

VERONA PHARMA PLC

("Verona Pharma" or the "Company")

PRELIMINARY AUDITED RESULTS for the twelve months ended 31 December 2007

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.

2007 OPERATIONAL HIGHLIGHTS

22 January 2007	Signed a contract with Onyx Scientific Limited to synthesise the Company's lead compound, RPL554, for projected preclinical and clinical studies.
20 March 2007	Material transfer agreement signed with HepMin Biosciences Pty Ltd for supply of polysaccharides for testing under NAIPs programme.
29 May 2007	Engaged LAB Research Inc. to initiate formal preclinical safety evaluation studies of RPL554.
4 October 2007	RPL554 entered a 28-day experimental toxicology study to demonstrate safety.
6 November 2007	RPL554 entered a second 28-day experimental inhalation toxicology study in another species.
13 November 2007	Expanded drug development portfolio with the launch of a third development programme for a drug for the treatment of coughing.
13 December 2007	Raised £100,000, before expenses, by way of placing of 2,500,000 new ordinary shares in the Company at 4p per share.
Financial	Loss after tax of £1.2 million or 0.84 pence per common share, which includes a non-cash charge of £0.11 million for the cost of issuing share options. Cash and cash equivalents at 31 December 2007 of £1.25 million.

SUBSEQUENT EVENT HIGHLIGHTS

8 January 2008	Raised £2,319,333, before expenses, by way of placing of 57,983,325 new ordinary shares in the Company at 4 pence per share.
26 February 2008	Clinical trial planning underway for RPL554 as experimental inhalation toxicity studies near completion.

CHAIRMAN AND CEO'S JOINT STATEMENT

The 2007 year saw Verona Pharma reach a number of important milestones in its quest to discover and develop new drugs for treating respiratory and inflammatory diseases. The main focus for Verona Pharma was its lead clinical candidate RPL554, an inhibitor of both phosphodiesterase 3 and 4 enzymes. Inhibition of these enzymes is associated with improved respiratory tract function and modulation of inflammatory processes.

In January 2007 the Company contracted Onyx Scientific of Sunderland, UK to produce a chemical batch of the RPL554 compound according to Good Manufacturing Practice (GMP). The batch was delivered in time for the Company's planned preclinical toxicology studies of RPL554 at LAB Research Inc. of Hungary in the second and third quarters of 2007. LAB Research's interim reports from its dose-ranging and repeated exposure studies in two species indicated no notable significant adverse effects with the compound. Other safety and toxicology studies commissioned with companies such as CEREP of France are currently being completed.

Findings so far indicate that RPL554 is an excellent candidate for the proposed human safety and effectiveness trials scheduled to begin mid 2008. Currently we are preparing the necessary documentation to obtain approval from regulators to commence these trials.

Verona Pharma's second project is Novel Anti-Inflammatory Polysaccharides (NAIPs). This programme was established to discover new types of drugs for treating inflammatory diseases such as allergic rhinitis and asthma. So far the programme has been successful in identifying a number of compounds that have the appropriate biological activity in cell-based tests. In order to achieve this we screened numerous compounds obtained from partners such as GlycoMar Limited of Scotland, who we subsequently contracted to perform screening and other tasks. During this time, the Company has further developed relationships with academic groups at King's College London and The University of British Columbia in Vancouver, Canada as well as with one of the leading glycobiochemists at the National Institute for Biological Standards and Control in the UK in an attempt to identify a lead compound suitable for further experimental investigation for potential new drugs.

In November 2007 Verona Pharma further expanded its drug discovery portfolio with a new research programme aimed at intractable cough. Intractable cough has no effective treatment at this time and thus represents a large market opportunity. We have acquired know-how from a North American biotechnology company in return for a small royalty on future sales. We have identified a potential lead compound and are initiating preclinical experimental studies with the hope of moving quickly into preparatory safety and toxicity studies suitable for regulatory purposes.

The Company's administrative and financial positions are sound. Despite uncertain financial markets we recently raised £2.3 million. As of the date of this report, the Company has approximately £3.3 million in cash and cash equivalents.

Verona Pharma's Board of Directors is highly satisfied with progress made during the period. We believe that the Company is in a favourable position to see significant progress with its research programmes in 2008.

