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This document comprises an admission document for the purposes of the AIM Rules. This document does not constitute, and the Company is not making, an offer of transferable securities to the public within the meaning of sections 85 and 102B of FSMA or otherwise. This document is not an approved prospectus for the purposes of and as defined in section 85 of FSMA and it has not been prepared in accordance with the Prospectus Rules nor has it been approved by the FSA and a copy has not been delivered to the FSA under regulation 3.2 of the Prospectus Rules. An application has been made for the Enlarged Share Capital of the Company to be admitted to trading on AIM. It is expected that dealings in the Enlarged Share Capital on AIM will commence on 4 December 2007.

**AIM is a market designed primarily for emerging or smaller companies to which a higher investment risk tends to be attached than to larger or more established companies. AIM securities are not admitted to the official list of the UK Listing Authority. A prospective investor should be aware of the risks of investing in such companies and should make the decision to invest only after careful consideration and, if appropriate, consultation with an independent financial adviser. Each AIM company is required, pursuant to the AIM Rules for Companies, to have a nominated adviser. The nominated adviser is required to make a declaration to the London Stock Exchange on admission in the form set out in Schedule Two to the AIM Rules for Nominated Advisers. The London Stock Exchange has not itself examined or approved the contents of this document.**

To the best of the knowledge and belief of the Directors, who have taken all reasonable care to ensure that such is the case, the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information. The Company and the Directors, whose names are set out on page 3, accept responsibility, both individually and collectively, for the information contained in this document and for compliance with the AIM Rules. No person is authorised to give any information or make any representations in connection with the Placing, Subscriptions or Admission other than is contained in this document.

**The whole text of this document should be read. The attention of prospective investors is drawn in particular to Part 2 of this document entitled "Risk Factors".**

## **Medgenics, Inc.**

*(Registered in the State of Delaware, USA under file number 3166521)*

### **Placing of 9,640,000 Common Shares at 10p per share and Admission to trading on AIM**

Nominated Adviser  
**Blomfield Corporate Finance Limited**

Broker  
**SVS Securities plc**

#### **SHARE CAPITAL ON ADMISSION**

<i>Authorised</i>			<i>Issued</i>	
<i>Amount</i>	<i>Number</i>		<i>Amount</i>	<i>Number</i>
US \$50,000	500,000,000	Common Shares of par value of US \$0.0001 each	US \$10,409	104,093,417

All of the Common Shares will, upon Admission, rank pari passu in all respects and will rank in full for all dividends and other distributions declared, paid or made in respect of the Common Shares after Admission.

Blomfield Corporate Finance Limited's responsibilities as the Company's Nominated Adviser under the AIM Rules are owed solely to the London Stock Exchange and are not owed to the Company or to any Director or to any other person in respect of their decision to acquire Common Shares in the Company in reliance on any part of this document. Blomfield Corporate Finance Limited has not authorised the contents of this document. No liability whatsoever is accepted by Blomfield Corporate Finance Limited for the accuracy of any information or opinions contained in this document or for the omission of any material information from this document for which the Company and the Directors are solely responsible.

SVS Securities plc, which is a member of London Stock Exchange, is the Company's Broker and is acting exclusively for the Company in connection with the Placing. SVS Securities plc will not be responsible to anyone other than the Company for providing the protections afforded to customers of SVS Securities plc or for advising any other person on the Placing and other arrangements described in this document.

This document does not constitute an offer of, or the solicitation of an offer to subscribe for or buy, Common Shares to any person in any jurisdiction to whom it is unlawful to make such offer or solicitation. In particular, this document is not for distribution by any means in or into the USA, Canada, Australia, South Africa or Japan or any other jurisdiction where to do so would be in breach of any applicable law and/or regulation. Persons into whose possession this document comes are required by the Company and SVS to inform themselves about any such restrictions and to observe such restrictions. The Common Shares have not been and will not be registered under the US Securities Act of 1933 (as amended). Accordingly, the Common Shares may not, subject to certain exceptions, be offered or sold directly or indirectly in or into the USA, Canada, Australia, South Africa or Japan or to or for the benefit or account of any US persons or any national, citizen or resident of the USA, Canada, Australia, South Africa or Japan.

Copies of this document will be available free of charge to the public during normal business hours on any day (Saturdays, Sundays and public holidays excepted) at the offices of Blomfield Corporate Finance Limited, 12 Pepper Street, London E14 9RP from the date of this document until one month from the date of Admission in accordance with Rule 3 of the AIM Rules.

The New Shares have not been registered under the US Securities Act and are restricted securities as defined in Rule 144 promulgated under the US Securities Act. A subscriber or purchaser of the New Shares may not offer, sell, pledge or otherwise transfer the New Shares in the US or to, or for the account or benefit of, any US Person, except pursuant to in a transaction meeting the requirements of Regulation S under the US Securities Act, an effective registration statement under the US Securities Act or an exemption from the registration requirements of the US Securities Act. Hedging transactions in the Common Shares may not be conducted, directly or indirectly, unless in compliance with the US Securities Act. The certificates evidencing the New Shares will bear a legend to that effect, unless the Company determines otherwise in compliance with applicable law.

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## DIRECTORS, SECRETARY AND ADVISERS

<b>Directors</b>	Eugene Andrew Bauer M.D. ( <i>Non-Executive Chairman</i> ) Andrew Leonard Pearlman Ph.D. ( <i>President and CEO</i> ) Joel Stephen Kanter ( <i>Non-Executive Director</i> ) Gary Allan Brukardt ( <i>Non-Executive Director</i> ) Stephen Devon McMurray M.D. ( <i>Non-Executive Director</i> )
<b>Company Secretary</b>	Phyllis Bellin
	All of:
<b>Registered office</b>	2711 Centreville Road Suite 400 Wilmington, 19808 New Castle Delaware, USA
<b>Principal place of business</b>	12 Hanapach Street P.O. Box 6314 Karmiel 21653, Israel
<b>Telephone number</b>	+972 4 958 8555
<b>Nominated Adviser</b>	Blomfield Corporate Finance Limited 12 Pepper Street London E14 9RP, UK
<b>Broker</b>	SVS Securities plc 2 London Wall Buildings London Wall London EC2M 5PP, UK
<b>Agent to the Subscriptions</b>	Arbel Capital Group Limited 3 Daniel Frisch Street 64731 Tel Aviv, Israel
<b>Reporting Accountant</b>	haysmacintyre Fairfax House 15 Fulwood Place London WC1V 6AY, UK
<b>Auditor</b>	Kost Forer Gabbay & Kasierer (a member of Ernst and Young Global) 3 Aminadav Street Tel Aviv 67067, Israel
<b>Solicitors to Medgenics</b>	<u>UK:</u> Duane Morris 4 Chiswell Street London EC1Y 4UP  <u>US:</u> Barack Ferrazzano Kirschbaum & Nagelberg LLP 200 West Madison Street Suite 3900 Chicago Illinois 60606-3465  <u>Israel:</u> Yigal Arnon & Partners Round Building Mercaz Azrielli 1 46th - 47th Floor Tel Aviv 67021

<b>Solicitor providing opinion on Israeli law to Medgenics</b>	Cohen Legal Partners Beit Zohar 13 Hasadna Street PO Box 2647, Ra'anana 43000, Israel
<b>Patent and licensing counsel</b>	Pearl Cohen Zedek Latzer LLP 12 <sup>th</sup> Floor, 1500 Broadway New York 10036, USA
<b>Specialist consultancy providing technology opinion</b>	ProPharma Partners Limited 10 The Courtyard East Park Crawley West Sussex RH10 6AG, UK
<b>Solicitor to the Placing</b>	Fasken Martineau Stringer Saul LLP 17 Hanover Square London W1S 1HU, UK
<b>Registrar</b>	Capita Registrars (Jersey) Limited 12 Castle Street St Helier Jersey JE2 3RT
<b>Investor Relations</b>	Citigate Dewe Rogerson 3 London Wall Buildings London Wall London EC2M 5SY, UK
<b>Website</b>	<a href="http://www.medgenics.com">www.medgenics.com</a>

## DEFINITIONS

In this document, where the context permits, the expressions set out below shall bear the following meanings:

<b>"Admission"</b>	the admission of the Enlarged Share Capital of the Company to trading on AIM and such admission becoming effective in accordance with the AIM Rules
<b>"Advisers' Shares"</b>	the 3,084,422 Common Shares to be issued to certain advisers to the Company and others in accordance with the provisions of the agreements and arrangements summaries in paragraphs 7.17, 7.24, 7.32, 7.35 ,7.39 and 7.40 of Part 7 of this document
<b>"AIM Rules"</b>	together, the AIM Rules for Companies and the AIM Rules for Nominated Advisers, governing admission to and the operation of AIM, as published by the London Stock Exchange
<b>"AIM"</b>	the AIM market of the London Stock Exchange
<b>"April/July Subscription"</b>	the subscription for the April/July Subscription Shares which becomes effective on Admission for an aggregate of US \$2,963,764 pursuant to the April/July Subscription Agreements
<b>"April/July Subscription Agreements"</b>	together, the conditional agreements referred to in paragraphs 7.22 and 7.25 of Part 7 of this document
<b>"April/July Subscription Shares"</b>	15,276,924 Common Shares to be issued pursuant to the April/July Subscription, subject to Admission and certain other conditions as specified in the April/July Subscription Agreements
<b>"Blomfield"</b>	Blomfield Corporate Finance Limited, nominated adviser to the Company, which is authorised and regulated by the Financial Services Authority
<b>"Baylor"</b>	The Baylor College of Medicine (USA)
<b>"Biopump"</b>	an MO which has undergone <i>ex vivo</i> transduction with a vector such that it produces and secretes a desired therapeutic protein
<b>"Biopump Platform Technology"</b>	collectively, the Group's technology to provide protein therapy using autologous Biopumps, including the means to prepare and use them, harvesting tissue dermal samples, <i>ex vivo</i> transduction of tissue samples into Biopumps, reinsertion, dosing and ablation of Biopumps
<b>"Broker" or "SVS"</b>	SVS Securities plc, the broker to the Company for the purposes of the AIM Rules, which is authorised and regulated by the Financial Services Authority
<b>"Chief Scientist" or "OCS"</b>	the office of the Chief Scientist of the Ministry of Industry, Trade and Tourism of the State of Israel
<b>"Common Shares"</b>	common shares of par value of US \$0.0001 each in the capital of the Company, as adjusted to reflect the "forward stock split" to take effect immediately prior to Admission as described in paragraph 4.5.2 of Part 7 of this document
<b>"Company" or "Medgenics"</b>	Medgenics, Inc., a company registered in the State of Delaware, USA under file number 3166521
<b>"CREST"</b>	the computerised settlement system used to facilitate the transfer of title to shares in uncertificated form operated by Euroclear
<b>"DGCL"</b>	Delaware General Corporation Law

<b>"Directors" or "Board"</b>	the directors of the Company, whose names are set out on page 3 of this document
<b>"EPODURE"</b>	the Group's provisional trade name of its proprietary technology for sustained production and delivery of EPO by means of a Biopump
<b>"Engineered EPO tissue"</b>	a genetically modified micro organ made of tissue that produces and secretes natural EPO and maintains a micro architecture of the organ from which it is derived, while at the same time being dimensioned to allow for the infusion of nutrients and gasses into the cells and the diffusion of cellular waste out of the cells. A nucleic acid encoding human EPO is introduced into the micro organ <i>ex vivo</i> and produced and secreted by the cells upon introduction into the body. The resulting EPO has a glycosylation profile which is similar to the glycosylation profile of naturally occurring EPO
<b>"Engineered IFN-<math>\alpha</math> tissue"</b>	a genetically modified micro organ made of a population of cells, which expresses interferon alpha-2 and maintains a micro architecture of the organ from which it is derived, while at the same time being dimensioned to allow for the infusion of nutrients and gasses to the cells and the diffusion of cellular waste out of the cells. Interferon alpha -2 gene is introduced into the micro organ <i>ex vivo</i> and expressed by the cells <i>in vivo</i>
<b>"Enlarged Share Capital"</b>	together, the Existing Shares and the New Shares
<b>"Euroclear"</b>	Euroclear UK and Ireland Limited, the operator of CREST
<b>"Existing Shares"</b>	the 66,054,335 existing issued Common Shares
<b>"Financial Services and Markets Act" or "FSMA"</b>	the Financial Services and Markets Act 2000
<b>"FSA"</b>	the Financial Services Authority
<b>"Group"</b>	together, the Company, MMI and any other subsidiary from time to time of the Company
<b>"INFRADURE"</b>	the Group's provisional trade name of its proprietary technology for delivering IFN- $\alpha$ by means of a Biopump
<b>"ISIN"</b>	international security identification number
<b>"Israeli Share Option Plan" or "ISOP"</b>	the Company's Israeli Stock Option Plan, adopted by the Company for use in relation to the grant of options in Israel, the principal terms of which are summarised in paragraph 8.2 of Part 7 of this document
<b>"Letter of Credit"</b>	the irrevocable letter of credit issued by Canadian Imperial Bank of Commerce, Ontario, Canada on 28 November 2007 in favour of the Company, further details of which are set out in paragraph 7.34 of Part 7 of this document
<b>"Licence Agreement"</b>	the licence agreement dated 23 November 2005 and made between Yisum (1) and the Company (2), further details of which are set out in Part 1 and in paragraph 7.4 of Part 7 of this document
<b>"Loan Note"</b>	the convertible unsecured promissory note issued by the Company to Platinum-Montaur Life Sciences 1, LLC in consideration for the payment to the Company of US \$1.05 million pursuant to the note purchase agreement between such parties dated 13 August 2007, further details of which are set out in Part 1 and in paragraph 7.27 of Part 7 of this document

<b>"Locked-In Parties"</b>	together, the Directors, Phyllis Bellin, Stephen Bellomo, Dr. Baruch Stern, Chaya Mazouz, CIBC Trust Company (Bahamas) Limited, Chicago Investments, Inc., Chicago Private Investments, Inc., the Kanter Family Foundation, Vision Opportunity Master Fund Limited and Lord Steinberg being all of the Group's related parties and applicable employees (within the meaning of Rule 7 of the AIM Rules) at the date of this document
<b>"Lock-In Agreements"</b>	the conditional lock-in and orderly market agreements between the Company (1), the Locked-In Parties (2), SVS (3) and Blomfield (4) further details of which are set out in paragraph 7.31 of Part 7 of this document and the conditional lock-in of the shares acquired by Mr. Marshak as set out in paragraph 7.32 of Part 7 of this document
<b>"London Stock Exchange"</b>	London Stock Exchange plc
<b>"L Warrants"</b>	the issued warrants entitling the holders thereof to subscribe for and purchase up to 3,208,722 Common Shares, pursuant to the agreement referred to in paragraph 7.5 of Part 7 of this document, further particulars of which are set out in paragraph 9.2 of Part 7 of this document
<b>"MMI"</b>	Medgenics Medical (Israel) Limited, wholly owned subsidiary of Medgenics, registered in Israel with number 51-291995-2
<b>"New Shares"</b>	in aggregate 38,039,082 Common Shares, consisting of the 9,640,000 Placing Shares, the 18,897,213 Subscription Shares, the 6,417,447 Common Shares resulting from the conversion of the Loan Note and the 3,084,422 Advisers' Shares
<b>"NIH"</b>	(US) National Institute of Health
<b>"NIS"</b>	New Israeli Shekels, the official currency of Israel
<b>"November Subscription"</b>	the subscription for the November Subscription Shares which becomes effective on Admission for an aggregate of US \$599,018 pursuant to the November Subscription Agreement
<b>"November Subscription Agreement"</b>	the conditional agreement referred to in paragraph 7.33 of Part 7 of this document
<b>"November Subscription Shares"</b>	2,847,528 Common Shares to be issued pursuant to the November Subscription, subject to Admission and certain other conditions as specified in the November Subscription Agreement
<b>"Official List"</b>	the official list of the UK Listing Authority
<b>"Options"</b>	subsisting options to subscribe for 38,618,702 Common Shares granted under the Share Option Plans, further details of which are set out in paragraphs 4.10 and 8 of Part 7 of this document
<b>"Patent and Licensing Counsel"</b>	Pearl Cohen Zedek Latzer LLP
<b>"Phase I Clinical Trial"</b>	the Group's trial of EPODURE conducted on 10 patients using short acting Biopumps (prepared using immunogenic first generation adenoviral vectors) to determine the safety, dose response and early efficacy of the Biopump in producing and delivering therapeutic levels of EPO in a dose-dependent manner, causing early formation of reticulocytes
<b>"Phase I/II Clinical Trial"</b>	the Group's proposed trial of EPODURE to determine the safety and efficacy of the technology in patients and dosage levels in a sample of patients (20-30) for four-to-six months with the aim of proceeding to a multicentred Phase IIb Clinical Trial which could roll into a Phase III Clinical Trial, if successful

<b>"Phase IIb Clinical Trial"</b>	the Group's proposed trial of Biopumps producing a specific protein to test the efficacy as well as safety among a group of patients (50-200) with the condition for which the medicine has been developed to verify the therapy is ready for a Phase III Clinical Trial, if successful
<b>"Phase III Clinical Trial"</b>	the Group's proposed trial aimed at providing pivotal data to support product approval of the Biopump Platform Technology and involving a large group of patients (several hundred or more) which will help determine if the medicine can be considered both safe and effective for product approval
<b>"Placing"</b>	the conditional placing by SVS of the Placing Shares at the Placing Price pursuant to the Placing Agreement
<b>"Placing Agreement"</b>	the agreement dated 20 November 2007 between SVS (1), Blomfield (2), the Company (3) and the Directors (4), further details of which are set out in paragraph 7.36 of Part 7 of this document
<b>"Placing Price"</b>	10p per Common Share
<b>"Placing Shares"</b>	9,640,000 Common Shares, which are the subject of the Placing
<b>"Platinum Subscription Shares"</b>	the 772,761 Common Shares to be subscribed by Platinum-Montaur Life Sciences 1, LLC pursuant to the Loan Note
<b>"Platinum Warrants"</b>	the warrants conditionally to be issued by the Company to subscribe for and purchase in aggregate up to 3,537,164 Common Shares, pursuant to the agreement referred to in paragraphs 7.26 and 7.27 of Part 7 of this document, further particulars of which are set out in paragraphs 9.1 and 9.2 of Part 7 of this document
<b>"Post Admission By-laws"</b>	the by-laws of the Company, approved and adopted by Shareholders as of 23 August 2007, subject to, and conditional upon, Admission, a summary of the material provisions of which is (inter alia) set out in paragraph 5 of Part 7 of this document
<b>"Post Admission Certificate of Incorporation"</b>	the certificate of incorporation of the Company, approved and adopted by Shareholders as of 23 August 2007, subject to and conditional upon Admission, a summary of the material provisions of which is (inter alia) set out in paragraph 5 of Part 7 of this document
<b>"Proposals"</b>	together, the Placing, the Subscriptions, the conversion of the Loan Note and Admission
<b>"Prospectus Rules"</b>	rules, applying with effect from 1 July 2005, made by the FSA pursuant to section 73A of FSMA
<b>"Regulation S"</b>	Regulation S, promulgated under the US Securities Act
<b>"RS Warrants"</b>	the outstanding issued warrants entitling the holders thereof to subscribe for and purchase up to 52,162,720 Common Shares, pursuant to the agreements referred to in paragraphs 7.7 and 7.13 of Part 7 of this document, further particulars of which are set out in paragraphs 9.1 and 9.2 of Part 7 of this document
<b>"RW Warrants"</b>	the outstanding issued warrants entitling the holders thereof to subscribe for and purchase up to 1,687,168 Common Shares, pursuant to the agreement referred to in paragraph 7.7 of Part 7 of this document, further particulars of which are set out in paragraphs 9.1 and 9.3 of Part 7 of this document
<b>"Share Incentive Plan" or the "2006 Plan"</b>	the Company's 2006 Stock Incentive Plan, the principal terms of which are summarised in paragraph 8.1 of Part 7 of this document

<b>"Share Option Plans"</b>	together, the Share Incentive Plan and the ISOP
<b>"Shareholders"</b>	holders of Common Shares
<b>"Subscriptions"</b>	together, the subscription for the April/July Subscription Shares and the November Subscription Shares pursuant to the Subscription Agreements and the Platinum Subscription Shares pursuant to the Loan Note on Admission for, in aggregate, US \$3,722,220
<b>"Subscription Agreements"</b>	together, the April/July Subscription Agreements and the conditional November Subscription Agreement
<b>"Subscription Shares"</b>	18,897,213 Common Shares to be issued pursuant to the Subscriptions, subject to Admission and certain other conditions as specified in the Subscription Agreements and the Loan Note
<b>"UK Listing Authority"</b>	the Financial Services Authority acting in its capacity as the competent authority for the purposes of FSMA
<b>"UK"</b>	the United Kingdom of Great Britain and Northern Ireland
<b>"US" or "USA"</b>	the United States of America, its territories and possessions, any state of the United States of America and the District of Columbia
<b>"US Securities Act"</b>	the United States Securities Act of 1933, as amended
<b>"Warrants"</b>	together, the W Warrants, the L Warrants, the RS Warrants, the RW Warrants, the X Warrants and the Platinum Warrants
<b>"W Warrants"</b>	the outstanding issued warrants entitling the holders thereof to subscribe for and purchase up to 66,424,778 Common Shares, pursuant to the agreements referred to in paragraphs 7.8, 7.11, 7.14, 7.15, 7.16, 7.17, 7.21, 7.22, 7.23, 7.25, 7.28, 7.35 and 7.39 of Part 7 of this document, further particulars of which are set out in paragraphs 9.1 and 9.2 of Part 7 of this document
<b>"X Warrants"</b>	the outstanding issued warrants entitling the holders thereof to subscribe for and purchase up to 4,811,481 Common Shares, pursuant to the Warrants referred to in paragraphs 7.6 and 7.10 of Part 7 of this document, further particulars of which are set out in paragraphs 9.1 and 9.4 of Part 7 of this document
<b>"Yissum"</b>	Yissum Research Development Company of the Hebrew University of Jerusalem

## GLOSSARY

The following is an explanation of technical terms used throughout this document:

<b>"AAV"</b>	adeno associated virus, one of the smallest of known human viruses. There is no disease which has been to-date associated with AAV. The virus is generally regarded as minimally immunogenic and can infect non-dividing cells
<b>"ablated"</b>	the destruction of the function of a biological tissue
<b>"adenoviral vector"</b>	a non-replicating adeno virus genetically modified to include a therapeutic gene, which it carries into the cells it infects. Adenoviral vectors can be produced in high titers, efficiently infect a broad range of cell types and can infect both dividing and non-dividing cells. These vectors are also widely reported to have toxic effects on the cells they infect and to be immunogenic due to the production of immunogenic viral proteins by cells transduced with this vector, which are recognised and attacked by the immune system
<b>"adeno virus"</b>	any of a group of DNA-containing viruses that typically cause intestinal infections, respiratory illnesses, conjunctivitis or upper respiratory tract infections in humans
<b>"assay"</b>	the analysis done to determine the presence of a substance and the amount of that substance
<b>"autologous"</b>	derived or transferred from the same individual's body
<b>"bolus injection(s)"</b>	the injection of a drug(s) at high concentration/dosage level(s) in a brief time interval
<b>"capsid"</b>	the protein shell of a virus
<b>"clean room"</b>	a laboratory with a specially filtered air environment to reduce particle count to meet applicable standards
<b>"CBER"</b>	the FDA's Center for Biologics Evaluation and Research
<b>"CKD"</b>	chronic kidney disease
<b>"DNA"</b>	deoxyribonucleic acid
<b>"dosing"</b>	giving of medicines in specific pre-measured quantities into a living being at determined intervals
<b>"EMA"</b>	the European Medicines Agency, the European agency for the evaluation of medicinal products
<b>"ESRD"</b>	end stage renal disease
<b>"EPO"</b>	Erythropoietin, a glycoprotein hormone that stimulates the production of red blood cells by stem cells in bone marrow, produced mainly by the kidneys
<b>"ex vivo"</b>	occurring outside the body, e.g. in a laboratory, often referring to a portion of the body, such as a tissue sample or organ that was removed from the body
<b>"FDA"</b>	US Food and Drug Administration, the US regulatory agency which grants approvals to market drugs, biologics and medical devices
<b>"first generation adenoviral vector"</b>	an adenoviral vector in which only a few viral genes have been deleted, leaving most genes in place
<b>"G-CSF"</b>	granulocyte colony-stimulating factor, a glycoprotein growth factor or cytokine produced by a number of different body tissues, but most importantly by white blood cells and bone marrow, to stimulate the bone marrow to produce and proliferate certain types of white blood

cells that are critical to immune system function. G-CSF is frequently administered to patients with immune systems that have been weakened by cancer therapy or other disorders in order to bolster their immune system

<b>“genome”</b>	all of the genetic information, i.e. the entire genetic complement and all of the hereditary material possessed by an organism
<b>“GLP”</b>	Good Laboratory Practice, as in compliance with requirements of the FDA
<b>“glycosylation”</b>	the addition of glycosyl groups to a protein to form a glycoprotein. This natural process changes the three dimensional structure of the protein, which can alter the activity of the protein in the body
<b>“GMP”</b>	Good Manufacturing Practice – regulation of the control and management of manufacturing and quality control testing of foods and pharmaceutical products. Compliance with GMP includes documentation of every aspect of the process, activities and operations involved with drug and medical device manufacture. GMP further requires that all manufacturing and testing equipment have been qualified as suitable for use and that all operational methodologies and procedures (such as manufacturing, cleaning and analytical testing) utilised in the manufacturing process have been validated according to predetermined specifications in order to demonstrate that they can perform their intended function(s)
<b>“GP”</b>	general practitioner, a primary care medical doctor
<b>“gutless adenoviral vector”, “HDAd” or “Helper Dependent Adenoviral vector”</b>	an adenoviral vector that has had all of the viral genes removed and therefore cells transduced with this vector are not capable of producing viral proteins. This vector is unable to replicate without a helper virus because its replication machinery has been removed, along with nearly everything else—save its ends, the therapeutic DNA and the DNA sequence that enables it to package the newly replicated DNA into new virus particles.
<b>“haematocrit”</b>	the ratio of the volume occupied by packed red blood cells to the volume of the whole blood
<b>“haemoglobin”</b>	a protein that gives red blood cells their colour and combines reversibly with oxygen and is thus very important in the transportation of oxygen to tissues
<b>“half-life”</b>	the time by which the concentration of a substance taken into the body has lost one half its concentration
<b>“HCV”</b>	hepatitis C virus
<b>“helper virus”</b>	a kind of virus used during production of gutless vectors, such as the gutless adenoviral vector. The helper virus produces missing viral proteins needed to produce the gutless adenoviral vector, which lacks the genes to make the proteins it needs.
<b>“hEPO”</b>	human EPO
<b>“hGH”</b>	human Growth Hormone
<b>“IFN-<math>\alpha</math>”</b>	Interferon alpha – an interferon produced by white blood cells that inhibits viral replication and suppresses cell proliferation.
<b>“immunogenicity”</b>	the property of being able to evoke an immune response within an organism
<b>“IND”</b>	investigational new drug application process of the FDA
<b>“interferons”</b>	natural proteins produced by the cells of the immune system in response to challenges by foreign agents such as viruses, bacteria, parasites and tumour cells

<b>"in vitro"</b>	made to occur in a laboratory vessel (e.g. test-tube) or other controlled experimental environment rather than within a living organism or natural setting
<b>"in vivo"</b>	occurring within the body of an animal or person
<b>"keloid"</b>	a hard smooth raised growth of scar tissue at the site of an injury
<b>"MO"</b>	micro organ, in the context of this document, a toothpick-size sliver of dermal tissue that is harvested in such a way that it creates a unique tissue structure with long-term viability <i>ex vivo</i> . More generally, an MO can be made from other tissues, and need not necessarily be limited to dermal tissue
<b>"neocytolysis"</b>	the accelerated destruction of newly produced or existing red blood cells
<b>"neutropenia"</b>	a potentially life-threatening haematological disorder characterised by an abnormally low number of a certain type of white blood cells
<b>"PRCA"</b>	pure red cell aplasia; an autoimmune condition in which red blood cell precursors in a person's bone marrow are nearly absent
<b>"promoter"</b>	a nucleic acid sequence associated with a gene, which controls the expression of the gene to make protein
<b>"prophylactic"</b>	a medication or a treatment designed and used to prevent a disease from occurring
<b>"recombinant protein"</b>	a protein whose amino acid sequence is encoded by a cloned gene
<b>"reticulocyte"</b>	an immature red blood cell produced in the bone marrow; all red blood cells arise from reticulocytes
<b>"SCID mice"</b>	severe combined immune deficiency mice, which are devoid of an active immune system, and which are used to enable <i>in vivo</i> testing of implanted or administered agents or drugs that otherwise would be rejected by test animals whose immune system is intact
<b>"slow-release depot"</b>	a local store of a substance which releases that substance into the blood stream
<b>"therapeutic window"</b>	the desired range of concentration of a drug or agent in the patient's blood, below which the drug undershoots (i.e. is ineffective) and above which the drug overshoots (i.e. there are safety issues)
<b>"titer"</b>	a measurement of the amount or concentration of a substance in a solution
<b>"transduction"</b>	the transfer of genetic material from one cell to another by viral infection
<b>"vector"</b>	a molecular mechanism for transferring genetic material into cells to transduce them, typically comprising genetically modified virus or non-viral sequences of DNA
<b>"viral vector"</b>	a type of virus used in protein therapy and in cancer therapy, which has been modified to include a gene of choice for transfer into target cells or tissue
<b>"washing"</b>	in the context of this document, <i>ex vivo</i> processing of Biopumps in order to reduce the number of free vector particles to near zero, involving repeated cycles of agitation in the presence of fresh medium

## PLACING STATISTICS

Placing Price	10p
Number of existing issued Common Shares	66,054,335
Number of Placing Shares being issued	9,640,000
Number of Subscription Shares being issued	18,897,213
Number of shares issued on conversion of the Loan Note	6,417,447
Number of Adviser Shares being issued	3,084,422
Number of Common Shares in issue at Admission	104,093,417
Percentage of the Enlarged Share Capital represented by the Placing Shares at Admission	9.3%
Number of Common Shares issuable under Warrants and Options at Admission and pursuant to the option referred to in paragraph 4.11 of Part 7 of this document	171,531,519
Fully diluted number of Common Shares on Admission	275,624,936
Gross proceeds of the Placing	£964,000
Gross proceeds from the Subscriptions	£1,804,074
Gross proceeds from the issue of the Loan Note	£508,911
Gross proceeds of the Proposals	£3,276,985
Market Capitalisation of the Company at the Placing Price	£10,409,342
ISIN for Common Shares	US58436Q1040
TIDM	MEDG

### Note:

The above Placing statistics, and all UK£ to US \$ calculations (and vice versa) in this document, are based on the exchange rate of US \$2.06323:£ as at 26 November 2007

## EXPECTED TIMETABLE

Date of this document	28 November 2007
Admission effective and commencement of dealings	8 am on 4 December 2007
Dispatch of definitive share certificates	By 18 December 2007

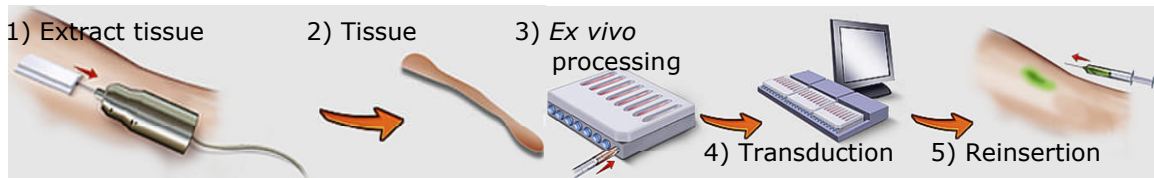
*References in this admission document to a time are to London time unless otherwise stated*

## KEY INFORMATION

- Medgenics is the US incorporated holding company of a biopharmaceutical group. The Group's research & development and administrative operations are conducted by MMI, the Company's wholly owned subsidiary, from premises in Karmiel, Israel.
- The Group is at the clinical trial stage of testing the safety and efficacy of its proprietary Biopump Platform Technology, centred on a biological protein pump (a Biopump), designed to enable patients to produce (in their own bodies), on a long-term basis, their own natural human protein therapy. The Group is developing a specific Biopump producing an appropriate therapeutic protein for the treatment of each of a range of chronic diseases such as anaemia and hepatitis C to replace costly factory-produced proteins delivered via frequent, painful bolus injections and their associated adverse side effects.
- The worldwide market for protein therapy was valued at over US \$51 billion in 2005 and is forecast to reach US \$87 billion by 2010. The Directors estimate that the Biopump Platform Technology could potentially be applied to a substantial part of this market, starting with proteins to treat anaemia (EPO) and then hepatitis C (IFN- $\alpha$ ). In 2006, EPO injections to treat anaemia generated revenues of US \$11.9 billion and IFN- $\alpha$  injections for treatment of patients with hepatitis C and some forms of cancer generated revenues of US \$2.8 billion. The Directors have therefore identified the anaemia and hepatitis C markets as first priorities for applying the Biopump Platform Technology, although the current fundraising will only allow focus on the EPODURE application.
- The Biopump platform uses a toothpick size sliver of dermal tissue, which is removed from under the patients' skin (under local anaesthesia on an outpatient basis) and processed to produce and secrete the required therapeutic protein.



- The dermal tissue is processed *in vitro* with a viral vector, specifically developed to be non-immunogenic, to introduce the selected gene into the tissue's cells, enabling them to produce the selected protein, thus converting the intact dermal tissue into a sustained-action Biopump. Between one and two weeks after the initial dermal tissue extraction, the required number of Biopumps (depending on the rate of protein production and the patient's individual requirement) are re-implanted under the patient's skin, where they are designed to supply the required therapeutic protein within the required dosage range for four-to-six months (or potentially longer). The Biopump Platform Technology is essentially designed to function as a protein production plant within the patient.
- Overview of the Biopump process:



- 1) and 2) Extract tissue – the Biopump Platform Technology starts by using a specialised, proprietary device, the DermaVac harvester, to remove one or more MOs – slivers of dermal tissue – from the patient's skin under local anaesthetic.
- 3) *Ex vivo* processing – after harvesting, the MOs are processed to become Biopumps, currently using manual techniques. In the future, it is intended that the MOs will be transferred to a sealed cassette containing the patient's MOs and processed in a semi-automated processing station – the Group's proprietary Biopump Bioreactor, currently under development.
- 4) Transduction – production of the target protein from the therapeutic gene begins shortly after the vector has been absorbed by the cells in the Biopump.

- 5) Reinsertion – after measuring the levels of protein produced, the requisite number of Biopumps are reinserted subcutaneously into the patient. Implantation can be by manual subcutaneous injection or by means of a special implantation device (similar to the DermaVac harvesting device), but used to implant the processed Biopumps, which is currently under development by the Group.
- The Directors believe that the Biopump Platform Technology provides a wide range of advantages over existing therapies that appeal and offer benefits to doctors, patients and third-party payers (e.g. medical insurers) including:
    - increased efficacy;
    - improved safety;
    - reversible treatment;
    - reduced side effects;
    - lower costs;
    - eliminating frequent injections; and
    - extended treatment to undertreated populations.
  - During 2003 and 2004, the Group conducted a Phase I Clinical Trial using a short acting version of the Biopump, which demonstrated the safe, dose-dependent production and delivery of EPO in ten anaemic patients. The results of that Phase I Clinical Trial were reported in the respected peer-reviewed publication “Blood” (the Journal of the American Society of Hematology) in October 2005:
 

*“The results of this study represent proof of principle that the implantation of an autologous genetically modified tissue into human dermis could significantly and safely increase the level of secreted proteins in the serum of patients. Furthermore, the secreted protein induced a physiological effect by increasing the level of the reticulocyte count. The implantation and physiologic effects were not associated with any significant side effects associated with the experimental drug.”*
  - The Biopumps tested in the Phase I Clinical Trial were predictably short acting (raising reticulocyte count but not haematocrit) because they were transduced using a first generation adenoviral vector, which caused the implanted Biopumps to be attacked by patients’ immune systems. Such attack was predictable, because such vectors contain a substantial number of viral genes in addition to the gene for EPO. Consequently, the cells that absorbed the vector were capable of producing not only EPO but also viral proteins. The published report concluded that these were responsible for drawing an immune response against those cells thereby curtailing EPO delivery after ten-to-fourteen days. Whilst short-action delivery was adequate for the Phase I Clinical Trial, the Group’s next objective was to develop a non-immunogenic version of the Biopump capable of sustained-action for many months from a single procedure.
  - Utilising a gutless adenoviral vector, the Group has now produced, and confirmed in laboratory testing, sustained-action Biopumps for two different applications: one called EPODURE producing EPO for treatment of anaemia, the other called INFRADURE producing IFN- $\alpha$ , primarily for treatment of hepatitis C. Each has demonstrated continued protein production levels within a range (equivalent to the intended therapeutic window) for over six months *in vitro*. Further, *in vivo* implantation of Biopumps producing EPO in SCID mice elevated their haematocrit levels for over six months. Similarly, implantation of Biopumps producing IFN- $\alpha$  in SCID mice elevated their serum levels of IFN- $\alpha$  for over four months.
  - In September 2007, the Ethics Committee of Hadassah Hospital gave its initial approval of the Group’s protocol for a Phase I/II Clinical Trial of EPODURE which aims to demonstrate the safety and efficacy in treatment of anaemia in up to 30 patients with chronic renal disease conditional upon final approval from the Israel Ministry of Health. The Group is now working to obtain the final approval of the Israel Ministry of Health. It is hoped that approval can be obtained during the first quarter of 2008 following completion of the preclinical testing, which will enable the Group to commence the study during the second quarter of 2008. The trial will aim to demonstrate sustained delivery of protein for four-to-six months or more, which should cause the sustained elevation of haematocrit and haemoglobin levels in these anaemic patients for four-to-six months. The trial will be conducted at Hadassah Medical Centre in Jerusalem, where the previous trial took place, and Directors believe first key data from the study will be obtained within three-to-five months after commencement of the trial.
  - The Group's licensed and owned patent portfolio (3 issued and 43 pending) covers the key elements of the Biopump Platform Technology, ranging from tissue engineering to device implementation and systematic treatment, including Medgenics' proprietary MOs, genetically modified MOs (Biopumps), Biopump EPO (EPODURE), Biopump production, processing, implantation and the tools designed for use in the Biopump procedure.

- The Group appointed experienced Patent and Licensing Counsel more than 4 years ago to undertake searches and reviews to seek to identify any existing US patents that could or might prevent the Group from manufacturing, using, selling or importing into the US Engineered EPO Tissue and Engineered IFN- $\alpha$  Tissue. Patent and Licensing Counsel concluded that:
  - the claims of the key granted US EPO patents (as identified by Patent and Licensing Counsel) would either have lapsed by the time the Group came to market its product or would not be infringed by the making, using, selling or importing in the US of Engineered EPO Tissue; and
  - the claims of the key granted US IFN- $\alpha$  patents (as identified by Patent and Licensing Counsel) would either have lapsed by the time the Group came to market its product or would not be infringed by the making, using, selling or importing in the US of Engineered IFN- $\alpha$  Tissue.

Patent and Licensing Counsel additionally concluded that the Group may need to take a license for related intellectual property depending on the gene products, proteins, vectors and promoters used in conjunction with the Biopump Platform Technology.

Patent and Licensing Counsel recently advised the Group that:

- the Group does not lack any rights or licenses to use the Biopump Platform Technology covered by the Group's patents though the Group understands that it will need to take a license from third parties depending on the Group's products for specific promoters, vectors and/or nucleic acid sequences for expressing proteins that are not in the public domain; and
  - the Biopump Platform Technology does not infringe the intellectual property rights of any other third party and the Group has not received any notice of any pending or threatened action, suit, proceeding or claim by others that the Group is infringing any patent rights of third parties by the Group's manufacture, use, sale, offer for sale or importation of any of the Product Candidates.
- A specialist consultancy firm was also engaged to undertake a commercial review of the Biopump Platform Technology and any licences that might be required to develop and market it. This firm concluded that licences were likely to be available to enable the Group to commercialise the Biopump Platform Technology.
  - The Group's current plans are to use the proceeds to focus on the following key objectives through to the end of 2008:
    - commencing Phase I/II Clinical Trials of EPODURE during the second quarter of 2008;
    - obtaining the key initial safety and proof of efficacy data for EPODURE three-to-five months after the above trial commences;
    - further development of the devices required for the Phase I/II Clinical Trial;
    - pursuing strategic alliances;
    - continuing to develop alternative vector methods; and
    - initiating development of additional applications with other proteins.
  - The Company has raised US \$2.0 million (gross of costs) from the Placing, US \$3.0 million (gross of costs) from the April/July Subscription, US \$0.6 million (gross of costs) from the November Subscription and, in aggregate, US \$1.2 million (gross of costs) from the Loan Note and the issue of the Platinum Subscription Shares.

