

**Company Number 05375156**

**VERONA PHARMA PLC**

**INTERIM REPORT**

**FOR THE SIX MONTHS ENDED 30 JUNE 2007**

# VERONA PHARMA PLC

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## VERONA PHARMA PLC

### Directors, Secretary and Advisers

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Directors	Michael Walker Clive Page Claire Poll Trevor Jones Stuart Bottomley	<i>(Chief Executive Officer)</i> <i>(Non-executive Chairman)</i> <i>(Executive Director)</i> <i>(Non-executive Director)</i> <i>(Non-executive Director)</i>
Company Secretary	John Bottomley	
Registered Office	30 Farringdon Street London EC4A 4HJ	
Company Number	05375156	
Auditors	UHY Hacker Young St Alphage House 2 Fore Street London EC2Y 5DH	
Nominated Adviser and Broker	WH Ireland Limited 11 St. James's Square Manchester M2 6WH	
Solicitors	Clyde & Co 51 Eastcheap London EC3M 1JP	
Principal Banker	Royal Bank of Scotland 1 <sup>st</sup> Floor Argyll House 246 Regent Street London W1B 3PB	
Registrars	Computershare Investor Services PLC PO Box 82, the Pavilions Bridgewater Road Bristol BS99 7NH	

## VERONA PHARMA PLC

### CORPORATE STATEMENT

#### FOR THE SIX MONTHS ENDED 30 JUNE 2007

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Verona Pharma plc is a life sciences company dedicated to the research, discovery and development of new therapeutic drugs for the treatment of allergic rhinitis (hay fever) and other chronic respiratory diseases such as asthma and chronic obstructive pulmonary disease (COPD), as well as chronic inflammatory diseases.

#### OPERATIONAL HIGHLIGHTS

22 January 2007	Contract signed with Onyx Scientific Limited to synthesise the required amounts of the Company's lead compound RPL554, for projected preclinical and clinical studies.
20 March 2007	Material Transfer Agreement signed with Glycan Biosciences Pty Ltd (formerly HepMim Biosciences Pty Ltd) for supply of various novel polysaccharide compounds as potential lead candidates for the Company's Novel Anti-Inflammatory Polysaccharides (NAIPs) programme.
9 May 2007	Appointed WH Ireland Limited as Nominated Adviser and Broker to the Company.
29 May 2007	Contract signed with LAB Research Inc. to initiate formal safety evaluation studies of RPL554.
Financial	Loss after tax of £0.46 million or 0.32 pence per common share.  Cash and cash equivalents at 30 June 2007 of £1.86 million.

**CHAIRMAN AND CEO'S JOINT STATEMENT  
FOR THE SIX MONTHS ENDED 30 JUNE 2007**

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Verona Pharma is pleased to report its unaudited results for the six months ended 30 June 2007. During the six month period, the Company focused on progressing its two established drug development programmes, as well as ensuring that the appropriate managerial and other functions are in place to facilitate control of those programmes. The Company also continued its search for other potential intellectual property that could be brought into the Company's development pipeline.

The approach of Verona Pharma to drug discovery and development is based upon the recognition that it is a relatively high risk area and project failure is common. In view of this, the Company has taken a strategic stance in which the risks are acknowledged and managed through diversity in the Company's programmes, while retaining its primary focus of discovering new drugs for the treatment of respiratory and inflammatory diseases.

Verona Pharma's lead programme is the RPL554 mixed phosphodiesterase, or PDE 3/4 inhibitor, which it is endeavouring to position for clinical proof of concept studies as soon as possible. We are currently undertaking preclinical safety evaluation studies to establish that RPL554 has no toxicity problems that would prevent it from proceeding to the clinical phase. Concomitant with this, we are ensuring that all the necessary preclinical data is in place to support the Company's submissions for regulatory approval to enter clinical studies.

During the six month period, the synthetic pathway for the production of scaleable quantities of the RPL554 compound was formulated and a sufficient quantity to complete our planned preclinical and clinical studies was manufactured. In May 2007, we formally initiated the preclinical safety evaluation studies to approved regulatory standards using LAB Research Inc.

As indicated above, we have now commenced the assembly of our regulatory dossier and it is our intention to initiate exploratory visits to European regulators in the near future. We are thus on target to have completed the necessary safety studies with our flagship compound RPL554 by the end of this year in which case we hope to be able to enter Phase 1 clinical studies sometime in the first half of 2008.

Verona Pharma's second project, Novel Anti-Inflammatory Polysaccharides (NAIPs), is now well underway in the exploratory phase of identifying sources of novel glycosylated aminoglycan compounds and screening them for activity. We are pleased to have made significant progress in establishing processes and procedures to identify, from a variety of possible sources, compounds that meet our criteria for a potential drug candidate. As part of this research activity we have and are establishing a network of collaborators for performing essential studies and providing materials. In addition to collaborators such as Glycomar Limited and Glycores 2000 S.r.l., the Company also has research collaborations with King's College London and The University of British Columbia in Vancouver, Canada for ongoing research related to its drug development programmes. We are also obtaining materials from other parties such as Glycan Biosciences Pty Ltd (formerly HepMin Biosciences Pty Ltd) so as to extend our sources of novel polysaccharides in the Company's NAIPs programme.