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

**GROUP INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2007**

	Notes	Year ended 31 December 2007 £	Year ended 31 December 2006 £
Revenue		-	-
Cost of sales		-	-
		<hr/>	<hr/>
Gross profit		-	-
Research and development		(755,789)	(136,200)
Administration expenses		(558,318)	(534,877)
		<hr/>	<hr/>
Operating loss		(1,314,107)	(671,077)
Finance revenue		96,844	62,686
		<hr/>	<hr/>
Loss before taxation		(1,217,263)	(608,391)
Taxation	4	-	-
		<hr/>	<hr/>
Loss for the period		(1,217,263)	(608,391)
		<hr/> <hr/>	<hr/> <hr/>
Loss per ordinary share – basic and diluted	2	(0.84)p	(0.79)p

**GROUP BALANCE SHEET
AS AT 31 DECEMBER 2007**

	Notes	31 December 2007 £	31 December 2006 £
ASSETS			
Non current assets			
Tangible assets		16,058	17,362
Intangible assets		66,626	61,686
Goodwill	10	1,469,112	1,469,112
		<u>1,551,796</u>	<u>1,548,160</u>
Current assets			
Trade and other receivables		241,575	52,683
Short-term investment	7	-	1,300,000
Cash and cash equivalents	6	1,252,063	1,063,249
		<u>1,493,638</u>	<u>2,415,932</u>
Total assets		<u>3,045,434</u>	<u>3,964,092</u>
EQUITY AND LIABILITIES			
Capital and Reserves attributable to Equity holders			
Called up share capital		146,775	144,275
Option reserves		405,313	298,056
Share premium account		4,135,756	4,038,256
Retained losses		(1,799,687)	(582,424)
Total equity		<u>2,888,157</u>	<u>3,898,163</u>
Current liabilities			
Trade and other payables		157,277	65,929
Total liabilities		<u>157,277</u>	<u>65,929</u>
Total equity and liabilities		<u>3,045,434</u>	<u>3,964,092</u>

**GROUP CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2007**

	Notes	Year ended 31 December 2007	Year ended 31 December 2006
		£	£
Net cash outflow from operating activities		(1,204,740)	(351,270)
Cash flow from investing activities			
Interest received		110,758	53,684
Sale/(purchase) of short-term investment		1,300,000	(1,300,000)
Purchase of tangible assets		(5,291)	(14,949)
Purchase of intangible assets		(11,913)	-
Net liabilities assumed from acquisition of subsidiary		-	(15,543)
Net cash inflow/(outflow) from investing activities		1,393,554	(1,276,808)
Cash flow from financing activities			
Proceeds from issue of shares		-	2,043,000
Issue costs		-	(334,081)
Net cash inflow from financing activities		-	1,708,919
Net increase in cash and cash equivalents		188,814	80,841
Cash and cash equivalents at the beginning of the year		1,063,249	982,408
Cash and cash equivalents at the end of the year	6	1,252,063	1,063,249

**GROUP STATEMENT OF CHANGES IN NET EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2007**

	Share capital £	Share premium £	Option reserve £	Retained earnings £	Total 2007 £
Balance at 1 January 2006	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 year	-	-	-	(608,391)	(608,391)
Balance at 31 December 2006	144,275	4,038,256	298,056	(582,424)	3,898,163
Issue of shares	2,500	97,500	-	-	100,000
Issue costs	-	-	-	-	-
Share option charge	-	-	107,257	-	107,257
Net loss for the year	-	-	-	(1,217,263)	(1,217,263)
Balance at 31 December 2007	146,775	4,135,756	405,313	(1,799,687)	2,888,157

NOTES TO THE FINANCIAL STATEMENTS

1. Accounting policies

A summary of the principal accounting policies, all of which have been applied consistently throughout the period, is set out below.

1.1. Basis of preparation

The financial statements have been prepared using the historical cost convention. In addition, the financial statements have been prepared in accordance with the International Financial Reporting Standards (“IFRSs”).

1.2. Basis of consolidation

These group financial statements include the accounts of Verona Pharma plc and its wholly-owned subsidiary Rhinopharma Limited. The purchase method of accounting is used to account for the acquisition of Rhinopharma Limited, and full consolidation of the subsidiary started from 18 September 2006 when control was established. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group’s share of the identifiable net assets acquired is recorded as goodwill. Goodwill arising on acquisitions is capitalised and subject to an impairment review, both annually and when there are indications that the carrying value may not be recoverable.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated.

Rhinopharma Limited adopts the same accounting policies as the Company.