## **Part 1**

### **INFORMATION ON THE GROUP**

#### **Introduction**

Medgenics is the US incorporated holding company of a biopharmaceutical group. The Group's research & development and administrative operations are conducted by MMI, the Company's wholly owned subsidiary, from premises in Karmiel, Israel.

The Group is at the clinical trial stage of testing the safety and efficacy of its proprietary Biopump Platform Technology, centred on a biological pump (a Biopump), designed to enable patients to produce (in their own bodies), on a long-term basis, their own natural human protein therapy for the treatment of a range of chronic diseases such as anaemia and hepatitis C. The Directors believe that the Biopump Platform Technology has the potential to offer a superior treatment to replace many current methods of protein therapy, which can often involve many months of frequent injections and significant side effects and replace them with a reversible procedure that is more efficacious, safer and more cost effective.

#### **History of the Group and its technology**

The Group was founded by the current CEO Dr. Andrew Pearlman in 2000 and, since inception, raised over US \$22 million in equity funding and convertible loans, and further received approximately US \$1.475 million in Israeli Government grants.

During 2003 and 2004, the Group undertook a Phase I Clinical Trial using a short acting version of the Biopump. That short acting version of the Biopump utilised a first generation adenoviral vector whereas the current version of the Biopump utilise a gutless adenoviral vector. The trial involved the use of the short acting version of the Biopump on ten anaemic patients. The results of that Phase I Clinical Trial were reported in the respected peer-reviewed publication "Blood" (the Journal of the American Society of Hematology) in October 2005:

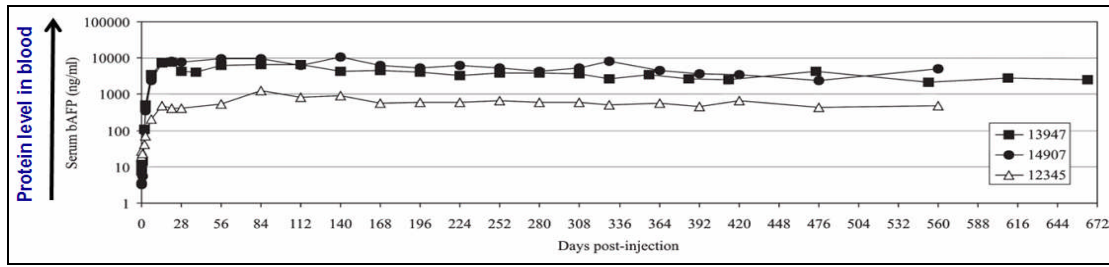
*"The results of this study represent proof of principle that the implantation of an autologous genetically modified tissue into human dermis could significantly and safely increase the level of secreted proteins in the serum of patients. Furthermore, the secreted protein induced a physiological effect by increasing the level of the reticulocyte count. The implantation and physiologic effects were not associated with any significant side effects associated with the experimental drug."*

The first generation adenoviral vector used in the Biopumps tested in the Phase I Clinical Trial contained a substantial number of viral genes in addition to the gene for EPO. Consequently, the transduced cells were capable of producing not only EPO but also viral proteins, which the report published in the "Blood" journal concluded were probably responsible for drawing the immune response against those cells thereby curtailing EPO delivery after ten-to-fourteen days. Whilst short-action delivery was adequate for the Phase I Clinical Trial, the Group's next objective was to develop a non-immunogenic version of the Biopump capable of sustained-action for many months from a single procedure.

The Company struggled to raise funding for its development program and, amidst divisions over the strategy for addressing the funding requirements; the Board opted in late 2003 for a change of management, including the replacement of Dr. Pearlman as the CEO. Under the new management, the Company failed in its endeavour to raise the additional funds necessary to continue with further testing and development and, with dwindling remaining reserves, operations were brought to a halt in the third quarter of 2004. Dr. Pearlman was re-instated as CEO in July 2005. Re-start funding of US \$1.1 million was raised from private and institutional investors in the first quarter of 2006. By 1 May 2006, the Company had reorganised, recapitalised and resumed development activities, focusing on the development of a non-immunogenic Biopump for long-term (four-to-six months or more) protein delivery.

Drawing upon significant advances in adenoviral vector technology from major research centres, the Group is now focusing on a gutless (i.e. having none of its own genes) version of the adenoviral vector. In published studies (of tests not performed by the Group), the gutless adenoviral vector has been shown to deliver high levels of protein for up to two years in healthy baboons and dogs as shown in figure 1 below:

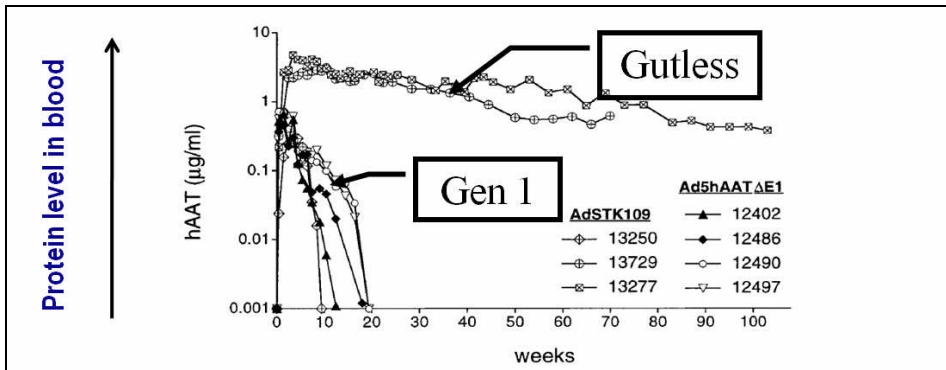
**Figure 1 – the use of gutless adenoviral vectors**



Source: Brunetti-Pierri, et al Human Gene Therapy 17 (2006)

In addition, in a study (not performed by the Group) comparing the gutless adenoviral vector and the first generation adenoviral vector in baboons, the first generation vector exhibited rapid decline of protein levels in blood similar to that seen in patients in the Group’s Phase I Clinical Trial, whereas the gutless version lasted for up to two years, as shown in Figure 2 below. The gutless adenoviral vectors did not elicit an immune response from the healthy dogs or baboons.

**Figure 2 – gutless adenoviral vectors v first generation adenoviral vectors**

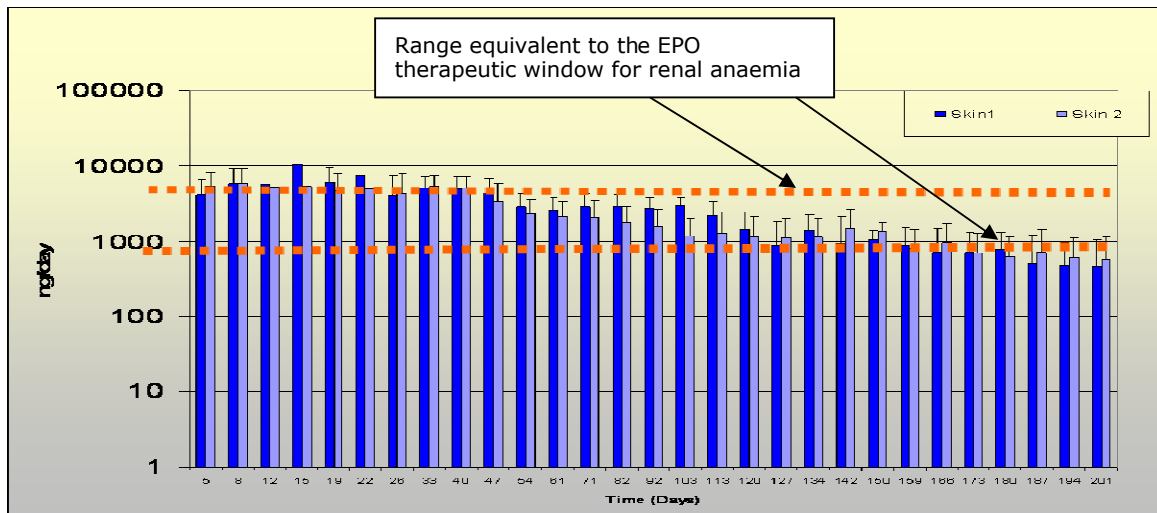


Source: Morral et al, PNAS 96:22 (1999)

Although the immune responses of various species differ significantly, and whilst findings that the gutless adenoviral vector did not elicit an immune response in healthy baboons, does not guarantee that it will not elicit an immune response in humans, still the primate immune system is the closest to that of humans. It is partly on this basis that the Directors and the Scientific Advisory Board believe the new version Biopumps, with the gutless adenovirus vectors, should not elicit an immune response in humans and, therefore, should be able to produce the therapeutic proteins over a sustained period in human patients.

Utilising the gutless adenoviral vector, the Group has now produced sustained-action Biopumps for two different applications: one producing EPO, the other producing IFN- $\alpha$ . Each has demonstrated continued protein production in the range of thousands of nanogrammes per day for six months *in vitro*. Data from the EPO producing Biopumps from two *in vitro* skin samples (as demonstrated in Figure 3 below), showing *in vitro* EPO production levels remaining within a range equivalent to the EPO therapeutic window for renal anaemia for over six months:

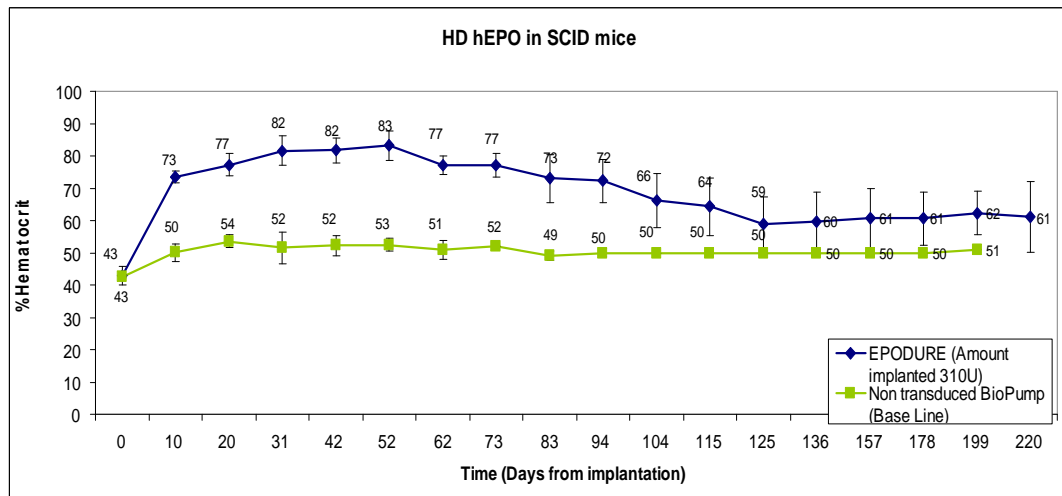
**Figure 3 – *in vitro* EPO production**



Source: Medgenics

In testing *in vivo*, implantation of Biopumps producing EPO in SCID mice elevated their haematocrit levels for over six months as shown in figure 4 below. Similarly, implantation of Biopumps producing IFN- $\alpha$  in SCID mice elevated their serum levels of IFN- $\alpha$  for over four months.

**Figure 4 – elevated haematocrit levels in SCID mice for 220 days**



Source: Medgenics - this data was accepted for publication and presentation at the American Society of Nephrologists annual meeting in San Francisco 2-4 November 2007, where the Group's science team presented a poster and also an oral presentation.

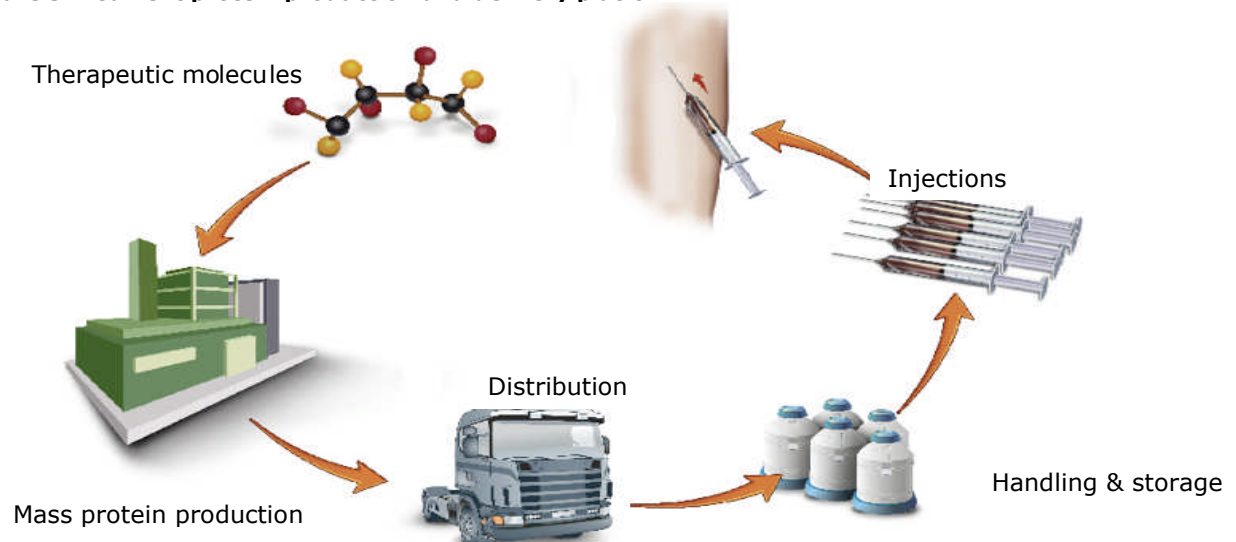
## Protein therapy market background and opportunity

### Overall protein market and treatment platform

The worldwide market for protein therapy was valued at over US \$51 billion in 2005 and is forecast to reach US \$87 billion by 2010. The Directors estimate that the Biopump Platform Technology could potentially be applied to a substantial part of this market, starting with proteins to treat anaemia (EPO) and then hepatitis C (IFN- $\alpha$ ). In 2006, EPO injections to treat anaemia generated revenues of US \$11.9 billion and IFN- $\alpha$  injections for treatment of patients with hepatitis C and some forms of cancer generated revenues of US \$2.8 billion. The Directors have therefore identified the anaemia and hepatitis C markets as first priorities for applying the Biopump Platform Technology, although the current fundraising will only allow focus on the EPODURE application.

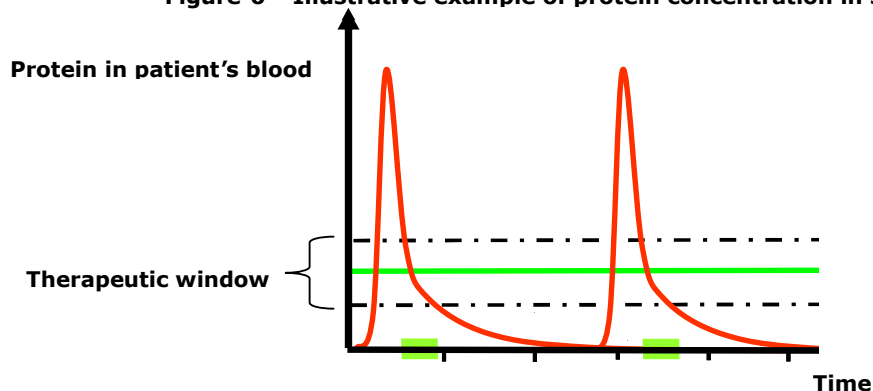
The current standard platform for protein production and delivery (Figure 5) involves a highly complex and capital-intensive manufacturing process based on large-scale animal cell tissue culture and delivery in the form of frequent injections (due to the short half-life of recombinant proteins – Figure 6). Protein manufacturing plants generally take several years and hundreds of millions of US dollars to build, secure regulatory approvals and bring into production. Once produced, the protein is typically distributed to, and stocked in, pharmacies and physicians' offices and administered by injection. Injections can be painful and costly and require frequent visits either by home healthcare nurses or to the doctor's office. A treatment based on the administration of serial injections can suffer from poor patient compliance and, therefore, inadequate treatment can result.

**Figure 5 – Current protein production and delivery platform**



As recombinant proteins are typically metabolised (i.e. broken down) by the body very quickly, they have a very short therapeutic life, ranging from a few minutes to a few hours. This means that, for many proteins, injections need to be taken at least once a week and often more frequently, to maintain concentration in the blood within the therapeutic window, i.e. above the minimum level required to be effective. Indeed, research has shown that, below certain levels, the protein has no therapeutic effect. In order to keep protein levels in the blood above the minimum therapeutic level for as long as possible in between injections, large bolus injections are typically administered. Whilst this can extend the time before the protein levels in the blood drop below the minimum therapeutic level (undershoot), it also causes initial levels to rise to many times above the maximum desired level (overshoot), often causing side effects. This produces the pattern shown in Figure 6 below of extended periods of overshoot, which can cause significant side effects, followed by undershoot, which leaves the patient under treated until the next injection.

**Figure 6 – Illustrative example of protein concentration in serum**



#### *EPO market*

EPO is a protein produced naturally in the kidneys that stimulates red blood cell production in the body. A shortage of EPO in the body, such as that caused by kidney disease, can cause anaemia.

Anaemia is a condition in which the number of red blood cells, or the haemoglobin in the red blood cells, is below normal. Haemoglobin enables red blood cells to carry oxygen from the lungs to all parts of the body and carry carbon dioxide to the lungs so that it can be exhaled. A person becomes anaemic when the body produces too few healthy red blood cells, loses too many of them or destroys them faster than they can be replaced. Anaemia is caused by, or associated with, a wide variety of conditions including CKD, ESRD (e.g. in dialysis patients), AIDS, hepatitis, cancer and chemotherapy. The National Kidney Foundation estimates the US CKD population alone exceeds 20 million people, and that as many as 67 million Americans with hypertension and diabetes are at risk for CKD and subsequently anaemia.

The current treatment for a number of chronic anaemic conditions is multiple and frequent subcutaneous injections of recombinant EPO produced in animal cells. The recombinant EPO is generally administered to patients via injection three times per week with Amgen, Inc.'s EPOGEN<sup>®</sup> or once a week with Amgen, Inc.'s Aranesp<sup>®</sup>.

Because of compliance issues with patients missing injections, anaemia is often under-treated or over-treated to compensate and becomes unstable and difficult to manage. CKD patients are not connected to a dialysis machine; to receive EPO injections they need to visit a doctor's office or inject at home. This can lead to non-compliance with the therapy regime due to the inconvenience of arranging appointments with doctors or reluctance to receive regular injections. In contrast, for patients with ESRD on haemodialysis, EPO is often administered through the dialysis tubing or subcutaneously by the dialysis healthcare staff when the patient is in the clinic for the regular dialysis treatment. This form of administration involves a considerable amount of time and resources provided by the healthcare provider, with an annual regimen for an ESRD patient typically costing at least US \$25,000.

There are increasing safety concerns regarding recombinant EPO. Certain manufactured recombinant EPO has been shown to cause PRCA, a serious and life-threatening condition where antibodies to EPO destroy the red blood cell precursor cells in the bone marrow. Although the recently reported incidences of PRCA have been associated, primarily, with one brand of EPO, it illustrates a vulnerability of recombinant proteins in that small changes in manufacturing or handling can cause these generally safe proteins to become immunogenic.

The current therapy practice of administering frequent bolus injections of short-acting EPO protein has recently raised preliminary serious safety concerns with the highly variable haematocrit and haemoglobin levels reported in patients receiving their EPO therapy in this fashion. Following reports of increased risks to health arising from these concerns, the FDA has issued a "Black Box" (its highest level of FDA warning) of increased death and cardiovascular risks associated with

current EPO dosing practice and has lowered its recommended maximum target haemoglobin level in administering EPO.

These concerns indicate the importance of managing EPO administration to keep resulting haemoglobin levels within the desired range, which has narrowed as a result of the FDA warning. The Directors believe that the Biopump Platform Technology, with its potential for long-term production and delivery of EPO within the therapeutic window for four-to-six months or more and its ability to reduce or raise dose as needed, could improve clinicians' ability to maintain the patients' haematocrit and haemoglobin within the target range, thus increasing safety, efficacy and patient experience.

#### *IFN- $\alpha$ market*

Hepatitis C is an inflammation of the liver caused by a viral infection. Hepatitis C is described as acute if the condition resolves within six months, whereas it is chronic if the condition persists longer than six months. Worldwide, it is estimated that there are 170 million chronic HCV carriers and three to four million new infections each year. Of individuals with HCV infection, approximately 75% to 85% will develop a chronic infection, of which approximately 15% to 20% will develop chronic liver disease progressing to cirrhosis and 1% to 5% will develop liver cancer over a period of 20 to 30 years.

Chronic HCV infection is the leading cause of liver disease in the US and many other western countries. According to the US Center for Disease Control and Prevention, it is the most common chronic blood-borne infection in the US.

Whilst the incidence of infection in the US has decreased since the 1980s, the rate of deaths attributable to HCV continues to increase as people infected decades ago begin to succumb. Approximately 8,000 to 10,000 people currently die each year from HCV-related liver disease and it is predicted that the death toll will triple by the year 2010 and exceed the number of US deaths due to AIDS. In addition, HCV is the most common reason for liver transplants. Over the next 10 to 20 years, chronic hepatitis C is predicted to become a major burden on the US healthcare system.

There are two main treatment methods using IFN- $\alpha$  currently available, namely:

- injections of interferon alone (e.g. Roferon®-A, Intron® A or Infergen®) or of ribavirin (e.g. Rebetron®) with IFN- $\alpha$  administered three times per week. This therapy is costly and may cause considerable side effects, particularly as a result of overdosing triggered by the administration of bolus injections. Common side effects include flu-like symptoms, psychiatric symptoms (depression, irritability and/or sleep disturbance), rash and reduction of all blood cell counts, including white blood cell count, haemoglobin and platelets. This therapy is generally only effective in achieving a sustained virologic response ("cure") in approximately 10% to 20% of patients using IFN- $\alpha$  alone and in 40% to 50% of patients if combined with Rebetron®; and
- injections of pegylated interferon ("PEG") proteins (e.g. PEG-INTRON® or Pegasys®), typically along with ribavirin. This treatment contains PEG to help the interferon stay in the patient's body longer and must be injected once a week. This treatment regimen is now standard and treatment duration depends upon the genotype of the individual case of HCV infection.

The above treatments result in overdosing associated with bolus injections, which can cause mild to severe side effects, resulting in up to 40% of patients reducing therapy dosages and 10% to 20% of patients to discontinue treatment altogether. Early side effects can include flu-like symptoms. Moderate level side effects that a patient may experience with continued therapy can include fatigue, hair loss, low blood count, difficulty focusing, moodiness and depression. Severe side effects (which can affect up to 2% of individuals) include thyroid disease, depression, suicidal thoughts, seizures, acute heart or kidney failure, eye or lung problems, hearing loss, blood infection and, although rare, death due to liver failure or blood infection. Liver disease may worsen severely (or even fatally) with treatment.

A published study has shown that steady delivery of IFN- $\alpha$  via infusion pump in hepatitis C patients provides effective therapy with far fewer side effects than from regular bolus injections. However, IFN- $\alpha$  delivery via infusion pump is not commonly used in patients; the Directors believe this is in part due to the fact that it still requires a supply of expensive and unstable recombinant protein and presents practical difficulties in administration (e.g. it requires cooling and regular refilling).

The epidemic proportions of chronic hepatitis C, the limited efficacy and costly nature of approved therapeutics, the high cost of liver transplants (approximately US \$250,000 each) and the enormous burden on the healthcare system in medical and work-loss costs alone, all call attention to the need for prophylactic vaccines as well as new therapies to treat the disease.

## The Biopump Platform Technology

The Group has developed the Biopump Platform Technology for *in vivo* production and delivery of therapeutic proteins for four-to-six months or more. The Directors believe the Biopump Platform Technology will allow the treatment of a range of diseases as an alternative to bolus injections of mass produced proteins from animal cells. The Biopump is made from a sliver of a patient's own dermal tissue and is designed to work inside the patient's own body to produce and deliver the required active protein on a sustained-action (for four-to-six months or longer) basis, with a single procedure. The procedure may require that one or more Biopumps will be implanted concurrently in each patient depending on his or her specific protein dose requirements.

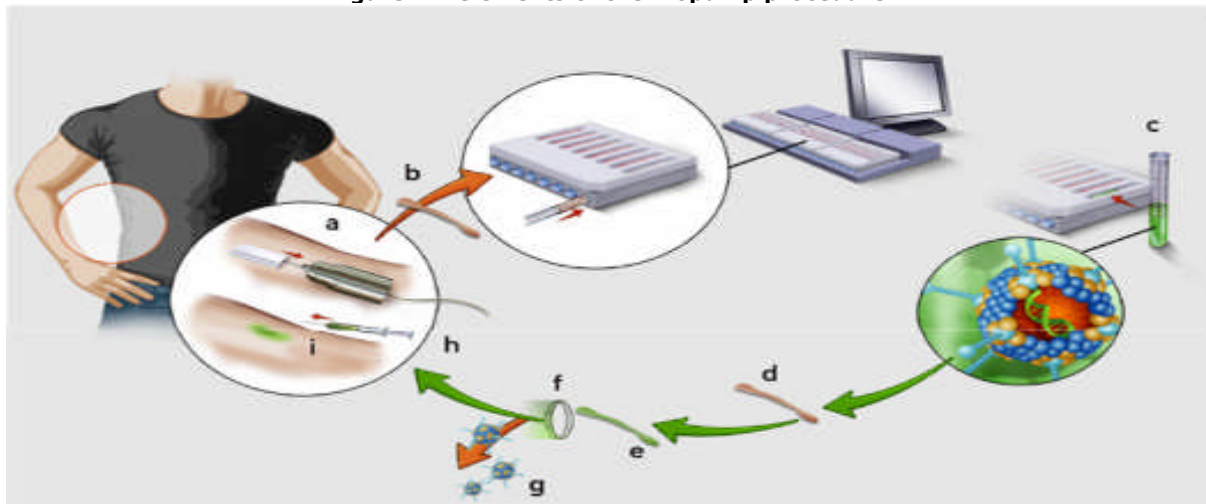
Biopumps are designed to continuously produce and secrete therapeutic protein. The Directors' therefore believe that the technology will enable maintenance of protein levels in the blood within the desired therapeutic window for four-to-six months or longer. In similar fashion to conventional technologies, the appropriate protein dose is calculated taking into account the patient's weight, the disease state and other patient and protein specific factors. Generally, more than one MO will be removed from the patient (typically four-to-five), in a minimally invasive fashion, under local anaesthetic. Tests will be performed during processing to determine the daily protein production from each Biopump. The appropriate number of Biopumps needed for a given dose is thereby determined and then subcutaneously implanted back into the patient. After implantation, Biopumps are designed to maintain protein levels in the blood within the therapeutic window for four-to-six months or more – much longer than the duration of a single treatment by any current protein therapy.

The Group currently has two products in development based on its Biopump Platform Technology: EPODURE (producing EPO to treat anaemia) and INFRADURE (producing IFN- $\alpha$  to treat hepatitis C). The next stage of development and the upcoming clinical trial, however, will focus solely on the EPODURE technology given the level of funds being raised by way of the Placing and the Subscriptions.

### The Biopump procedure

The following diagram (figure 7) and associated notes illustrate the processes involved in the Biopump Platform Technology.

Figure 7 – elements of the Biopump procedure



- Harvesting MOs* – the Group's proprietary vacuum-assisted biopsy instrument (called the DermaVac) is used to extract a small piece of tissue from the skin's lower level, the dermis of the patient. The DermaVac positions the skin and guides a high-speed rotating hollow core needle, providing a straightforward removal of the tissue. This procedure is performed under a local anaesthetic, is intended to be performed in a physician's office and is minimally invasive, to encourage rapid healing with little or no scarring.
- Transfer to processing station* – after harvesting, the MOs are processed to become Biopumps, currently using manual techniques. In the future, it is intended that the MOs will be transferred to a sealed cassette containing the patient's MOs and processed in a semi-automated processing station – the Group's proprietary Biopump Bioreactor, currently under development.
- and d) *Processing each MO into a Biopump* – while in processing (d), the MO is exposed to a vector (c) that has been engineered to contain the gene necessary for production of a selected

protein and which transfers the appropriate gene into the cells of the MO (transduction) converting the intact dermal sliver into a Biopump.

- e) *Biopump producing desired protein*
- f) *Measure daily protein production per Biopump for dosing* – protein production levels are measured to identify the required number of Biopumps needed for treatment of the subject patient.
- g) *Washing* – prior to being implanted, the Biopumps are washed by several cycles of agitation with fresh medium to remove most, if not all, of the residual unabsorbed vector, but retain the desired gene to produce and secrete the required protein.
- h) and i) *Implantation of the required number of Biopumps* – between one and two weeks after harvesting, the Biopumps are implanted back into the patient where they produce and deliver the required protein to the subject patient's body for four-to-six months or longer.

### **Applications currently in development**

#### **EPODURE**

The Group is developing EPODURE to provide EPO therapy for anaemia through sustained production and delivery of EPO for four-to-six months or more from a single treatment using the Biopump Platform Technology. The potential initial application of EPODURE is for CKD patients with anaemia; however, the Directors believe it may also be used to treat anaemia caused by ESRD (where patients are on dialysis), cancer, AIDS or other indications.

Recently published reports on safety concerns surrounding increased risks of mortality and cardiovascular disease, combined with the known side effects associated with bolus treatment using EPO, enhance the importance of managing EPO administration and, in particular, to keep resulting haemoglobin levels within the desired therapeutic range. Following the recent FDA warning, that range has been narrowed and, of greater importance, the upper limit has been reduced. The Directors believe this supports the critical need for an EPO delivery method in a controlled manner, which the Biopump Platform Technology aims to address.

The Directors believe that the Biopump Platform Technology, with its potential for long-term production and delivery of EPO within the therapeutic window over many months, will increase reliability and efficacy of EPO treatment, which depends on patient compliance with typical serial "peak and trough" bolus injections. In addition, the Directors believe the Biopump Platform Technology will improve clinicians' ability to maintain the patients' haematocrit and haemoglobin within the target range, thus increasing patient safety.

The Directors believe that the potential of EPODURE to improve significantly the safety, reliability (and therefore efficacy) over existing EPO therapies will make EPODURE a better way to provide sustained-action EPO therapy. In addition, the ability to reduce (or curtail) dosage as needed, the significant potential cost advantages associated with the Biopump Platform Technology (from production to delivery) and the significant reduction in frequency of patient interventions, will combine to enable the EPODURE therapy to provide a better alternative to current EPO therapy methods. The Directors believe the combination of these factors will allow the Group to capture a significant proportion of the current EPO anaemia therapy market.

#### **INFRADURE**

The Group is developing INFRADURE to provide a sustained-action IFN- $\alpha$  therapy for four-to-six months or more from a single treatment using the Biopump. INFRADURE is intended to treat hepatitis C initially and potentially other indications using IFN- $\alpha$  in the future.

The current therapy technique of administering weekly bolus IFN- $\alpha$  injections is usually accompanied by mild to severe side effects ranging from flu-like symptoms to neutropenia and severe depression and is thought to have a sustained effect in less than half of the patients treated. The nature of current IFN- $\alpha$  treatment is considered, accordingly, inefficient in its therapeutic effect and the patient experience (in terms of both side effects and the inconvenience of bolus injections) is believed to be the principal reason that an estimated 10% to 14% of patients discontinue treatment before completing their cycles of injections.

The Directors believe INFRADURE will provide the benefits of IFN- $\alpha$  via infusion pump (i.e. effective therapy with fewer side effects), but with the advantages of natural protein produced on a sustained-action basis in the patients' own cells and in a practical manner for providing months of therapy.

The Directors believe that INFRADURE, producing and delivering IFN- $\alpha$  through a Biopump, will increase patient compliance (and thus completion of the course of the treatment), reduce the known side effects of overdosing and supply safer natural protein in addition to the other benefits anticipated of the Biopump Platform Technology, including cost-effectiveness, reversibility and increased efficacy.

### **Future application opportunities**

Examples of other conditions that the Directors believe could benefit from proteins produced and delivered by the Biopump Platform Technology include growth failure in children, multiple sclerosis, haemophilia, wound healing, cancer, chronic pain and obesity, as summarised in the table below:

<i>Condition</i>	<i>Protein therapy</i>
Growth failure/Muscular atrophy	hGH
Multiple sclerosis	IFN- <i>B</i>
Haemophilia	Factor VIII
Arthritis	IL-1Ra
Wound healing	PDGF-BB
Obesity	Peptide YY <sub>3-36</sub>
Chronic pain	IL-10
Cancer recovery	G-CSF

### **Advantages of the Biopump Platform Technology**

The Board believes that the Biopump Platform Technology provides a wide range of advantages over existing therapies that appeal and offer benefits to doctors, patients and third-party payers (e.g. medical insurers). The advantages include:

- *Increased efficacy* – the Directors believe that the sustained production and delivery (for four-to-six months or more) of protein within the therapeutic window obtained through a single procedure to implant sustained-action Biopumps is likely to be a more efficacious form of the desired protein treatment than offered by an extended series of repeat bolus injections. Maintaining effective levels of protein within the therapeutic window in the patient optimises efficiency and eliminates overshoot and undershoot (and their respective significant therapeutic and side effect downsides).
- *Improved safety* – in view of recent regulatory concerns over safety and increased mortality risks associated with EPO delivery using conventional bolus injections, the Directors believe that the delivery of EPO (for a period of four-to-six months or more), obtained through a single procedure to implant Biopumps that may be regulated through ablation techniques, will make it easier to avoid the dangers of overdose. Further, the Board believe that the protein produced by Biopumps should be safer, since it is produced from the patient's own tissue instead of from animal cells. Recombinant proteins from non-human mammalian cells may have different glycosylation patterns from those of human cells, causing the formation of antibodies in some patients that can result in immune rejection of the protein, even against the patient's own native proteins, such as in PRCA in EPO therapy. By contrast, producing protein from the patient's own cells is expected to reduce the risk of immune responses, since these proteins are produced as closely as possible to the natural proteins, which the patient lacks.
- *Reversible treatment* – unlike gene therapy, the Biopump procedure is reversible. Tests have demonstrated that Biopumps can be ablated by laser, radiofrequency needle, or (if necessary) a surgical procedure to reduce or halt protein production and secretion by a Biopump. The Group is seeking to refine its techniques for successfully locating Biopumps after insertion to enable it to ablate the protein production properties and secretion of the Biopumps when required.
- *Reduced side effects* – the Directors believe that the Group's therapy will have fewer and less severe side effects associated with it than are associated with current recombinant protein production and delivery methods. Instead of bolus injections, the Directors believe that the Biopump Platform Technology will provide efficient, sustained EPO delivery within the desired therapeutic range and should eliminate the health risks and side effects associated with the overshoot typical of each bolus injection. Overshoots with proteins such as IFN- $\alpha$  are typically associated with severe flu-like symptoms and other serious side effects, which the Directors believe will be much reduced or even prevented with the INFRADURE approach. Undershoots between bolus injections not only undertreat the patient's illness, but with EPO therapy, could also lead to conditions such as neocytolysis.
- *Lower costs* – the Directors expect that the Biopump Platform Technology will offer a cost-effective protein therapy. The Biopump Platform Technology does not require a protein production facility to produce protein, thereby eliminating the need for an outlay of hundreds of millions of US dollars to build such a facility, which would be needed to meet the anticipated growing protein demand. The Directors expect that, once fully developed, the devices used in the Biopump platform will be sufficiently automated such that, together with the use of sealed

cartridges and other single-use items, they will enable the practical and reliable implementation of Biopump therapy and the Group will be able to lower the per-patient cost of Protein therapy significantly. The Directors also believe that automation of the process will allow Biopump therapy to be performed in conventional hospitals and clinics worldwide rather than being sent off for expensive and time-consuming laboratory processing.

- *Eliminating frequent injections* – the sustained-action Biopump typically requires only two clinic visits: one for the harvesting of the MOs and the second for the implantation of the sustained-action Biopumps. Conventional therapy requires extended periods of frequent injections, which decrease both patient compliance and quality of life, while increasing cost.
- *Extended treatment to undertreated populations* – the Directors believe that the Biopump Platform Technology will enable extension of treatment to under-treated populations. Patients who cannot continue hepatitis C treatment because of the severe side effects of conventional injections are, the Directors believe, more likely to be able to do so with the sustained-action Biopump.

### **Key elements of the Biopump Platform Technology**

*MOs* – the MO concept was developed and is licensed to Medgenics by Yissum. The MO is a unique tissue structure enabling long-term viability *ex vivo*, which in turn permits processing of the structure into a Biopump outside the body. In order to ensure maximum viability of the MO tissue *ex vivo*, it must preserve the natural structure of the tissue from which it was harvested so that the critical interactions between the cells of the structure are maintained. The Group has found that good results can be obtained using various lengths of dermal core cylinders measuring approximately 1.5 mm to 2.5 mm in diameter. The dimensions of the MO are designed to enable the nutrients to penetrate and reach all of the cells of the MO by passive diffusion.

*Vector* – the vector currently employed for the EPODURE and INFRADURE applications is a gutless adenoviral vector, used under licence from Baylor. As for all adenoviral vectors, the gutless adenovirus cannot reproduce; it can only invade the cells to which it is exposed. When the vector enters the cells of the MO, it brings its payload gene (encoding for the desired therapeutic protein) into the nuclei of the cells. The capsid of the vector is then broken down by the cell, but leaves the gene inside the nucleus where the cell's existing protein expression mechanism uses the gene to produce the therapeutic protein, which is secreted from the cells of the MO and results in the "pump" action of the Biopump.

The Group's Phase I Clinical Trial used a first-generation adenoviral vector, which contained a substantial number of viral genes in addition to the gene for EPO. The cells that were transduced by the vector thus had the ability to produce not only EPO but also viral proteins. It is believed that the presence of these viral proteins gave rise to an immune response towards the treated cells and resulted in cessation of production of therapeutic protein; the short-action Biopump lasted only about two weeks.

To develop a long-term sustained-action Biopump, the above-mentioned immune response must be avoided. This calls for a vector that neither introduces viral capsid proteins upon implantation into the body nor continues to produce viral proteins once inside the body. The Group believes that the following steps will greatly reduce, if not eliminate, the immune response seen in the previous Phase I Clinical Trial:

- using a gutless adenoviral vector (a vector containing no viral genes, thus preventing it from producing viral proteins) developed at major research centres based upon recent significant advances in gutless adenoviral vector technology. The gutless adenoviral vector must be produced in the presence of a helper virus, which is itself a first generation adenoviral vector. Unless the helper virus can be removed from the final preparation, the resulting mix will be affected by the presence of the helper virus. A key advantage of the Group's licensed gutless adenoviral vector is the method of reduction of residual helper viral titer, which results in gutless adenoviral vector essentially free from helper virus;
- washing the Biopumps during several days of *ex vivo* processing in order to reduce the number of residual unabsorbed vectors to near zero; and
- maintaining the Biopumps outside the body for at least ten days to allow sufficient time for the transduced cells to metabolise the remaining viral capsids in the cells.

The Directors believe that the combination of these actions should prevent the immune system reaction that would otherwise curtail the Biopumps' operational life in the patient, enabling therapeutic protein production for four-to-six months or more.

*DermaVac harvester* – a proprietary dermal MO harvesting device, the DermaVac system, has been developed by the Group in order to harvest MOs in a method minimally traumatic to the patient, while ensuring viability of the harvested tissue samples. This prototype device has been

tested in a laboratory setting by harvesting MOs from sections of surgically removed excess tissue from abdominoplasty (plastic surgery on the abdomen) patients, and has been found to be a reliable means of harvesting dermal MOs. The Group expects to further develop and upgrade this prototype device to ensure reliable, reproducible tissue sample harvesting in the clinical setting.

*Biopump Bioreactor* – in addition to having conducted its first clinical trial, in which the Biopumps were prepared using manual processing methods in a GMP clean room, the Group has also demonstrated feasibility of production of Biopumps from MOs in a prototype *ex vivo* processing station. An upgraded processing station will be designed to utilise a single-use sealed processing cassette for each patient to maintain sterility and avoid cross-contamination and to be used in a conventional clinical environment. The Directors believe this will eliminate the need for a clean room and extensive expertise, and allow safe, reliable and cost-effective Biopump production.

*Implanter* – the Group is developing a proprietary implantation device in order to ensure reliable, reproducible implantation of therapeutic Biopumps. To-date, the implantation of Biopumps has been through manual techniques utilising a trocar (a surgical instrument for removing fluid from body cavities) to assist the placement of the Biopump under the skin. The implanter device currently being developed will be designed to control the depth beneath the skin where the Biopump will be placed, and will minimise the skill needed by the clinician to perform the implantation procedure. In addition, the Biopump implantation sites will be marked such that, if there will be a need to ablate them up to several months after implantation, these Biopumps can be easily located.