As part of the essential overall Company strategy we are constantly evaluating other research opportunities with the potential to bring a new project into Verona Pharma's product pipeline. During the six month period, we evaluated a number of such opportunities.

In addition to our satisfaction with scientific progress to date, other aspects of the Company are also developing. For example, we were very pleased to have appointed WH Ireland Limited as our Nominated Adviser and Broker in May this year. We look forward to working very closely with WH Ireland Limited as the Company progresses in the future.

**VERONA PHARMA PLC**

**CHAIRMAN AND CEO'S JOINT STATEMENT  
FOR THE SIX MONTHS ENDED 30 JUNE 2007**

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As at the date of this report, the Company had approximately £1.7 million in cash and cash equivalents. Based on operating cash flow projections as prepared by management, it will be sufficient to fund the business operations for a minimum of twelve months assuming no acquisition of new intellectual properties and based on current cost experience and level of operations. The Board is satisfied with the progress made in the period under review and believes that the Company is well positioned to deliver significant progress in the upcoming months.

On behalf of the Board, we would like to take this opportunity to thank our shareholders for their continued support.

Professor Clive P. Page

Chairman

Professor Michael J. A. Walker

Chief Executive Officer

VERONA PHARMA PLC

**GROUP INCOME STATEMENT  
FOR THE SIX MONTHS ENDED 30 JUNE 2007**

	Notes	6 months ended 30 June 2007 (unaudited) £	6 months ended 30 June 2006 (unaudited) £	Year ended 31 December 2006 (audited) £
Revenue		-	-	-
Cost of sales		-	-	-
<b>Gross profit/(loss)</b>				
Research and development		(289,006)	-	(136,200)
Administration expenses		(220,475)	(84,396)	(534,877)
<b>Operating loss</b>		(509,481)	(84,396)	(671,077)
Finance revenue		51,843	30,160	62,686
<b>Loss before taxation</b>		(457,638)	(54,236)	(608,391)
Taxation		-	-	-
<b>Loss for the period</b>		(457,638)	(54,236)	(608,391)
Loss per ordinary share – basic	2	0.32p	0.11p	0.79p

**GROUP BALANCE SHEET  
AS AT 30 JUNE 2007**

	As at 30 June 2007 (unaudited) £	As at 30 June 2006 (unaudited) £	As at 31 December 2006 (audited) £
<b>ASSETS</b>			
<b>Non current assets</b>			
Tangible assets	14,148	-	17,362
Intangible assets	66,582	-	61,686
Goodwill	1,469,112	-	1,469,112
	<u>1,549,842</u>	<u>-</u>	<u>1,548,160</u>
<b>Current assets</b>			
Trade and other receivables	105,138	164,188	52,683
Short-term investment	-	-	1,300,000
Cash and cash equivalents	1,855,000	862,798	1,063,249
	<u>1,960,138</u>	<u>1,026,986</u>	<u>2,415,932</u>
<b>Total assets</b>	<u>3,509,980</u>	<u>1,026,986</u>	<u>3,964,092</u>
<b>EQUITY AND LIABILITIES</b>			
<b>Capital and Reserves attributable to Equity holders</b>			
Called up share capital	144,275	50,200	144,275
Other reserves	298,056	(32,799)	298,056
Share premium account	4,038,256	903,412	4,038,256
Retained losses	(1,040,062)	(28,269)	(582,424)
<b>Total equity</b>	<u>3,440,525</u>	<u>892,544</u>	<u>3,898,163</u>
<b>Current liabilities</b>			
Trade and other payables	69,455	134,442	65,929
<b>Total liabilities</b>	<u>69,455</u>	<u>134,442</u>	<u>65,929</u>
<b>Total equity and liabilities</b>	<u>3,509,980</u>	<u>1,026,986</u>	<u>3,964,092</u>