1.3. Cash and cash equivalents

The Company considers all highly liquid investments, with a maturity of 90 days or less to be cash equivalents, carried at the lower of cost or market value.

1.4. Financial instruments

(a) Fair values

The carrying amounts of cash and cash equivalents; short-term investment, receivables, and accounts payable and accrued liabilities, approximate to fair value due to their short-term nature.

(b) Credit risk

Credit risk reflects the risk that the Company may be unable to recover contractual receivables. The Company is still in the development stage; therefore, no policies are required at this time to mitigate this risk.

(c) Currency risk

Foreign currency risk reflects the risk that the Company’s net assets will be negatively impacted due to fluctuations in exchange rates. The Company has not entered into foreign exchange contracts to hedge against gains or losses from foreign exchange fluctuations. At 31 December 2007, cash and

cash equivalents include no foreign currency, and accounts payable and accrued liabilities include balances of CAD\$4,822, Euro €10,491, and AUD\$4,400.

1.5. Critical accounting judgements and estimates

The preparation of financial statements in conformity with International Financial Reporting Standards requires the use of accounting estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reporting period. Although these estimates are based on management's best knowledge of current events and actions, actual results ultimately may differ from those estimates. IFRSs also require management to exercise its judgement in the process of applying the Group's accounting policies.

The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are as follows:

(a) Impairment of intangible assets

Determining whether an intangible asset is impaired requires an estimation of whether there are any indications that its carrying value is not recoverable.

At each reporting date, the Company reviews the carrying value of its tangible and intangible assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed to the income statement.

(b) Valuation of goodwill

Management values goodwill after taking into account the results of research efforts and estimated future sales and costs. If the assumed factors vary from actual occurrence, this will impact on the amount of the asset which should be carried on the balance sheet.

(c) Share based payments

The Group records charges for share based payments. For option based share based payments management estimate certain factors used in the option pricing model, including volatility, exercise date of options and number of options likely to be exercised. If these estimates vary from actual occurrence, this will impact on the value of the equity carried in the reserves.

1.6. Management of capital

The Group considers capital to be its equity reserves. At the current stage of the Group's life cycle the Group's objective in managing its capital is to ensure funds raised meet the research and operating requirements until the next development stage of the Group's suite of projects.

The Group ensures it is meeting its objectives by reviewing its Key Performance Indicators ("KPIs") to ensure its research activities are progressing in line with expectations, controlling costs and placing unused funds on deposit to conserve resources and increase returns on surplus cash held.

1.7. New standards and interpretations not applied

During the year, the IASB and IFRIC have issued new standards, amendments and interpretations with an effective date after the date of these financial statements. Of these, only the following is expected to be relevant to the Group:

IFRS 8 Operating segments 1 January 2009

The Directors do not anticipate that the adoption of this standard will have a material impact on the Group's financial statements in the period of initial application.

2. Earnings per share

Basic loss per share of (0.84p) (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 144,405,137 (2006: 77,262,671).

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

3. Segmental information

The primary segmental reporting is determined to be by geographical segment according to the location of the assets. The Directors do not believe that there is a secondary segment that could be reported.

There are two geographical reporting segments.

Geographical segment (Group)	United Kingdom	Canada	Total
	£	£	£
Research and development	(755,789)	-	(755,789)
Administration expenses	(548,453)	(9,865)	(558,318)
Finance revenue	96,842	2	96,844
Loss before taxation	<u>(1,207,400)</u>	<u>(9,863)</u>	<u>(1,217,263)</u>
Tangible assets	16,058	-	16,058
Intangible assets	66,626	-	66,626
Trade and other receivables	236,917	4,658	241,575
Cash and cash equivalents	1,250,276	1,787	1,252,063
Goodwill	1,469,112	-	1,469,112
Trade and other payables	(157,277)	-	(157,277)
Net assets	<u>2,881,712</u>	<u>6,445</u>	<u>2,888,157</u>

At the end of the financial year, the Group was still in early development stage and therefore had no turnover in the year.