*Ablation techniques* – in order to reduce the protein dose or effectively to cease protein secretion, the Group is developing safe and effective methods to halt the function of one or more implanted Biopumps using ablation. For example, if a patient has received four Biopumps but needs to reduce the dose by 25%, this can be achieved by ablating one of the Biopumps, which are located just under the skin where they were implanted. The Group has conducted initial testing of three methods of ablating the Biopump: laser, radiofrequency needle and surgical removal. The Group's favoured ablation method is the radiofrequency needle (an electric needle, such as those commonly used in microsurgery) which has successfully demonstrated Biopump ablation in mice.

This capability of controlling the protein dose by locating the Biopump under the skin and reducing or stopping protein production differentiates Biopump therapy from current gene-therapy technologies. The Group expects to further the development of these methods of dose adjustment or termination in the coming year.

## **Strategy**

The Group's current plans are to use the proceeds over the next 12 to 18 months to focus on the following key objectives through to the end of 2008:

- implementation of its Phase I/II Clinical Trials program for EPODURE, including:
  - commencing Phase I/II Clinical Trials during the second quarter of 2008;
  - obtaining the key initial safety and proof of efficacy data for EPODURE three-to-five months after the above trial commences; and
  - completing the development of the devices required for the Phase I/II Clinical Trial;
- pursuing strategic alliances;
- continuing to develop alternative vector methods; and
- initiating development of additional applications with other proteins.

If the Group is successful in raising additional funding either prior to, or as a result of, the trial – whether by equity investment or strategic partnership – the Group's regulatory plans and schedule for gaining approval of EPODURE could be accelerated by starting key activities earlier and/or running programs in parallel. Similarly, the same would be true for the INFRADURE program and/or additional applications, and the completion of the development of full device products.

The Phase I/II Clinical Trial of EPODURE will aim to demonstrate safety and efficacy in treatment of anaemia in up to 30 patients with chronic kidney disease. The trial will aim to demonstrate sustained delivery of protein for four-to-six months or more, which should cause the sustained elevation of haematocrit and haemoglobin levels in these anaemic patients for four-to-six months.

The trial will be conducted at Hadassah Medical Centre in Jerusalem, where the previous trial took place. The Group is in the process of receiving regulatory approval from the Israel Ministry of Health, as it has done in its previous trial.

The Directors believe the Biopump Platform Technology will attract strategic partners that see the advantages of its products in addressing existing multi-billion dollar markets, and who can help those products enter the market and capture market share. The Group will explore, at the appropriate time, opportunities with such potential partners. Alternatively, or in addition, the

Group could implement a stand-alone strategy for self-promoting the Biopump Platform Technology in appropriate markets, although this would require substantial further investment in the Group.

The Group expects to have preliminary data from the EPODURE Phase I/II Clinical Trial within three-to-five months of the trial's commencement; the Directors believe this could lead to the Group starting negotiations for the Group's first partnering deal during 2008 or 2009.

## **Clinical trials and regulatory approval**

### *Background and clinical trial history*

The Biopump Platform Technology poses a number of challenges in relation to a strategy for regulatory approvals. Prior to its first Phase I Clinical Trial, the Group faced the challenge of how to obtain approval for a first human trial, given the limited amount of preclinical testing that could be done in animals as a result to the following factors:

- as the immune reaction varies greatly from animal to animal, and even more from animals to humans, proof of non-immunogenicity in animals would not provide satisfactory data from which a prediction of the reaction in humans could be derived; and
- the skin tissue of animals differs substantially from that of humans, and has far more hair, making it difficult to produce MOs that are comparable to those of the patients' skin dermis. The costs of and time required to generate a new MO and gene specific for an animal used in a study would be prohibitive, and there is no guarantee the resulting Biopumps or the data they generate would be indicative in any way of the likely reaction in humans.

As a result, there has not been as much animal data required in the dossier as one might normally expect to see with many new drugs. Furthermore, initial testing in healthy volunteers was not possible, as successful EPO delivery in a healthy patient could result in EPO overdosing and associated side effects.

Therefore, without being in a position to gather extensive toxicology data from multiple animal species, prudence was required. The Group therefore adopted the guidance of its experienced regulatory advisory team, including former FDA officials, of pursuing smaller initial groups of patients in the first clinical trial in humans, as was in fact done in the Phase I Clinical Trial prior to carrying out testing in larger human groups.

The Phase I Clinical Trial in 2003 consisted of 10 patients who were implanted with EPO producing Biopumps. Between one and seven Biopumps (per person) were implanted into patients, to test safety of the product in the human body and to prove the initial efficacy of the technology on a small sample of anaemic patients as reflected in their serum EPO concentration, reticulocyte count and anti EPO antibodies. The Phase I Clinical Trial was successful in that the Biopumps produced EPO and increased reticulocyte production in patients receiving the higher dose. However, the trial could not test the sustained delivery of EPO, as the Biopumps were prepared using a first generation adeno vector. The Phase I Clinical Trial's investigators believe that production was curtailed when the Biopumps triggered an immunogenic reaction against the viral proteins produced by the transduced cells.

The one serious adverse event experienced by a patient during the Phase I Clinical Trial was confirmed by the Institutional Review Board of Hassadah Hospital (where the trial took place) to have no "causal relationship with the experimental drug". The patient in question had a cerebral vascular accident ("CVA") and experienced some hypertension, pain and weakness in the right arm and leg oedema. The patient had previously had a CVA prior to the trial. None of these adverse events were attributed to the Biopump.

The Group has now replaced the first generation adenoviral vector used in the Phase I Clinical Trial with a gutless adenoviral vector, which, the Directors believe, will not provoke an immunogenic reaction. The Group is also investigating alternative non-immunogenic vectors for the transduction process although the proposed use of the gutless adenoviral vector is, the Directors believe, a viable solution for preventing the immunogenic response.

Following its Phase I Clinical Trial on ten anaemic patients, the Group conducted a preclinical planning, or pre-pre-IND meeting with the FDA. The FDA accepted, in this meeting, the use of human Biopumps implanted in SCID mice for toxicology and initial efficacy studies, agreeing that making autologous Biopumps from immune competent animal models is not feasible and would be of limited relevance to humans, particularly in view of the safety data already indicated (in tests on ten anaemic patients in the Phase I Clinical Trial). As a result of discussion with the FDA at this meeting, the Group simplified the design of the proposed pre-clinical programme, and the FDA indicated its comfort with the intended use of the gutless adenoviral vector, particularly in view of its expected miniscule presence of helper virus.

Subsequently (in 2006 and 2007), the testing of the new Biopumps prepared using a gutless adenoviral vector demonstrated over six months high level EPO production *in vitro*, and by

implantation in SCID mice, showed elevated serum EPO levels and haematocrit for over six months. However, as SCID mice do not have an active immune system these trials were not able to verify that the immunogenic reaction was resolved.

#### *Regulatory strategy*

Looking forward to the path leading to product regulatory approval, the Directors see the primary aspects and challenges as follows:

- Whilst the Biopump Platform Technology is not a conventional gene therapy, some regulatory authorities may deem it such. As advised by top gene and cell therapy regulatory experts, the Directors believe that, because of the *ex vivo* nature of the use of vectors and the ability to terminate protein delivery of implanted Biopumps by ablation, the key gene-related regulatory issues are manageable.
- The Biopump Platform Technology is a combination of biological products and devices.
- The Biopump Platform Technology will be an “Advanced Therapy” for the purposes of the EMEA.
- As it cannot be argued that EPODURE would not be marketed to children (as they also suffer from CKD), the Group would need to have an approved Paediatric Investigational Plan before a product can be approved in Europe.

The Group has therefore undertaken the following steps in the development of its regulatory strategy:

- recruiting a Scientific Advisory Board with the relevant expertise to assist with obtaining regulatory approval for its technology, including a former US FDA medical officer who has also served as senior regulatory adviser for a number of pharmaceutical and biotechnology companies;
- recruiting, as a regulatory adviser, a former expert and gene-therapy group leader at CBER’s Cellular and Gene Therapies Division;
- since 2001, engaged CBER in informal discussions regarding its regulatory strategy, including the use of SCID mice as a model for the assessment of toxicology and undertaking trials in Israel, the overall design of its Phase I Clinical Trial and preparations for its upcoming Phase I/II Clinical Trial;
- demonstrated that the Biopumps can be ablated; a key capability for safety;
- since attaining approval of its Phase I Clinical Trial by the Israel Ministry of Health (“MOH”), the Group has engaged its key Israeli clinical team and regulatory advisers in discussions and consultation regarding its regulatory strategy for the upcoming Phase I/II Clinical Trial, and has submitted its submission to MOH for approval of the trial.

The Directors are also considering whether to pursue an early product approval based on single implants, as their duration may turn out to be longer than six months, as in the baboon data. If this approach is taken, later supplemental approval could be sought to extend use to repeat administrations over longer periods.

The Directors are currently following a strategy focusing initially on FDA approval. Although an EMEA approval strategy has not yet been devised, the Directors plan to conduct both a Phase I/II Clinical Trial and a Phase IIb Clinical Trial (followed by a Phase III Clinical Trial) such that the results of these trials will support applications with both the FDA and EMEA. The Directors are currently considering applications for further geographical markets and will consider such applications for regulatory approval on conclusion of this assessment.

#### *Future clinical trials*

- Phase I/II Clinical Trial

In September 2007, the Ethics Committee of Hadassah Hospital gave its initial approval of the Group’s protocol for the Phase I/II Clinical Trial of EPODURE conditional upon final approval from the Israel Ministry of Health. The Group is now working to obtain the final approval of the Israel Ministry of Health, which it is hoped can be obtained during the first quarter of 2008. The Phase I/II Clinical Trial (which the Group believes will begin during the second quarter of 2008) will incorporate much of the design of the previous Phase I Clinical Trial but will be focused on efficacy as well as safety. This study design will draw largely on the design of the first trial but with the intention to provide longer duration of treatment and follow-up if the production of EPO continues for many months. It will aim to demonstrate both the safety and efficacy of the Biopumps prepared with the gutless adenoviral vector. As the gutless adenoviral vector is different to that used in the Phase I Clinical Trial, the FDA has indicated it is necessary to conduct three-month toxicology studies in SCID mice prior to the start of the

Phase I/II Clinical Trial. Since there will be safety objectives in the upcoming trial, as well as proof of efficacy, the Directors refer to the study as a Phase I/II Clinical Trial.

The Directors are confident of the initial safety of EPODURE as a result of the lack of toxic effects found in studies of Biopumps implanted in SCID mice for a period of four-to-six months. The Phase I/II Clinical Trial will aim to prove EPO production and sustained elevated levels of EPO in the serum of up to thirty patients in the treatment of anaemia in patients with renal disease for a period of four-to-six months.

The Group intends to have a formal pre-IND meeting with the FDA shortly after commencing the upcoming Phase I/II Clinical Trial. After completion of the trial, the strategy, endorsed by the Group's regulatory advisers, is to use the safety and efficacy data from the Phase I/II Clinical Trial as part of the IND application to the FDA. The Group also intends to have advisory and regulatory meetings with the EMEA at the same time.

Assuming the Phase I/II Clinical Trial has positive results by the second half of 2008, the Group would pursue sufficient additional major funding to enable it to take its first product to regulatory approval, if necessary. However, the Group's preference is to start negotiations for a first alliance agreement with a major strategic partner from the biopharmaceutical or medical device fields, probably for EPODURE before the end of 2008. If this occurs, it would be anticipated that strategy and implementation of the remaining path to product approval would be closely coordinated with the partner.

The Phase I Clinical Trial and the Phase I/II Clinical Trial both involve(d) manually processing the MOs in GMP quality clean rooms. The Directors believe this results in a higher cost of processing as compared to the eventual commercial method anticipated, in which processing is to be performed by semi-automated Bioreactors using sealed cassettes. However, the clean rooms are required to prevent accidental agent introduction and cross contamination in the Phase I/II Clinical Trial and ensure accurate results are obtained. The Directors believe that the limited availability of such facilities and the very high levels of expertise required to produce Biopumps in accordance with strict GMP standards would limit the practical ability to perform clinical trials in multiple centres; therefore it will be necessary to use the closed cassette and bioreactor processing units it is currently developing.

- Phase IIb Clinical Trials and Phase III Clinical Trials

Once granted an IND by the FDA, and following positive results from the Phase I/II Clinical Trial, the Group intends to undertake a multi-centre Phase IIb Clinical Trial (with a potential to roll into a Phase III Clinical Trial). The Group has resisted the temptation to plan on moving directly to a Phase III Clinical Trial following the Phase I/II Clinical Trial, preferring first to ensure the reliable implementation of the full method at widely dispersed centres, which is a soundly based regulatory process.

The Phase IIb Clinical Trial would not only seek to reproduce similar results to the Phase I/II Clinical Trial in multiple centres (and in scores of patients), but would further seek to test:

- reliable semi-automatic preparation of Biopumps processed in sealed cassettes using a Bioreactor;
- sequential titration of the administered dose as needed to reach the desired therapeutic effect, whether through increasing dose by addition of further Biopumps, or reducing it via ablation of one or more of those implanted;
- sequential treatments months apart, to show that subsequent administrations are not rejected by the immune system;
- dose elevation in the same patient by addition of Biopumps; and
- dose reduction in the same patient, via ablation of one or more implanted Biopumps titration.

Phase III Clinical Trial will probably involve hundreds of patients at multiple centres, and will need to include both the studying of the long-term treatment and follow-up of patients on therapy (potentially including those who were part of the Phase I/II Clinical Trial) and the study of anti-EPO antibodies which have, in other EPO therapies, resulted in PRCA.

Initial discussions with the Group's regulatory advisers indicate it is possible, perhaps likely, that following successful demonstration of these points in a moderate number of patients in the Phase IIb Clinical Trial, that it could roll into and become a broader pivotal Phase III Clinical Trial for product approval.

## Intellectual property

The Group's existing owned and licensed patent portfolio contains 3 issued and 43 pending patents. Applications for patents, trademarks and other intellectual property rights capable of being registered have been, and will be, filed in jurisdictions where the Directors believe they may secure such protection and have the greatest value in protecting the Group's commercial objectives. Whilst the duration of trademark, patent and copyright protection varies from country to country, the Directors believe that the duration of such protection should be adequate to protect its products and technologies for their respective periods of economic and strategic value.

The Group appointed experienced Patent and Licensing Counsel more than four years ago to undertake searches and reviews to seek to identify any existing US patents that could or might prevent the Group from manufacturing, using, selling or importing into the US Engineered EPO Tissue and Engineered IFN- $\alpha$  Tissue. Patent and Licensing Counsel concluded, that:

- the claims of the following granted US patents, namely patents numbered 4,703,008; 5,547,933; 5,621,080; 5,441,868; 5,618,698; 5,994,127; 6,048,524 and 6,355,241 relating to EPO would either have lapsed by the time the Group came to market its product or would not be infringed by the making, using, selling or importing in the US of Engineered EPO Tissue; and
- the claims of the following granted US patents, namely patents numbered 6,312,924, 6,204,022; 5,869,293; 5,831,062; 5,541,293; 5,514,567; 5,503,828; 5,326,859; 5,287,286; 4,975,276; 4,973,479; 4,816,506; 4,897,471, 4,780,530; 4,748,233; 4,604,284; 4,704,302; 4,530,901; 4,503,035 relating to Interferon 2Alpha would either have lapsed by the time the Group came to market its product or would not be infringed by the making, using, selling or importing in the US of Engineered IFN- $\alpha$  Tissue.

With specific reference to EPODURE, Amgen's US patent on the hEPO gene, patent number 4,703,008 (which is used by the Group in EPODURE) expired in 2004. In addition, the Group does not isolate or purify protein, which, the Directors believe are the key steps involved in the remaining (i.e. non-expired) Amgen patents. The Directors also believe that because, after implantation of the Biopump, the patient's natural mechanism produces the EPO peptide, the patents covering EPO peptides are not applicable to the Biopump Platform Technology.

The Patent and Licensing Counsel additionally concluded that the Group might need to take a license for related intellectual property depending on the gene products, proteins, vectors and promoters used in conjunction with the Biopump Platform Technology.

Patent and Licensing Counsel has recently advised the Group that:

- the Group does not lack any rights or licenses to use its Biopump Platform Technology covered by the Group's patents though the Group understands that it will need to take a license from third parties depending on the Group's products for specific promoters, vectors and/or nucleic acid sequences for expressing proteins that are not in the public domain; and
- the Biopump Platform Technology does not infringe the intellectual property rights of any other third party and the Group has not received any notice of any pending or threatened action, suit, proceeding or claim by others that the Group is infringing any patent rights of third parties by the Group's manufacture, use, sale, offer for sale or importation of any of the Biopump products.

A specialist consultancy firm was also engaged to undertake a commercial review of the Biopump Platform Technology and any licences that might be required to develop and market it. This firm concluded that licences were likely to be available to enable the Group to commercialise the Biopump Platform Technology.

### Patents

The Group's licensed and owned patent portfolio (consisting of 3 issued and 43 pending patents) covers the key elements of the Biopump Platform Technology, ranging from tissue engineering to device implementation and systematic treatment. The Group's patent portfolio includes the Group's proprietary MOs, genetically modified MOs (Biopumps), Biopump EPO (EPODURE), Biopump production, processing, implantation and the tools designed for use in the Biopump procedure.

Many of the patent and patent applications pertaining to the Biopump Platform Technology are licensed under an exclusive, worldwide licence from Yissum. The patent portfolio at the date of this document is comprised of the following issued and pending patents:

Type	Number	Jurisdiction	Owner/Licensee status
Issued patent	1	US	Yissum *
Issued patent	2	Singapore and Israel	Yissum *

Patent application	6	US	Yissum *
Patent application	1	US	Jointly Yissum and Medgenics*
Patent application	14	Non-US**	Yissum *
Patent application	3	US	Medgenics
Provisional patent application	1	US	Medgenics
Patent application	18	Non-US**	Medgenics

\* licensed exclusively (within the defined scope) to Medgenics

\*\* Variously, Patent Co-operation Treaty signatory States, European Patent Organisation member States, Peoples' Republic of China, Singapore, India, Australia, Canada, Japan, Israel and/or South Korea

Medgenics' patents and the rights under the Licence Agreement are sub-licensed to its operating subsidiary, MMI.

Whilst there can be no assurance that the pending applications will result in patents ultimately being issued, it is believed by a specialist consultancy firm that objections on the basis of lack of enablement, unpredictability, lack of novelty, anticipation by prior publication, obviousness based on knowledge in the art, the existence of prior art or otherwise that have been made or will be made may be overcome by appropriate responses and argument and/or amendment to the relevant pending application.

Since incorporation, Medgenics has – either itself or through MMI – accumulated trade secrets and expertise in developing its technology and processes. As well as seeking patent registration protection where appropriate, the Group seeks to protect this expertise and its trade secrets through a combination of copyright protection and contractual provisions with third parties, including contractors and employees. The Group will continue to take all appropriate steps to protect its intellectual property, including maintaining an active program for patent protection for novel elements in the development of its products and technology.

## **Licences**

### *Yissum licence*

The licensing arrangements with Yissum formally commenced in 2000 and have since been replaced by the current arrangements prescribed by the Licence Agreement, which was entered into on 23 November 2005. The Licence Agreement is for a term that expires on the later of:

- 20 years from the date of making the first commercial sale of any product utilising Yissum's technology under the Licence Agreement; and
- the expiration of the last Yissum patent licensed to Medgenics, which is expected to be approximately July 2022.

The scope of the Licence Agreement includes the exploitation of MO and MO technologies in the development and implementation of gene therapy for use in the prevention, treatment and diagnosis (or curing) of disease and for producing recombinant proteins or nucleic acids for therapeutic applications. This broad scope of the Licence Agreement thus includes use of MOs from almost all tissues, including the skin and for almost all therapeutic applications and thus forms the basis for a broad range of potential products addressable by the Biopump Platform Technology. There are some limitations: the licensed scope expressly excludes the use of liver MO, kidney MO and pancreas MO and uses of MO for the purposes of inducing angiogenesis as a therapeutic. However, these limitations on scope, under the Licence Agreement, are considered immaterial for the purposes of exploiting the Biopump Platform Technology, as the Directors believe that MO derived from dermal tissue (which is within the scope) is the most appropriate for its technology and the Group's strategy for development at this time. Further, application of the Biopump Platform Technology to inducing angiogenesis as a therapeutic is not part of the Group's strategy at this time, and the multiplicity of all the other major addressable applications provides a range of market opportunities for the Group.

The Licence Agreement requires that the costs and expenses of prosecuting the pending patent applications and of maintaining all registered patents licensed to the Company are reimbursed to Yissum by the Company. If, however, for reasonable commercial considerations, the Company decides that it does not wish to fund the registration or maintenance of a patent in a certain state or country and Yissum applies for, registers or maintains a patent covered by the Licence Agreement in that state or country at its own cost, the patent licence with respect to that state or country will revert to Yissum and be capable of being licensed to a third party or exploited by Yissum. In addition, if the Licence Agreement ends or is terminated for any reason, all rights in the Yissum patents will revert to Yissum.

One of the conditions of the Licence Agreement is that a further US \$150,000 will become payable to Yissum conditional upon equity funds raised by the Company. It is believed that, conditional upon the Placing and Subscriptions being finalised, this amount will become payable to Yissum.

Further information regarding the Licence Agreement is set out in paragraph 7.4 of Part 7 of this document

#### *Baylor licence*

The Group has also licensed from Baylor, the non-exclusive right to use technology developed by Baylor in producing the HDAd (gutless adenoviral vector).

The Baylor licence commenced on 25 January 2007 (and references collaboration agreements between Baylor and the Group dated 25 January 2006 and 6 April 2006). The licence expires on the first date following the tenth anniversary of the first commercial sale of products incorporating the Baylor licensed technology by the Group. After the licence expires, the Group will have a perpetual, non-exclusive, royalty free licence to the licensed Baylor technology. If the Baylor licence is terminated, the rights to the licensed technology (except Medgenics' technology) will revert to Baylor. According to the Baylor license, a further licence is required from Bristol-Meyers Squibb Company ("BMS") for US Patent 4,959,317, which, expired in September 2007 directed to Cre-Lox technology. Due to the recently anticipated expiry of the BMS patent, this patent is not expected to affect commercialisation of the Biopump Platform Technology.

#### **Trademarks**

Certain of the names utilised for the Group's products and tools are the subject of trademark applications in certain jurisdictions, though the final choice of name for products and tools created by the Group has not yet been made and will be subject to such factors as marketing considerations etc.

The Group has not currently made any trademark applications and has been contacted by a third party regarding the use of that party's Biopump trademark but, the Directors do not believe there are reasonable grounds to suggest any action would result in any such use.

#### **Competition**

Whilst nearly all protein therapy today utilises recombinant protein delivered via serial bolus injections, there are many alternative ways to make protein and to deliver it. The Directors believe that the Biopump Platform Technology has distinct advantages over each. New ways to produce proteins are emerging, including production in plant cells, as well as generic production of off-patent proteins using more standard recombinant protein technology. However, the Directors believe that each of these new production methods faces the same challenges of how to deliver the protein reliably in the intended therapeutic window over the required extended periods of treatment.

There are also new methods for delivering protein from implanted slow-release depots, via the skin, via inhalation or via "smart pills" that evade the digestive track. However, these all face the common problem of who will supply the expensive protein to be delivered, which will still be produced in cells other than the tissue of the patient. In addition, whilst most of the alternatives to bolus injection may reduce the traditional patient resistance to injections, the challenge of peaks and troughs in between each administration still exists, as does the requirement of high patient compliance over an extended period to sustain therapeutic levels. Longer lasting versions of the protein, achieved through alteration of the protein molecule itself, offer the potential to reduce the number of injections, but still require administration every one-to-two weeks, are expensive to produce and run the risk of prolonging the overdosing period resulting from any given injection. New molecules mimicking the action of proteins are showing promise in clinical testing, but are still only expected to extend the inter-injection period to up to four weeks, as compared to the Biopump's potential to provide four-to-six months or more per treatment.

The Group faces competition within protein therapeutics; directly from established competitors using alternative protein manufacturing and delivery methods for EPO and IFN- $\alpha$  to treat anaemia and hepatitis C. Additionally, many of these competitors currently manufacture, or are developing, a wide array of proteins such as G-CSF and hGH – protein therapies that the Group intends to target in due course. Table 1 summarises what the Directors believe to be the Group's primary competition and shows some products currently in development, which already exist in the market or which, the Directors believe, could in the future compete with the Group.

*Table 1, Marketed Products  
Current EPO and IFN- $\alpha$  treatments*

<i>Company</i>	<i>Product name</i>	<i>Protein</i>	<i>Dosage</i>
Amgen, Inc.	Epogen	EPO	3 times a week
	Aranesp	EPO	weekly
Janssen Cilag	Eprex <sup>®</sup>	EPO	weekly
Johnson & Johnson	Procrit <sup>®</sup>	EPO	3 times a week
Roche Holdings	Roferon-A <sup>®</sup>	IFN- $\alpha$	3 times a week
	Pegasys <sup>®</sup>	IFN- $\alpha$	weekly
	Copegus <sup>®</sup> taken with		
	Pegasys <sup>®</sup>	IFN- $\alpha$	twice daily
Schering Plough Corp.	PEG-INTRON <sup>®</sup>	IFN- $\alpha$	weekly
	REBETOL <sup>®</sup> taken with		
	PEG-INTRON <sup>®</sup>	IFN- $\alpha$	twice daily
	Intron <sup>®</sup> -A	IFN- $\alpha$	3 times a week

*Development stage protein-based anaemia and hepatitis C treatments*

<i>Company</i>	<i>Product name</i>	<i>Protein</i>	<i>Status</i>
Roche Holdings	CERA	EPO	Pre-registration
Daewoong	DWP-413	EPO	Phase 3
Affymax Inc.	Hematide <sup>™</sup>	EPO	Phase 2
Modigene Inc.	MOD-701	EPO	Phase 1
Neose	Glyco pegylated EPO	EPO	Phase 1
Syntonix	EPO-Fc	EPO	Phase 1
Human Genome Sciences Inc.	Albuferon <sup>™</sup>	IFN- $\alpha$	Phase 3
BioLex	Locteron	IFN- $\alpha$	Phase 2
Flamel	IFN- $\alpha$ (Medusa)	IFN- $\alpha$	Phase 2
Nautilus Biotech	Belerofen	IFN- $\alpha$	Phase 1
Roche Holdings	R-7025	IFN- $\alpha$	Phase 1

*Source: Thomson Pharmaceutical Services*

## **Financial summary**

The financial information set out below is extracted from the audited statutory financial statements of the Group for the three years ended 31 December 2006 which are completed in full in Part 3, the Accountants Report of this document which should be read in its entirety.

	<b>Year ended 31 December 2006 US \$</b>	<b>Year ended 31 December 2005 US \$</b>	<b>Year ended 31 December 2004 US \$</b>
Turnover	-	-	-
Research and development expenditure (net)	748,161	60,146	2,567,894
General and administrative expenses	1,821,613	575,088	1,535,913
Operating loss	2,596,774	635,234	4,103,806
Loss on ordinary activities before taxation	2,598,605	776,129	4,513,003
Loss per share	0.07	5.11	29.71
Fully diluted loss per share	0.07	5.11	29.71

## **Employees and places of business**

As at the date of this document, the Group employs ten staff as follows:

<i>Category</i>	<i>Number</i>
Management	3
Administration	3
Research and Development	4

The Company employed one person as at 31 December 2004, 2005 and 2006. All of the work carried out by the Group's employees (excluding Directors) is undertaken in Israel.

MMI is in the process of re-locating from premises located at 12 Hanapach Street, Karmiel, Israel, which it occupies under a short-term lease, expiring on 31 December 2007, to newly leased, larger premises located at Turag House, Misgav Business Center (Teradion), D.N. Misgav, Israel. Further details of the leases of such premises are set out in paragraph 12 of Part 7 of this document.

In addition, the Company enjoys the non-exclusive use of certain office and related facilities at 8000 Towers Crescent Drive, Suite 1300, Vienna, Virginia, USA. These offices are leased by Windy

City, Inc., a US Corporation in which Joel Kanter (one of the Directors) is interested and of which he is a director. The Company does not currently pay any rent for such occupation but, from time to time, reimburses Windy City, Inc. for any costs or expenses incurred by Windy City, Inc. on behalf of the Company (primarily postage and telephone conference call services). In due course, a formal lease or services agreement may be entered into with Windy City, Inc. In the event that this shall be the case, the terms of such lease or service arrangement will be negotiated on arms length, commercial terms.

### **Reasons for the Proposals and use of proceeds**

The Company is seeking to raise funds, by way of the Proposals in order to fund further development and testing of the Biopump Platform Technology and products. The Group intends to utilise the Loan Note, Placing and Subscriptions proceeds to commence a Phase I/II Clinical Trial of EPODURE. The Directors believe that, if successful, the results of the Phase I/II Clinical Trial will allow the Group to pursue a strategic alliance with a major partner in order to proceed (in the long-term) with further clinical trials and eventual FDA, EMEA and/or other regulatory approvals and commercialisation of EPODURE and other potential applications of the Biopump Platform Technology. Alternatively, the Group may seek further funding to pursue the additional development of the Biopump Platform Technology independently of a third party partner. In addition, the Directors consider that Admission will have the following additional benefits:

- assist the Group in recruitment, retention and incentivisation of key personnel through the grant of share options for which there will be a market value for the shares when exercised; and
- enhance the Group's profile with potential partners, suppliers and customers and raise the status of the Group within the speciality pharmaceutical sector.

Following Admission, the Directors will complete preparations to begin the Phase I/II Clinical Trial of EPODURE in up to thirty patients. The trial is expected to start during the second quarter of 2008.

### **Directors and management**

The Directors and the management team collectively have extensive experience in biotechnology and biomedical devices, working together and advised by professionals from the healthcare, finance, medical and academic communities. The Company's Board includes current and former directors of international healthcare companies such as Fresenius Medical Care & Co. AG KGaA ("Fresenius"), Renal Care Group, Inc., Encore Medical Corporation and Connetics Corporation. The Company's Scientific Advisory Board includes past and present members of the American Society of Renal Physicians, the American Gastroenterological Association and the American Society of Gene Therapy. In addition, the Group is closely advised by its regulatory advisers.

#### **Directors**

*Eugene Andrew Bauer, M.D., Non-executive Chairman of the Board of Directors, Age 65*

Dr. Bauer has been a member of Medgenics' Board since 22 March 2001. He is a Lucy Becker professor, Emeritus, in the School of Medicine at Stanford University. Dr. Bauer served as Dean of the Stanford University School of Medicine from 1995-2001 and as Chair of the Department of Dermatology at the Stanford University School of Medicine from 1988-1995. He is also a co-founder and emeritus member of the Board of Directors of Connetics Corporation, a publicly traded, dermatology-focused therapeutics company, which was acquired by Steifel Laboratories Inc. He also serves as director of Protalex, Inc., Peplin Biotech, Limited and Modigene Inc., a life sciences company that is developing technology to lengthen the life of various proteins, including EPO and IFN- $\alpha$ . Dr. Bauer has been an NIH funded investigator for 25 years, has served on review groups for the NIH and has served as a member of the Board of Scientific Counsellors of the National Cancer Institute and the Advisory Council for the National Institute of Arthritis, Musculoskeletal and Skin Diseases. Dr. Bauer is also a member of the Institute of Medicine of the National Academy of Sciences. Dr. Bauer received an M.D. from Northwestern University.

*Andrew Leonard Pearlman, Ph.D., Chief Executive Officer, President and Director, Age 56*

Dr. Pearlman was appointed to the Board on 1 February 2000 and is the founder and CEO of Medgenics. Dr. Pearlman has over 25 years experience founding and managing biotechnology and medical device companies, as well as inventing and developing biomedical technology. Prior to founding Medgenics, Dr. Pearlman founded and served as CEO and chief scientist for TransScan Research & Development Co., Limited, under whose leadership the company's product, the T-scan 2000 breast impedance scanner, was the first new medical imaging method for cancer detection to receive FDA pre-market approval in over 20 years. He has also founded or co-founded several other companies in the fields of diagnosis and patient monitoring. Dr. Pearlman holds a Ph.D. in biophysics from the University of California, Berkley, where he completed his doctoral thesis under

Nobel Laureates – Professors Melvin Calvin and Donald Glaser.

*Joel Stephen Kanter, Non-executive Director, Age 50*

Mr. Kanter served as Legislative Assistant to former Congressman Abner J. Mikva, as Special Assistant to the National Association of Attorneys General and as the Staff Director of the House Rules Committee's Subcommittee on Legislative Process chaired by the late Congressman Gillis W. Lond.

Since 1986, Mr. Kanter has served as president of Windy City, Inc., a privately held investment company specialising in early stage venture capital. Mr. Kanter has been a member of Medgenics' Board since 7 August 2000. Mr. Kanter also serves on the board of directors of several public companies including Encore Medical, L.P., a manufacturer of orthopaedic surgery products; Aquamatrix, Inc., a manufacturer of foam and gel products for the health care industry; Echo Healthcare Acquisition Corp., a US \$57.5 million health care special acquisition company; I-Flow Corporation, a publicly-held drug delivery technology company; Magna-Labs, Inc., formerly involved in the development of a cardiac MRI device; Modigene Inc., a life sciences company that is developing technology to lengthen the life of various proteins, including EPO and IFN- $\alpha$  ; Prospect Medical, an owner/operator of Independent Physician Associations; and WaferGen Biosystems, which develops, manufactures and sells systems for gene expression and genotyping. Mr. Kanter is also on the Board of a number of private companies and is also a Trustee of the Union Institute & University, the Georgetown Day School in Washington, D.C., and is a Trustee Emeritus and the former President and Board Chair of the Langley School in McLean, Virginia.

*Gary Allan Brukardt, MBA, Non-executive Director, Age 61*

Mr. Brukardt has over 30 years of experience in the healthcare industry and was appointed to the Board on 18 September 2006. From 1991 to 1996, he was executive vice president of Baptist Health Care Affiliates, a company that provides occupational medical centres/programs, urgent care, home healthcare, managed care, corporate health services, management of hospitals and hospital joint ventures and an ambulatory surgery centre. From 1991 to 1996, Mr. Brukardt was also chairman of HealthNet Management, Inc., a managed care services company. Mr. Brukardt was executive vice president and COO of Renal Care Group from 1996 to 2003. From 2003 through March 2006, he was president and CEO of Renal Care Group. Mr. Brukardt led Renal Care Group's US \$3.5 billion acquisition by Fresenius Medical Care in March 2006, which resulted in the creation of the world's largest integrated provider of dialysis services. After the close of the transaction, Mr. Brukardt held the position of vice chairman, Fresenius North America and CEO, Global Disease Management/Ambulatory Services until September 2006. He is currently serving as a consultant to Fresenius globally. Mr. Brukardt received a Bachelor of Arts at the University of Wisconsin at Oshkosh and his MBA in International Management from Thunderbird School of Global Management.

*Stephen Devon McMurray, M.D., Non-executive Director, Age 60*

Dr. McMurray was appointed to the Board on 21 December 2005. Dr. McMurray was one of the founders of Renal Care Group, Inc., a company that provides acute dialysis services. He served on the board of Renal Care Group until its US \$3.5 billion acquisition by Fresenius in March 2006. He is a past member of the Renal Physicians Association Board and has served on the board of the Network Medical Review for many years. Dr. McMurray is very active in developing processes to improve patient care and outcomes and is currently the medical director of the Fresenius Medical Care Health Plan. Dr. McMurray received an M.D. from Indiana University Medical School in 1972, followed by medicine residency and nephrology fellowship at Indiana University Medical Center. He has practiced nephrology in Fort Wayne, Indiana, since 1977. He is a member of Indiana Medical Associates, a 45-member multi-specialty group and is past president of their board.

**Management team**

In addition to Dr. Pearlman, key members of the management team include:

*Baruch Stern, Ph.D., Director of Bioscience*

Dr. Stern received a Ph.D. in molecular biology and biotechnology from Tel Aviv University in 1994 and completed a postdoctoral fellowship at the NIH. Dr. Stern has extensive academic and industry experience in cell and tissue engineering, as well as a wide range of applied molecular and cellular biology technologies. From 2001 to 2004, he was group development leader of the microbiology section at the Group, where he spearheaded tissue engineering and development of the Biopump Platform Technology, including viral vector and assay development. Dr. Stern was also instrumental in creating and implementing GMP production and standard operating procedures for the Group's Phase I Clinical Trial, as well as assisting the development of the Group's skin harvesting, handling and implantation devices. From 2004 to 2006, he served as tissue

engineering project manager at ProChon Biotech Limited, a company developing cell therapy solutions to damaged cartilage.

*Stephen Bellomo, MSc, Vice President of Program Management and Product Development*

Mr. Bellomo has over ten years of experience in management roles in medical device and biotech industries. Prior to rejoining the Group in March 2007, he was the CTO for Allium Medical, a urinary and gastrointestinal stent company, where he was responsible for all development and production activities. From March 2005 to July 2006, Mr. Bellomo was the Director of Special Projects for Glucon Medical, where he led the development of an automated glucose reader to support intensive insulin therapy in critical care applications. Mr. Bellomo held application development and marketing positions at Galil Medical, a cryosurgical device company. Mr. Bellomo received an MSc in Mechanical Engineering from The Technion Israel Institute of Technology, and a BE in Mechanical Engineering from The Cooper Union for the Advancement of Science and Art.

*Phyllis Bellin, MBA Head of Finance and Administration*

Ms. Bellin received an MBA from Columbia University. Since 1980, Ms. Bellin has managed finance and administration for several early stage high-tech ventures in Israel. Most recently, she was a founder and vice president of Gintec Active Safety Limited and was responsible for finance and administration of its subsidiaries including RoadEye Limited.

### **Scientific Advisory Board**

The Group is guided by an expert Scientific Advisory Board including the past Presidents of three major US clinical organisations of direct relevance to the Biopump Platform Technology and applications. The Scientific Advisory Board is made up of the Directors Dr. Bauer, Dr. McMurray and:

*Allen R. Nissenson, M.D.*, professor of medicine and director of the Dialysis Program at University of California at Los Angeles. Dr. Nissenson is the past president of the Renal Physicians Association, a world-renowned nephrologist and a leader in kidney medicine and EPO development. He also advises Amgen, Inc. and Baxter International, Inc.

*Emmet B. Keeffe, M.D., M.A.C.P.*, professor of medicine and chief of hepatology at the Stanford University School of Medicine. Dr Keeffe is a past president of the American Gastroenterological Association and a leading authority on chronic hepatitis C.

*Mark Kay, M.D.*, the past president of the American Society of Gene Therapy. He is also a professor of paediatrics and genetics at Stanford University.

*Eithan Galun, M.D.*, a professor of gene therapy at the Hadassah School of Medicine, Hebrew University, Jerusalem. He is also a director of the Goldyne Sovad Institute of Gene Therapy, Israel.

*Michael Hensley, M.D.*, a former FDA medical officer and has served as senior regulatory affairs adviser and manager for numerous pharmaceutical and biotechnology companies. He advises the Group on regulatory aspects of its total product concept.

*Amos Panet, Ph.D.*, professor of virology at the Hadassah School of Medicine, Hebrew University, Jerusalem, the former chief scientific officer of Biotechnology General and a co-developer of the underlying technology to the Biopump (the MO, currently licensed by Yissum).

### **Regulatory advisers**

The Group's regulatory advisers are Michael Hensley, M.D. and Andra E. Miller, Ph.D., a former expert microbiologist and gene-therapy group leader at the CBER's Cellular and Gene Therapies Division. Dr. Miller is now a leading consultant in regulatory affairs for Biologics Consulting Group, Inc., and has provided key guidance to the Group's regulatory and clinical planning, assisting in the Group's coordination with the FDA and in the Group's efforts to seek approval of its clinical protocols.

### **Corporate governance**

The Directors recognise the importance of sound corporate governance and intend that the Group will comply with the provisions of the Combined Code insofar as they are appropriate, given the Group's size, stage of development, resources and the fact that the Company is incorporated in the USA rather than the UK.

Since the Company does not currently have any class of securities registered under the US Securities Act and is not currently subject to the rules and regulations of one of the national securities exchanges or national securities associations, such as the New York Stock Exchange, the American Stock Exchange or NASDAQ, the Company is not required to comply with corporate governance requirements imposed by these organisations pursuant to regulations issued by the US Securities Exchange Commission under the Sarbanes-Oxley Act of 2002.

The Board comprises one executive Director and four non-executive Directors. Whilst none of the non-executive directors would be considered to be “independent” on a strict application of the criteria identified by the Quoted Companies Alliance in their publication entitled “Corporate Governance for AIM Companies”, it is believed that all on the non-executive directors are sufficiently independent of the executive Director and the operations of the Group to exercise independent judgement in the performance of their duties. Following Admission and when appropriate, the Board will consider further appointments of non-executive directors with experience of particular relevance to the Group.