**GROUP CASH FLOW STATEMENT  
FOR THE SIX MONTHS ENDED 30 JUNE 2007**

	6 months ended 30 June 2007 (unaudited) £	6 months ended 30 June 2006 (unaudited) £	Year ended 31 December 2006 (audited) £
<b>Net cash inflow/(outflows) from operating activities</b>	(554,868)	(149,770)	(351,270)
<b>Cash flows from investing activities</b>			
Interest received	54,802	30,160	53,684
(Purchase) sale of short-term investment	1,300,000	-	(1,300,000)
Purchase of tangible assets	-	-	(14,949)
Purchase of intangible assets	(8,183)	-	-
Net liabilities assumed from acquisition of subsidiary	-	-	(15,543)
<b>Net cash inflow/(outflows) from investing activities</b>	1,346,619	30,160	(1,276,808)
<b>Cash flows from financing activities</b>			
Proceeds from issue of shares	-	-	2,043,000
Issue costs	-	-	(334,081)
<b>Net cash inflow from financing activities</b>	-	-	1,708,919
<b>Net increase (decrease) in cash and cash equivalents</b>	791,751	(119,610)	80,841
Cash and cash equivalents at the beginning of the period	1,063,249	982,408	982,408
<b>Cash and cash equivalents at the end of the period</b>	1,855,000	862,798	1,063,249
<b>Reconciliation of operating loss to net cash outflow from operating activities</b>			
Operating loss	(509,481)	(84,396)	(671,077)
Cost of issuing share options	-	-	298,056
Increase in trade and other receivables	(55,414)	(155,270)	(34,763)
Increase in trade and other payables	3,526	122,695	54,182
Amortisation of tangible assets	3,213	-	750
Amortisation of intangible assets	3,288	-	1,582
Effect of exchange rate changes	-	(32,799)	-
<b>Net cash outflow from operating activities</b>	(554,868)	(149,770)	(351,270)

**GROUP STATEMENT OF CHANGES IN NET EQUITY  
FOR THE SIX MONTHS ENDED 30 JUNE 2007**

	Share capital £	Share premium £	Other Reserve £	Retained earnings £	Total £
<b>Balance at 1 January 2007</b>	144,275	4,038,256	298,056	(582,424)	3,898,163
Net loss for the period	-	-	-	(457,638)	(457,638)
<b>Balance at 30 June 2007 (unaudited)</b>	<b>144,275</b>	<b>4,038,256</b>	<b>298,056</b>	<b>(1,040,062)</b>	<b>3,440,525</b>
<b>Balance at 1 January 2006</b>	50,200	903,412	-	25,967	979,579
Net loss for the period	-	-	-	(54,236)	(54,236)
Exchange adjustments	-	-	(32,799)	-	(32,799)
<b>Balance at 30 June 2006 (unaudited)</b>	<b>50,200</b>	<b>903,412</b>	<b>(32,799)</b>	<b>(28,269)</b>	<b>892,544</b>
<b>Balance at 1 January 2006</b>	50,200	903,412	-	25,967	979,579
Issue of shares	94,075	3,668,925	-	-	3,763,000
Issue costs	-	(534,081)	-	-	(534,081)
Share option charge	-	-	298,056	-	298,056
Net loss for the period	-	-	-	(608,391)	(608,391)
<b>Balance at 31 December 2006 (audited)</b>	<b>144,275</b>	<b>4,038,256</b>	<b>298,056</b>	<b>(582,424)</b>	<b>3,898,163</b>

## NOTES TO THE UNAUDITED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2007

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### 1. Publication of non-statutory accounts

i) The interim financial statements for the six months ended 30 June 2007 are unaudited and do not constitute statutory accounts within the meaning of Section 240 of the Companies Act 1985. They were approved by the board of directors on 7 September 2007. The figures for the year ended 31 December 2006 have been extracted from the statutory accounts which have been reported on by the Company's auditor.

ii) Accounting policies

The interim financial statements for the six months ended 30 June 2007 includes the results of Verona Pharma and its wholly-owned subsidiary Rhinopharma Limited. The unaudited results for the period have been prepared on the basis of accounting policies adopted in the audited accounts for the year ended 31 December 2006.

iii) The directors do not recommend the payment of a dividend (period to 30 June 2006 - £Nil, year ended 31 December 2006 - £Nil).

iv) A copy of this report will be sent to shareholders and copies of the interim report are available on the company's website [www.veronapharma.com](http://www.veronapharma.com)

### 2. Earnings per share

i) Basic loss per share of (0.32p) (30 June 2006: loss of 0.11p, 31 December 2006: loss of 0.79p) for the Group is calculated by dividing the loss for the period by the weighted average number of ordinary shares in issue of 144,275,000 (30 June 2006: 50,200,000, 31 December 2006: 77,262,671).

ii) Diluted loss per share has not been presented since the Company's stock options are anti-dilutive.

### 3. Subsequent events

Options over 1,280,000 ordinary shares were issued to employees, consultants, and scientific advisers on 4 July 2007 with an exercise price of 4 pence per ordinary share. The options are exercisable on or before 5 July 2012 and options in respect of 25 per cent. of the ordinary shares became exercisable immediately upon issue, with the options in respect of the remaining 75 per cent of the ordinary shares becoming exercisable in equal proportions on the first, second, and third anniversary of the date of grant.

### 4. Comparatives

The comparatives include audited figures for the year ended 31 December 2006 and unaudited figures for the six months ended 30 June 2006.