	2007 £	2006 £
4. Taxation		
Factors affecting the tax charge for the year		
Loss on ordinary activities before taxation	(1,217,263)	(608,391)
Multiplied by standard rate of corporation Tax of 30.00%	(365,179)	(182,517)
Effects of:		
Non deductible expenses	33,362	94,466
Depreciation and amortisation	4,070	700
Capital allowances	(7,394)	(1,756)
Other tax adjustments	-	-
Tax losses carried forward	335,141	89,107
Current tax charge	-	-

Factors that may affect future tax charges

At the balance sheet date, the Group has unused United Kingdom tax losses available for offset against suitable future profits in the United Kingdom. A deferred tax asset has not been recognised in respect of such losses due to uncertainty of future profit streams. The contingent deferred tax asset is estimated to be £375,000.

5. Subsidiary entities

The Company currently has one wholly owned subsidiary, Rhinopharma Limited. Rhinopharma Limited is incorporated under the laws of the Province of British Columbia, Canada. Rhinopharma is a drug discovery and development company focused on developing proprietary drug to treat allergic rhinitis and other respiratory diseases.

	2007 £	2006 £
6. Cash and cash equivalents		
Group		
Cash at bank and in hand	152,063	263,249
Cash equivalents	1,100,000	800,000
	1,252,063	1,063,249

7. Short-term investment

Short-term investment comprises a term deposit with an interest rate of 4.92% maturing in April 2007. Due to the nature and term of the investment the Company does not feel it is subject to fair value of cash flow interest rate risk.

8. Cost of issuing share options

Included within administration expenses is a charge for issuing share options. The Company granted 1,280,000 (2006: 13,885,500) stock options during the current year with fair value using the Black-Scholes option-pricing model of £107,257 (2006: £193,772).

The 1,280,000 stock options granted in the current year are exercisable at 4 pence per option and the expiry date of these stock options is 4 July 2012.

The following assumptions were used for the Black-Scholes valuation of stock options granted in the current year:

Year/Type	2007	2007
	Consultants	Employees
Options granted	900,000	380,000
Risk-free interest rate	4.63%	4.63%
Expected life of options	5 years	5 years
Annualised volatility	51.26%	51.26%
Dividend rate	0.00%	0.00%

9. Related parties transactions

The Company was charged £41,562 (2006: £13,659) by Magic Bullets Enterprises Limited, a company of which Prof. Michael Walker is a Director.

The Company was charged £22,500 (2006: £6,490) by Gryon Consulting Limited, a company of which Prof. Clive Page is a Director.

The Company paid £Nil (2006: £7,889) to Verona Capital Pty Ltd, a company of which Craig Burton was a Director in 2006, for corporate services. In addition, rent and corporate services charge of £Nil (2006: £1,407) was paid to Mirabela Nickel, a company of which Craig Burton was also a Director. Craig Burton resigned as a Director of the Company on 18 September 2006.

The Company paid £Nil (2006: £20,000) to the Directors Stuart Bottomley and Claire Poll for consulting services incurred for the AIM re-admission.

	2007 £	2006 £
10. Goodwill		
Group		
Goodwill	1,469,112	1,469,112
Company		
Goodwill	1,453,570	1,453,570

Goodwill represents the excess of the purchase price over the fair value of the net assets acquired in connection with the acquisition of Rhinopharma Limited in September 2006. The Company has elected to test goodwill for impairment as of 31 December of each year. Based on the evaluation performed as of 31 December 2007, the Company concluded that no impairment was required.

11. Subsequent events

On 8 January 2008, the Company raised £2,232,511 net, after expenses of £86,822, by way of a placing of 57,983,325 new ordinary shares of 0.1p each in the Company at 4 pence per share.

1,159,666 ordinary share options were issued to WH Ireland Limited, the Company's nominated adviser and broker, on 8 January 2008 with an exercise price of 4 pence per option. The options are exercisable on or before 8 January 2011, and vested immediately.

12. Financial information

The financial information set out in this announcement does not constitute the Company's statutory accounts for the years ended 31 December 2007 or 2006. The statutory accounts for the year ended 31 December 2007 will be finalised on the basis of the financial information presented by the Directors in this preliminary announcement and will be delivered to the Registrar of Companies.

13. Directors' report and accounts

Copies of the full report and accounts will be posted to shareholders on or around 10 April 2008. A copy will be made available on the Company's website (www.veronapharma.com) at the same time.

14. Annual General Meeting

The Company intends to convene an annual general meeting of shareholders on or around 23 May 2008 at 11.30am at One America Square, Crosswall, London EC3N 2SG. A notice to convene the AGM will be dispatched to shareholders at the same time the full report and accounts are dispatched.

ENDS

For further information please visit www.veronapharma.com or contact:

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