The Board is responsible for formulating, reviewing and approving the Group’s strategy, budgets and corporate actions. Following Admission, the Company intends to hold Board meetings on a monthly basis and at other times as and when required.

The Company has established and properly constituted an Audit Committee and a Remuneration and Nomination Committee of the Board with formally delegated duties and responsibilities.

The Audit Committee has primary responsibility for monitoring the quality of internal financial controls and ensuring that the financial performance of the Group is properly measured and reported on. It will receive and review reports from the Group’s management and auditors relating to the interim and annual accounts and the accounting and internal control systems in use throughout the Group. The Audit Committee will meet not less than twice in each financial year and will have unrestricted access to the Group’s auditors. Members of the Audit Committee are Mr. Gary Brukaradt (as Chairman), Joel Kanter and Dr. Eugene Bauer.

The Remuneration and Nomination Committee will review the performance of the executive directors and certain employees and make recommendations to the Board on matters relating to their remuneration and terms of employment. The Remuneration and Nomination Committee will also make recommendations to the Board on proposals for the granting of share options and other equity incentives pursuant to any share option scheme or equity incentive scheme in operation from time to time. Further, the committee will lead the process for considering future appointments to the Board and make recommendations to the Board of candidates for appointment and annual election. The Remuneration and Nomination Committee will meet at least twice in each financial year and at such other times as the chairman of the committee shall require. In exercising this role, the Directors shall consider the recommendations put forward in the Combined Code. Members of the Remuneration and Nomination Committee are Dr. Stephen McMurray (as Chairman), Joel Kanter and Dr. Eugene Bauer.

### **The Share Option Plans**

The Directors believe that the Group's success is highly dependent on the quality and the loyalty of its Directors, senior management, employees and consultant and that, to assist in the recruitment, retention and motivation of high quality personnel, the Group must have an effective remuneration strategy. The Directors consider that an important part of the Group's remuneration strategy is the ability to award equity incentives and, in particular, share options to such personnel.

The Company has two share option plans, the Share Incentive Plan and the ISOP and has granted one option (in respect of 1,080,784 Common Shares) to a consultant to MMI outside the Share Option Plans, further details of which are set out in paragraph 4.11 of Part 7 of this document.

The rules of the Share Option Plans include a limit over the number of Common Shares that may be issued post Admission under the Share Option Plans. The number of Common Shares over which options may be granted, in aggregate, following Admission, in addition to the Options and the option referred to in paragraph 4.11 of Part 7 of this document, shall not exceed 10 per cent of the issued share capital of the Company on any date of grant of an option. The Group's Directors, senior management, employees and consultants are eligible for grants of share options, stock appreciation rights, restricted share and other share-based awards under the Share Incentive Plan and the grant of share options under the ISOP. As at the date of this document (in addition to the option referred to in paragraph 4.11 of Part 7 of this document), there were Options outstanding in respect of 38,618,702 Common Shares under the Share Incentive Plan. As at the date of this document, no other share-based awards had been granted under the Share Incentive Plan and no options had been granted under the ISOP.

The terms of the Share Option Plans have been drafted to reflect the likely expectation of employees in the US and Israeli markets. The Company proposes to comply with the spirit of the guidelines published by the Association of British Insurers as fully as is practical following Admission with regard to the award of options under the Share Option Plans. The Remuneration Committee has the authority to attach performance criteria and vesting provisions to the grant of options under the Share Option Plans, where considered appropriate.

Further details of the Stock Option Plans and the Options granted thereunder are set out in paragraphs 4.10 and 8 of Part 7 of this document.

## **Warrants**

The Company has issued or has committed to issue the Warrants. A total of up to 131,832,033 Common Shares are issuable under the Warrants issued and issuable immediately upon Admission.

Further details of the Warrants are set out in paragraph 9 of Part 7 of this document.

## **Dividends**

The Group is primarily seeking to achieve capital growth for its Shareholders. It is the Board's intention, during the current phase of the Group's development, to retain any future distributable reserves for use within the business. Thereafter, subject to the availability of distributable reserves, the Board intends to pursue a dividend policy reflecting the Group's growth in earnings and cash flow generated from operations, while maintaining an appropriate level of dividend cover and having regard to further development of the Group's activities.

## **Share dealing code**

The Directors will comply with Rule 21 of the AIM Rules for Companies relating to directors' and applicable employees' dealings in the securities of an AIM company. The Company has adopted a share dealing code for directors of the Company and employees of the Group who are likely to be in possession of unpublished, price sensitive information relating to the Group or the Common Shares, in line with the code for dealings by directors and certain employees of a company listed on the Official List in shares of that company, as prescribed by the listing rules of the UK Listing Authority, and will take proper steps to ensure compliance by the Board and relevant employees. The share dealing code restricts the ability of the Directors and applicable employees from dealing in Common Shares at certain times.

## **Placing**

SVS has, pursuant to the Placing and as agent for the Company, conditionally placed with high net worth investors 9,640,000 Placing Shares at the Placing Price, representing approximately 9.3 per cent of the Enlarged Share Capital. The Placing is conditional upon, inter alia, Admission taking place by 12 noon on 4 December 2007 (or such later date, being not later than 12 noon on 31 December 2007, as the Company, SVS and Blomfield may agree).

The Placing will raise approximately £0.96 million before expenses. On Admission and at the Placing Price, the Company will have a market capitalisation of approximately £10.41 million.

Following Admission, the Directors will hold or otherwise be interested in 11,965,968 issued Common Shares, representing approximately 11 per cent of the undiluted Enlarged Share Capital. If all of the Warrants and Options (including the Warrants held by the Directors or in which they are interested) and the option referred to in paragraph 4.11 of part 7 of this document were to be exercised, the Directors would hold or otherwise be interested in 98,764,460 issued Common Shares, representing approximately 36 per cent of the then issued share capital of the Company. If only the Warrants and Options held by the Directors or in which they are interested were to be exercised, the Directors would hold or otherwise be interested in 98,764,460 issued Common Shares, representing approximately 52 per cent of the then issued share capital of the Company.

The Placing Agreement contains provisions entitling SVS and Blomfield to terminate the Placing at any time prior to Admission in certain circumstances.

Further details of the Placing Agreement are set out in paragraph 7.36 of Part 7 of this document.

## **The Subscriptions and the convertible unsecured promissory note**

The Company has raised, by way of the April/July Subscription and conditional (inter alia) upon Admission, a total of US \$2.964 million (before expenses). The April/July Subscription Shares will, upon allotment and issue, constitute approximately 14.7 per cent of the Enlarged Share Capital and the effective price per Common Share paid, under the arrangements for the Subscriptions (following adjustment to take account of the "forward stock split" referred to in paragraph 4.5.2 of Part 7 of this document), will be US \$0.19 (approximately 9p). The April/July Subscription will be made pursuant to the April/July Subscription Agreements, further details of which are set out in paragraphs 7.22 and 7.35 of Part 7 of this document.

In parallel with the Placing, the Company has raised, by way of the November Subscription and conditional (inter alia) upon Admission, a total of \$0.60 million (before expenses). The November Subscription has been undertaken on substantially the same terms as to price (subject to currency fluctuations and rounding on conversion) and otherwise as the Placing but has been effected by means of the November Subscription Agreement in order to meet the requirements of US securities laws and regulations and to avoid the need for the filing of a registration statement pursuant to the US Securities Act. The November Subscription Shares will, upon allotment and issue, constitute approximately 2.7 per cent of the Enlarged Share Capital and the effective price per Common Share paid, under the arrangements for the November Subscription (following

adjustment to take account of the "forward stock split" referred to in paragraph 4.5.2 of Part 7 of this document), will be US \$0.21 (approximately 10p, equivalent to the Placing Price).

The largest investor in the Subscriptions was Lord Leonard Steinberg, who has invested US \$2.5 million in the Subscriptions and US \$0.2 million in the Placing. Lord Steinberg is the former executive Chairman of Stanley Leisure.

The Directors are subscribing under the November Subscription for, in aggregate, 689,358 Common Shares at an aggregate subscription price of US \$145,016. Further details of such subscriptions are set out in paragraph 6.9 of Part 7 of this document.

On 13 August 2007, the Company entered into a note purchase agreement with Platinum Montaur Life Sciences 1, LLC ("Platinum"). Under the terms of this agreement, Platinum lent the Company the sum of US \$1.05 million by way of the Loan Note, which shall automatically convert into Common Shares if Admission occurs on or prior to 15 December 2007 (or later at the sole discretion of Platinum) subject to certain conditions. The Loan Note will convert at a conversion price of US \$0.16 (approximately 8p) per share. In addition, Platinum has agreed to subscribe for the 772,761 Platinum Subscription Shares at a price of US \$0.21 (approximately equivalent to the Placing Price) per Common Share pursuant to the Loan Note. Further details of the Loan Note are set out in paragraph 7.27 of Part 7 of this document. Any amount that is not converted shall be repayable on 15 December 2007.

### **Letter of Credit arrangements and related party disclosure**

In addition to the Proposals, arrangements have been made to make further funding available to the Company, in the event that the same may be required for working capital purposes. This additional funding has been made available under the terms of the Letter of Credit. The Letter of Credit is irrevocable and is available (subject to certain conditions) for drawdown at sight at any time during the 18-month period from the date of issue, in whole or in any part in instalments of US \$100,000 or multiples of that amount. The Letter of Credit facility has been extended by Canadian Imperial Bank of Commerce and has been procured by CIBC Trust Company (Bahamas) Limited (the "Trust") for the benefit of the Company. The Trust is the trustee of a settlement of which Joel Kantor (one of the Directors) is a discretionary beneficiary.

In consideration of the Trust procuring the issue of the Letter of Credit, the Company has entered into an agreement with the Trust whereby an arrangement fee equal to 5% of the face value of the Letter of Credit payable on Admission and, if the Letter of Credit has not been cancelled by the Company prior to that time, a further arrangement fee equal to 2.5% of the face value of the Letter of Credit payable on the first anniversary of the issue of the Letter of Credit. Such arrangement fees are to be satisfied in equal proportions in cash and by the issue of Common Shares, credited as fully paid. Any drawdown by the Company under the Letter of Credit shall constitute a loan from the Trust to the Company from the date of drawdown and interest shall be payable to the Trust on the loan amount at a rate of 11% per annum until payment in full of the amount of the loan. Any loan constituted in this fashion, will be repayable by the Company on 31 May 2009, though early repayment may be made by the Company without penalty.

Further details of the Letter of Credit and of the agreement between the Company and the Trust, are set out respectively in paragraphs 7.34 and 7.35 of Part 7 of this document.

### **Lock-in arrangements**

The Locked-In Parties, who on Admission will between them hold (in aggregate) 23,831,452 Common Shares, approximately 22.9% of the then issued share capital and are interested in (in aggregate) 128,516,611 Common Shares, approximately 46.6 per cent of the fully diluted Enlarged Share Capital, have entered into the Lock-In Agreements with the Company, Blomfield and SVS. Under the terms of the Lock-In Agreements, the Locked-In Parties have agreed, subject to certain limited exceptions, that they will not, without the prior written consent of Blomfield and SVS, sell, transfer, grant any option or charge over or otherwise dispose or agree to dispose of the legal or beneficial interest in any Common Shares held or acquired by them for a period of 12 months from the date of Admission (the "Lock-Up Period"). In the case of the Directors, they have also agreed to procure that the holders of Common Shares in which they are interested comply with the said restrictions.

In addition, each of the Locked-In Parties has agreed with the Company, Blomfield and SVS not to dispose of any Common Shares held by them otherwise than through SVS (or the Company's broker from time to time as the case may be) for a period of 12 months following the expiry of the Lock-Up Period, save in certain limited circumstances.

Further, the holder of an additional 193,871 Common Shares, approximately 0.2% of the then issued share capital, has agreed with the Company (pursuant to the agreement referred to in paragraph 7.32 of Part 7 of this document) not to sell or otherwise deal in such Common Shares for a period of 12 months from Admission.

Further details of the Lock-In Agreements are set out in paragraph 7.31 of Part 7 of this document.

### **Admission, settlement and dealings**

The Placing is subject to the satisfaction of certain conditions in the Placing Agreement including Admission occurring by 12 noon on 4 December 2007 or such later time and/or date as SVS and Blomfield may agree, being not later than 12 noon on 31 December 2007.

Application has been made to the London Stock Exchange for the Enlarged Share Capital to be admitted to trading on AIM. It is expected that Admission will become effective and that dealings in the Common Shares will commence on 4 December 2007.

Temporary documents of title will not be issued. Pending the despatch by the Company's registrars of definitive share certificates, transfers will be certified against the register held by the Company's registrars.

Trades of shares on AIM are conventionally made through the CREST system, a paperless settlement procedure enabling securities to be evidenced and transferred electronically. Securities issued by non-UK registered companies, such as the Company, cannot currently be held or transferred directly in the CREST system, unless depository interests ("DI's") are issued.

Due to restrictions on transfers under the US Securities Act, the Placing Shares, the Subscription Shares and the other Common Shares currently in issue must be held in certificated form for so long as such shares continue to be 'restricted securities' under the US Securities Act. Generally, "restricted securities" must be held for a period of at least 12 months following the date on which they were purchased and fully paid for and thereafter may be sold only in accordance with the requirements of Rule 144 under the US Securities Act. For persons who are not affiliates of the Company (and who have not been affiliates for at least three months), the shares will continue to be restricted securities, subject to volume and manner of sale restrictions of Rule 144 until such person has held them for at least two years, at which time they may be freely sold. Shares held by affiliates will continue to be restricted securities, subject to the requirements of Rule 144, as long as they are so held. The Directors have noted that the US Securities Exchange Commission has proposed rules, which may shorten the holding period mandated by Rule 144 to six months. However, the adoption of these proposed rules is not assured at this time. Prospective investors in the Common Shares are recommended to consult with your legal advisers prior to any proposed transfer of shares.

Accordingly, the Placing Shares and Subscription Shares will not be eligible for settlement through CREST until they are freely tradable; unless CREST is modified to handle settlement of restricted securities, and all issued Common Shares will be in certificated form. From Admission, the certificates representing the Common Shares which are 'restricted securities' under the US Securities Act will bear a legend evidencing the potential restrictions on transfer.

Due to recent change in the rules of the London Stock Exchange (pursuant to stock exchange notice N44/06, issued by the London Stock Exchange on 28 July 2006) it will be possible for trading in certificated shares of companies admitted to AIM and which are subject to the restrictions under Regulation S to be settled electronically through SIS (an electronic settlement system similar to CREST). The Company has considered the possibility of electronic settlement for the Common Shares and will continue to investigate the possibility of this system and (where feasible) may make the necessary arrangements for having the Enlarged Share Capital, including the restricted Common Shares, settled through this system or any other proposed electronic settlement system developed, including any alternative system offered in the future by CREST.

When the Common Shares (including the Placing Shares and Subscription Shares) become eligible for transfer through CREST and if the Company has not adopted electronic settlement through SIS, it will be possible for CREST members to hold any interests in Common Shares within CREST pursuant to depository interest arrangements established by the Company. In these circumstances, the Common Shares themselves are not admitted to CREST but, instead, an agreed depository service provider will issue DI's representing the underlying Common Shares, which are held on trust for the holders of the DI's. The DI's themselves are independent securities constituted under English law, which may be held and transferred through the CREST system. CREST is a voluntary system and holders of Common Shares who wish to retain share certificates shall be able to do so.

If the Company has not implemented electronic settlement through SIS, the Company will consider establishing depository interest arrangements and applying to CREST for the Common Shares (represented by DI's) to be admitted for settlement through CREST following the expiry of US securities law restrictions applicable to such shares.

**Taxation**

The attention of investors is drawn to the information regarding taxation in relation to the Placing and Admission, which is set out in paragraph 13 of Part 7 of this document. These details are intended, however, only as a general guide to the current tax position under UK, Israeli and US taxation law. Shareholders who are in any doubt as to their tax position or who are subject to tax in a jurisdiction other than the UK, Israel or US are strongly advised to consult their professional advisers.

**Further information**

Your attention is drawn to the further information set out in Parts 2 to 7 of this document, in particular Part 2, which is titled "Risk Factors".

## **Part 2**

### **RISK FACTORS**

**The attention of prospective investors is drawn to the fact that ownership of Common Shares in Medgenics will involve a variety of risks which, if they occur, may have a materially adverse effect on the Group and the market price of the Common Shares could decline and an investor might lose all or part of his or her investment.**

**In addition to the information set out elsewhere in this document, the following risk factors should be considered carefully in evaluating whether to make an investment in the Company. The following factors do not purport to be an exhaustive list or explanation of all the risk factors involved in investing in the Company and they are not set out in any order of priority. In particular, the Company's performance might be affected by changes in market and/or economic conditions and/or in legal, regulatory and tax requirements.**

**If any of the circumstances identified below were to materialise, the Group's business, financial condition and results of operations could be materially and adversely affected. In such circumstances, the market price of the Common Shares in the Company could decline and investors may lose all or part of their investment. Additionally, there may be risks and uncertainties of which the Board are not aware or believe to be immaterial which may, in the future, adversely affect the Group's business and the market price of the Common Shares in the Company.**

**An investment in the Company may not be suitable for all recipients of this document. An investment in the Company involves a higher than normal degree of risk. Potential investors are, accordingly, strongly recommended to consult an independent financial adviser authorised pursuant to FSMA who specialises in advising on the acquisition of shares and other securities before making a decision to proceed with an investment in the Company.**

#### ***Place of business***

The Group's principal activities are based in Israel, which may be adversely affected by acts of terrorism, major hostilities, adverse legislation or litigation. If major hostilities should occur in the Middle East, including as a result of acts of terrorism in the US or elsewhere, any such effects may not be covered by insurance.

A substantial number of rockets and mortars fell on Karmiel (the current location of the Group's laboratories) during the Hezbollah attack on Israel during July and August 2006. During these hostilities, the Group was able to relocate its facilities to Jerusalem, which was not under attack, and the Group is in process of moving its facilities to an area that has not come under attack. As the Group grows, the feasibility of rapidly moving operations should any future conflicts commence would be greatly diminished and there could be a consequential delay in furthering clinical trials or uninsured damage to laboratory equipment could occur or death or injury to Group personnel could result.

#### ***Technology and possible side effects***

The Biopump Platform Technology has not been tested in patients for a long duration or on a large scale, and is still in an early stage of development. Although the Directors believe the Biopumps will not elicit an immune response in humans which could curtail the activity of the Biopumps, the new sustained-action Biopumps have not been tested in man or in any animal capable of mounting an immune response (SCID mice are incapable of mounting an immune response) and therefore the Director's belief that the Biopumps will not be immunogenic is as yet unproven, and will first be tested in the upcoming clinical trials. Other aspects of the implementation and use of the Biopump Platform Technology are not yet fully developed or proven, and disappointing results and problems could delay or prevent their completion. If so, the commercialization could be stalled or even blocked.

The possible side effects and full efficacy and safety of the technology are not yet fully understood. There are therefore risks that potentially serious side effects of the technology could occur which the Group cannot rule out, such as PRCA (as occurred in a competitor's technology using animal proteins) which would result in an immune deficiency in a patient, or potential overdose of protein due to difficulties in managing the continuous supply in the patient. The previous safety tests were only carried out on a small number of patients and therefore any conclusions may not be representative of either a larger multi-centric test or the commercial version of the technology in the general population. In addition, the full impact of the technology (and its many possible variations) on the body is, as yet, unknown. Although no side effects attributed to the Biopump Platform Technology were found in the Phase I clinical trial, the possibility cannot be ruled out that serious side effects might be borne out by further trials, and if so, this could have serious implications on the viability of the technology and the business of the Group.

Although the Biopump process aims to minimize the residual number of viral vector particles and their proteins introduced into a body, there is a remote chance that the cumulative effect of Biopump

reimplantation could result in an eventual build up of viral proteins and an immunogenic reaction or potentially an anaphylactic reaction preventing further implantations, with possibly severe consequences for the viability of the technology.

The Group does not anticipate complications from human clinical trials (or commercial versions of the technology) from anti EPO antibodies or keloid formation. However, these could both have severe, yet presently unknown, side effects on the patients and this remains a risk to the viability of the Biopump Platform Technology.

The Biopump Platform Technology also relies on the Group's ability to bring about the design, development and manufacture, on a commercial scale, a low-cost semi-automated processing station. It will also be important that the processing station does not require highly skilled operators, specialist laboratories or clean rooms. The inability to adequately scale and rollout such technology could damage the cost-effectiveness and therefore one of the anticipated competitive advantages of the Biopump Platform Technology.

Severe side effects or complications in trials, or post-approval could also, in addition to having an impact on the commercial product, result in financial claims and losses against the Group as well as a high probability of significant reputational damage to the Group.

### ***Ability to recruit patients for Phase I/II, Phase IIb and Phase III Clinical Trials***

The Group is highly dependent on timely recruitment of the requisite number and type of patients for its clinical trials. The Group has previously found it difficult to recruit such patients and the increase volume and ethnic backgrounds required for future testing may prove difficult. Whilst the Group will seek to recruit patients through GPs, rather than hospitals as in previous tests, delays in the recruitment of such patients could have an impact on the timing of the testing and potentially the working capital requirements of the Group.

### ***Cost of development***

The Directors expect that the net proceeds of the Proposals will be sufficient to enable the Group to obtain key results from its Phase I/II Clinical Trial of EPODURE. However, unforeseen delays could increase costs, extend timelines and ultimately exhaust the Group's resources prior to obtaining the key results. If subsequent financing is not available, the Group might not be able to continue its development and subsequent commercial plans.

### ***Regulation by the FDA and other health authorities***

The Group is subject to regulatory requirements in all countries where it operates and desires to introduce its product. These requirements range from vector and Biopump efficacy and safety assessment in the Phase III Clinical Trials to long-term follow-up assessments on treated patients. The clearance and approval process from both the FDA and foreign regulatory authorities can be costly, time consuming and uncertain.

It typically takes a company several years or longer to satisfy the substantial requirements imposed by the FDA and comparable agencies in other countries for the introduction of therapeutic pharmaceutical and biological products. Pharmaceutical products must be registered in accordance with applicable law before they can be manufactured, marketed, distributed, etc. This registration must include medical data proving the product's safety, efficacy and clinical testing. Also included in product registration should be references to medical publications and information about the production methods and quality control.

Delays in obtaining such clearances and/or changes in existing requirements could have a material adverse effect on the Group. Failure to obtain required regulatory approvals could require the Group to delay, curtail or cease its operations. Even if the Group invests the necessary time, money and resources required to advance through the FDA approval process; there is no guarantee that the Group will receive FDA approval of its products.

Health Ministries in various countries that are important to the success of the Group's strategy may cancel a product's registration if it is found to be harmful, ineffective or improperly manufactured or marketed.

### ***Regulatory approvals for clinical trials***

Approval for clinical trials depends, among other things, on data obtained from pre-clinical and clinical activities performed by the Group, including completion of preclinical animal and in-vitro studies in a timely manner, and which must meet stringent quality assurance and compliance requirements, and are susceptible to varying interpretations, which could delay, limit or prevent regulatory approvals. Approval also depends on the Group obtaining certain key materials such as the GMP produced gutless adenoviral vector, which is being prepared via contract with a GMP vector manufacturer. Being a new version of an adenoviral vector, production of gutless adenoviral vector involves the use of certain special techniques for its preparation, which are somewhat different from those normally used by GMP vector manufacturers of first generation adenoviral vectors. They are therefore subject to successful completion of process development and manufacturing steps, which could take longer than projected,

and could delay the start of the trials. Approval further depends on the successful and timely completion of acceptable versions of the devices to harvest, implant and ablate Biopumps, which is largely dependent on the work of outside engineering contractors, and could suffer delays. Delays in starting the trials could have a material adverse effect on the Group.

The Group currently has limited experience in and resources for conducting the large-scale clinical trials required to obtain regulatory approval. The failure to comply with applicable regulatory requirements may result in criminal prosecution, civil penalties, product recalls, withdrawal of product approval, mandatory restrictions and other actions, which could impair the ability of the Group to conduct its business.

### ***Management and employees***

The Group's success will depend on the retention of its Directors, Scientific Advisory Board and other current and future members of its management and technical team and on its ability to continue to attract and retain highly skilled and qualified personnel. There can be no assurance that the Group will retain the services of any of its Directors, or attract or retain additional senior managers or skilled employees.

The Biopump Platform Technology is still in early development and is dependent on further development and testing to reach commercial production. The Group currently employs a small number of scientists who are key to developing the Biopump Platform Technology and have a high level of inherent knowledge which would be lost if they left the Group. These employees may become incapacitated or leave the Group voluntarily and there could be significant implications on the timing and cost of future development of the technology.

### ***Potential Conflict of Interest***

As disclosed in this AIM admission document, two of Medgenics' Directors (Joel Kanter and Eugene Bauer) also serve as directors on the board of a public company, Modigene, Inc., which is also developing technology in the field of therapeutic proteins. Whilst there would thus appear to be potential conflict of interest, the Directors believe that there is no commercial basis for material conflict now or for the near term due to the research and clinical trial stage of both companies. Furthermore, the technology of Modigene, which seeks to extend the half-life of a given protein by binding it to another molecule, is materially different from the approach and sustained duration of the Biopump. However, it is possible that circumstances could arise in which such conflict would become an issue.

### ***Intellectual property***

The Group's ability to commercialise the Biopump Platform Technology, or its proposed products, will depend, in part, on its ability, both in the US and in other countries, to obtain patents, enforce those patents, preserve trade secrets and operate without infringing the proprietary rights of third parties.

The Group's owned and licensed patent portfolio contains 3 issued patents and 43 pending patents. There is no guarantee that the Group will obtain patents in the other countries in which patent applications have been or will be filed, or that it will develop other patentable products or processes. In addition, there can be no assurance that any future patents will prevent other persons or companies from developing similar or medically equivalent products or that other persons or companies will not be issued patents that may prevent the sale of Group's products or that will require licensing and the payment of significant fees or royalties by the Group. Furthermore, issued patents may not be valid or enforceable, or be able to provide meaningful protection to the Group. Patent litigation is costly and time-consuming and there can be no assurance that the Group will have, or will be able to devote, sufficient resources to pursue such litigation. In addition, potentially unfavourable outcomes in such proceedings could limit the Group's intellectual property rights and activities.

To minimise its risk of infringing the proprietary rights of third parties, the Group, more than 4 years ago, appointed the experienced Patent and Licensing Counsel to undertake searches and reviews to seek to identify any existing US patents that could or might prevent the Group from manufacturing, using, selling or importing into the US Engineered EPO Tissue and Engineered IFN- $\alpha$  Tissue. Patent and Licensing Counsel concluded that:

- the claims of granted US patents 4,703,008; 5,547,933; 5,621,080; 5,441,868; 5,618,698; 5,994,127; 6,048,524 and 6,355,241 would either have lapsed by the time the Group came to market its product or would not be infringed by the making, using, selling or importing in the US of Engineered EPO Tissue; and
- the claims of granted US patents 6,312,924, 6,204,022; 5,869,293; 5,831,062; 5,541,293; 5,514,567; 5,503,828; 5,326,859; 5,287,286; 4,975,276; 4, 973,479; 4,816,506; 4,897,471, 4,780,530; 4,748,233; 4,604,284; 4,704,302; 4,530,901; 4,503,035 would either have lapsed by the time the Group came to market its product or would not be infringed by the making, using, selling or importing in the US of Engineered Interferon Alpha Tissue.

Patent and Licensing Counsel has recently advised the Group that:

- the Group does not lack any rights or licenses to use its Biopump Platform Technology covered by the Group's patents though the Group understands that it will need to take a license from third parties depending on the Group's products for specific promoters, vectors, and/or nucleic acid sequences for expressing proteins that are not in the public domain; and
- the Biopump Platform Technology does not infringe the intellectual property rights of any other third party and the Group has not received any notice of any pending or threatened action, suit, proceeding or claim by others that the Group is infringing any patent rights of third parties by the Group's manufacture, use, sale, offer for sale or importation of any of the Biopump products.

A specialist consultancy firm was also engaged to undertake a commercial review of the Biopump Platform Technology and any licences that might be required to develop and market it who concluded that licences were likely to be available to enable the Group to commercialise the Biopump Platform Technology.

However, the patent reviews provide no assurance or certainty that:

- all relevant patents have been reviewed as a result of the search. Without limiting the generality of the foregoing, the searches undertaken only reviewed the claims of US patents that had been granted at the time of the searches, which was over 4 years ago;
- US patents granted after the date of the searches and patents from jurisdictions outside the US do not contain claims that would be infringed by the making, selling or using of the Group's EPODURE and/or INFRADURE products;
- the court would reach the same or similar conclusions as that of the Patent and Licensing Counsel of non-infringement of the patents reviewed. If the court came to different conclusions on the issue of infringement of the patents reviewed to those of the Patent and Licensing Counsel, the Group may be held to have infringed and as a consequence be enjoined and/or ordered to pay damages to the patent rights-holder; or
- infringement actions will not be commenced by any third party and furthermore, if such infringement proceedings are commenced, whether in respect of the patents reviewed or others not reviewed, the Group would prevail in any intellectual property infringement action.

The Group may also need to obtain additional licenses to use certain patents depending on the gene products, proteins, vectors and promoters used in conjunction with the Biopump Platform Technology. These licences include, for example, one or more specific proteins and promoters used in conjunction with certain genes to control their expression. There is no assurance that the Group will obtain licences for such technology or would be able to obtain licences to any third party intellectual property on commercially reasonable terms.

Additionally, there can be no assurance that the Group can successfully develop non-infringing alternatives on a timely basis, or licence non-infringing alternatives, if any exist, on commercially reasonable terms. A significant intellectual property impediment to the Group's ability to develop and commercialise the Group's products could adversely affect the Group's business prospects.

### ***Confidentiality***

The Company takes precautionary measures to protect its proprietary rights and information, including the use of confidentiality agreements with its employees and consultants, and with its academic and commercial relationships. There is no guarantee that agreements will not be violated or that there will be an adequate remedy available for a violation of an agreement.

### ***Competition***

There are a number of well-established and substantial companies engaged in the development, production, marketing, sale and distribution of products that are potentially competitive with those in development by the Group. Many of these companies are more experienced than the Group is and represent significant competition for the Group's products. It is also possible that other parties have in development products substantially similar to or with properties that are more efficacious, less invasive and more cost effectively delivered than the Group's proposed products. The success of the Group's competitors in developing, bringing to market, distributing and selling their products could negatively affect the Group's result of operations and/or general acceptance of its products.

### ***Licensed technology***

Some of the patents upon which the Biopump Platform Technology is based are not owned by the Group but are licensed, exclusively, to it by Yissum, subject to certain specific reservations and restrictions. The Group has obligations under the Licence Agreement with Yissum. If the Group fails to perform any of its obligations under the Licence Agreement, it may be in breach of the Licence Agreement. Upon

such a breach, the Licence Agreement could be terminated and the intellectual property could revert to Yissum and the Group may be unable to use or further develop its products in those circumstances.

The Company also obtained a non-exclusive licence to technology from Baylor. The licence is subject to certain specific reservations and restrictions including Baylor's required approval for the sale, market, transfer, sublicense, use and filing of patent applications for the Baylor technology. Baylor's technology is also subject to US governmental rights to call for a license to exploit the technology and the need to negotiate a licence for commercial exploitation of the rights licensed to Baylor by Bristol Meyers Squibb Company ("BMS") from BMS before commencing commercial exploitation of the Baylor technology, although the BMS patent expired in September 2007, and is not expected to affect implementation of Medgenics technology. If the Company fails to get such approvals or rights the Group's ability to use and/or profit from its products that incorporate the Baylor technology may be inhibited or prevented.

If the Company fails to perform any of its obligations under the Baylor licence agreement, it may result in termination of the agreement. If the Baylor licence agreement is terminated, the licensed technology could revert to Baylor, which may limit the Group's ability to use or further develop its products.

### **Grants**

The Company's wholly owned Israeli subsidiary (MMI) received grants from the OCS. Included within the grant agreements is a clause, which calls for repayment of the grants provided to MMI by way of royalties out of income received from commercialising the developed technology. Pursuant to the Israeli Encouragement of Industrial Research and Development Law, certain limitations will apply to the change of control of the grant recipient (MMI) and the financing, mortgaging, production, exportation, licensing or transfer or sale outside of Israel of its technology, which will require the Chief Scientist's prior consent and, in some cases, extended royalties or other fees. This could have significant cash flow consequences to the Group if, and when, any technologies or manufacturing rights are exported, for example, to allow processing or testing outside Israel.

### **Establishment of collaborative relationships and strategic partnerships**

The Group believes that it must enter into collaborative relationships, strategic partnerships and/or licence all or part of its technology in order to establish, develop and expand the distribution and international sale of its products. The Group may not be able to identify such collaborators and partners on a timely basis and cannot assure investors that any future collaborators, partners or any such relationships or other arrangements will be on terms that are commercially beneficial to the Group or that such relationships and partnerships will come to fruition or will be successful.

### **Market acceptance**

The development of a market for new technology is affected by numerous factors, many of which are beyond the control or influence of the Group. There can be no assurance the Biopump Platform Technology will gain acceptance within the markets at which it is targeted. Further, the internal structure for medical service provision varies considerably from territory to territory throughout the world and may be, in some cases, subject to public sector procurement processes, which could delay penetration of this market by the Group's products.

### **Customers**

It may take the Group longer to obtain approval for third-party reimbursement of its products than expected, despite the cost-saving advantages to third-party payers and healthcare markets that the Group believes exists; this could affect product commercialisation.

In addition, third-party payers (Medicare, Medicaid, private health insurance companies and other organisations) may affect the pricing or relative attractiveness of the Group's products by regulating the level of reimbursement provided to the physicians and clinics utilising the Group's products or by refusing reimbursement. If reimbursement under these programs, or if the amount of time to secure reimbursement is too long, the Group's ability to market its products may be adversely and materially affected, even though the Group expects to be able to provide cost-saving advantages that should make the Group's products attractive to third-party payers. In international markets, reimbursement by private third-party medical insurance providers, including government insurers and independent providers, varies from country to country. In certain countries, the Group's ability to achieve significant market penetration may depend upon the availability of third-party government reimbursement.

Pharmaceutical pricing is also subject to regulation in Israel as well as other countries within which the Group may wish to distribute its product. Healthcare reform is often a subject of attention in governments that are trying to control healthcare expenditures. Healthcare reform proposals are common in the US Congress and some US state legislatures, as well as in other countries. There is no assurance that legislation, resulting in adverse effects for the Group, will not be adopted in a country in which the Group intends to operate and/or upon the distribution of its products in that country.

### ***Trading record***

The Group does not have an established trading record. As an early stage, trading business, the Group presents a high degree of risk in terms of an unproven business model in what is likely to emerge as a highly competitive market. There is no guarantee that the business model will prove successful.

### ***Product performance***

The success of the Group is reliant upon there being a demand for its products, which in turn is dependent upon patient and doctor and other medical practitioner perceptions as to safety, reliability and efficacy of its products. Although the Group's products will be subject to extensive testing, there can be no assurance that issues relating to safety, reliability and efficacy will not arise in the future.

### ***Product liability***

Whilst the Group will endeavour in its contractual dealings with third parties to limit its potential exposure to product liability claims, this may not always be possible and, in any event, may be of limited (if any) effect as a result of existing or future laws or regulations or unfavourable judicial decisions. The Group has not experienced any product liability claims to-date and will endeavour to ensure that appropriate measures are taken to insure against such liabilities; however, the distribution, sale and support of the Group's products may entail the risk of such claims, which is likely to be substantial in light of the use of its products in the treatment of medical conditions. A successful product liability claim could result in significant monetary liability and could seriously harm the Group's business, operations, financial position and/or reputation.

### ***Requirement for further funds and associated dilution of ownership***

The Group will need to raise further funds in the future for additional working or development capital. There is no guarantee that the then prevailing market conditions will allow for such a fundraising or that new investors will be prepared to subscribe for Common Shares at prices that are greater than the Placing Price. In the event that future fundraising is at prices lower than the Placing Price, Shareholders participating in the Placing could suffer significant ownership dilution and/or a reduction in the market value of their holdings in Common Shares.

### ***Marketability***

Investment in shares traded on AIM carries a higher degree of risk than an investment in shares quoted on the Official List. The share prices of public companies, particularly those operating in high growth sectors, are often subject to significant fluctuations. Following Admission, the market price of the Common Shares may be volatile and an investor may receive less than the amount originally invested on a sale of his Common Share in the market. The market for Common Shares may be or become illiquid and it may be difficult for an investor to sell his Common Shares. The Common Shares are intended for capital growth and therefore may not be suitable as a short-term investment. Consequently, the Common Shares may be difficult to buy and sell and their market value may be subject to considerable fluctuations. Investors may therefore not realise their original investment. Furthermore, the market price of the Common Shares may not reflect the underlying value of the Group's assets.

### ***Absence of prior public trading***

Prior to the Placing, there has been no public market for the Common Shares. The Placing Price may not be indicative of the market price for the Common Shares following Admission. The subsequent market price of the Common Shares may be, irrespective of the Group's actual financial, trading or operational performance, subject to wide fluctuations in response to many factors, including stock market fluctuations, general economic conditions, changes in political sentiment or other factors referred to in this Part 2.

### ***US law***

As the Company is a Delaware corporation, the rights and responsibilities of holders of the Common Shares are governed by the Company's Post-Admission Certificate of Incorporation, the Company's Post-Admission By-laws and the laws of the US, including DGCL. Further details regarding the Company's Post-Admission Certificate of Incorporation and Post-Admission By-laws are set out in paragraph 5 of Part 7 of this document.

The rights of Shareholders under US law may differ from the rights of shareholders of companies incorporated in other jurisdictions. Certain of the Directors and experts referred to in this document are not residents of the UK and all of the Group's assets are located outside of the UK. As a result, it may be difficult for investors to affect service of process on those persons in the UK or to enforce in the UK judgments obtained in UK courts against the Group or those persons who may be liable under UK law.

### ***Restrictions on transfer under US securities law***

Under US federal securities laws, the Common Shares, including the Placing Shares and the Subscription Shares, will be restricted securities as defined in Rule 144 of the US Securities Act. The Common

Shares may not be offered, sold or delivered to the US or to, or for the account or benefit of, any US Person unless the transfer is registered under the US Securities Act or an exemption from the registration requirement is available. Only the Company is entitled to register the offer and the sale of its Common Shares under the US Securities Act and (save as referred to in paragraph 4.15 of Part 7 of this document) the Company has no obligation to do so. As a result, shares in the Company must be sold in compliance with Regulation S (or any other available exemption under the US Securities Act). Trading of shares on AIM will generally meet the requirements of Regulation S, though some limitations apply with respect to sales to US Persons purchasing through AIM.

Shares that are restricted securities will also be required to bear a legend describing restrictions on transfer and prohibiting hedging transactions in the Common Shares, unless in compliance with the US Securities Act. Accordingly, these shares must be evidenced by paper certificates and will not be eligible for electronic settlement (for those who would wish to dematerialise their shares) until the legends can be removed in accordance with the US Securities Act or until the Company adopts a mechanism to facilitate electronic settlement of Regulation S securities, as further described in Part 1 under the heading "Admission, Settlement and Dealings".

Potential buyers of Common Shares may perceive that these resale restrictions in the US or to a US Person as well as the legends impose a greater limitation on liquidity than apply to shares in UK-domiciled listed companies, which may make it more difficult to resell shares bearing legends than shares without legends. Holders of Common Shares will bear responsibility for compliance with applicable securities laws and the Company urges prospective investors to consult with a broker and/or legal adviser to address any questions or concerns in such regard. In the event that the market for the Common Shares outside the US does not develop or becomes illiquid, purchasers of such shares may be unable to access the market within the US due to restrictions on transfer of such shares.

Further details regarding these resale restrictions are set out in Part 6 of this document.

### ***The City Code on takeovers and mergers***

The Company is incorporated and has its registered office and place of central management and control in the US. Accordingly, transactions in shares of the Company are not subject to the provisions of the UK City Code on Takeovers and Mergers (the "City Code"). Certain provisions of the Company's Post-Admission Certificate of Incorporation adopt similar procedures to the City Code in the event of any party (or parties acting in concert) obtaining 30% or more of the issued Common Shares of the Company but there is no assurance that the courts of the State of Delaware, USA will uphold or allow the enforcement of these provisions. Further details regarding the Company's mandatory bid conditions contained in its Post-Admission Certificate of Incorporation are set out in paragraph 5.3 of Part 7 of this document

### ***Foreign exchange***

The proceeds of the Placing will be received in pounds sterling. This may give rise to an exchange rate risk against the US dollar (the Company and Group's functional currency) or NIS (the currency used in the country of the Group's principal trading location).

The Company's share price will be quoted in pounds sterling. However, its reporting currency is US dollars and the market for its products and services will often be denominated in currencies other than pounds sterling. As a result, movements in foreign exchange rates may cause a mismatch between actual returns and investors' expectations of returns and, therefore, may affect the share price. The Group does not currently engage in hedging or use any other financial instruments or arrangements to manage this risk.

