
Euro denominated net financial assets	1,212,195	1,010,163	1,515,244
Total equity at 31 December 2008	13,443,979	11,644,059	16,143,859

25. Related party transactions

There were no related party transactions during the year. In 2007, Stanford Rook Limited (a subsidiary group company) paid £15,000 to Bioscience Managers Ltd, a company specialising in the pharmaceutical sector and of which Mr Curnock Cook is a director and minority shareholder, for assistance in the presentation and marketing of part of its technology. The contract was negotiated on normal commercial terms at an arm's length basis and price.

Notes.

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