### ***Forward looking statements***

This document contains forward-looking statements, which include all statements other than statements of historical fact, including (without limitation) those regarding the Group's financial position, business strategy, plans and objectives of management for future operations. These relate to the Group's future prospects, developments and strategies. Forward-looking statements are identified by their use of terms and phrases such as "believe", "could", "would", "should", "envisage", "estimate", "intend", "seek", "may", "plan", "will" or the negative of those, variations or comparable expressions, including references to assumptions. These statements are primarily contained in Part 1 of this document. The forward-looking statements in this document are based on current expectations and are subject to risks and uncertainties that could cause actual results to differ materially from those expressed or implied by those statements. These forward-looking statements speak only as at the date of this document. The Group expressly disclaims any obligation or undertaking to disseminate any updates or revisions to any forward-looking statements contained herein to reflect any change in the Group's expectations with regard thereto or any change in events, conditions or circumstances on which any such statements are based. As a result of these factors, the events described in the forward-looking statements in this document may not occur.

**Part 3**  
**ACCOUNTANTS REPORT ON MEDGENICS**

The Directors  
Medgenics, Inc.  
12 Hanapach Street  
POB 6314  
Karmiel 21653  
Israel

The Directors  
Blomfield Corporate Finance Limited  
12 Pepper Street  
London  
E14 9RP

SVS Securities plc  
2 London Wall Buildings  
London Wall  
London  
EC2M 5PP

28 November 2007

Dear Sirs

**Medgenics, Inc.**

We report on the financial information set out below. This financial information has been prepared for inclusion in the AIM Admission Document dated 28 November 2007 of Medgenics, Inc. ("Medgenics" or the "Company") on the basis of the accounting policies set out in note 1.

**Basis of Preparation**

The financial information set out below is based on the audited financial statements of Medgenics, Inc. and its wholly owned subsidiary Medgenics Medical (Israel) Limited ("MMI" and hereafter together with the Company referred to as the "Group") for the three years ended 31 December 2004, 31 December 2005 and 31 December 2006 and has been prepared on the basis set out below after making such adjustments as we considered necessary and in accordance with US GAAP.

**Responsibility**

The directors of Medgenics, Inc. are responsible for preparing the financial information.

The directors of Medgenics, Inc. are responsible for the contents of the AIM Admission Document dated 28 November 2007 in which this report is included.

It is our responsibility to form an opinion on the financial information, for the purposes of the AIM Admission Document, and to report our opinion to you.

**Basis of opinion**

We conducted our work in accordance with the Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information.

It also included an assessment of significant estimates and judgements made by those responsible for the preparation of the financial statements underlying the financial information and whether the accounting policies are appropriate to the entity's circumstances, consistently applied and adequately disclosed.

We planned and performed our work 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 information is free from material misstatement whether caused by fraud or other irregularity or error.

**Opinion**

In our opinion the financial information gives, for the purposes of the AIM Admission Document dated 28 November 2007 a true and fair view of the state of affairs of Medgenics, Inc. as at 31 December 2004, 31 December 2005 and 31 December 2006 and of the losses and cashflows for the periods then ended in accordance with the basis of preparation set out in note 1 and in accordance with US GAAP for the years then ended.

**Consent**

We consent to the inclusion of this report in the AIM Admission Document dated 28 November 2007.

For the purposes of Paragraph (a) of Schedule Two of the AIM Rules we are responsible for this report as part of the AIM Admission Document and declare that we have taken all reasonable care to ensure that the information contained in this report is, to the best of our knowledge, in accordance with the facts and contains no omission likely to affect its import. This declaration is included in the AIM Admission Document in compliance with Schedule Two of the AIM Rules.

Yours faithfully

**haysmacintyre**  
**Chartered Accountants**  
**Registered Auditors**

## Consolidated income statements

	Year ended 31 December 2006 US \$	Year ended 31 December 2005 US \$	Year ended 31 December 2004 US \$
Turnover	-	-	-
Research and development expenditure, net	(748,161)	(60,146)	(2,567,894)
General and administrative expenses	<u>(1,821,613)</u>	<u>(575,088)</u>	<u>(1,535,912)</u>
<b>Operating loss</b>	(2,569,774)	(635,234)	(4,103,806)
Finance expenses, net	(25,378)	(138,436)	(89,266)
Loss on disposal of assets	<u>(3,453)</u>	<u>(2,459)</u>	<u>(319,931)</u>
<b>Loss before taxation</b>	(2,598,605)	(776,129)	(4,513,003)
Taxation	<u>-</u>	<u>-</u>	<u>(2,826)</u>
<b>Loss for the year</b>	<u><u>(2,598,605)</u></u>	<u><u>(776,129)</u></u>	<u><u>(4,515,829)</u></u>
Loss per share	0.07	5.11	29.71
Diluted loss per share	0.07	5.11	29.71

The company has no recognised movements in equity other than those disclosed in the income statements.

## Consolidated balance sheets

	Notes	31 December 2006 US \$	31 December 2005 US \$	31 December 2004 US \$
<b>Fixed assets</b>				
Property, plant and equipment	2	58,689	-	19,034
<b>Current assets</b>				
Accounts receivable and prepaid expenses	3	193,972	1,589	336,860
Severance pay		29,513	-	33,305
Cash and cash equivalents	4	1,607,474	135,769	181,692
<b>Total current assets</b>		1,830,959	137,358	551,857
<b>TOTAL ASSETS</b>		<u>1,889,648</u>	<u>137,358</u>	<u>570,891</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>				
<b>Current liabilities</b>	5	573,388	1,995,567	1,795,166
<b>Long term liabilities</b>	6	329,509	175,500	33,305
<b>Total liabilities</b>		<u>902,897</u>	<u>2,171,067</u>	<u>1,828,471</u>
<b>SHAREHOLDERS' EQUITY/(DEFICIENCY)</b>				
Called up share capital	7	268	1,148	1,148
Share premium	7	22,452,429	17,269,681	17,269,681
Profit and loss account		(21,465,946)	(19,304,538)	(18,528,409)
<b>Shareholders' equity/(deficiency)</b>		<u>986,751</u>	<u>(2,033,709)</u>	<u>(1,257,580)</u>
<b>Total liabilities and shareholders' equity</b>		<u>1,889,648</u>	<u>137,358</u>	<u>570,891</u>

## Consolidated cash flow statements

	Year ended 31 December 2006 US \$	Year ended 31 December 2005 US \$	Year ended 31 December 2004 US \$
<b>Cash flow from operating activities</b>			
Loss for the period before taxation	(2,598,605)	(776,129)	(4,515,828)
<i>Adjustments for:</i>			
Depreciation and amortisation	10,059	5,332	104,723
Write off of loans	-	-	1,544
Loss on disposal of fixed assets	3,453	2,459	319,930
Interest on convertible loans	30,953	124,036	92,858
Amortisation of deferred share compensation	-	-	539,801
Share based payments	1,161,287	-	356,762
Accrued severance pay, net	124,496	175,500	(5,186)
(Increase)/decrease in receivables	(192,383)	335,271	325,386
Increase/(decrease) in trade and other payables	271,344	74,335	(515,471)
	<hr/>	<hr/>	<hr/>
Net cash flow from operating activities	(1,189,396)	(59,196)	(3,295,481)
<b>Cash flows from investing activities</b>			
Sales of property, plant and equipment	3,505	11,243	158,081
Purchases of property, plant and equipment	(75,706)	-	(24,114)
	<hr/>	<hr/>	<hr/>
Net cash flow from investing activities	(72,201)	11,243	133,967
<b>Cash flows from financing activities</b>			
Issue of shares	2,717,688	-	127
Net movement in loans	-	-	1,523,630
Increase in bank overdraft	15,614	2,030	(69,702)
	<hr/>	<hr/>	<hr/>
Net cash flow from financing activities	2,733,302	2,030	1,454,055
	<hr/>	<hr/>	<hr/>
<b>Net increase/(decrease) in cash and cash equivalents</b>	1,471,705	(45,923)	(1,707,459)
Cash and cash equivalents at beginning of year	135,769	181,692	1,889,151
	<hr/>	<hr/>	<hr/>
<b>Cash and cash equivalents at end of year</b>	<u>1,607,474</u>	<u>135,769</u>	<u>181,692</u>

## Notes to the financial information

### 1. Accounting policies

#### a. Basis of preparation

The financial statements have been prepared in accordance with accounting principles generally accepted in the United States.

Medgenics was incorporated in January 2000 in Delaware and is the holding company of its wholly owned subsidiary MMI (formerly Biogenics Limited) which was incorporated in Israel in March 2000. The Company and its subsidiary are engaged in the development of products and medical equipment in the field of biotechnology and are thus considered development stage companies.

#### b. Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the US requires the management to make certain estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

#### c. Reporting currency

The majority of the subsidiary's operations are currently conducted in Israel and most of the expenses in Israel are currently paid in NIS; however, most of the expenses are denominated and determined in US dollars. Financing activities including loans, equity transactions and cash investments, are made in US dollars. The Company's management believes that the US dollar is the primary currency of the economic environment in which the subsidiary operates. Thus, the functional and reporting currency of the subsidiary is the US dollar.

Accordingly, the transactions and balances denominated in Dollars are presented at their original amounts. Non-US dollar transactions and balances have been re-measured to Dollars, in accordance with Statement No. 52 of the Financial Accounting Standards Board ("SFAS 52"). All transaction gains and losses from re-measurement of monetary balance sheet items denominated in non-US dollar currencies are reflected in the statements of operations as financial income or expenses, as appropriate.

#### d. Cash and cash equivalents

The Company considers all highly liquid investments originally purchased with maturities of three months or less to be cash equivalents.

#### e. Fixed assets

Property and equipment are stated at cost net of accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets.

The annual rates of depreciation were as follows:

Furniture and office equipment	6 – 15 %
Computers and peripheral equipment	33 %
Laboratory equipment	15 % – 33 %

The Company and its subsidiary periodically assess the recoverability of the carrying amount of property and equipment and provide for any possible impairment loss based upon the difference between the carrying amount and fair value of such assets in accordance with Statements of Financial Accounting Standards No. 144 "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS 144").

**f. Severance pay**

The subsidiary's liability for severance pay was calculated pursuant to Israeli severance pay law based on the most recent salary for the employees multiplied by the number of years of employment, as of the balance sheet date. Employees are entitled to one month's salary for each year of employment or a portion thereof. In addition, two employees are entitled to additional severance compensation as per their employment agreement. The subsidiary's liability for all of its employees was fully provided by an accrual and was mainly funded by monthly deposits with insurance policies. The value of these policies was recorded as an asset in the subsidiary's balance sheet.

The deposited funds may be withdrawn only upon the fulfilment of the obligation pursuant to Israeli severance pay law or labour agreements. The value of the deposited funds is based on the cash surrendered value of these policies and includes immaterial profits.

**g. Income taxes**

The Company and its subsidiary accounts for income taxes in accordance with Statements of Financial Accounting Standards No. 109, "Accounting for Income Taxes" ("SFAS 109"). This statement prescribes the use of the liability method, whereby deferred tax assets and liability account balances are determined based on differences between financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. The Company provides a valuation allowance, if necessary, to reduce deferred tax assets to their estimated realisable value.

**h. Accounting for share based payments**

On 1 January 2006, the Company adopted Statement of Financial Accounting Standards No. 123 (revised 2004), "Share-Based Payment" ("SFAS 123(R)") which requires the measurement and recognition of compensation expense based on estimated fair values for all share-based payment awards made to employees and directors. SFAS 123(R) supersedes Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25"), for periods beginning in fiscal 2006.

SFAS 123(R) requires companies to estimate the fair value of equity-based payment awards on the date of grant using an option-pricing model. The value of the portion of the award that is ultimately expected to vest is recognised as an expense over the requisite service periods in the Company's consolidated income statement. Prior to the adoption of SFAS 123(R), the Company accounted for equity-based awards to employees and directors using the intrinsic value method in accordance with APB 25 as allowed under Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" ("SFAS 123").

The Company adopted SFAS 123(R) using the modified prospective transition method, which requires the application of the accounting standard starting from 1 January 2006, the first day of the Company's fiscal year 2006. Under that transition method, compensation cost recognised in the twelve months period ended 31 December 2006, includes compensation cost for all share-based payments granted subsequent to 1 January 2006, based on the grant-date fair value estimated in accordance with the provisions of Statement 123(R). Results for prior periods have not been restated.

The Company recognised compensation expenses for awards granted subsequent to 1 January 2006 based on the straight-line method over the requisite service period of each of the amounts, net of estimates forfeitures.

In 2006, the Company estimates the fair value of share options granted to employees and directors using the binomial option pricing model with the following assumptions:

Dividend yield	0 %
Expected volatility	68 % – 73 %
Risk-free interest rate	4.3 % – 5.1 %
Forfeiture rates	6.2 % – 9.8 %
Suboptimal exercise factor	2.4 % – 2.7 %

Expected volatilities are based on historical volatilities from traded shares of similar companies. The Company uses historical data to estimate option exercise and employee

termination within the valuation model; separate groups of employees that have similar historical exercise behaviour are considered separately for valuation purposes.

The suboptimal exercise factor is representing the value of the underlying shares as a multiple of the exercise price of the option which, if achieved, results in exercise of the option.

The Company has historically not paid dividends and has no foreseeable plans to issue dividends.

The Company applies SFAS 123(R) and Emerging Issues Task Force No. 96-18 "Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring or in Conjunction with Selling, Goods or Services" ("EITF 96-18"), with respect to options issued to non-employees. SFAS 123(R) requires the use of option valuation models to measure the fair value of the options and warrants. The fair value of these options was estimated at the measurement date using the binomial option pricing model with the following weighted assumptions:

Dividend yield	0 %
Expected volatility	67.5% - 72.4 %
Risk-free interest rate	4.9% - 5.2 %
Expected life (in years)	4 - 5

**i. Research and development costs**

All research and development costs, net of participations, are charged to operations as incurred.

**j. Grants and participation**

Royalty-bearing grants from the Government of Israel for funding approved research and development projects are recognised at the time the Company is entitled to such grants, on the basis of the costs incurred and included as a deduction of research and development costs. Research and development grants amounted to US \$175,013, US \$nil and US \$379,335 recognised for the years ended 31 December 2006, 31 December 2005 and 31 December 2004 respectively.

**2. Property, plant and equipment**

	<b>2006</b>	<b>2005</b>	<b>2004</b>
	<b>US \$</b>	<b>US \$</b>	<b>US \$</b>
<b>Cost</b>			
Furniture and office equipment	13,172	-	1,827
Computer equipment	7,468	-	14,833
Motor vehicles	-	-	36,063
Laboratory equipment	47,819	-	-
As at 31 December 2006	<u>68,459</u>	<u>-</u>	<u>52,723</u>
<b>Accumulated depreciation</b>			
Furniture and office equipment	330	-	1,402
Computer equipment	1,207	-	11,383
Motor vehicles	-	-	20,904
Laboratory equipment	8,233	-	-
As at 31 December 2006	<u>9,770</u>	<u>-</u>	<u>33,689</u>
<b>Depreciated cost</b>	<u><u>58,689</u></u>	<u><u>-</u></u>	<u><u>19,034</u></u>

Depreciation for the years ended 31 December 2006, 31 December 2005 and 31 December 2004 amounted to US \$10,059; US \$5,332 and US \$104,723 respectively.

**3. Accounts receivable and prepaid expenses**

	<b>2006</b>	<b>2005</b>	<b>2004</b>
	<b>US \$</b>	<b>US \$</b>	<b>US \$</b>
Government authorities	7,738	934	149
Tax recoverable	-	-	5,741
Sundry and prepaid expenses	11,221	655	45,336
Grants receivable	175,013	-	285,634
	<u>193,972</u>	<u>1,589</u>	<u>336,860</u>

**4. Cash and cash equivalents**

Cash denominated in US dollars	1,607,474	135,769	166,278
Cash denominated in NIS	-	-	15,414
	<u>1,607,474</u>	<u>135,769</u>	<u>181,692</u>

**5. Current liabilities**

	<b>2006</b>	<b>2005</b>	<b>2004</b>
	<b>US \$</b>	<b>US \$</b>	<b>US \$</b>
Bank overdraft denominated in NIS	17,644	2,030	-
Trade creditors	133,095	4,272	8,756
Convertible loan	-	1,764,119	1,640,083
Employees and payroll accruals	161,516	43,509	27,586
Other creditors and accruals	261,133	181,637	118,741
	<u>573,388</u>	<u>1,995,567</u>	<u>1,795,166</u>

As the result of the capital reduction agreement on 30 March 2006, the loan notes converted to Common Shares. A total of 11,982,914 Common Shares were issued on conversion of the notes (note 9).

**6. Long term liabilities**

Severance pay	<u>329,509</u>	<u>175,500</u>	<u>33,305</u>
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## 7. Share Capital

	Authorised		Issued	
	2006	2005 and 2004	2006	2005 and 2004
<b>Shares of US \$0.0001 par value</b>				
Common Shares	<u>534,787,250</u>	<u>-</u>	<u>57,405,326</u>	<u>-</u>
Old Common Shares	<u>-</u>	<u>17,000,000</u>	<u>-</u>	<u>3,514,089</u>
Preferred Shares	<u>10,000,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
Series A Preferred Shares	<u>-</u>	<u>4,224,339</u>	<u>-</u>	<u>4,224,339</u>
Series A – 1 Preferred Shares	<u>-</u>	<u>4,224,339</u>	<u>-</u>	<u>-</u>
Series B Preferred Shares	<u>-</u>	<u>7,500,000</u>	<u>-</u>	<u>3,743,671</u>
Series B – 1 Preferred Shares	<u>-</u>	<u>7,500,000</u>	<u>-</u>	<u>-</u>

### Capital reduction

A capital reduction agreement was signed on 30 March 2006 with certain of the Company's loan-holders and shareholders, converting the convertible loan and the outstanding Common Shares ("Old Common Shares"), Series A Preferred Shares and Series B Preferred Shares into one class of Common Shares ("Common Shares"). In addition, the Series C warrants were cancelled. The conversion rates were as follows:

- a total of 11,982,914 Common Shares were issued to the holders of the convertible loan upon conversion of the loan, (see Notes 5 and 9);
- one Common Share was issued for 10,578.94 Old Common Shares;
- one Common Share was issued for 404.51 Series A Preferred Shares; and
- one Common Share was issued for 345.69 Series B Preferred Shares.

In addition, the Company modified the composition of its authorised share capital to 534,787,250 (see note 9) Common shares at a par value of US \$0.0001 and 10,000,000 Preferred Shares at a par value of US \$0.0001. As at 31 December 2006, no Preferred Shares were issued.

Pursuant to EITF D – 42 "The Effect on the calculation of earnings per share for the redemption or induced conversion of preferred stock" the Company added the excess of the fair value of the common share issue pursuant to the original conversion terms of the preferred share over the fair value of the Common Shares issued in the recapitalisation in the amount of US \$437,197 to the deficit accumulated during the development stage with a corresponding deduction in additional paid in capital.

### Common shares

On 19 March 2001, the Board of Directors authorised a 10 to 1 stock split and 1000 to 1 stock split affected as stock dividend. As a result, 3,445,113 additional Old Common Shares were issued and the par value of each share was reduced from US \$0.001 to US \$0.0001.

The Old Common Shares were converted into Common Shares as a result of the recapitalisation of the equity capital on 30 March 2006. The Common Shares as the Old Common Shares confer upon the holders the right to receive notice to participate and vote in general meetings of the Company and the right to receive dividends, if declared.

### Issuance of shares

- In January and March 2000 the Company issued a total of 2,069,677 Old Common Shares at par.

- In August 2000 the Company issued 437,936 Old Common Shares for a consideration of US \$499,997.
- In August 2000 in respect of the earlier licence agreement with Yisum the Company issued 940,950 Old Common Shares at par.
- In January 2001, the Company issued 138,502 Preferred Series A Shares for consideration of US \$200,000. The issuance costs amounted to US \$4,864.
- In March and June 2001, the Company issued a total of 4,085,837 Preferred Series A Shares for consideration of US \$6,998,355. The issuance costs amounted to US \$191,979.
- In October 2002, the Company issued a total of 2,676,674 Preferred Series B Shares for consideration of US \$5,353,348. The issuance costs amounted to US \$88,728.
- In February, September and November 2003, the Company issued a total of 19,443 Old Common Shares for consideration of US \$195.
- In April and May 2003, the Company issued a total of 1,066,997 Preferred Series B Shares for consideration of US \$2,133,996. The issuance costs amounted to US \$97,112.
- In January and February 2004, the Company issued a total of 46,083 Old Common Shares for consideration of US \$127 in cash and US \$10,000 in services.
- In March 2006, as a result of the recapitalisation of the equity capital, the Company cancelled the Old Common shares, Series A Preferred Shares and Series B Preferred Shares and issued a total of 9,885,842 Common shares.
- In March 2006, the Company issued 11,982,914 Common Shares in consideration for conversion of a convertible loan.
- In March 2006, the Company issued 2,633,228 Common Shares in settlement of due debt.
- In March, April and June, the Company issued a total of 16,217,552 Common Shares for consideration of US \$1,149,266. The issuance costs amounted to US \$197,322.
- In November and December 2006, the Company issued a total of 16,685,790 Common Shares in consideration for US \$1,949,467. The issuance costs amounted to US \$334,721.

#### **Warrants issued to Shareholders**

In March 2006, as part of the recapitalisation, warrants to purchase 1,687,168 Common Shares at an exercise price per share of US \$0.0001 with a term of 5 years were issued to existing holders of Old Common Shares who signed a consent agreement to the recapitalisation with the Company.

In March, April, and June 2006, concurrent with the issuance of Common Shares, warrants purchasing 32,435,103 Common Shares were issued to investors at an exercise price per share of US \$0.071 and a term of 5 years.

In November and December, 2006, concurrent with the issuance of Common Shares, warrants purchasing 20,857,237 Common Shares were issued to investors at an exercise price per share of US \$0.117 and a term of 5 years.

#### **Stock options and other warrants**

As part of the recapitalisation agreement that was signed on 30 March 2006, the Company adopted a Share Option Plan according to which up to 21,327,380 Options to purchase 21,327,380 Common Shares of the Company may be granted to directors, employees and consultants of the Company and its subsidiary, as determined by the Company's Board of Directors from time to time. The Options are exercisable within a period of 5 years from the date of grant at an exercise price of US \$0.071 per share. The Options to employees, directors and consultants will vest over a period of three or four years from the date of grant. Any Option which is cancelled or forfeited before expiration becomes available for future grants. As at 31 December 2006, 21,327,380 Options were outstanding.

During 2006, 1,080,784 Options were issued outside the plan mentioned above to a consultant at an exercise price of US \$0.071. The Options are exercisable within a period of 5 years from the date of grant. The Options will vest over a period of four years.

During 2006, the Company granted to Directors, employees and consultants of the Company and its subsidiary fully vested warrants to purchase 61,551,981 Common Shares. The warrants are exercisable within a period of 4 or 5 years, at an exercise price of between US \$0.0005 and US \$0.071 per share. In addition, the holders of the warrants shall have the right to exercise the warrant into Common Shares at any time during the exercise period without payment by the holder of any exercise price or any cash or other consideration. The number of shares to be issued will be determined in accordance with the formula described in the warrant agreement.

The Company accounted for its Options and Warrants to consultants under the fair value method in accordance with SFAS 123 and EITF 96-18. The fair value for these Options was estimated according to the principles determined in SFAS 123 (R) based on binomial option pricing model.

The charge to the income statements relating to Options and Warrants was US \$1,055,662, split US \$21,407 to research and development and US \$1,034,255 to administrative expenses.

## **8. Contingent liabilities**

### **a. Licence Agreement**

On 23 November 2005, the Company signed a new agreement with Yissum, which is a successor to an earlier agreement between Yissum and the subsidiary in 2000. The earlier agreement was terminated in 2004, at the time the Company and its subsidiary ceased their operations. According to the agreement, the Company recognised an outstanding debt for license and patent fees, which is to be settled by the issuance of shares to Yissum no later than 31 March 2006 upon the next investment round. On 30 March 2006, the Company issued to Yissum 2,633,228 Common Shares in settlement of the outstanding debt according to the agreement. The Company also issued as part of the recapitalisation agreement 40,708 Common Shares upon conversion of Yissum's 940,950 Old Common Shares, which were issued to Yissum in consideration for the earlier agreement in 2000. According to the Licence Agreement Yissum grants the Company a license of certain patents for commercial development, production, sub-license and marketing of products to be based on its know-how and research results.

In addition, the Company shall pay to Yissum the following considerations:

- 1<sup>st</sup> instalment - US \$50,000 shall be paid when the accrued investments in the Company by any third party, from 23 May 2005, amount to at least US \$3,000,000;
- 2<sup>nd</sup> instalment - US \$150,000 shall be paid when the accrued investments in the Company by any third party, from 23 May 2005, amount to at least US \$12,000,000;
- 3<sup>rd</sup> instalment - US \$200,000 shall be paid when the accrued investments in the Company by any third party, from 23 May 2005, amount to at least US \$18,000,000;
- royalties at a rate of 5% of net sales of the product; and
- sub-license fees at a rate of 9% of sub-license considerations.

As at 31 December 2006, the Company recorded an obligation for the first instalment of US \$50,000 to Yissum. This instalment was paid on 5 June 2007.

Notwithstanding the points above, the total aggregate payment of royalties and sub-license fees from the Company to Yissum shall not exceed US \$10,000,000.

### **b. OCS**

The Subsidiary is committed under agreements with the OCS, regarding research and development projects. Pursuant to these agreements, the Subsidiary is committed to pay royalties to the OCS at the rate of 3.5% - 5% of the sales of products resulting from this research and development, at an amount not to exceed the amount of the grants received by the subsidiary as participation in the research and development programme, plus interest at the rate of LIBOR. The obligation to pay these royalties is contingent on actual sales of the products and in the absence of such sales no payment is required. As at 31 December 2006, the aggregate contingent liability amounted to approximately US \$1,400,000. In addition, the subsidiary and the parent company must obtain the prior agreement of the OCS to export the intellectual property or manufacture products resulting from the Chief Scientist funding, or be prepared to pay OCS up to three times the total funding received from OCS in the worst case.

### **c. Baylor**

The Company has also licensed from Baylor, the non-exclusive rights to technology used in producing the HDAd viral vector. The Baylor licence obligates the Company to pay an annual maintenance fee of US \$20,000; a one-time payment of US \$75,000 upon FDA clearance or non-US equivalent of the Biopump for therapeutic use and US \$25,000 upon execution of sub-licences that the Company executes for the subject technology.

## 9. Post balance sheet events

In January 2007, the Company issued 427,402 Common Shares and 534,253 warrants for consideration of US \$49,912, completing a total investment of US \$2,000,000 in the Company from October 2006 through January 2007.

On 25 April 2007, the Company issued 5,347,850 Common Shares for consideration of US \$0.164 each and 1,329,310 warrants at an exercise price of US \$0.164 per share, for total consideration of US \$875,002.

Pursuant to the 25 April 2007 agreement, in July 2007 the Company issued a further 2,299,584 Common Shares and warrants for the purchase of 305,599 Common Shares at an exercise price of US \$0.164 per share for total consideration of a further US \$376,250.

The Company has obtained an investment of US \$2.964 million which was deposited in a lockbox account pending admission to the AIM market. This investment will purchase Common Shares at US \$0.194 per share. The investment package also includes warrants of 10% – 50% of the shares purchased based on the size of the investment.

The Company has entered into a note purchase agreement with Platinum Montaur Life Sciences LLP for US \$1.05 million. The loan note shall automatically convert into 6,417,447 Common Shares if Admission occurs on or prior to 15 December 2007 at a conversion price of US \$0.164. Any amount that is not converted shall be repayable on 15 December 2007.

On 16 July 2007, options were granted to an employee over 1,497,404 Common Shares.

On 27 July 2007 451,938 Warrants were exercised at US \$0.000005 per share.

On 14 November 2007, options were granted to Directors, Employees and Advisers over 15,793,940 Common Shares.

An irrevocable letter of credit dated 28 November 2007 was entered into by the Company for US \$500,000 expiring on 28 May 2009.

On 28 November 2007, 13,260,289 Common Shares were allotted and issued (conditional upon Admission) at a price of US \$0.21 per share.

On 28 November, 3,084,422 Common Shares were allotted and issued (conditional upon Admission) to advisers for consideration of US \$636,387 fees.

On 3 December 2007, a bonus issue of shares will be effected such that each subsisting Common Share will, prior to Admission, become 21.39149 Common Shares. The issued share capital and the exercise price of warrants and options have all been retrospectively adjusted to reflect this bonus issue.

On Admission, warrants will be issued (conditional upon Admission) to advisers over 594,175 Common Shares at an exercise price of US \$0.21 per Common Share.

**Part 4**  
**UNAUDITED INTERIM RESULTS OF MEDGENICS**

The Directors  
Medgenics Inc.  
12 Hanapach Street  
POB 6314  
Karmiel 21653  
Israel

The Directors  
Blomfield Corporate Finance  
Limited  
12 Pepper Street  
London  
E14 9RP

SVS Securities plc  
2 London Wall Buildings  
London Wall  
London  
EC2M 5PP

28 November 2007

Dear Sirs

**Medgenics Inc**

We have been instructed by the company to review the financial information for the six months ended 30 June 2007, which comprise the Consolidated Income Statement, the Consolidated Balance Sheet, the Consolidated Cash Flow statement and the related notes.

This report is made solely to the company in accordance with guidance contained in Bulletin 1999/4 'Review of interim financial information' issued by the Auditing Practices Board. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company, for our work, for this report, or for the conclusions we have formed.

**Respective responsibilities of directors**

The financial information is the responsibility of, and has been approved by the directors. The directors are responsible for preparing this information which requires that the accounting policies and presentation applied to the financial information should be consistent with those applied in preparing the preceding annual accounts except where any changes, and the reasons for them are disclosed.

**Review work performed**

We conducted our review in accordance with guidance contained in Bulletin 1999/4 issued by the Auditing Practices Board. A review consists principally of making enquiries of management and applying analytical procedures to the financial information and underlying financial data and based thereon, assessing whether the accounting policies and presentation have been consistently applied and adequately disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit performed in accordance with Auditing Standards and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the financial information.

**Review conclusion**

On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the six months ended 30 June 2007.

**haysmacintyre**  
**Chartered Accountants**  
**Registered Auditors**

## Unaudited consolidated income statement

	Six months ended 30 June 2007 US \$	Six months ended 30 June 2006 US \$
Research and development expenses	(443,717)	(390,890)
General and administrative expenses	<u>(637,660)</u>	<u>(1,276,097)</u>
<b>Operating loss</b>	(1,081,377)	(1,666,987)
Financial income/(loss), net	42,093	(32,227)
Loss from disposal of property and equipment	-	3,119
<b>Loss for the period</b>	<u><u>(1,039,284)</u></u>	<u><u>(1,702,333)</u></u>
Loss per share (US cents)	1.78	6.40
Diluted loss per share (US cents)	1.78	6.40

The company has no recognised movements in equity other than those disclosed in the income statements.

## Unaudited consolidated balance sheets

	Notes	30 June 2007 US \$	30 June 2006 US \$
<b>Fixed assets</b>			
Property, plant and equipment	2	80,092	54,193
<b>Current assets</b>			
Accounts receivable and prepaid expenses	3	654,740	90,881
Severance pay		72,355	15,939
Cash and cash equivalents	4	1,099,533	528,643
Restricted cash	5	2,266,128	–
<b>Total current assets</b>		4,092,756	635,463
<b>TOTAL ASSETS</b>		<u>4,172,848</u>	<u>689,656</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>Current liabilities</b>	5	2,940,619	291,531
<b>Long term liabilities</b>	6	370,896	201,083
<b>Total liabilities</b>		<u>3,311,515</u>	<u>492,614</u>
<b>SHAREHOLDERS' EQUITY</b>			
Called up share capital	7	295	190
Share premium	7	23,366,268	20,766,526
Profit and loss account		(22,505,230)	(20,569,674)
<b>Shareholders' equity</b>		<u>861,333</u>	<u>197,042</u>
<b>Total liabilities and shareholders' equity</b>		<u>4,172,848</u>	<u>689,656</u>

## Unaudited consolidated cash flow statements

	<b>Six months ended 30 June 2007 US \$</b>	<b>Six months ended 30 June 2006 US \$</b>
<b>Cash flow from operating activities</b>		
Loss for the period before taxation	(1,039,284)	(1,702,333)
<i>Adjustments for:</i>		
Depreciation and amortisation	3,992	931
Loss from disposal of property and equipment	-	3,119
Interest on convertible loan	-	30,953
Share based payments	104,816	1,090,384
Accrued severance pay, net	(1,455)	9,644
Increase in receivables	(410,768)	(89,292)
Decrease in trade and other payables	(55,722)	154,498
	<hr/>	<hr/>
Net cash flow from operating activities	(1,398,421)	(502,096)
<b>Cash flows from investing activities</b>		
Proceeds from disposal of property and investment	-	1,507
Purchases of property, plant and equipment	(25,395)	(59,750)
	<hr/>	<hr/>
Net cash flow from investing activities	(25,395)	(58,243)
<b>Cash flows from financing activities</b>		
Issue of shares	930,262	951,612
Increase in bank overdraft	(14,387)	1,601
	<hr/>	<hr/>
Net cash flow from financing activities	915,875	953,213
<b>Net decrease in cash and cash equivalents</b>	(507,941)	392,874
Cash and cash equivalents at beginning of period	1,607,474	135,769
	<hr/>	<hr/>
<b>Cash and cash equivalents at end of period</b>	<u>1,099,533</u>	<u>528,643</u>

## Notes to the unaudited financial information

### 1. Accounting policies

#### a. Basis of preparation

The financial information has been prepared in accordance with accounting principles generally accepted in the United States.

Medgenics Inc. (hereinafter - "the Company") was incorporated in January 2000 in Delaware, and is the holding company of its wholly-owned subsidiary MMI (formerly Biogenics Limited) (hereinafter - "Medgenics Israel") which was incorporated in Israel in March 2000. The Company and its subsidiary are engaged in the development of products in the field of biotechnology and medical equipment and are thus considered development stage companies.

#### b. Use of estimates

The preparation of the financial information in conformity with accounting principles generally accepted in the US requires the management to make certain estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

#### c. Reporting currency

The majority of the subsidiary's operations are currently conducted in Israel and most of the expenses in Israel are currently paid in NIS; however, most of the expenses are denominated and determined in US dollars. Financing activities including loans, equity transactions and cash investments, are made in US dollars. The Company's management believes that the US dollar is the primary currency of the economic environment in which the subsidiary operates. Thus, the functional and reporting currency of the subsidiary is the US dollar.

Accordingly, the transactions and balances denominated in Dollars are presented at their original amounts. Non-US dollar transactions and balances have been re-measured to Dollars, in accordance with Statement No. 52 of the Financial Accounting Standards Board ("SFAS 52"). All transaction gains and losses from re-measurement of monetary balance sheet items denominated in non-US dollar currencies are reflected in the statements of operations as financial income or expenses, as appropriate.

#### d. Cash and cash equivalents

The Company considers all highly liquid investments originally purchased with maturities of three months or less to be cash equivalents.

#### e. Fixed assets

Property and equipment are stated at cost net of accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. The annual rates of depreciation were as follows:

Furniture and office equipment	6% – 15 %
Computers and peripheral equipment	33 %
Laboratory equipment	15% – 33 %

The Company and its subsidiary periodically assess the recoverability of the carrying amount of property and equipment and provide for any possible impairment loss based upon the difference between the carrying amount and fair value of such assets in accordance with Statements of Financial Accounting Standards No. 144 "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS 144").

**f. Severance pay**

The subsidiary's liability for severance pay was calculated pursuant to Israeli severance pay law based on the most recent salary for the employees multiplied by the number of years of employment, as of the balance sheet date. Employees are entitled to one month's salary for each year of employment or a portion thereof. In addition, two employees are entitled to additional severance compensation as per their employment agreement. The subsidiary's liability for all of its employees was fully provided by an accrual and was mainly funded by monthly deposits with insurance policies. The value of these policies was recorded as an asset in the subsidiary's balance sheet.

The deposited funds may be withdrawn only upon the fulfilment of the obligation pursuant to Israeli severance pay law or labour agreements. The value of the deposited funds is based on the cash surrendered value of these policies and includes immaterial profits.

**g. Income taxes**

The Company and its subsidiary accounts for income taxes in accordance with Statements of Financial Accounting Standards No. 109, "Accounting for Income Taxes" ("SFAS 109"). This statement prescribes the use of the liability method, whereby deferred tax assets and liability account balances are determined based on differences between financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. The Company provides a valuation allowance, if necessary, to reduce deferred tax assets to their estimated realisable value.

**h. Accounting for share based payments**

On 1 January 2006, the Company adopted Statement of Financial Accounting Standards No. 123 (revised 2004), "Share-Based Payment" ("SFAS 123(R)") which requires the measurement and recognition of compensation expense based on estimated fair values for all share-based payment awards made to employees and directors. SFAS 123(R) supersedes Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25"), for periods beginning in fiscal 2006.

SFAS 123(R) requires companies to estimate the fair value of equity-based payment awards on the date of grant using an option-pricing model. The value of the portion of the award that is ultimately expected to vest is recognised as an expense over the requisite service periods in the Company's consolidated income statement. Prior to the adoption of SFAS 123(R), the Company accounted for equity-based awards to employees and directors using the intrinsic value method in accordance with APB 25 as allowed under Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" ("SFAS 123").

The Company adopted SFAS 123(R) using the modified prospective transition method, which requires the application of the accounting standard starting from 1 January 2006, the first day of the Company's fiscal year 2006. Under that transition method, compensation cost recognised in the six month period ended 30 June 2007, includes compensation cost for all share-based payments granted subsequent to 1 January 2006, based on the grant-date fair value estimated in accordance with the provisions of Statement 123(R). Results for prior periods have not been restated.

The Company recognised compensation expenses for awards granted subsequent to 1 January 2006 based on the straight line method over the requisite service period of each of the amounts, net of estimates forfeitures.

In the period ended 30 June 2007, there were no additional share options granted to employees or directors.

The Company applies SFAS No. 123(R) and Emerging Issues Task Force No. 96-18 "Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring or in Conjunction with Selling, Goods or Services" ("EITF 96-18"), with respect to options issued to non-employees. SFAS No. 123(R) requires the use of option valuation models to measure the fair value of the options and warrants. The fair value of these options was estimated at the measurement date using the binomial option pricing model with the following weighted assumptions:

Dividend yield	0 %
Expected volatility	70.74 %
Risk-free interest rate	4.84%-4.99 %
Expected life (in years)	3.86-4

**i. Research and development costs**

All research and development costs, net of participations, are charged to operations as incurred.

**j. Grants and participation**

Royalty-bearing grants from the Government of Israel for funding approved research and development projects are recognised at the time the Company is entitled to such grants, on the basis of the costs incurred and included as a deduction of research and development costs.

**2. Property, plant and equipment**

	<b>30 June 2007 US \$</b>	<b>30 June 2006 US \$</b>
<b>Cost</b>		
Furniture and office equipment	14,104	11,496
Computer equipment	10,369	2,953
Laboratory equipment	<u>69,381</u>	<u>40,423</u>
As at 30 June	<u>93,854</u>	<u>54,872</u>
<b>Accumulated depreciation</b>		
Furniture and office equipment	2,396	41
Computer equipment	2,711	65
Laboratory equipment	<u>8,655</u>	<u>573</u>
As at 30 June	<u>13,762</u>	<u>679</u>
<b>Depreciated cost</b>	<u><u>80,092</u></u>	<u><u>54,193</u></u>

Depreciation for the six months ended 30 June 2007 amounted to US \$3,992 (US \$931 for the six months ended 30 June 2006).

**3. Accounts receivable and prepaid expenses**

Government authorities	7,905	13,059
Sundry and prepaid expenses	290,089	8,712
Grants receivable	356,746	31,210
Receivable for shares	-	<u>37,900</u>
	<u>654,740</u>	<u>90,881</u>

#### 4. Cash and cash equivalents

	<b>30 June 2007 US \$</b>	<b>30 June 2006 US \$</b>
Cash denominated mainly in US Dollars and British Sterling	<u>1,099,533</u>	<u>528,643</u>

#### 5. Current liabilities

Bank overdraft denominated in NIS	3,257	3,631
Trade creditors	264,417	158,218
Other creditors and accruals	<u>2,672,945</u>	<u>129,682</u>
	<u>2,940,619</u>	<u>291,531</u>

Included with other creditors and accruals is US \$2,266,128 relating to the receipt on account of shares, this is also shown in restricted cash.

#### 6. Long term liabilities

Severance pay	<u>370,896</u>	<u>201,083</u>
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#### 7. Share Capital

	<b>30 June 2007</b>		<b>30 June 2006</b>	
	<b>Authorised</b>	<b>Issued</b>	<b>Authorised</b>	<b>Issued</b>
<b>Shares of US\$0.0001 par value</b>				
Common Shares	<u>534,787,250</u>	<u>63,180,579</u>	<u>534,787,250</u>	<u>40,718,894</u>
Preferred Shares	<u>10,000,000</u>	<u>-</u>	<u>10,000,000</u>	<u>-</u>

In November and December 2006, the Company issued a total of 16,685,790 Common Shares and 20,857,237 warrants (at an exercise price per share of US \$0.117 and a term of 5 years) in consideration for US \$1,949,467. The issuance costs amounted to US \$334,721.

In January 2007, the Company issued 427,402 Common Shares and 534,253 warrants for consideration of US \$49,912, completing a total investment of US \$2,000,000 in the Company from October 2006 through January 2007.

On 25 April 2007, the Company issued 5,347,850 Common Shares for consideration of US \$0.164 each and 1,329,310 warrants at an exercise price of US \$0.164 per share, for total consideration of US \$875,002.

## **8. Contingent liabilities**

### **a. Licence Agreement**

On 23 November 2005, the Company signed a new agreement with Yissum, which is a successor to an earlier agreement between Yissum and the subsidiary in 2000. The earlier agreement was terminated in 2004, at the time the company and its subsidiary ceased their operations. According to the agreement, the Company recognised an outstanding debt for license and patent fees, which is to be settled by the issuance of shares to Yissum no later than 31 March 2006 upon the next investment round. On 30 March 2006, the Company issued to Yissum 2,633,228 Common Shares in settlement of the outstanding debt according to the agreement. The Company also issued as part of the recapitalisation agreement 40,708 Common Shares upon conversion of Yissum's 940,950 Old Common Shares that were issued to Yissum in consideration for the earlier agreement in 2000. According to the Licence Agreement Yissum grants the Company a license of certain patents for commercial development, production, sub-license and marketing of products to be based on its know-how and research results.

In addition, the Company shall pay to Yissum the following considerations:

- 1<sup>st</sup> instalment - US \$50,000 shall be paid when the accrued investments in the Company by any third party, from 23 May 2005, amount to at least US \$3,000,000;
- 2<sup>nd</sup> instalment - US \$150,000 shall be paid when the accrued investments in the Company by any third party, from 23 May 2005, amount to at least US \$12,000,000;
- 3<sup>rd</sup> instalment - US \$200,000 shall be paid when the accrued investments in the Company by any third party, from 23 May 2005, amount to at least US \$18,000,000;

As of 31 December 2006 date, the Company recorded an obligation for the 1<sup>st</sup> instalment of US \$50,000 to Yissum. This instalment was paid on 5 June 2007.

- royalties at a rate of 5% of net sales of the product; and
- sub-license fees at a rate of 9% of sub-license considerations.

Notwithstanding the points above, the total aggregate payment of royalties and sub-license fees from the Company to Yissum shall not exceed US \$10,000,000.

### **d. OCS**

The Subsidiary is committed under agreements with the OCS regarding research and development projects. Pursuant to these agreements, the Subsidiary is committed to pay royalties to the OCS at the rate of 3.5% - 5% of the sales of products resulting from this research and development, at an amount not to exceed the amount of the grants received by the subsidiary as participation in the research and development programme, plus interest at the rate of LIBOR. The obligation to pay these royalties is contingent on actual sales of the products and in the absence of such sales no payment is required. In addition, the subsidiary and the parent company must obtain the prior agreement of the OCS to export the IP or manufacture products resulting from the Chief Scientist funding, or be prepared to pay OCS up to three times the total funding received from OCS in the worst case.

### **e. Baylor**

The company has also licensed from Baylor the non-exclusive rights to technology used in producing the HDAd Viral vector. The Baylor licence obligates the company to pay an annual maintenance fee of US \$20,000; a one-time payment of US \$75,000 upon FDA clearance or non-US equivalent of the Biopump for therapeutic use and US \$25,000 upon execution of sub-licences that the Company executes for the subject technology.

## **9. Post balance sheet events**

Pursuant to the 25 April 2007 agreement, in July 2007 the Company issued a further 2,299,584 Common Shares and warrants for the purchase of 305,599 Common Shares at an exercise price of US \$0.164 per share for total consideration of a further US \$376,250.

The Company has obtained an investment of US \$2.964 million which was deposited in a lockbox account pending admission to the AIM market. This investment will purchase Common Shares at US \$0.194 per share. The investment package also includes warrants of 10% – 50% of the shares purchased based on the size of the investment.

The Company has entered into a note purchase agreement with Platinum Montaur Life Sciences LLP for US \$1.05 million. The loan note shall automatically convert into 6,417,447 Common Shares if Admission occurs on or prior to 15 December 2007 at a conversion price of US \$0.16. Any amount that is not converted shall be repayable on 15 December 2007.

On 16 July 2007, options were granted to an employee over 1,497,404 Common Shares.

On 27 July 2007 451,938 Warrants were exercised at US \$0.000005 per share.

On 14 November 2007, options were granted to Directors, Employees and Advisers over 15,793,940 Common Shares.

An irrevocable letter of credit dated 28 November 2007 was entered into by the Company for US \$500,000 expiring on 28 May 2009.

On 28 November 2007, 13,260,289 Common Shares were allotted and issued (conditional upon Admission) at a price of US \$0.21 per share.

On 28 November 2007, 3,084,422 Common Shares were allotted and issued (conditional upon Admission) to advisers for consideration of US \$636,387 fees.

On 3 December 2007, a bonus issue of shares will be effected such that each subsisting Common Share will, prior to Admission, become 21.39149 Common Shares. The issued share capital and the exercise price of warrants and options have all been retrospectively adjusted to reflect this bonus issue.

On Admission, warrants will be issued (conditional upon Admission) to advisers over 594,175 Common Shares at an exercise price of US \$0.21 per Common Share.

**Part 5**  
**UNAUDITED PRO FORMA STATEMENT OF THE NET ASSETS OF MEDGENICS**

The Directors  
Medgenics Inc.  
12 Hanapach Street  
POB 6314  
Karmiel 21653  
Israel

The Directors  
Blomfield Corporate Finance  
Limited  
12 Pepper Street  
London  
E14 9RP

SVS Securities plc  
2 London Wall Buildings  
London Wall  
London  
EC2M 5PP

28 November 2007

Dear Sirs

**Medgenics Inc ("the company")**

We report on the pro forma statement of net assets set out in Part 5 of the Prospectus dated 28 November 2007 which has been prepared on the basis described in Part 5 for illustrative purposes only, to provide information about how the Placing might have affected the financial information presented on the basis of the accounting policies for the period ended 30 June 2007.

This report is required by paragraph 20.2 Annex I of the PD Regulation and is given for the purpose of complying with that paragraph and for no other purpose.

**Responsibilities**

It is the responsibility of the directors of the company to prepare the pro forma statement of net assets in accordance with paragraph 20.2 Annex I of the PD Regulation.

It is our responsibility to form an opinion, as required by paragraph 7 of Annex II of the PD Regulation, as to the proper compilation of the pro forma statement of net assets and to report our opinion to you.

In providing this opinion we are not updating or refreshing any reports or opinions previously made by us on any financial information used in the compilation of the pro forma statement of net assets, nor do we accept responsibility for such reports or opinions beyond that owed to those to whom those reports or opinions were addressed by us at the dates of their issue.

**Basis of opinion**

We conducted our work in accordance with the Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. The work that we performed for the purpose of making this report, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the pro forma statement of net assets with the directors of the company.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with reasonable assurance that the pro forma statement of net assets has been properly compiled on the basis stated and that such basis is consistent with the accounting policies of the company.

**Opinion**

In our opinion:

- (a) the pro forma statement of net assets has been properly compiled on the basis stated; and
- (b) such basis is consistent with the accounting policies of the company.

**Declaration**

For the purposes of Prospectus Rules 5.5.3R(2)(c) we are responsible for this report as part of the Prospectus and declare that we have taken all reasonable care to ensure that the information contained in this report is, to the best of our knowledge in accordance with the facts and contains no omission likely to affect its import.

This declaration is included in the Prospectus in compliance with paragraph 1.2 of Annex 1 of the PD Regulation.

Yours faithfully

**haysmacintyre**  
**Chartered Accountants**  
**Registered Auditors**

Set out below is an unaudited pro forma net asset statement based on the unaudited balance sheet for the Group as at 30 June 2007 after making adjustments as described in the notes below. The unaudited net asset statement is prepared to illustrate the effect on the assets and liabilities of the Proposals on the Group as if they had occurred on 30 June 2007. Because of the nature of pro forma financial information, this information addresses a hypothetical situation and does not therefore represent the actual financial position or results of the Group.

The statement of net assets, as described, is after making adjustments on the basis described below. The historical information of the Group has been prepared in accordance with US GAAP and is presented in US Dollars and has been extracted from the financial information for the six months ended 30 June 2007 included in this document without material adjustment. The notes below form an integral part of the net assets statement.

	<b>Medgenics Inc (Note 1)</b>	<b>Adjustment (Note 2)</b>	<b>Adjustment (Note 3)</b>	<b>Pro forma net assets</b>
	\$	\$	\$	\$
<b>Fixed assets</b>				
Property, plant and equipment	80,092	-	-	80,092
<b>Current assets</b>				
Accounts receivable and prepaid expenses	727,095	-	(275,135)	451,960
Cash and cash equivalents	1,099,533	2,266,128	2,902,016	6,267,677
Restricted cash	2,266,128	(2,266,128)	-	-
<b>Total current assets</b>	<u>4,092,756</u>	<u>-</u>	<u>2,626,881</u>	<u>6,719,637</u>
<b>Total assets</b>	<u><u>4,172,848</u></u>	<u><u>-</u></u>	<u><u>2,626,881</u></u>	<u><u>6,799,729</u></u>
<b>Current liabilities</b>	2,940,619	(2,266,128)	-	674,491
<b>Long term liabilities</b>	370,896	-	-	370,896
<b>Total liabilities</b>	<u>3,311,515</u>	<u>(2,266,128)</u>	<u>-</u>	<u>1,045,387</u>
<b>Net assets</b>	<u><u>861,333</u></u>	<u><u>2,266,128</u></u>	<u><u>2,626,881</u></u>	<u><u>5,754,342</u></u>

Notes:-

- (1) The Medgenics Inc figures are extracted without material adjustment from the financial information contained in Part 4 of this document.
- (2) The admission to AIM will release the restricted cash into unrestricted cash, and activate the issue of shares relating to this restricted cash. This amount had previously been included in current liabilities.

(3) The net proceeds of the Proposals above is calculated as follows:-

	<b>US \$</b>
Unconditional raising	376,250
Conditional raising	3,722,220
Conversion of loan notes (received after 30 June 2007)	1,050,000
Placing	1,988,954
	<hr/>
	7,137,424
Costs incurred to 30 June 2007 (included in prepayments)	275,135
Total costs relating to placing	(2,244,415)
Cash received in advance	(2,266,128)
	<hr/>
Cash and cash equivalents	<u>2,902,016</u>

- (4) No account has been taken of trading or other transactions of the Group since 30 June 2007, other than the issue of the shares as shown above.
- (5) No adjustment has been made for any event except as disclosed above.
- (6) The issuer's earnings for the period are not affected by the Placing.

## **Part 6**

### **US TRANSFER RESTRICTIONS**

Investors are referred to the definition of a "US Person" on page 75 of this document.

This document has been prepared by the Company in connection with the Proposals for the New Shares with non-US Persons outside the US in transactions exempt from the registration requirements of the US Securities Act in reliance on Regulation S of that Act. Terms used in this Part 6 and not otherwise defined in this document shall bear the meanings ascribed thereto in Regulation S.

The New Shares have not been registered under the US Securities Act and are restricted securities as defined in Rule 144 promulgated under the US Securities Act. A subscriber or purchaser of the New Shares may not offer, sell, pledge or otherwise transfer the New Shares in the US or to, or for the account or benefit of, any US Person, except pursuant to a transaction meeting the requirements of Regulation S under the US Securities Act, an effective registration statement under the US Securities Act or an exemption from the registration requirements of the US Securities Act. Hedging transactions in the Common Shares may not be conducted, directly or indirectly, unless in compliance with the US Securities Act. The certificates evidencing the New Shares will bear a legend to the following effect, unless the Company determines otherwise in compliance with applicable law.

"THE COMMON STOCK REPRESENTED BY THIS CERTIFICATE HAS NOT BEEN REGISTERED UNDER THE US SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT") AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT IF SUCH TRANSFER IS EFFECTED (1) IN A TRANSACTION MEETING THE REQUIREMENTS OF REGULATION S UNDER THE SECURITIES ACT (2) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT OR (3) PURSUANT TO AN AVAILABLE EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND, IN EACH CASE, IN ACCORDANCE WITH ALL APPLICABLE SECURITIES LAWS. HEDGING TRANSACTIONS INVOLVING THE COMMON STOCK OF THE COMPANY MAY NOT BE CONDUCTED UNLESS IN COMPLIANCE WITH THE SECURITIES ACT."

Prior to one year after the later of (1) the time when the New Shares are first offered to persons other than distributors in reliance upon Regulation S or (2) the date of closing of the Placing:

- a) every purchaser of the New Shares other than a distributor will be required to certify that it is not a US Person and is not acquiring the securities for the account or benefit of any US Person or is a US Person who purchased securities in a transaction that did not require registration under the US Securities Act;
- b) every purchaser of the New Shares will be required to agree to resell such New Shares only in accordance with the provisions of Regulation S, pursuant to registration under the US Securities Act, or pursuant to an available exemption from registration, and will be required to agree to not engage in hedging transactions, directly or indirectly, with regard to the Common Shares unless in compliance with the US Securities Act; and
- c) each distributor selling securities to a distributor, a dealer (as defined in Section 2(a)(12) of the US Securities Act), or a person receiving a selling concession, fee or other remuneration will be required to send a confirmation or other notice to the purchaser stating that the purchaser is subject to the same restrictions on offers and sales that apply to a distributor.

Pursuant to the Company's Post-Admission By-laws, the Company will be required to refuse to register any transfer of its securities not made in accordance with the provisions of Regulation S, pursuant to an effective registration statement under the US Securities Act or pursuant to an available exemption from registration. Each purchaser of New Shares sold in reliance on Regulation S will be deemed to have represented and certified as follows:

- 1) the purchaser is not a US Person and is not acting for the account or benefit of a US Person (other than a distributor);
- 2) the purchaser understands that the New Shares have not been registered under the US Securities Act and may not be offered, resold, pledged or otherwise transferred by such purchaser except:
  - (a) (i) in an offshore transaction meeting the requirements of Rule 903 or Rule 904 of Regulation S;
  - (ii) pursuant to an effective registration statement under the US Securities Act; or
  - (iii) pursuant to an available exemption from the registration requirements of the US Securities Act; and
- (b) in accordance with all applicable securities laws of the US and other jurisdictions;

- 3) the purchaser understands and agrees that, if in the future it decides to resell, pledge or otherwise transfer any New Shares or any beneficial interests in any New Shares prior to the date which is one year after the later of (1) the date when the New Shares are first offered to persons (other than distributors) pursuant to Regulation S and (2) the date of closing of the Placing or the Subscriptions as applicable, it will do so only outside the US in an offshore transaction in compliance with Rule 903 or Rule 904 under the US Securities Act, pursuant to an effective registration statement under the US Securities Act or pursuant to an available exemption from the registration requirements of the US Securities Act, and in each of such cases in accordance with any applicable securities law of any state of the US;
- 4) the purchaser agrees to and each subsequent holder is required to, notify any purchaser of the New Shares from it of the resale restrictions referred to in paragraphs (2) and (3) above, if then applicable;
- 5) the purchaser acknowledges that, prior to any proposed transfer of the New Shares other than pursuant to an effective registration statement, the transferee of the New Shares may be required to provide certifications and other documentation relating to the non-US Person status of such transferee;
- 6) the purchaser will not engage in hedging transactions involving the New Shares unless in compliance with the US Securities Act; and
- 7) the purchaser acknowledges that the Company and SVS and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and warranties and agrees that if any such acknowledgement, representation or warranty deemed to have been made by virtue of its purchase of the New Shares is no longer accurate, it shall promptly notify the Company and SVS.

In this document, a "US Person" means:

- (i) any natural person resident in the US;
- (ii) any partnership or corporation organised or incorporated under the laws of the US;
- (iii) any estate of which any executor or administrator is a US Person;
- (iv) any trust of which any trustee is a US Person;
- (v) any agency or branch of a foreign entity located in the US;
- (vi) any non-discretionary account or similar account (other than an estate or trust) held by a dealer or other fiduciary for the benefit or account of a US Person;
- (vii) any discretionary account or similar account (other than an estate or trust) held by a dealer or other fiduciary organised, incorporated, or (if an individual) resident in the US; and
- (viii) any partnership or corporate if:
  - (a) organised or incorporated under the laws of any foreign jurisdiction; and
  - (b) formed by a US Person principally for the purpose of investing in securities not registered under the US Securities Act, unless it is organised or incorporated and owned by accredited investors (as defined in Rule 501 (a) under the US Securities Act) who are not natural persons or estates or trusts.

The following are not "US Persons":

- (i) any discretionary account or similar account (other than an estate or a trust) held for the benefit or account of a non-US Person by a dealer or other professional fiduciary organised, incorporated, or (if an individual) resident in the US;
- (ii) any estate of which any professional fiduciary acting as executor or administrator is a US Person if:
  - (a) an executor or administrator of the estate who is not a US Person has sole or shared investment discretion with respect to the assets of the estate; and
  - (b) the estate is governed by foreign law;
- (iii) any trust of which any professional fiduciary acting as trustee is a US Person, if a trustee who is not a US Person has sole or shared investment discretion with respect to the trust assets and no beneficiary of the trust and (if the trust is revocable) no settlor is a US Person;
- (iv) an employee benefit plan established and administered in accordance with the law of a country other than the US and customary practices and documentation of such country;

- (v) any agency or branch of a US Person located outside the US if:
  - (a) the agency or branch operates for valid business reasons; and
  - (b) the agency or branch is engaged in the business of insurance or banking and is subject to substantive insurance or banking regulation, respectively, in the jurisdiction where located; and
- (vi) the International Monetary Fund, the International Bank for Reconstruction and Development, the Inter-American Development Bank, the Asian Development Bank, the African Development Bank, the United Nations and their respective agencies, affiliates and pension plans and any other similar international organisations, their agencies, affiliates and pension plans.

## Part 7 ADDITIONAL INFORMATION

### 1. Responsibility

- 1.1 The Directors, whose names are set out on page 3 of this document, accept responsibility for all the information contained in this document. To the best of the knowledge and belief of the Directors (who have taken all reasonable care to ensure that such is the case), the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information.
- 1.2 haysmacintyre, as reporting accountants, accepts responsibility for its reports contained in Part 3, Part 4 and Part 5 of this document. To the best of the knowledge and belief of haysmacintyre (which has taken all reasonable care to ensure that such is the case), the information contained in Part 3, Part 4 and Part 5 of this document is in accordance with the facts and does not omit anything likely to affect the import of such information.

### 2. The Company

- 2.1 The Company was incorporated as Medgenics, Inc. under the laws of the State of Delaware, USA on 27 January 2000 and is registered in Delaware under file number 3166521. The Company is domiciled in the US.
- 2.2 On each of 9 February 2000, 4 May 2000, 22 March 2001, 3 October 2002 and 31 March 2006, the Company filed with the Secretary of State of Delaware restated certificates of incorporation and, on 1 December 2003, the Company filed a certificate of amendment to its certificate of incorporation.
- 2.3 The principal legislation under which the Company was organised and under which the Common Shares have been created is the DGCL.
- 2.4 The Company's registered office is at 2711 Centreville Road, Suite 400, in the City of Wilmington, 19808, County of New Castle, Delaware, USA. The Company's principal place of business is at 12 Hanapach Street, PO Box 6314, Karmiel, 21653 Israel and its telephone number is + 972 4 958 8555. The Company does not have a place of business in the UK.
- 2.5 The liability of the Shareholders is limited.
- 2.6 The principal activity of the Company is that of a holding company.
- 2.7 The commercial name of the Company is Medgenics, Inc.
- 2.8 On a winding up, the holders of the Common Shares will rank equally for a distribution of surplus assets after payment of the Company's liabilities.

### 3. Subsidiary undertakings

- 3.1 The Company is the holding company of the Group.
- 3.2 The Company currently has the following subsidiary, which is directly and wholly owned:

<i>Name of subsidiary</i>	<i>Country of incorporation</i>	<i>Proportion of ownership interest and voting power</i>	<i>Registered address</i>	<i>Field of activity</i>
Medgenics Medical (Israel) Limited	Israel	100%	Teradion Industrial Zone, Misgav 20179, Israel	Medical research and development

#### 4. Share capital and three-year history of changes

- 4.1 As at 31 December 2004, the authorised share capital of the Company was:
- 4.1.1 17,000,000 common shares of par value of US \$0.0001 each in the capital of the Company ("Old Common Shares"), of which 3,514,089 were issued;
  - 4.1.2 4,224,339 preferred shares Series A of par value of US \$0.0001 each in the capital of the Company ("Series A Preferred Shares"), all of which were issued;
  - 4.1.3 4,224,339 preferred shares Series A-1 of par value of US \$0.0001 each in the capital of the Company ("Series A-1 Preferred Shares"), none of which were issued;
  - 4.1.4 7,500,000 preferred shares Series B of par value of US \$0.0001 each in the capital of the Company ("Series B Preferred Shares"), of which 3,743,671 were issued; and
  - 4.1.5 7,500,000 preferred shares Series B-1 of par value of US \$0.0001 each in the capital of the Company ("Series B-1 Preferred Shares"), none of which were issued.
- 4.2 On 31 March 2006, the Company filed an amended and restated certificate of incorporation with the Secretary of State of Delaware increasing the authorised number of Old Common Shares, of par value of US \$0.0001 each from 17,000,000 to 25,000,000 and reducing the authorised number of preferred shares of par value of US \$0.0001 each from 23,448,678 to 10,000,000. The amended and restated certificate of incorporation also provided that the rights, qualifications, limitations and restrictions applying to the Preferred Shares, including (without limitation) in relation to dividend rate, voting entitlement, preferential rights and participation, would be for determination by the Board at the time of issue of any Preferred Shares, subject to the DGCL, and set out in a certificate of designation filed with the State of Delaware in accordance with the DGCL.
- 4.3 Pursuant to the recapitalisation agreement referred to in paragraph 7.7 of this Part 7, on 30 March 2006 and with immediate effect from the amended and restated certificate of incorporation referred to in paragraph 4.2 above taking effect:
- 4.3.1 the then issued 3,514,089 Old Common Shares were converted into 152,008 Common Shares;
  - 4.3.2 the then issued 4,224,339 Series A Preferred Shares were converted into 4,779,672 Common Shares;
  - 4.3.3 the then issued 3,743,671 Series B Preferred Shares were converted into 4,954,161 Common Shares;
  - 4.3.4 convertible loan notes with a principal aggregate face value of US \$1,547,225 issued by the Company pursuant to a convertible loan and warrant purchase agreement dated 31 March 2004 were converted into 11,982,914 Common Shares;
  - 4.3.5 2,633,228 Common Shares issued and allotted to Yissum in consideration of the forgiveness of debt due from the Group to Yissum of US \$128,000;
- such that immediately thereafter there were 24,501,983 Common Shares in issue credited as fully paid and no Series A Preferred Shares or Series B Preferred Shares were in issue.
- 4.4 Since the allotment and issue of shares pursuant to the agreement referred to in paragraph 4.3 above, the following allotments of Common Shares, have been made by the Company:

<i>Date</i>	<i>Number of Common Shares allotted</i>	<i>Effective issue price per Common Share*</i>
March – June 2006	16,217,552	US \$0.071
November 2006– January 2007	17,113,192	US \$0.117
May – August 2007	7,647,436	US \$0.164
27 July 2007 (exercise of an RW Warrant)	451,938	US \$0.000005
13 August 2007	122,231	For services rendered to the Company (pursuant to the agreement referred to in paragraph 7.32 of this Part 7)

\* the stated price has been adjusted to take account of the effect of the "forward stock split" referred to in paragraph 4.5.2 of Part 7 of this document

- 4.5 Subject to and conditional upon Admission, the Company:
- 4.5.1 passed a resolution on 23 August 2007 whereby, inter alia, the Post Admission Certificate of Incorporation was adopted. Pursuant to the Post Admission Certificate of Incorporation, which is to be filed with the Secretary of State of Delaware before Admission, the Company will have an authorised share capital of US \$50,000 consisting of 500,000,000 Common Shares. The Post Admission Certificate of Incorporation, amongst other things, sets out provisions appropriate for a corporation incorporated in Delaware and whose shares are admitted to trading on AIM. The material provisions of the Post-Admission Certificate of Incorporation are summarised at paragraph 5 of Part 7 of this document. The Board is authorised to issue the authorised but unissued Common Shares from time to time, subject to the rights of pre-emption contained in the Post-Admission Certificate of Incorporation (the terms of which are summarised in paragraph 5.2 of Part 7 of this document); and
- 4.5.2 passed a resolution on 22 November 2007 whereby, inter alia, subject to and conditional upon Admission: a "forward stock split" (a mechanism available under the DGCL equivalent in effect to a bonus issue of shares by an English company) was effected such that each common share in the Capital of the Company subsisting at the date of this document will, prior to Admission, become 21.39149 Common Shares. Entitlements to fractions of a Common Share were rounded up to the nearest whole number in the case of that entitlement being to one half of a Common Share or more and down to the nearest whole number in all other cases.
- 4.6 The Placing will result in the issue of 9,640,000 Common Shares on Admission.
- 4.7 The Subscriptions will result in the issue of 18,897,213 Common Shares on Admission.
- 4.8 The following table shows the authorised, issued and fully paid share capital of the Company (i) as at the date of this document; and (ii) as it is expected to be immediately following Admission:

	<i>Authorised number of shares</i>	<i>Issued number of shares</i>
<i>Existing Share Capital</i>		
Common Shares	500,000,000	66,054,337
Preferred Shares	10,000,000	Nil
<i>Following Admission</i>		
Common Shares	500,000,000	104,093,417

- 4.9 The registered authorised but unissued share capital of the Company immediately following Admission will be 395,906,583 Common Shares.
- 4.10 As at Admission, Options over a total of 38,618,702 unissued Common Shares had been granted for nil consideration to qualifying employees and consultants and non-employee directors of the Group and remain unexercised under the Share Option Plans, details of which are as follows:

<i>Scheme or arrangement</i>	<i>Date of grant</i>	<i>Number of Common Shares under option</i>	<i>Exercise price*</i>	<i>Expiry date</i>	<i>Vesting details</i>
2006 Plan	30.03.06	6,398,216	US \$0.071	30.03.10	by 4 equal instalments on each anniversary of date of grant
2006 Plan	30.03.06	4,798,646	US \$0.071	30.03.09	by 3 equal instalments on each anniversary of date of grant
2006 Plan	11.04.06	427,829	US \$0.071	11.04.10	by 4 equal instalments on each anniversary of date of grant
2006 Plan	11.05.06	1,599,549	US \$0.071	11.05.09	by 3 equal instalments on each anniversary of date of grant
2006 Plan	11.04.06	4,471,377	US \$0.071	11.04.10	by 4 equal instalments on each anniversary of date of grant

2006 Plan	30.06.06	2,032,192	US \$0.071	30.06.09	by 3 equal instalments on each anniversary of date of grant
2006 Plan	18.09.06	1,599,549	US \$0.071	18.09.09	by 3 equal instalments on each anniversary of date of grant
2006 Plan	16.07.07	1,497,404	US \$0.117	5.07.11	by 4 equal instalments on each anniversary of date of grant
2006 Plan	14.11.07	8,985,134	US \$0.210	14.11.10	by 3 equal instalments on each anniversary of date of grant
2006 Plan	14.11.07	6,808,806	US \$0.210	14.11.11	by 4 equal instalments on each anniversary of date of grant
ISOP	-	Nil	-	-	No options granted to-date

\* the stated price has been adjusted to take account of the effect of the "forward stock split" referred to in paragraph 4.5.2 of Part 7 of this document

Further information regarding the Share Option Plans is set out in paragraph 8 of Part 7 of this document.

- 4.11 An option over 1,080,784 unissued Common Shares was granted on 11 May 2006 for nil consideration to a consultant to the Group and remains unexercised. This option was granted under an option agreement outside the Share Option Plans pursuant to a consultancy agreement, further details of which are set out in paragraph 7.13 of this Part 7.
- 4.12 As at the date of this document, Warrants had been issued and are outstanding or are issuable immediately upon Admission to Shareholders, directors of and consultants and advisers to the Company over a total of 131,832,033 unissued Common Shares and remain unexercised, details of which are as set out in paragraph 9 of Part 7 of this document.
- 4.13 The arrangements entered into by the Company in relation to:
- 4.13.1 the Advisers' Shares will result in the issue of 3,084,422 Common Shares; and
- 4.13.2 the conversion of the Loan Note will result in the issue of 6,417,447 Common Shares at Admission.
- 4.14 Not more than 10 per cent of the Company's issued share capital has been paid for with assets other than cash within the period covered by the financial information set out in Part 3 and Part 4 of this document.
- 4.15 Pursuant to certain share purchase agreements (further details of which are given in paragraph 7 of Part 7 of this document), so called "piggy back" registration rights were granted to purchasers of Common Shares such that, in the event that the Company proposes to file a registration statement with the US Securities and Exchange Commission in connection with a public offering for its own account and/or for the account of others under the US Securities Act of any of its Common Shares, including (without limitation) any registration statement relating to its initial public offering but other than a Form S-4 or Form S-8 registration statement (each as promulgated under the US Securities Act or their then equivalents relating to equity securities to be issued solely in connection with any business combination transaction, acquisition of any entity or business or equity securities issuable in connection with share option or other employee benefit plans), then the Company shall, if required by any such purchasers, subject to certain restrictions, cause to be registered such of the Common Shares of such purchasers as they shall require.

In such circumstances, the Company will be obligated to pay all expenses referable and ancillary to such registration, provided that each Shareholder participating in a registration at such holder's request shall be responsible for such holder's own costs and expenses (including, without limitation, underwriters' discounts and commissions, share transfer taxes, and counsel's fees and expenses) incurred in such registration.

The Company is required to indemnify the holders of Common Shares that participate in a registration statement against all losses, liabilities, claims, damages and reasonable expenses incurred by such holder as a result of any untrue statement or alleged untrue statement of a material fact contained in the registration statement, preliminary prospectus or prospectus, or the omission or alleged omission therefrom of a material fact required to be stated therein or

necessary to make the statements therein not misleading. The Company's indemnification obligations shall not apply to, and each relevant Shareholder is required to indemnify the Company against, any loss, liability, claim, damage or reasonable expense to the extent arising out of any untrue statement or omission or alleged untrue statement or omission made in reliance upon and in conformity with written information furnished to the Company by such Shareholder expressly for use in any registration statement, or any preliminary prospectus or prospectus. Each such Shareholder's aggregate liability shall be limited to the net proceeds from the sale of his Common Shares pursuant to any such registration statement.

- 4.16 The International Security Identification Number ("ISIN") for the Common Shares to be admitted to trading is US58436Q1040.
- 4.17 The Common Shares will be created, allotted, issued under and governed by the DGCL and will be registered and held in certificated form and are not eligible for settlement through CREST. The nominal par value of the Common Shares is denominated in US \$.
- 4.18 Based upon a conversion rate of US \$2.06323:£1, the Placing Price of 10p represents a premium of approximately 20.63 US cents over the nominal par value of a Common Share.
- 4.19 No public takeover bids have been made by third parties in respect of the Company's issued share capital during the last financial year or the current financial year.
- 4.20 The Directors are not aware of the existence of any arrangements the operation of which may at a subsequent date result in a change of control of the Company.
- 4.21 Save as set out in Part 1 of this document or in paragraph 5.3 of Part 7 of this document, no mandatory takeover bid rules or so called "squeeze-out" or "sell-out" rules exist or apply in relation to the Company or its equity.
- 4.22 Save as disclosed in this document, and other than pursuant to the Placing and the Subscriptions, in the three years immediately preceding the date of this document, no capital of the Company has been issued or agreed to be issued, or is now proposed to be issued fully or partly paid, for cash or any other consideration or has been purchased by the Company.
- 4.23 Save as disclosed in this document, no capital of the Company is under option or has been agreed, conditionally or unconditionally, to be put under option.
- 4.24 The Company does not have in issue any shares that do not represent capital.
- 4.25 No Common Shares are currently held in treasury by the Company or by any other person (including a Group company) on its behalf.

## **5. Certificate of incorporation and by-laws**

By a written resolution signed by all of the Shareholders and dated as of 23 August 2007, a resolution was passed, subject to and conditional upon Admission, pursuant to which the Company adopted the Post Admission Certificate of Incorporation and the Post Admission By-laws. The following is a summary of certain material provisions of the Post Admission Certificate of Incorporation and the Post Admission By-laws.

### **5.1 Purpose**

The purpose of the Company is to engage in any lawful act or activity for which corporations may be organised under the DGCL.

### **5.2 Pre-emption rights**

Unless determined by Shareholders holding at least 75 per cent of the then outstanding Common Shares of the Company entitled to vote and whose votes are cast in relation to the relevant resolution, any issue of Common Shares or other securities in the Company for cash shall first be offered to existing holders of Common Shares on a pre-emptive basis, pro-rata to their existing holdings. The pre-emption provisions do not apply to securities allotted for cash: (i) where the aggregate nominal amount of such Common Shares during the first 12-months following Admission does not exceed 30 per cent of the Enlarged Share Capital; (ii) where the nominal amount of such Common Shares during any 12-month period after the first anniversary of Admission does not exceed 10 per cent of the outstanding Common Shares of the Company as at the commencement of such 12 month period; or to the allotment of Common Shares following and exercise of any of the Warrants or any of the Options, the option referred to in paragraph 4.11 of Part 7 of this document or further options granted under and in accordance with the provisions of the Share Option Plans.

These pre-emption provisions will cease to apply if:

- 5.2.2 the Common Shares cease to be admitted to trading on AIM or the Official List; or
- 5.2.3 the Common Shares become listed on a US national securities exchange or authorised for quotation on the NASDAQ Stock Market.

### 5.3 Takeover Provisions

In addition to provisions regarding shareholder approval requirements and other matters relating to mergers and acquisitions applicable under the DGCL to all Delaware corporations, the Post Admission Certificate of Incorporation provides that if a person (i) acquires shares which (taken together with securities held or acquired by persons acting in concert with such person) that represent 30 per cent or more of the voting rights attaching to the issued Common Shares, or (ii) (together with persons acting in concert with such person) holds not less than 30 per cent but not more than 50 per cent of the voting rights attaching to the issued Common Shares and such person, or any person acting in concert with such person, acquires additional securities, which will increase his percentage holding of such voting rights, then any such person (and any persons acting in concert with such person) must make an offer to the holders of all of the Common Shares. The obligation to make such an offer will not apply to any person who holds securities representing between 30 per cent and 50 per cent of the voting rights attaching to the issued Common Shares and who acquires Common Shares pursuant to the exercise of any of the Warrants or Options or the option referred to in paragraph 4.11 of Part 7 of this document.

These takeover provisions will cease to apply if:

- 5.3.2 the Common Shares cease to be admitted to trading on AIM or the Official List; or
- 5.3.3 the Common Shares become listed on a US national securities exchange or authorised for quotation on the NASDAQ Stock Market.

### 5.4 Voting Rights

Each Shareholder has one vote for each Common Share. A Shareholder may vote in person or by proxy. Save in relation to any vote upon a resolution to amend the Post Admission Certificate of Incorporation, the Post Admission By-laws or as otherwise prescribed therein, all matters to be determined by a vote of Shareholders shall be determined by a majority of the votes cast by those Shareholders entitled to vote and who are present in person or by proxy at the relevant meeting.

### 5.5 Amendments to By-laws

The following provisions of the Post Admission Certificate of Incorporation and the Post Admission By-laws may not be amended unless approved by the affirmative vote of the holders of at least 75 per cent of the outstanding Common Shares entitled to vote and whose votes are cast in relation to the resolution proposing such amendment:

- 5.5.1 pre-emption right provisions (summarised in paragraph 5.2 above);
- 5.5.2 takeover provisions (summarised in paragraph 5.3 above);
- 5.5.3 disclosure of interests provisions (summarised in paragraph 5.9 below).

The Directors are authorised to amend the Post Admission By-laws at any meeting of the Board provided that no amendment to the Post Admission By-laws adopted by the Board may vary or conflict with the Post Admission By-laws or any subsequent amendment adopted by Shareholders in accordance with the Post Admission By-laws. The Post Admission By-laws prescribe that any alteration, amendment or repeal of or to the Post Admission By-laws by Shareholders must be made with the affirmative vote of the holders of record of a majority of the issued and outstanding stock of the Corporation present in person or by proxy at a meeting of holders of such stock and entitled to vote thereon or by a written resolution of such Shareholders provided that such provision shall cease to apply if (i) the Common Shares cease to be admitted to trading on AIM or the Official List; or (ii) the Common Shares become listed on a US national securities exchange or authorised for quotation on the NASDAQ Stock Market.

## 5.6 Directors

The Directors are responsible for the control and management of the affairs, property and interests of the Company and may exercise all powers of the Company, except as are in the Post Admission Certificate of Incorporation, the Post Admission or By-laws or otherwise expressly conferred upon or reserved to the Shareholders.

The Board shall consist of not less than two and not more than such number as shall be prescribed by the Directors.

Directors are usually to be appointed by election at annual general meetings of Shareholders and their appointments continue until their re-election at the next annual general meeting of Shareholders or the election of their successors or earlier death, resignation or removal.

A Director may be removed only by majority vote of the Shareholders.

Newly created directorships resulting from any increase in the number of Directors and any vacancies on the Board resulting from death, resignation, retirement, disqualification or removal (with or without cause) may be filled by the affirmative vote of a majority of the remaining Directors then in office.

At meetings of the Board, each Director has one vote. A vote of the majority of the Directors present at a validly called meeting (where quorum is present) shall be the act of the Board.

To the fullest extent permitted by the DGCL or any other laws presently or hereinafter in effect, the Directors of the Company shall have no personal liability to the Company or its Shareholders for monetary damages for or with respect to any acts or omissions in the performance of such person's duties as a Director of the Company, except to the extent now or hereafter required by applicable law.

Each person who is or was or had agreed to become a Director or officer of the Company, or each such person who is or was serving or who had agreed to serve at the request of the board of Directors or an officer of the Company as an employee or agent of the Company or as a Director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, shall be indemnified by the Company to the full extent permitted by the DGCL or any other applicable laws as presently or hereafter in effect. Such indemnification is not exclusive of any other right to indemnification provided by law or otherwise. The Company may purchase and maintain insurance to cover the aforesaid Directors and other persons against certain risks specified in the Post Admission Certificate of Incorporation.

## 5.7 Officers

The officers of the Company are elected by the Board and may consist of a President (effectively the chief executive officer of the Company), a Secretary and a Treasurer. In addition, The Board may elect a Chairman, one or more Vice-Presidents and such other officers as it deems fit.

The compensation of all officers and agents of the Company who are also Directors of the Company will be fixed by the Board or by a committee of the Board. The Board may fix, or delegate the power to fix, the compensation of other officers and agents of the Company to an officer of the Company.

The officers of the Company will hold office until their successors are elected and qualified or until their earlier resignation, retirement, removal or death. Any officer may be removed at any time by the Board. Any vacancy occurring in any office of the Company may be filled by the Board in accordance with this paragraph 5.7.

## 5.8 Dividends and other distributions

Dividends may be declared and paid out of any funds available therefore, as often, in such amounts and at such time or times as the Directors may determine. There are no specified dates upon which entitlement to dividends or interest thereon on the Common Shares arises and there are no arrangements in force for the waiver of future dividends.

## 5.9 Disclosure of interests in Common Shares

If a Shareholder:

5.9.1 acquires in aggregate three per cent or more of the Common Shares;

5.9.2 who previously owned three per cent or more of the Common Shares ceases to own at least three per cent of the Common Shares;

such Shareholder is required to notify the Company of such Shareholder's interest. If a Shareholder who has previously notified the Company of the acquisition of an interest in Common Shares in accordance with the foregoing subsequently increases or reduces his percentage holding of the issued Common Shares, he must give a further notification to the Company detailing such increase or decrease.

#### 5.10 Enquiry into interests in Common Shares

The Directors may send a notice to any person that the Board determines to have or be reasonably likely to have beneficial ownership in Common Shares requiring such person to identify any Common Shares in which that person is beneficially interested and to give such further information as may be required by the Directors.

In the event a Shareholder fails to comply with a notice sent in accordance with the foregoing, the Directors may impose restrictions on the relevant Common Shares, subject to certain exceptions and limitations. The restrictions may include the following: (i) loss of voting rights, (ii) non-recognition of further transfers of the relevant Common Shares; and (iii) withholding of dividends.

#### 5.11 Winding Up

There are no provisions in the Post Admission Certificate of Incorporation and the Post Admission By-laws related to winding up. The DGCL governs the winding up and dissolution of the Company. Pursuant to the DGCL, the sale, lease or exchange of all or substantially all of the Company's property and assets, and the dissolution of the Company, requires the approval of a majority of the Shareholders. A company that has been dissolved under the DGCL will continue in subsistence for three years following dissolution in order to wind up the affairs of the Company.

#### 5.12 General Meetings and Board Meetings

Annual meetings of the Shareholders and Directors are to be held each year. In addition, the Directors may hold regular meetings throughout the year as the Directors determine and special meetings of Shareholders may be convened during the year by the Board, the Chairman, the President or any Shareholder(s) holding at least 10 per cent of the issued Common Shares entitled to vote.

Written notice of every meeting of the Shareholders, stating the place, date and time thereof and, in the case of a special meeting, the purpose or purposes for which the meeting is called, generally will be given not less than 10 nor more than 60 calendar days before the date of the meeting to each Shareholder of record entitled to vote at such meeting.

#### 5.13 Borrowing powers

The Company's borrowings shall not exceed an amount equal to three times the Company's adjusted capital and reserves without approval of a majority of Shareholders. The DGCL provides that the Company has the full authority to borrow.

#### 5.14 Transfers of Common Shares

Upon surrender to the Company or the Company's transfer agent of a certificate for Common Shares duly endorsed or accompanied by proper evidence of succession, assignment or authority to transfer, the Company shall issue a new certificate to the person entitled thereto, cancel the old certificate and record the transaction upon its books.

The Company will not register any subsequent transfer of Common Shares that are issued or sold pursuant to Regulation S under the US Securities Act unless such subsequent transfer is made in accordance with the provisions of Regulation S, pursuant to registration under the US Securities Act or pursuant to an available exemption from registration under the US Securities Act.

The Company may from time to time maintain one or more transfer offices or agencies at such place or places as may be determined from time to time by the Board.

## **6. Directors' and other interests**

- 6.1 The aggregate of the remuneration to be paid to the Directors by the Company for the financial year ending 31 December 2007 is not expected to exceed US \$318,715.
- 6.2 Save as described in this paragraph 6, the Directors of the Company do not receive compensation in their roles as directors.
- 6.3 Dr. Andrew Pearlman is employed as Chief Executive Officer of the Group pursuant to an agreement with the Company and MMI dated as of 1 June 2007, as amended by a letter signed on behalf of the Company and MMI and by Dr. Andrew Pearlman dated 16 November 2007. The agreement provides for a basic salary of US \$210,000 and bonus arrangements and the ability to participate in the grant of future options under the Share Option Plans. The bonus arrangement effective for the year ending 31 December 2007 contemplates the payment of an amount of up to US \$70,000, subject to achievement of pre-determined personal goals and corporate milestones, such goals and milestones to be agreed between Dr Pearlman and the remuneration committee of the Board, no later than 30 September 2007. Dr. Pearlman is also entitled to receive other benefits, including manager and disability insurance cover and severance compensation fund and education fund contributions for his benefit from MMI. Such contributions and insurance costs amount, in aggregate, to 23<sup>1</sup>/<sub>3</sub>% of Dr Pearlman's said basic salary. The agreement acknowledges that Dr Pearlman is entitled to the sum of US \$30,000, being his accrued but unpaid entitlement to payment of a bonus in respect of the year ended 31 December 2006. Such accrued unpaid bonus is due to be paid by MMI within three business days of Admission. Either the Company or Dr. Pearlman may terminate the agreement without cause upon not less than three month's written notice to the other, provided that Dr. Pearlman has agreed that he will not voluntarily terminate the agreement prior to 31 March 2009. This agreement is governed by Israeli law.
- 6.4 The non-executive directors of the Company are Eugene Andrew Bauer, Stephen Devon McMurray, Gary Allan Brukardt and Joel Stephen Kanter. The terms under which the non-executive directors are engaged are contained in their respective letters of appointment, each of which is dated 14 November 2007. The non-executive directors will be expected to attend each Board meeting of the Company and, in addition, to attend the annual Shareholder meeting. The non-executive directors are entitled to receive and be paid a fee of US \$10 per annum (payable in arrears, if demanded). The position with the remuneration of the non-executive directors will be reviewed on the first anniversary of the date of Admission and may be revised and brought into line with practice current at that time for the remuneration of non-executive directors of AIM companies. The non-executive directors are entitled to participate in the award of options under the 2006 Plan. The Company will reimburse all reasonable travel and hotel expenses incurred by the non-executive directors in performance of their duties.
- 6.5 No loan has been granted to, nor has any guarantee been provided for the benefit of, any Director by the Company.
- 6.6 No Director has any interest in any transactions that are or were unusual in their nature or conditions or significant to the business of the Company and which have been effected by the Company since incorporation or have been effected by the Company since incorporation and remain in any way outstanding or unperformed.
- 6.7 As at the date of this document no Director:
- 6.7.1 has any unspent convictions in relation to any indictable offences;
- 6.7.2 has been a director of any company or a partner of any firm which, at the time of or within 12 months after his ceasing to be a director or a partner (as the case may be), had any receiver appointed or went into compulsory liquidation, or creditors voluntary liquidation or went into administration, or entered into company or partnership voluntary arrangements, or made any composition or arrangement with its creditors generally or any class of the creditors of such company;
- 6.7.3 has become bankrupt or had any bankruptcy order served upon him or entered into any individual voluntary arrangement or had a receiver appointed over any of his assets; and
- 6.7.4 has had any public criticism against him by any statutory or regulatory authority (including recognised professional bodies) or has been disqualified by a court from acting as a director of a company or from acting in the management or conduct of the affairs of any company.

- 6.8 Save as disclosed in this paragraph 6, no Director has any interest in the share capital of the Company nor has any person connected with any Director (so far as is known, or who could with reasonable diligence be ascertained by, each Director) any interest in the share capital of the Company, whether or not held through another party, or any options in respect of such capital.
- 6.9 As at the date of this document, and at Admission, the interests of the Directors (both beneficial and non-beneficial) and of persons connected with the Directors in the Common Shares are as follows:

As at the date of this Document

Name	Common Shares	Options	Warrants	Total interest
Eugene Bauer	nil	6,080,536	3,000,156	9,080,692
Andrew Pearlman <sup>a</sup>	1,115,566	9,725,670	32,942,103	43,783,339
Joel Kanter <sup>b</sup>	8,446,794	3,307,662	23,264,422	35,018,878
Gary Brukardt	1,058,879	2,534,224	2,117,758	5,710,861
Stephen McMurray	578,982	2,756,385	1,069,575	4,404,942

As at Admission

Name	Common Shares	Options	Warrants	Total interest
Eugene Bauer	47,537	6,080,536	3,000,156	9,128,229
Andrew Pearlman <sup>a</sup>	1,186,871	9,725,670	32,942,103	43,854,644
Joel Kanter <sup>b,c</sup>	8,998,566	3,307,662	23,264,422	35,570,650
Gary Brukardt	1,106,416	2,534,224	2,117,758	5,758,398
Stephen McMurray	626,578	2,756,385	1,069,575	4,452,538

The interests of the Directors in issued Common Shares at Admission, includes New Shares that the Directors have agreed to subscribe for under the November Subscription, at a price of US \$0.21 (approximately the Placing Price) per Common Share, as follows:

Director	Subscription amount (US \$)	Number of New Shares
Eugene Bauer	10,000	47,537
Andrew Pearlman	15,000	71,305
Joel Kanter <sup>c</sup>	100,004	475,383
Gary Brukardt	10,000	47,537
Stephen McMurray	10,013	47,596

- a) included in the interests of Andrew Pearlman are his interests in 150 Common Shares, Warrants in respect of 3,166 Common Shares and Options over 128,349 Common Shares held by his wife, Debbie Pearlman.
- b) included in the interests of Joel Kanter as at the date of this document are his interests in:
- (i) 830,375 Common Shares and Warrants in respect of 856,997 Common Shares held by the Kanter Family Foundation, an Illinois not-for-profit corporation of which Mr. Kanter is the President and is a Director;
  - (ii) 3,529,596 Common Shares and Warrants in respect of 7,059,192 Common Shares held by CIBC Trust Company (Bahamas) Limited ("CIBC"). CIBC is the trustee of Settlement T-555 (the "CIBC Trust"). The CIBC Trust was established for the benefit of various descendants of (i) Helen and Henry Krakow, and (ii) Beatrice and Morris Kanter. Mr. Kanter is a discretionary beneficiary of the CIBC Trust. Sole voting and investment control of the Common Shares owned by the CIBC Trust is vested in CIBC as trustee of the CIBC Trust;
  - (iii) 4,044,275 Common Shares and Warrants in respect of 1,069,575 Common Shares held by Chicago Investments, Inc. ("CII"). CII is a majority-owned subsidiary of Chicago Holdings, Inc. ("CHI"). CHI is majority owned by various trusts (together the "Kanter Trusts") established for the benefit of various descendants of (i) Helen and Henry Krakow, and (ii) Beatrice and Morris Kanter. Joel Kanter is a discretionary beneficiary of some, but not all, of the Kanter Trusts. Sole voting and investment control of the Common Shares owned by CII is vested in Mr. Kanter's brother, Joshua Kanter, as President of CII; and
  - (iv) 42,548 Common Shares and Warrants in respect of 197,914 Common Shares held by Chicago Private Investments, Inc ("CPI"). CPI is a wholly owned subsidiary of The Holding Company ("THC"). THC is owned by Kanter Trusts. Sole voting and investment control of the shares of the Company owned by CPI is vested in Mr. Kanter's brother, Joshua Kanter, as President of CPI.

For the purposes of applicable US Securities Laws and regulations, Mr. Kanter disclaims all beneficial and pecuniary interest to the Common Shares held by CII and CPI and the CIBC Trust. Such disclaimer does not affect Mr. Kanter's status as a discretionary beneficiary under the Kanter Trusts or the CIBC Trust

- c) on Admission, Kanter Family Foundation has acquired 118,851 Common Shares and CII has acquired 356,532 Common Shares, both under the November Subscription Agreement. On Admission CIBC has received 76,389 shares as part of the Letter of Credit agreement as outlined in paragraph 7.34 of this Part 7

The above interests of the Directors including interests of the Directors (both beneficial and non-beneficial) and of persons connected with the Directors represent the following percentages respectively of the fully diluted Share Capital (i.e. after the issue of all Common Shares issuable upon exercise of all of the subsisting options and the Warrants) as at the date of this Document and on Admission:

	<i>Issued shares as a percentage of issued share capital</i>		<i>Interests as a percentage of fully diluted share capital</i>	
	<i>As at the date of this Document</i>	<i>As at Admission</i>	<i>As at the date of this Document</i>	<i>As at Admission</i>
Eugene Bauer	Nil	0.0%	4.3%	3.3%
Andrew Pearlman	1.7%	1.1%	20.9%	15.9%
Joel Kanter	12.8%	8.6%	16.7%	12.9%
Gary Brukardt	1.6%	1.1%	2.7%	2.1%
Stephen McMurray	0.9%	0.6%	2.1%	1.6%

- 6.10 Save as disclosed in paragraph 6.9 above and in the table below, at the date of this document, the Company is not aware of any person who, directly or indirectly, will be interested in three per cent or more of the issued share capital of the Company on Admission.

<i>Name</i>	<i>At the date of this Document</i>		<i>On Admission</i>	
	<i>Number of Common Shares</i>	<i>% of issued share capital</i>	<i>Number of Common Shares</i>	<i>% of issued share capital</i>
Alta California Partners III, L.P.		11.2%	7,412,472	7.1%
Platinum-Montaur Life Sciences 1, LLC		Nil	7,190,209	6.9%
Vision Opportunity Master Fund, Ltd.		8.6%	7,094,851	6.8%
Koor Corporate Venture Capital, L.P.		8.2%	5,393,821	5.2%
Lord Leonard Steinberg		5.8%	4,770,633	4.6%
CIBC Trust Company (Bahamas) Ltd.*		5.3%	3,605,985	3.5%
Chicago Investments Inc.*		4.8%	3,188,615	3.1%

\* included within the interest of Joel Kanter in paragraph 6.9 of this document.

- 6.11 The Company is not aware of any person (or corporation) who, directly or indirectly, jointly or severally, exercises control over the Company.
- 6.12 The persons, including the Directors, referred to in paragraphs 6.9 and 6.10 above do not have voting rights in respect of the share capital of the Company (issued or unissued) which differ or which will differ following Admission from any other Shareholder of the Company.
- 6.13 The Company and the Directors are not aware of any arrangements, the operation of which may at a subsequent date result in a change of control of the Company.
- 6.14 The Company maintains Directors and Officers liability insurance with American International Specialty Line Insurance Company, a member of AIG.

6.15 The names of the companies and partnerships (other than Group companies) of which the Directors have been directors or partners in the last five years, or of which they continue to be directors or partners, are as follows:

**Dr. Eugene Andrew Bauer** (aged 65)

*Current directorships and partnerships*

Neosil, Inc.  
 Arbor Vita Corp.  
 Peplin Limited  
 Modigene Inc.  
 Echo Healthcare Acquisition Corp  
 Protalex, Inc.

*Past directorships and partnerships*

Connetics Corp.

**Dr. Andrew Leonard Pearlman** (aged 56)

*Current directorships and partnerships*

None

*Past directorships and partnerships*

None

**Joel Stephen Kanter** (aged 50)

*Current directorships and partnerships*

Windy City, Inc.  
 Aquamatrix, Inc.  
 I-Flow Corporation  
 Magna-Labs, Inc.  
 Prospect Medical Group, Inc.  
 Echo Healthcare Acquisition Corp  
 Prescient Medical, Inc.  
 Modigene Inc.  
 WaferGen Bio-systems, Inc.  
 Med Images, Inc.  
 Pacific Biosciences Laboratories, Inc.  
 XLNT Veterinary Care, Inc.  
 David Braun Productions, Inc.  
 Mind's Eye Entertainment, Inc.  
 Systems Impact, Inc.  
 United Plant Productions, LLC  
 XLNT Veterinary Care, Inc.  
 Black Student Fund  
 Educational Fund to End Gun Violence  
 Georgetown Day School  
 The Langley School  
 Union Institute & University  
 The Coalition to End Gun Violence  
 Kanter Family Foundation

*Past directorships and partnerships*

Walnut Financial Services, Inc.  
 Encore Medical Corporation  
 Logic Devices, Inc.  
 Mariner Post Acute Network  
 BioHorizons Implant Systems, Inc.  
 Marina Medical  
 HealthMont, Inc.  
 Greystone Pharmaceuticals, Inc.  
 Osteoimplant Technologies, Inc.  
 Vision III Imaging, Inc.  
 Business Alliance

**Gary Allan Brukardt** (aged 61)

*Current directorships and partnerships*

Nashville Healthcare Council  
 Thunderbird Global Council  
 Thunderbird, The Garvin School of International  
 Management  
 Echo Healthcare Acquisition Corp

*Past directorships and partnerships*

Renal Care Group, Inc.  
 Med Images, Inc.

**Stephen Devon McMurray** (aged 60)

*Current directorships and partnerships*

None

*Past directorships and partnerships*

Renal Care Group, Inc.

6.16 There is no Director or member of a Director's family (as defined in the AIM Rules) who has a related financial product (as defined in the AIM Rules) referenced to the Common Shares.

6.17 Save as disclosed in paragraph 7 below, no person (other than a professional adviser referred to in this document or trade supplier dealing with the Company) has received, directly or

indirectly, from the Company within the 12 months preceding the Company's application for Admission or entered into any contractual arrangements (not otherwise disclosed in this document) to receive, directly or indirectly, from the Company on or after Admission any of the following:

6.17.1 fees totalling £10,000 or more;

6.17.2 securities in the Company with a value of £10,000 or more calculated by reference to the Placing Price; or

6.17.3 any other benefit with the value of £10,000 or more at the date of Admission.

## 7. **Material contracts**

The following contracts, not being contracts entered into in the ordinary course of business, have been entered into by the Company in the two years immediately preceding the date of this document and are, or may be, material and there are no other contracts entered into by the Company which include an obligation or entitlement which is material to the Company at the date of this document:

- 7.1 Several indemnification agreements dated 1 November 2002 between the Company (1) and each of Dr. Andrew Pearlman, Joel Kanter and Dr. Eugene Bauer (each a Director) pursuant to which the Company agreed to indemnify each of such Directors against all and any actions, proceedings, expenses, fines incurred by him by reason of their being a director, officer, employee or agent of the Company, provided that he acts in good faith and in the best interests of the Company.
- 7.2 Grants approved by the Chief Scientist to MMI respectively on 14 April 2004, 25 July 2004, 14 May 2007 and 29 July 2007 for up to (in aggregate) 14,379,911 NIS (approximately US \$3,727,917) pursuant to the Israeli State Law for Encouragement of Research and Development in Industry, 1984 towards research and developments costs incurred or to be incurred by MMI in relation to the development of its technology. Under the terms of the grants and the applicable Israeli legislation, MMI is obligated to pay royalties to the Chief Scientist at rates between 3.5% and 5% of the sales of products resulting from the funded research and development, with the cumulative total of such royalties not to exceed the amount of the grants received by MMI. The aggregate amounts received by MMI as at 27 November 2007, being the latest practicable date to ascertain the same prior to the publication of this document, was 6,805,745 NIS (approximately US \$1,764,060). In order to be eligible for some of these grants, it was necessary for the Company to enter into a sub-licence in relation to its patent portfolio (including the rights licensed to the Company by Yissum under the Licence Agreement) with MMI. In order to comply with the applicable Israeli legislation, approval of the Chief Scientist is required if the said sub-licence is to be terminated and the intellectual property licensed to MMI is to be exploited outside Israel. However, this consent may be obtained subject to MMI making certain payments to the Chief Scientist, which vary (according to the circumstances) and could amount to as much as 120 – 300 per cent of the aggregate amounts of the grants originally made.
- 7.3 A securities and note purchase agreement dated as of November 2005 and made among A. Pearlman, R. Sucoff, H. Kohn and Chicago Investments, Inc. (as "buyers") (1), Challenger Limited, Semel Investments Holding BV and Gedalia Shainbrum and Reslo Life Sciences Limited (as "sellers") (2), the Company (3) and MMI (4) pursuant to which the buyers agree to acquire from the sellers their holdings of shares, warrants and convertible loan notes in the Company. The Company, MMI and the buyers, on the one hand and the sellers, on the other, gave each other reciprocal waivers and releases regarding the securities and rights sold and the operations of the Company as at the date of the agreement.
- 7.4 The Licence Agreement dated 23 November 2005 and made between Yissum (1) and Medgenics (2), whereby Yissum granted to Medgenics an exclusive licence to make commercial use of specified Yissum patents (and future derivatives thereof) in order to develop, manufacture and/or market a product to be based on its know-how and research results.

The scope of the Licence Agreement excludes:

- the use of liver MO, kidney MO and pancreas MO;
- uses of MO for the purposes of inducing angiogenesis as therapeutic; and
- all non-commercial, academic purposes.

The Licence Agreement is a successor to an earlier agreement that was entered into between Yissum (1) and MMI (2) in 2000 ("First Agreement"). The First Agreement was terminated on 7

November 2004, after the Group had ceased operations. The Licence Agreement was negotiated and entered into following the recommencement of operations by the Group in 2005. At the time of entering into the Licence Agreement, amounts that would have been due to Yissum from MMI under the First Agreement were acknowledged as a debt due from the Company, for and on behalf of MMI, to Yissum. In acknowledgment and settlement of that liability, 123,097 Common Shares were issued and allotted to Yissum on 31 March 2006 pursuant to the recapitalisation agreement referred to in paragraph 7.7 below.

The Licence Agreement stipulates that the following licence fees, not to exceed US \$10,000,000 in total, are payable by the Company to Yissum:

- a) a fixed licence fee of US \$400,000, to be paid by instalment dependent upon investments made by third party investors in the Company on or after 23 May 2005. Once the aggregate of those investments exceeded US \$3,000,000, US \$50,000 became payable and was paid to Yissum. A further US \$150,000 will become payable to Yissum in the event that the aggregate of such investment exceeds US \$12,000,000. It is believed that, conditional upon the Proposals being completed, this amount will become payable to Yissum. The third and final instalment of US \$200,000 will become payable in the event that the aggregate investments exceeds US \$18,000,000;
- b) royalties at a rate of 5% of net sales of the product derived from Yissum's technology; and
- c) sub-licence fees at a rate of 9% of all sub-licence fees derived by Medgenics from approved sublicensing of Yissum's technology.

In addition, under the Licence Agreement, Medgenics is responsible for reimbursing Yissum in respect of certain fees and expenses incurred in maintaining the Yissum patents and prosecuting the outstanding patent applications. In the event that, for reasonable commercial considerations, the Company decides that it does not wish to fund the registration or maintenance of a patent in a certain state or country and Yissum applies for, registers or maintains the relevant patent/patent application in that state or country at its own cost, the licence with respect to that patent in that state or country will revert to Yissum and be capable of being licensed to a third party or exploited by Yissum. Medgenics is also responsible for protecting and defending the patents within the Yissum patent portfolio licensed under the Licence Agreement. Yissum has not given any warranties with respect to its patents and the Licence Agreement provides for an indemnity to be given by the Company to Yissum in respect of any liabilities arising out of the exercise by the Company of its rights under the Licence Agreement.

The Agreement is for a term expiring on the later of 20 years following the making of the first commercial sale of any product utilising Yissum's technology under the Licence Agreement or the date upon which the last of the licensed patents expires (currently, July 2022).

The Licence Agreement is terminable in certain events, including a breach of the Licence Agreement by either party, which is not remedied within 45 days of receipt of written notice, and in the event of certain events of insolvency affecting either party.

- 7.5 An agreement dated 29 November 2005 and made between the Company (1) and Laidlaw & Company (UK) Limited (2) pursuant to which Laidlaw undertook to market the Company's private placement offering of up to US \$2,500,000 of securities. The consideration payable to Laidlaw under this agreement was:
  - 7.5.1 a cash fee equal to 8% of the gross proceeds received;
  - 7.5.2 reimbursement of up to US \$35,000 legal fees and for other reasonable expenses incurred; and
  - 7.5.3 L Warrants to purchase a number of Common Shares equal to 8% of the gross number of Common Shares sold on the same basis afforded to the investors in the placement;
- 7.6 An X Warrant dated 2 January 2006 in respect of 533,183 Common Shares exercisable at an effective price per share of US \$0.071 issued to Louise Klein as part consideration for the provision by Courage Institute International pc of management consultancy services to the Company;
- 7.7 A recapitalisation agreement dated 30 March 2006 and made among certain of the Company's then shareholders and convertible loan note holders (1) and the Company (2) pursuant to which the Company's capital structure was reconstituted by way of the Company's then existing shares and the convertible loan notes in the Company being converted into Common Shares. The agreement further provided for:

- 7.7.1 the cancellation of warrants to purchase securities in the Company;
- 7.7.2 the Company to issue 2,633,228 Common Shares to Yissum in satisfaction of the licence and patents fees then due to Yissum acknowledged by the Company in the Licence Agreement;
- 7.7.3 the Company to issue the RW Warrants to purchase in the aggregate up to 2,139,106 Common Shares to certain entities and individuals in exchange for releases from those individuals in favour of the Company;
- 7.7.4 the Company to issue the RS Warrants and certain options to purchase in the aggregate of up to 52,162,721 Common Shares to certain individuals in exchange for services provided and to be provided to the Company; and
- 7.7.5 the Company to adopt the Share Incentive Plan.

The agreement provided for the Company to give certain representations and warranties in relation to the corporate structure and business of the Company as at the date of the agreement.

- 7.8 A purchase agreement dated 31 March 2006 and made between the Company (1) and certain investors (2) pursuant to which the investors agreed to purchase and the Company agreed to sell and issue in aggregate up to 14,110,490 Common Shares at an effective price of US \$0.071 per Common Share and W Warrants to purchase up to, in aggregate, 28,220,980 Common Shares at an effective exercise price of US \$0.071 per Common Share.

The purchase agreement contains "piggyback registration rights", which are summarised at paragraph 4.15 of this Part 7 of this document. In addition, the Company gave certain representations, warranties and indemnities in respect of the structure of the Company and its business and assets.

- 7.9 A stockholders agreement dated 31 March 2006 and made among the Company (1), certain then existing shareholders of the Company (2) and the investors in the Company who were parties to the purchase agreement referred to in paragraph 7.8 above (3) pursuant to which the parties agreed to certain provisions with regards to the conduct of the Company's affairs and regulations regarding the transfer of the Company's securities and requiring the prior sanction and approval of certain specified parties to the agreement (the "Rescue Team") in relation to certain specified acts of the Company. The stockholders agreement provides that the same shall automatically terminate upon the Company having at least US \$5 million in cash, upon the Company's shares being traded or listed on a national securities exchange and/or the voluntary agreement by or amongst the Company and the Rescue Team. The stockholders agreement was voluntarily terminated by agreement between the Company and the Rescue Team on 9 August 2007.

- 7.10 An X Warrant dated 31 March 2006 in respect of 4,278,298 Common Shares exercisable at an effective price per share of US \$0.071 issued to Jeffrey Kraws as part consideration for the provision by Crystal Research Associates LLC of its services in the researching and writing of an executive informational overview report and updates thereto.

- 7.11 A purchase agreement dated 10 April 2006 and made between the Company (1) and Northlea Partners Limited ("Northlea") (2), Northlea agreed to acquire and the Company agreed to sell and issue 213,914 Common Shares at an effective price of US \$0.071 per Common Share and a W Warrant to purchase up to 427,830 Common Shares at an effective exercise price of US \$0.071 per Common Share at any time before 5 pm (Eastern time) on 10 April 2011.

The purchase agreement contains "piggyback registration rights", which are summarised at paragraph 4.15 of this Part 7 of this document. In addition, the Company gave certain representations, warranties and indemnities in respect of the structure of the Company and its business and assets.

- 7.12 Several scientific advisory board agreements each dated 1 May 2006 and made respectively between the Company (1) and each of Michael Hensley, Mark Kay, Alan Nissenson and Emmet Keefe (together with Professor Eithan Galun, hereinafter referred to as the "Advisers") and jointly with Hadasit Medical Research Services and Development Limited and Professor Eithan Galun pursuant to which the Advisers agreed to provide scientific advisory and consultancy services to the Company in return for which the Advisers would be granted options (under the 2006 Plan) over 427,830 Common Shares (save in the case of Professor Eithan Galun whose option was for 320,872 Common Shares) exercisable over a period of five years at an effective price of US \$0.071 per Common Share, such options vesting over a three year period. In addition, it was agreed that each of the Advisers would be paid US \$1,500 per day for meetings attended by him in person and would be reimbursed his expenses.

7.13 A consulting agreement dated 1 May 2006 and made between MMI (1) and Professor Amos Panet (2) pursuant to which Professor Panet agreed to provide consultancy services to the Company in the field of biotechnology research and development in consideration for which Professor Panet is entitled to receive:

7.13.1 an option to acquire 1,080,784 Common Shares at an effective exercise price of US \$0.0005 per Common Share. In the event, an RS Warrant in respect of 1,080,784 Common Shares, exercisable at an effective price of US \$0.00005 per share, was issued to Professor Panet in satisfaction of this entitlement;

7.13.2 an option under the 2006 Plan to acquire up to 2,132,732 Common Shares at an effective exercise price of US \$0.071 per Common Share, such option to vest over four years on a pro-rated basis;

7.13.3 a retainer fee of US \$2,000 per month.

In addition, the agreement provides for Professor Panet to be reimbursed by the Company for his normal and proper expenses incurred in relation to the performance of his services;

By a letter agreement dated 10 August 2007 between the Company and Professor Panet, the said consultancy agreement was amended in the following respects:

(i) the effective exercise price for the warrant referred to in paragraph 7.13.1 above was changed to US \$0.0005 per share to correct an acknowledged typographical error that existed in the agreement; and

(ii) the option referred to in paragraph 7.13.2 above was to be granted as to 1,051,948 Common Shares, under the 2006 Plan and as to the remaining 1,080,784 Common Shares, under an equivalent option granted outside the Share Option Plans. Such options have been granted and are represented respectively in the further information given regarding options in paragraph 4.10 and in paragraph 4.11 of this Part 7 of this document.

7.14 A purchase agreement dated 14 June 2006 and made between the Company (1) and Stephen McMurray (2) pursuant to which Mr. McMurray agreed to acquire and the Company agreed to sell and issue 534,787 Common Shares at an effective price of US \$0.071 per Common Share and to issue W Warrants to purchase 1,069,575 Common Shares at an effective exercise price of US \$0.071 per Common Share at any time before 5 pm (Eastern time) on 14 June 2011.

The purchase agreement contains "piggyback registration rights", which are summarised at paragraph 4.15 of this Part 7 of this document. In addition, the Company gave certain representations, warranties and indemnities in respect of the structure of the Company and its business and assets.

7.15 A purchase agreement dated 23 October 2006 and made among the Company (1) and certain investors (2) pursuant to which the investors agreed to purchase and the Company agreed to sell and issue a minimum of 4,278,298 and up to a maximum of 17,113,192 Common Shares at an effective price of US \$0.117 per Common Share and a number of W Warrants to purchase additional Common Shares at an effective price of US \$0.117 per Common Share on the basis of two Common Shares for each Common Share purchased pursuant to the agreement. A total of 17,113,192 Common Shares and W Warrants over 22,760,570 Common Shares were duly issued by the Company pursuant to this agreement.

The purchase agreement contains "piggyback registration rights", which are summarised at paragraph 4.15 of Part 7 of this document. In addition, the Company gave certain representations, warranties and indemnities in respect of the structure of the Company and its business and assets.

7.16 An agreement dated 17 January 2007 and made between the Company (1) and Blomfield (2), pursuant to which Blomfield agreed to provide certain services to the Company with regards to, *inter alia*, Admission. The consideration payable to Blomfield under this agreement is as follows:

7.16.1 an initial retainer payment in the sum of £15,000;

7.16.2 a fixed corporate finance fee of £185,000 and variable broker and placing fee of 1% of all funds raised by the Company (not including any funds raised by Glocap Funding LLC or its affiliates on behalf of the Company);

7.16.3 options or warrants to purchase a number of Common Shares equal to 3% of New Shares issued pursuant to the Proposals, exercisable over a 5 year period at the Placing Price;

7.16.4 a cash fee of 6% on all funds raised in the Proposals from investors directly introduced to the Company by Blomfield together with warrants to purchase a number of Common Shares equal to 3% of the New Shares issued pursuant to the Proposals to investors directly introduced through Blomfield, exercisable over a five year period at the Placing Price.

The fee is subject to a minimum of £100,000 in the event that the transactions contemplated by the engagement with Blomfield are not consummated but the Company raises the sum of not less than US \$2 million in equity funding within 12 months of the date of the agreement.

In addition, the Company agreed to be responsible for Blomfield's expenses associated with the provision of its services, including solicitors appointed by Blomfield, such expenses (excluding solicitors' fees) will be limited to £5,000 without prior consent of the Company. The agreement also contains *inter alia* an indemnity for the benefit of Blomfield and its officers and employees.

7.17 An agreement dated 31 January 2007 and made between the Company (1) and Peretz-Pilosof Investment House Ltd. (subsequently renamed Arbel Capital Group Limited "Arbel"), as amended by a letter agreement between the said parties dated 12 November 2007, pursuant to which the Company appointed Arbel as its non-exclusive placement agent in connection with the raising of funds for a private placement of securities in the Company.

Under the terms of the agreement, the Company has agreed to pay Arbel a cash fee equal to 7% of the aggregate cash received by the Company from investors under the April/July Subscriptions and the subscription agreement referred to in paragraph 7.21 below introduced (directly or indirectly) by Arbel ("Approved Investors"), subject to a minimum cash fee of US \$50,000, and to issue to Arbel W Warrants entitling Arbel to purchase Common Shares equal to 5% of the aggregate number of Common Shares sold to Approved Investors under the April/July Subscription and the subscription agreement referred to in paragraph 7.21 below or (if not Common Shares) the aggregate number of Common Shares into which the securities in the Company sold to Approved Investors would convert. The warrants would be exercisable over a five-year period at the same price as the shares issued to approved investors.

In addition, the Company has agreed to pay Arbel a cash fee equal to:

7.17.1 7% of the aggregate cash received by the Company from Approved Investors under the Placing. Such additional fee shall be calculated after deducting any fees payable by the Company to any other person in connection with any issue of Common Shares to an Approved Investor in the Placing. Further, the Company has agreed to reimburse Arbel for all reasonable out of pocket expenses; and

7.17.2 a bonus fee by way of the issue to Arbel, upon and subject to Admission (credited as fully paid), of a number of Common Shares equal to 9% of the aggregate number of Common Shares purchased or purchasable by Approved Investors in the Placing.

The Company has given certain warranties to Arbel as to the information supplied by it in respect of the Company and its business. The agreement provides that it shall terminate on Admission or, if sooner, 31 December 2007.

7.18 A non exclusive licence agreement dated 25 January 2007 and made between Baylor College of Medicine ("Baylor") (1) and the Company (2) pursuant to which Baylor granted to the Group a non exclusive worldwide licence of certain of its technology, as modified by Baylor for the Company pursuant to collaboration agreements dated 25 January 2006 and 6 April 2006 respectively.

The technology that is the subject of the Agreement ("Subject Technology") is the Helper Dependent adenovirus pHDA28E4, Helper Virus AdNG163 and Producer Cell Line 116, together with progeny, mutants or modifications thereof and a protocol for production of the Helper Dependent adeno virus using the Producer Cell Line 116 and Helper Virus AdNG163. The Subject Technology is considered a "Created Cre-Lox Material", which is the subject of US patent number 4,959,317, in respect of which Baylor has a non-commercial research licence from Bristol-Meyers Squibb Company ("BMS").

The licence granted by Baylor to the Company is for non-exclusive worldwide licence to make, have made, used, market, sell, offer to sell, lease and import the Subject Technology by way of any product process or service that incorporates, utilises or is made with the use of the Subject Technology.

The licence agreement is subject to the following limitations:

7.18.1 the right to market, sell or offer to sell Subject Technology can only be exercised in relation to technology owned or controlled by the Group;

- 7.18.2 a sub-licence for the Subject Technology can only be made in connection with the licence or sub-licence of Medgenics' technology which use depends on the Subject Technology;
- 7.18.3 no other transfer, except a transfer of the Subject Technology to third party service providers for the sole purpose of propagating or producing licensed products and/or Subject Technology for the Group, and the Company must enter into agreements with such service providers binding the service provider to certain obligations and confidentiality and non use provisions consistent with the provisions of the Baylor licence before the Company transfers the Subject Technology; and
- 7.18.4 the grant does include the right to file patent applications in respect of the Subject Technology or to use the Subject Technology without Baylor's written approval.

The Company has agreed to pay Baylor:

- a) a one time, non-refundable licence fee of US \$25,000;
- b) an annual non-refundable maintenance fee of US \$20,000;
- c) a one time milestone payment of US \$75,000 upon FDA clearance or non US equivalent of clearance for therapeutic use; and
- d) US \$25,000 upon executing any sub licences that the Company executes in respect of the Subject Technology.

The Company also agreed to provide Baylor with the following materials and documentation:

- ¼ of the Master Cell Bank for the Producer Cell Line 116 as generated by the Company or a contractor thereof;
- ¼ of the Master virus Bank for the Helper Virus AdNG163 generated by the Company or contractor thereof; and
- copies of documentation on the processes used for creating the clinical grade licensed products.

In addition, the Company also agreed to keep Baylor advised of progress on research and development and regulatory approvals, and the date of first sale of licence products.

The licence agreement shall expire (unless terminated earlier for default or by the Company at its discretion) on the first day following the tenth anniversary of the first commercial sale of licensed products by the Company, following which the Group shall have a perpetual, royalty free licence to the Subject Technology.

In addition the Company agreed to indemnify Baylor against issues arising out of the design process manufacture and use by the Company of the Subject Technology and licensed products or any other embodiment of the Subject Technology.

Under the agreement, the Company also agreed to maintain certain levels of worker's compensation insurance, employer's liability insurance, general liability insurance and product liability insurance.

- 7.19 A production service agreement dated 12 March 2007 and made between Molecular Medicine Bioservices Inc. ("Molecular") (1) and the Company and the Subsidiary (2) (as varied by an agreement dated 3 August 2007 and made between the SAFC Pharma Carisbad (as successor to Molecular) ("SAFC") (1) and the Company (2)) pursuant to which Molecular and subsequently SAFC agreed to perform development and manufacturing services.

To enable Molecular and then SAFC to perform the services, the Company granted to Molecular (and then SAFC) a non-exclusive licence in and to its technology (which includes all its confidential and proprietary information, know-how, techniques and other technology) for the sole purpose of performing its services under the agreement.

The services to be provided by Molecular and SAFC under the agreement were in relation to carrying out certain feasibility studies, analyses, assessments, production run testing, evaluation and quality control and quality assurance testing and certification in relation to the technology licensed to the Group by Baylor pursuant to the licence agreement referred to in paragraph 7.18 above.

The agreement provides for the Company to indemnify Molecular and SAFC against all issues arising out of the manufacture, sale or use of the products supplied by the Company to Molecular and SAFC and Molecular and SAFC agreed to indemnify the Company against issues arising out of the negligence or wilful misconduct of Molecular and SAFC.

The agreement continues until terminated by 60 days notice by the Company and 180 days notice by Molecular and SAFC or earlier on breach.

- 7.20 an agreement dated 16 April 2007 and made between the Company (1) and MMI (2) pursuant to which the Company granted to MMI a non-exclusive, worldwide, non-transferable, sub-licensable irrevocable license to use certain of the Company's intellectual property rights and those rights licensed to the Company pursuant to the Licence Agreement entered into with Yissum and referred to at paragraph 7.4 of this Part 7.

The agreement stipulates that MMI will pay to the Company a royalty equal to 5% of the net sales of the products based on the intellectual property rights the subject of the agreement.

- 7.21 A securities purchase agreement dated as of 25 April 2007 and made among the Company (1) and various investors (2) pursuant to which the Company issued to such investors 7,647,436 Common Shares at an effective price of US \$0.164 per Common Share. In addition, the Company issued W Warrants to the investors to purchase in aggregate up to 1,634,909 Common Shares at an effective exercise price of US \$0.164 per Common Share.

The agreement contains "piggyback registration rights", which are summarised at paragraph 4.15 of Part 7 of this document. In addition, the Company gave certain representations, warranties and indemnities in respect of the structure of the Company and its business and assets.

- 7.22 A securities purchase agreement dated as of 25 April 2007 and made among the Company (1) and the various investors who were party to the agreement referred to in paragraph 7.21 above as amended by several letter agreements between the Company and the said investors dated variously between 21 and 26 November 2007 on terms substantially similar to the terms of the agreement referred to in paragraph 7.21 above, save that:

7.22.1 the investors agreed to acquire 12,957,339 Common Shares at an effective price of US \$0.194 per Common Share subject to and conditional (inter alia) upon allotment of such shares (subject only to Admission) on or before 31 December 2007. Such Common Shares were allotted, subject to Admission, on 28 November 2007;

7.22.2 W Warrants are (subject to and conditional upon Admission) to be issued to the investors to purchase in aggregate up to 5,335,636 Common Shares at an effective exercise price of US \$0.194 per Common Share exercisable over a five year period; and

7.22.3 W Warrants are (subject to and conditional upon Admission) to be issued to the investors to purchase in aggregate up to 971,025 Common Shares at an effective exercise price of US \$0.164 per Common Share exercisable over a five-year period.

The agreement contains a condition that each of the investors is each provided with a copy of a placing proof of this document and that each investor's obligation to subscribe pursuant to the agreement is conditional on the investor confirming receipt of and satisfaction with such placing proof. Such condition was duly satisfied in respect of all investors on or before 26 November 2007. The agreement also contains "piggyback registration rights", which are summarised at paragraph 4.15 of Part 7 of this document. In addition, the Company gave certain representations, warranties and indemnities in respect of the structure of the Company and its business and assets.

Pursuant to a supplemental agreement dated 10 July 2007 and made between the Company (1) and RAB Innovations (Master) Fund Limited ("RAB"), the Company gave further warranties and covenants to RAB as an inducement to RAB to subscribe for shares under the securities purchase agreement and agreed (inter alia) to use its best efforts to achieve a public offering or listing of its Common Shares on a recognised public market, including AIM by no later than 13 February 2008.

- 7.23 A funding agreement dated 13 June 2007 and made between the Company (1) and Glocap Funding LLC ("Glocap") (2), which restated and replaced the previous funding agreement entered into between the Company and Glocap dated 1 December 2006 (as amended).

Pursuant to this agreement the Company confirmed Glocap as its exclusive agent in connection with the proposed placement of securities in the Company in the US and Canada to qualified investors, whether in one or a series of transactions, such exclusivity to expire upon at least US \$10 million having been invested in the Company by investors in the US and/or Canada. The agreement expired on 1 September 2007, save that certain provisions survive such expiration.

Under the terms of the agreement, Glocap agreed to provide its services and assistance to the Company with regard to the proposed fund raising (including the Subscriptions and the Placing) in consideration of which the Company agreed to pay Glocap the following fees:

- 7.23.1 a retainer fee of US \$35,000, which retainer fee was paid at the time of the execution of the December 2006 agreement, with such retainer fee being applied towards any success fee or termination fee hereinafter referred to;
- 7.23.2 in the event of a placement to qualified investors in the US and Canada prior to or simultaneously with the Admission, the Company will pay a success fee equal to 8% of the first US \$5 million of gross proceeds raised to identified investors plus 7% of any gross proceeds in excess of US \$5 million raised on sales to such identified investors. If the amount raised is less than US \$2.5 million, the success will be 10% of the said gross proceeds. In addition, the Company will pay Glocap 1% of any gross proceeds raised on the sale of securities in the Company to investors who were not identified investors and who were not UK/Israeli investors as therein defined;
- 7.23.3 by way of the issue of W Warrants equal to 3% of the Common Shares sold to identified investors, such warrants to be exercisable over a five year period at an exercise price equal to the effective price per Common Share of the Common Shares sold to identified investors, such warrants being transferable in whole or in part to affiliated persons of Glocap;
- 7.23.4 a modified success fee in respect of any sales of Common Shares or Common Shares made to any investors based in the UK or Israel equal to 7% of the gross proceeds raised from such investors less any cash brokerage or finder's fees paid by the Company to any broker or finder (other than Blomfield) in respect of shares sold to UK/Israel investors and less the value of any securities issued to any such brokers in connection with any such investments made by such UK/Israel investors;
- 7.23.5 in the event that the Company seeks to issue further securities in the Company in the US or Canada following Admission, Glocap will be entitled to a further fee based upon the funds raised from such issue to investors in the US or Canada equal to 2% of the first US \$2 million in gross proceeds and 4% of any gross proceeds in excess of US \$2 million;
- 7.23.6 in the event the Company terminates the Agreement, then the Company will pay Glocap a termination fee of US \$350,000, less the retainer fee referred to in paragraph 7.23.1 above and certain other fees paid to Glocap by the Company;
- 7.23.7 in the event that Platinum-Montaur Life Sciences 1, LLC ("Platinum") invests in the Company by way of an unsecured convertible promissory note ("Notes"), then the success fee described in paragraph 7.23.2 above shall not be payable and instead Glocap shall be entitled to receive a cash fee equal to 1.5% of the original principal amounts of the Notes subscribed for by Platinum and five year warrants to subscribe for Common Shares with an aggregate value (on the basis of an effective price of US \$0.164 per Common Share) equal to 1.5% of the amount subscribed for the Notes by Platinum. At (and conditional upon) the earlier of the conversion of the Notes into securities or 31 December 2007 (provided that the Notes have not been repaid) Glocap will receive an additional cash fee equal to 1.5% of the original amount subscribed for the Notes by Platinum with a five year warrant to subscribe for Common Shares with an aggregate value equal to 1.5% of the amount subscribed for the Notes by Platinum. All such warrants shall be exercisable at an effective price of US \$0.164 per Common Share;
- 7.23.8 if during a twelve month period following Admission or termination of the Agreement, the Company issues securities in the Company to identified investors then Glocap will be entitled to receive a further success fee on similar terms as set out in paragraph 7.23.2 above;
- 7.23.9 within five days after the date of any investment in the Company in excess of US \$2.5 million made by any of the identified investors or Platinum or its affiliates, the Company shall pay to Glocap an amount of US \$55,000 and issue to Glocap five year warrants to purchase 160,436 Common Shares at an effective exercise price of US \$0.164.

In addition, the Company agreed to pay Glocap's out of pocket expenses including reasonable fees and disbursements of its legal advisers.

The Company agreed to indemnify Glocap in respect of any issues arising as a result of any untrue statement of fact contained in any materials issued by the Company in respect of it and its business through a placing of Common Shares effected during the term of the agreement, including in connection with the Admission.

Pursuant to the letter agreement referred to in paragraph 7.28 below, the Company agreed to pay an additional sum of US \$20,000 to Glocap in consideration of the provision of its services pursuant to this agreement.

- 7.24 An agreement dated 19 June 2007 between the Company (1) and SVS (2) as amended by a letter agreement between the said parties dated 15 November 2007 pursuant to which the Company appointed SVS as broker in connection with the application for the Admission and to provide the Company with certain services in connection therewith in return for which SVS is entitled to receive the following from the Company:

7.24.1 a non-refundable initial retainer of £15,000 in cash;

7.24.2 subject to SVS raising not less than £500,000 under the Placing (before expenses and excluding any funds subscribed by the Directors and/or Platinum-Montaur Life Sciences 1, LLC) at not less than the Placing Price (the "Qualifying Investment"), a fee of £170,000, to be satisfied by issue to SVS upon Admission (credited as fully paid) of 1,700,000 Common Shares;

7.24.3 a number of Common Shares (credited as fully paid) equal to 5% of the aggregate number of Common Shares issued under the Placing. Such entitlement shall be calculated after deducting any fees, payable by the Company to any other person in connection with any issue of Common Shares under the Placing, other than the commission the 1% placing fee payable to Blomfield, referred to in paragraph 7.16.2 above

The Company agreed to indemnify SVS and its officers and employees in relation to any liabilities arising out of the Placing and the application for the Admission.

- 7.25 A securities purchase agreement dated as of 1 July 2007 and made among the Company (1) and three investors as amended by several letter agreements between the Company and the said investors dated variously between 20 and 22 November 2007 on terms substantially similar to the terms of the agreement referred to in paragraph 7.22 above, save that:

7.25.1 the investors would acquire 2,319,585 Common Shares in the aggregate at an effective price of US \$0.194 per Common Share subject to and conditional (inter alia) upon the allotment of such shares (subject only to Admission) on or before 31 December 2007; and

7.25.2 W Warrants are (subject to and conditional upon Admission) to be issued to each of the investors to purchase in aggregate up to 463,917 at an effective exercise price of US \$0.194 per Common Share exercisable over a five year period.

The agreement contains "piggyback registration rights", which are summarised at paragraph 4.15 of Part 7 of this document. In addition, the Company gave certain representations, warranties and indemnities in respect of the structure of the Company and its business and assets.

- 7.26 An agreement dated 12 August 2007 and made between the Company (1) and RVH Inc ("RVH") pursuant to which the Company agreed subject to Platinum making a convertible loan to the Company in the sum of US \$1.050 million;

7.26.1 to pay to RVH the sum of US \$48,000; and

7.26.2 to issue RVH a Platinum Warrant to purchase up to 305,257 Common Shares at an effective exercise price of US \$0.164 per Common Share.

In addition if during the period of 36 months from the date of the agreement the Company takes any further loans from, or sells any further shares to, Platinum or certain of its affiliates or related parties then the Company will;

(i) pay to RVH 4% of the gross proceeds received by the Company; and

(ii) issue further Platinum Warrants to RVH to purchase an amount of securities equal to 3% of the securities sold at the same price as such securities are sold with such warrants being exercisable over a five-year period.

- 7.27 A note purchase agreement dated as of 13 August 2007 and made between the Company (1) and Platinum-Montaur Life Sciences 1, LLC ("Platinum") (2) as amended by a supplemental agreement between such parties dated 14 November 2007 pursuant to which Platinum agreed to lend to the Company the sum of US \$1.05 million by way of a convertible unsecured promissory note, which shall automatically convert on or prior to 15 December 2007 (or at such other later date in the sole discretion of Platinum) into Common Shares at an effective conversion price of

US \$0.175, if Admission occurs on or prior to 15 December 2007 or US \$0.164 if Admission occurs thereafter, subject to the fulfilment of the following conditions namely:

7.27.1 Admission and a placing of Common Shares at an effective placing price of not less than US \$0.164 per Common Share;

7.27.2 the allotment and issue of the Common Shares into which the Loan Note shall convert subject only to Admission; and

7.27.3 the Group/Company having adequate working capital upon Admission.

Notwithstanding the above and in advance of automatic conversion of the Loan Note into Common Shares, Platinum shall have the right to convert the Loan Note into Common Shares at any time upon ten days written notice to the Company.

In addition, the Company issued Platinum a Platinum Warrant to purchase up to 1,604,362 Common Shares at an effective exercise price of US \$0.164 per Common Share.

Further, and in the event that all or any apportion of the Loan Note is automatically converted the Company has agreed to sell and Platinum has agreed to purchase at the Placing Price 772,761 Common Shares making an additional investment of US \$159,438 (pursuant to the restriction that Platinum shall not be interested in excess of 9.99% of the Enlarged Share Capital), the Company shall issue to Platinum a further Platinum Warrant to purchase up to an additional 1,604,362 Common Shares at an effective exercise price of US \$0.164 per Common Share.

Further details of the Platinum Warrants are set out in paragraph 9.2 of this Part 7.

The conversion rights (both automatic and elective) and the Warrants are subject to the proviso that the number of Common Shares capable of being issued following conversion of the Loan Note and/or exercise of the Platinum Warrants at any time is limited so that Platinum may not hold in excess of 9.99% of the issued share capital of the Company immediately after conversion.

The balance of the Loan Note shall remain, in such circumstances, in the form of the Loan Note but without automatic conversion rights or obligations and is repayable to the extent not converted on or before 15 December 2007.

The Company has given certain representations, warranties and indemnities with regards to itself and its business and assets.

7.28 A letter agreement dated 17 August 2007 and made between the Company (1) and Paul Teitelbaum (a former employee of Glocap) (2), pursuant to which, in consideration of Mr. Teitelbaum services in assisting the Company in relation to certain aspects of the Proposals beyond the scope of the agreement with Glocap referred to in paragraph 7.23 above both prior to the date of this letter agreement and from the date of such letter agreement through to 31 December 2007, the Company agreed (inter alia) to:

7.28.1 pay a cash fee to Mr. Teitelbaum of US \$15,000; and

7.28.2 issue to Mr. Teitelbaum a W Warrant in respect 64,174 Common Shares exercisable at an effective price of US \$0.164 per Common Share.

7.29 A letter agreement dated 7 November 2007 and made between the Company (1) and Tassi Limited (2) pursuant to which the Company engaged the services of Tassi Limited as an adviser in relation to dealings and negotiations to assist in the Company's fund raising endeavours in relation to the Placing. In consideration of the provision by Tassi Limited of its services pursuant to the agreement, the Company has agreed to pay Tassi Limited a fee of US \$30,000 upon Admission, to be satisfied by the issue and allotment, credited as fully paid, of Common Shares at the Placing Price. In addition, the agreement contains an indemnity for the benefit of Tassi Limited and its affiliates, directors, officers and employees and other parties in respect of any and all liabilities arising out of the proper performance of its duties under the agreement.

7.30 A letter agreement dated 12 November 2007 and made between the Company (1) and Equity Source Partners LLC ("ESP") by way of replacement of prior arrangements agreed between the parties regarding the fund raising endeavours by the Company pursuant to which ESP is entitled to receive:

7.30.1 a cash fee equal to 5% of the aggregate gross proceeds raised from investors introduced by it to the Company; and

7.30.2 a number of Common Shares (credited as fully paid) equal to 5% of the aggregate number of Common Shares purchased or purchasable by investors introduced by it to the Company

7.30.3 in addition to the foregoing, in the event that Vision Opportunity Master Fund Limited (or any of its affiliates) ("Vision") subscribes for Common Shares at the Placing Price at or prior to Admission a further number of Common Shares (credited as fully paid) equal to 2% of the aggregate number of Common Shares purchased or purchasable by Vision pursuant to such subscriptions.

Further, in the event that any investor introduced by ESP and listed in the schedule to such agreement shall make a further investment in the Company (other than by the exercise of any Warrants), a further fee based on the foregoing terms shall be payable by the Company to ESP.

7.31 The Lock-In Agreements dated 15 November 2007, pursuant to which the Locked-In Parties have agreed with the Company, Blomfield and SVS that they will not, without the prior written consent of Blomfield and SVS, sell, transfer, grant any option or charge over or otherwise dispose or agree to dispose of the legal or beneficial interest in any Common Shares held or acquired by them for a period of 12 months from the date of Admission (the "Lock-Up Period"). In the case of the Directors, they have also agreed to procure that the holders of Common Shares in which they are interested comply with the said restrictions.

In addition, the Lock-In Agreements provide that each of the Locked-In Parties will not dispose of any Common Shares or any interests in Common Shares held by him otherwise than through SVS, or another broker of the Company (within the meaning of the AIM Rules) from time to time, for a period of 12 months following the expiry of the Lock-Up Period. This additional restriction is subject to the Company's broker ensuring that the costs and the terms of any such disposal are broadly equivalent to those generally available in the market, having regard to the number of Common Shares being disposed of.

The restrictions contained in the Lock-In Agreements will not apply in the case of:

7.31.1 an acceptance by any of the Lock-In Parties of an offer to acquire all or any applicable part of the issued share capital of the Company made in accordance with the relevant provisions of the Post Admission Certificate of Incorporation (the terms of which are summarised in paragraph 5 of Part 7 of this document);

7.31.2 a compromise or arrangement or analogous scheme under the DGCL providing for the acquisition by any person (or group of persons acting in concert) of 50% or more of the issued equity share capital of the Company;

7.31.3 under any scheme, reconstruction or analogous arrangement under the DGCL;

7.31.4 a sale or transfer of Common Shares by the personal representatives of a deceased Director if he shall die during the period of such restrictions, provided that any such sale of Common Shares during the Lock-In Period shall be effected in accordance with the reasonable requirements of the Company;

7.31.5 a disposal made pursuant to an order of a court of competent jurisdiction.

7.32 A letter agreement dated as of 24 November 2007 made between the Company (1) and Craig Marshak (2), pursuant to which, in consideration of Mr. Marshak's services in assisting the Company to procure the issue of the Loan Note and otherwise in relation to the Proposals, the Company:

7.32.1 paid a cash fee to Mr Marshak of US \$20,000;

7.32.2 issued 122,231 Common Shares (credited as fully paid) on 13 August 2007 to Lanatech Limited (an entity controlled by Mr. Marshak);

7.32.3 agreed to pay a fee to Mr. Marshak of US \$40,000, such fee is to be satisfied on Admission by the issue to Mr. Marshak (or to such entity controlled by Mr. Marshak as he shall specify) of Common Shares (credited as fully paid) at the Placing Price. It is a condition of the issue of such Common Shares that Mr. Marshak shall or shall procure that the entity to which such shares are issued shall not sell or otherwise deal with such Common Shares or the interest therein for a period of one (1) year following Admission.

7.33 A securities purchase agreement dated as of 12 November 2007 and made among the Company (1), Directors (2) and various investors (3) pursuant to which the Company agreed to issue to such investors, subject to and conditional (inter alia) upon Admission, in aggregate 2,847,528 Common Shares at an effective price of US \$0.21 per Common Share (approximately 10p per Common Share).

The agreement contains a condition that each of the investors is each provided with a copy of a placing proof of this document and that each investor's obligation to subscribe pursuant to the agreement is conditional such investor not giving notice that he is not reasonably satisfied with such placing proof within 3 business days of delivery to him of such placing proof. A failure by any such investor to give any such notice is deemed to constitute approval of the placing proof. Such condition was duly satisfied in respect of all investors on or before 26 November 2007. The agreement also contains "piggyback registration rights", which are summarised at paragraph 4.15 of Part 7 of this document. In addition, the Company gave certain representations, warranties and indemnities in respect of the structure of the Company and its business and assets.

7.34 An irrevocable Letter of Credit issued by Canadian Imperial Bank of Commerce, Ontario, Canada ("CIBC") dated 26 November 2007 and expiring on 28 May 2009 entitling the Company to draw sight up to US \$500,000 upon written demand for payment by the Company to CIBC. The Letter of Credit allows partial drawings in increments of US \$100,000 and provides for CIBC to honour such drawings upon presentation. The Letter of Credit is cancellable only upon surrender of the original Letter of Credit and the Company's request for cancellation. The Letter of Credit is subject to the uniform Customs and Practice for Documentary Credits (1993 Revision) International Chamber of Commerce Publication No. 500.

7.35 An agreement dated 26 November 2007 between CIBC Trust Company (Bahamas) Limited as trustee for Settlement T-555 (the "Trust") (1) and the Company (2). The Trust is a trust in which Joel Kanter (a director of the Company) is interested. Pursuant to the agreement and in consideration of the Trust procuring the issue of the Letter of Credit, the Company has agreed to pay an arrangement fee to the Trust of US \$25,000 as to 50% thereof in cash at Admission and as to the balance by the issue to the Trust of Common Shares. For such purpose, a Common Share shall be valued at an effective price of US \$0.164. Such Common Shares shall be issued immediately on Admission. If the Letter of Credit shall continue in existence on or after the first anniversary of the date of issue, a further fee shall be payable to the Trust in the amount of US \$12,500, to be satisfied in the same manner as the initial arrangement fee but on the basis of valuing a Common Share at the average of the closing bid prices of a Common Share for the three-months ending on the first anniversary of the date of issue of the Letter of Credit.

The agreement provides that no drawing shall be made on the said Letter of Credit unless the Board determines that such drawing is in the best interests of the Company and that at least two business days notice of the intention to effect any such drawing is given to the Trust. Partial drawings must be made in instalments or multiples of US \$100,000.

The agreement further stipulates that in the event of any drawings made against the Letter of Credit, a loan shall be constituted between the Company and the Trust in the form of a promissory note, a specimen of which is annexed to the said agreement. Such loan shall bear interest at a rate of 11% per annum. Further, default interest is payable in the event of any default under the said loan arrangement at a rate of 15% per annum on the balance outstanding of such loan from the time of default until payment in full. Such loan shall be repayable by the Company to the Trust on 28 May 2009 but may be repaid earlier by the Company without premium or penalty.

Upon the expiry of the Letter of Credit and the maturity of the loan (if any), the Trust will, in default of the Company repaying the loan, have the right to convert all or a proportion of the amounts outstanding under the loan into additional Common Shares, credited as fully paid, at a conversion price equal to the average of the closing bid prices of an issued Common Share during the three months prior to the maturity date for payment of the loan.

The agreement provides that, in the event that the Company raises additional capital after Admission, the Company shall request from CIBC a reduction in the amount available for drawdown under the Letter of Credit by an amount of not less than the net capital so raised. In the event that the Company raises net capital of US \$500,000 or more following Admission, the letter of credit shall be surrendered for cancellation.

The agreement provides that all costs relative to the execution, negotiation, preparation and execution of the agreement and the letter of credit shall be borne by the Company.

7.36 The Placing Agreement. Under this agreement, SVS has been appointed as agent of the Company to seek commitments from placees and to use its reasonable endeavours to procure subscribers for the Placing Shares at the Placing Price. SVS's obligations under the Placing Agreement are conditional, inter alia, on Admission occurring by 12 noon on 4 December 2007 or such later time and date as SVS, Blomfield and the Company may agree. The Placing Agreement provides for the Company to pay all fees and expenses relating to the Placing and the Admission, including the fees and expenses of Blomfield and SVS (more particularly

described in paragraphs 7.16 and 7.24 above). Under the terms of the Placing Agreement, each of the Directors and the Company have given warranties and indemnities for the benefit of each of SVS and Blomfield and their respective directors, employees, agents and affiliated companies. The agreement is terminable by SVS and Blomfield in certain circumstances prior to Admission, principally if there is a material breach of the agreement or if any of the warranties given under it are breached.

- 7.37 A nominated adviser agreement dated 28 November 2007 between the Company (1) and Blomfield (2) pursuant to which Blomfield has agreed to act as the Company's nominated adviser for the purpose of the AIM Rules for a fee at an annual rate of £37,500. The Company has given certain indemnities and each of the Company and the Directors have given certain covenants to Blomfield. The Company and the Directors have undertaken, *inter alia*, to comply with the proper and reasonable directions given by Blomfield in relation to compliance with the AIM Rules and Blomfield has agreed, *inter alia*, to provide general advice and guidance to the Company and to the Directors in relation to matters concerning AIM. The agreement is for an initial fixed term of 18 months and thereupon or at any time thereafter may be terminated by any party giving 90 days' prior written notice and by Blomfield immediately in the case of an unremedied material breach of the agreement.
- 7.38 An agreement dated 28 November 2007 between the Company (1), the Directors (2) and SVS (3) pursuant to which SVS has agreed to act as the Company's broker for the purpose of the AIM Rules for a fee at an annual rate of £15,000. The Company has given certain indemnities and each of the Company and the Directors have given certain covenants to SVS. The agreement is for an initial fixed term of 12 months and thereafter may be terminated by any party giving 90 days' prior written notice and in the case of an unremedied material breach of the agreement.
- 7.39 A W Warrant on Admission in respect of 150,000 Common Shares exercisable at a the Placing Price of issued to partners of Duane Morris (the UK solicitors to the Company) as part of the agreed remuneration of Duane Morris for services provided to the Company in relation to the Proposals. In addition, the Company has agreed to issue to the said partners of Duane Morris at Admission 250,000 Common Shares (credited as fully paid) in part consideration for the provision of the services of Duane Morris in relation to the Proposals.
- 7.40 A letter agreement dated 27 November 2007 between the Company and Pearl Cohen Zedek Latzer LLP whereby the Company has agreed to issue to Pearl Cohen Zedek Latzer LLP at Admission 96,935 Common Shares (credited as fully paid) in part consideration for the provision of the services of Pearl Cohen Zedek Latzer LLP in relation to the Proposals.

## **8. Summary of the principal terms of the share option plans and arrangements**

### **8.1 2006 Stock Incentive Plan**

The 2006 Plan was adopted by the Company on 31 March 2006 and amended, subject to and conditional upon Admission, by resolutions dated respectively 5 July 2007 and 23 August 2007. The following is a summary of its principal terms:

#### **8.1.1 Purpose**

The purpose of the 2006 Plan is to provide the Company with the means to offer incentives to the Group's employees, directors and consultants in order to attract, retain and motivate them by allowing them to share in the benefits of future growth in the Company's value through the acquisition of Common Shares. These incentives may constitute incentive share options (each an "ISO"), non-qualified share options (each an "NSO") stock appreciation rights, restricted share awards, share unit awards or other forms of share-based incentives. ISOs have a more favourable tax treatment under US law for the option holder than an NSO. Awards under the 2006 Plan are intended to be exempt from the securities qualification requirements of US securities laws.

#### **8.1.2 Administration**

From Admission, the 2006 Plan is to be administered by the Remuneration and Nominations Committee of the Board (the "Committee"). Subject to the provisions of the 2006 Plan, the Committee has full authority and discretion to take any actions it deems necessary or advisable for the administration of the 2006 Plan.

#### **8.1.3 Eligibility**

Only employees of the Group selected for the receipt of awards under the 2006 Plan shall be eligible for the grant of ISOs. Only employees, directors and consultants to the

Group selected for the receipt of awards under the 2006 Plan shall be eligible for the grant of NSOs or the award or sale of Common Shares.

8.1.4 *Common Shares available under the 2006 Plan*

The maximum aggregate number of Common Shares reserved and available for issuance under the 2006 Plan, as amended and under the Israeli Share Option Plan is limited with effect from the date of Admission to 59,996,801 Common Shares provided that, following Admission and for so long as the Common Shares are admitted to trading on AIM or the Official List, the Company shall not, after the date of Admission, issue awards under the Share Option Plans for a number of Common Shares that shall (excluding all Options granted prior to Admission) in aggregate exceed 10% of the number Common Shares in issue on the relevant date of grant. In the event that any outstanding option or other award under the 2006 Plan expires or is cancelled or forfeited for any reason or any award under the 2006 Plan is settled in cash without the issuance of Common Shares, the Common Shares allocated to the unexercised portion of such option or other award shall remain available for issue pursuant to the 2006 Plan.

8.1.5 *Award agreements and restrictions on transferability*

Each award or sale of Common Shares under the 2006 Plan shall be evidenced by an award agreement between the recipient and the Company, though signature by the recipient may not always be required. Save as may be expressly stated in an award agreement, the rights awarded under the 2006 Plan are non-transferable other than by will or the intestacy laws applying to the estate of a deceased award holder.

8.1.6 *Share Options*

*Award agreements:* The award agreement shall specify the number of Common Shares that are subject to the option and whether the option is intended to be an ISO or an NSO.

*Conditions:* An award agreement may contain conditions or restrictions as determined by the Committee at the time of grant.

*Exercise price:* To the extent required by applicable law, the exercise price per share of an option shall not be less than the fair market value, as determined by the Board. If the option holder holds more than 10 per cent of the combined voting power of all classes of share in the Company at the date of grant (a "materially interested participant"), the exercise price per share of an ISO or an NSO must be at least 110 per cent of fair market value. Subject to the foregoing, the exercise price under any option shall be determined by the Committee.

*Term:* The term of an option shall in no event exceed 10 years from the date of grant. The term of an ISO granted to a materially interested participant shall not exceed five years from the date of grant. Subject to the foregoing, the Board in its sole discretion shall determine when an option shall expire.

*Rights of exercise on termination of service:* The option holder will have the right to exercise any subsisting options held by him following the termination of his service during the option term, to the extent that the option was exercisable and vested at the date of termination of service:

- (a) if the termination of service was due to any reason other than death or disability - for the shorter of 90 days from the date of termination of service and the unexpired term of the option;
- (b) if the termination of service was due to death or disability of the option holder - for the shorter of one year from the date of termination of service and the unexpired term of the option;

provided that the Committee may, in its sole discretion, extend the said 90 day and one year periods respectively.

To the extent that the right to exercise the option has not vested at the date of termination of service, the option shall terminate when the Option holder's service terminates.

For the purposes of the 2006 Plan, termination of service means the termination of a person's status as an employee or director within the Group or (where the person is not an employee or director within the Group) the termination of the person's business relationship with the Group.

*Rights in respect of Common Shares:* An option holder or a transferee of an option shall have no rights as a Shareholder with respect to any Common Shares covered by the option until such person becomes the holder of record of such Common Shares.

*Exercise:* Options are to be exercised under the procedures established or approved by the Committee from time to time. The exercise price payable on exercise of an option should be paid in full in cash by the option holder, provided that the Company may permit payment to be made in whole or in part by delivery to the Company of Common Shares that have been held by the participant for at least six months prior to the date of exercise. The value attributable to Common Shares transferred to the Company in such fashion shall be determined by reference to the fair market value of a Common Share at the date of exercise of the option.

*Early exercise:* The Committee may permit, at its sole discretion, the exercise of any option prior to the time when the option would otherwise have become exercisable under the relative award agreement.

Further, an award agreement may provide for the option holder to exercise the option, in whole or in part, prior to the date when the option becomes fully vested. This may either be stipulated at the time of grant or as subsequently amended. In the event of any early exercise on an option, the Company shall have the right to repurchase the Common Shares that had been so acquired by the option holder on terms specified by the Committee. Further, in such circumstances, the Committee shall determine the time and/or event that shall cause the said repurchase right to terminate and the Common Shares to vest fully in the option holder.

#### 8.1.7 *Stock appreciation rights*

The 2006 Plan allows the Committee to grant stock appreciation rights ("SARs") to eligible participants in the 2006 Plan. SARs may be granted either independently or in tandem with or by reference to options granted prior to or simultaneously with the grant of SARs to the same participant. Where granted in tandem or by reference to a related option, the participant may elect to either exercise the option or the SARs (but not both). Upon exercise of an SAR, the participant is entitled to receive an amount equal to the excess (if any) of the fair market value of a Common Share on the date of exercise over the amount of the exercise price for such SAR stipulated in the award agreement. The exercise price for the SAR will be determined by the Committee but, in the case of SARs granted in tandem with options granted the 2006 Plan, shall not be less than the exercise price of such option.

Any payment, which may become due from the Company following an exercise of an SAR, may be paid (at the election of the Committee) to the participant either in cash and/or by the issue of Common Shares. Where any Common Shares shall be issued in satisfaction of the payment due to the participant, the number of Common Shares will be determined by dividing the amount of the payment entitlement by the fair market value of a Common Share on the exercise date.

The provisions as to the ability to impose conditions to exercise on grant, the duration of the SARs, the exercise procedures (including upon termination of service) and, the procedure for early exercise that apply to options granted under the 2006 Plan apply in the same fashion to SARs.

#### 8.1.8 *Restricted share awards*

The Committee may grant to any person eligible under the 2006 Plan an award of a number of Common Shares, subject to terms, conditions and restrictions as determined by the Committee. Until lapsed or release of all forfeiture restrictions applicable to a restricted share award, either the share certificates representing the same may be retained by or on behalf of the Company or, if the certificate for the same bears a restrictive legend, can be held by the participant.

The recipient of a restrictive share award shall have all the rights associated with ownership of a Common Share, including the right to receive dividends and to vote, provided that any Common Shares or other securities distributed as a dividend or otherwise as a right associated with ownership of the Common Shares which are subject to a restriction which has not yet lapsed, shall be subject to the same restrictions as such restricted Common Shares.

Common Shares, which are subject to a restricted share award, may not be assigned, transferred or otherwise dealt with, prior to the lapse of the restrictions applicable to

them.

Upon expiration or termination of the forfeiture restrictions and the release or satisfaction of any other conditions applying to the restricted share award, the restricted status of the Common Shares shall cease and the Common Shares shall be delivered to the relevant restricted share award holder free of the restrictions imposed under the restricted share awards. All rights of a restricted share award holder shall cease and terminate in the event of a termination of service occurring prior to the expiration of the forfeiture period applicable to the award and satisfaction of all other applicable conditions.

The forfeiture period and/or any conditions set out in the restricted share award may be waived by the Committee in its absolute discretion.

#### 8.1.9 *Change of control*

An award agreement may (but need not) provide that:

- (a) within 12 months of a change of control of the Company, in the case of an option or an SAR; or
- (b) within such period as the award agreement shall specify, in the case of a restricted share award.

All outstanding options and/or SAR's that have not previously vested or been terminated shall immediately vest and become exercisable or (as appropriate) the participant shall immediately have the right to delivery of the share certificates for the restricted shares. The change of control provisions contained in the 2006 Plan do not apply if the relevant participant is associated with the party/ies gaining control of the Company, to the extent prescribed by the 2006 Plan.

#### 8.1.10 *Other share-based awards*

Other share-based awards, consisting of share purchase rights, awards of Common Shares or awards valued in whole or in part by reference to or otherwise based on Common Shares, may be granted either alone or in addition to or in conjunction with other awards under the 2006 Plan. The terms of any such award shall be determined in the sole discretion of the Committee.

Unless otherwise determined in the relative award agreement, such other share-based awards shall be subject to the following:

- (a) no sale, assignment, transfer, pledging or other dealing with the relevant Common Shares may be undertaken until the applicable restriction, performance condition or other deferral period has lapsed;
- (b) the recipient of the award shall be entitled to receive interest, dividends or dividend equivalents with respect to the underlying Common Shares or other securities covered by the award;
- (c) if the vesting of the award is conditional upon achievement of certain performance measurements and a change of control shall occur in relation to the Company then:
  - (i) if the actual level of performance shall, by reference to the performance measurement specified in the award agreement, be less than 50 per cent at the time of the change of control, then the award shall become vested and exercisable in respect of a proportion of the award where the numerator shall be equal to the percentage of attainment and the denominator shall be 50 per cent; and
  - (ii) if the actual level of performance shall be, by reference to the performance measurement specified in the award agreement, at least 50 per cent at the time of the change of control, then such award shall become fully vested and exercisable.

#### 8.1.11 *Adjustments to reflect capital changes*

The number and kind of shares subject to outstanding awards, the exercise price for such shares and the number and kind of shares available for awards to be granted under the 2006 Plan shall automatically be adjusted to reflect any share dividend, sub-division, consolidation, exchange of shares, merger or other change in capitalisation with a similar substantive effect upon the 2006 Plan or the awards granted under the 2006 Plan. The

Committee shall have the power and sole discretion to determine the amount of the adjustment to be made in each case. In the case of a merger involving the Company, outstanding awards shall be subject to the terms of the merger agreement or applicable re-organisation arrangements and may give rise to the substitution of new awards for awards received under the 2006 Plan, acceleration of vesting or expiration or settlement in cash or cash equivalents.

#### 8.1.12 *Withholding Tax*

The Company shall be entitled to withhold the amount of any withholding or other tax required by law to be withheld or paid by the Company in relation to the amount payable and/or shares issuable to an award holder and the Company may defer payment of cash or issuance of shares upon exercise or vesting of an award unless indemnified to its satisfaction against any liability for any taxes. Subject to approval by the Company, an award holder may elect to meet his or her withholding liability (in whole or in part) by having withheld from the award, at the appropriate time, a number of Common Shares, the fair value of which is equal to the amount of the taxes due.

#### 8.1.13 *General*

- (a) the 2006 Plan and all awards granted under it shall be interpreted, construed and enforced in accordance with the laws of the State of Delaware;
- (b) the Committee has power and authority to amend the 2006 Plan, provided that no termination or amendment of the 2006 Plan may, without consent of an award holder, materially and adversely affect the rights of the holder nor may the amendment materially increase the aggregate number of securities which may be issued under the 2006 Plan (other than under the adjustment provisions referred to in paragraph 8.1.11 above) or materially modify the requirements for participation in the 2006 Plan, unless the relevant amendment is approved by a majority of the Shareholders;
- (c) the Committee has the right to terminate the 2006 Plan at any time for any reason but the termination of the 2006 Plan shall not affect any awards outstanding at the time of termination.

## 8.2 Israeli Stock Option Plan

The Company's existing ISOP was adopted by the Company by a resolution dated 3 October 2002 and subsequently amended. By resolution of the Board dated 19 November 2007, the said ISOP was terminated. No options had been granted under the said ISOP prior to its termination. Subject to Admission, further it is proposed that a new ISOP will be adopted by the Board as an appendix to, and will operate as part of, the 2006 Plan. The establishment of the new ISOP in this fashion is intended to allow for options to be granted to directors, employees, consultants and advisers to MMI in a manner that facilitates the obtaining by the relevant grantee of certain tax benefits under Israeli laws. The following is a summary of the principal terms of the proposed new ISOP. It should be noted that the terms of the new ISOP are subject to formal approval by the Board following a pre-ruling to be sought from the Israeli tax authorities under the applicable Israeli Tax Code by the Company following Admission:

The 2006 Plan applies to all options granted under the ISOP, save to the extent modified by the provisions of the ISOP. The following provisions of the ISOP vary the application of the provisions of the 2006 Plan to options granted under the ISOP.

### 8.2.1 *Types of options*

The options granted under the ISOP may be either options that contain provisions that qualify them for special tax treatment under the applicable Israeli tax ordinance ("102 Options"), which may be designated by the Company to be either capital gain options ("CGOs") or ordinary income options ("OIOs"), unapproved 102 Options (being options that are issued in accordance with the applicable Israeli tax ordinance but not held by the ISOP trustee) or options that do not qualify for such special tax treatment.

If an option granted under the ISOP is intended to be an approved 102 Option, it may not be granted until the Company has made an election as to whether the option shall be a CGO or an OIO. Such election must be filed with the Israeli tax authority before it may take effect. Once the election is made and for the duration of such election, the Company may only grant the type of approved 102 Option elected for to all prospective grantees of approved options under the ISOP.

In order for 102 Options to be treated as approved under the applicable Israeli tax

ordinance, all options granted under the ISOP and/or shares allocated or issued on exercise of options and/or other shares received subsequently following realisation of rights (including bonus issues) shall be allocated or issued to a trustee nominated by a Committee and approved in accordance with the provisions of Section 102 of the tax ordinance and held for the benefit of the option holders. Such approved 102 Options and any shares received subsequently following exercise of those options shall be held by the trustee in accordance with the rules set out in Section 102 of the relevant Israeli tax ordinance. If the requirements for an approved 102 Option are not met, then the option shall be treated as an unapproved 102 Option. Neither the Company, nor the trustee is obligated not to release any Common Shares allocated or issued on exercise of options granted under the ISOP until full payment of the option holders' tax liability arising from options granted to him.

#### 8.2.2 *Eligibility*

Employees of the Group, directors or other office holders within the Group, consultants, advisers and service providers to the Group and/or controlling shareholders qualify for consideration for the grant of options under the ISOP, provided that only 102 Options may be granted to employees or directors and officers within the Group and 102 Options may not be granted to any other eligible persons.

#### 8.2.3 *Share Options*

*Options agreements:* The grant of an option under the ISOP shall be evidenced by an option agreement between the Company and the grantee of the option, which will set out the terms and conditions of the option and which will otherwise be appropriate for options granted under an ISOP.

*Exercise price:* The exercise price for the purposes of an option granted under the ISOP shall be determined by the Committee in its sole and absolute discretion in accordance with applicable law, subject to any guidelines as may be determined by the Board from time to time. Each award agreement granted under the ISOP will specify the relative exercise price per Common Share determined for each participant. For the purpose of determining the Israeli tax liability of a participant in relation to any CGA, if the Company's shares are listed on any established stock exchange or a national market system or if the Company's shares will be registered for trading within ninety (90) days following the date of grant of the CGAs, the fair market value of the Common Shares at the date of grant shall be determined on the basis of the average value of an issued Common Share on the thirty (30) dealing days preceding the date of grant or (as applicable) the thirty (30) dealing days following the date of commencement of trading on the relevant exchange or market, as the case may be. To the extent that the value determined as aforesaid shall be greater than the exercise price, such excess shall be taxed as income in the hands of the participant and, as to the balance of any gain, capital.

*Exercise:* An option may be exercised (in whole or in part) where the option shall have become vested and/or exercisable pursuant to its terms by the option holder delivering notice of intent of exercise and the payment of the purchase price for the relevant Common Shares to the Company and (where applicable) trustee in accordance with the requirements of Section 102 of the Israeli tax ordinance in such form and method as may be determined by the Committee.

*Rights in respect of Common Shares:* With respect to all Common Shares (but excluding, for avoidance of any doubt, any unexercised options) allocated or issued upon the exercise or vesting of an option by or in favour of an Israeli participant and held by the participant or by the Trustee, as the case may be, the Israeli participant shall be entitled to receive dividends, if any, declared in respect of such shares, subject to any appropriate deduction for taxation on distribution of dividends and, as applicable, the provisions of the Israeli tax ordinance.

#### 8.2.4 *Compliance with laws*

The rules of the ISOP provide that the Company shall obtain all necessary approvals under all applicable laws, for the ISOP, including US securities laws and regulations.

#### 8.2.5 *Rights in respect of Common Shares*

Options and any rights thereunder may not be assigned, transferred or given as collateral. Whilst approved 102 Options are or Common Shares issued thereunder are held by the trustee of the ISOP, all rights are personal and cannot be transferred,

assigned, pledged or mortgaged, other than by will or laws of decent and distribution.

#### 8.2.6 *Tax consequences and indemnity*

Any tax consequences arising from the grant or exercise of any option or otherwise any event or act of the Group, trustee or the option holder, shall be borne solely by the option holder and the option holder is bound to indemnify the Group and the trustee accordingly. Upon receipt of any approved 102 Option, an Israeli participant will be required to sign an undertaking to release the trustee from any liability in respect of any action or decision duly taken and bona fide executed in relation to the ISOP or any approved 102 Option or Common Share granted to him/her thereunder. Furthermore, Israeli participants will be required to agree to indemnify the Group and/or the ISOP trustee and hold them harmless against and from any and all liability for any tax or interest or penalty thereon, including without limitation, liabilities relating to the necessity to withhold, or to have withheld, any such tax from any payment made to such Israeli participant. With respect to any unapproved 102 Option, if the relevant Israeli participant ceases to be employed by within the Group, he shall be obliged to give the Group security or guarantee for the payment of tax due at the time of sale of any Common Shares available under the option

#### 8.2.7 General

- (a) The ISOP shall be governed by and construed and enforced in accordance with the laws of Israel, provided that, to the extent required under law, all matters concerning option holders and the grant of options under the ISOP shall be subject to the tax laws of the state of Israel. The competent courts for the purposes of the ISOP shall be the courts of Tel Aviv-Jaffa.
- (b) With regards to approved 102 Options, the provisions of the 2006 Plan and/or the ISOP and/or the relative award agreement shall be subject to the provisions of the applicable Israeli tax ordinance, the tax assessing officer's permit and/or any pre-rulings obtained from the Israeli tax authorities and the said provisions, permit and/or pre-rulings shall be deemed an integral part of the ISOP and of the relevant award agreement. Any of the relevant provisions of the applicable Israeli tax ordinance, the said permit and/or pre-rulings which are necessary in order to receive and/or to keep any tax benefit pursuant to the applicable Israeli tax ordinance, which is not expressly specified in the ISOP or the relevant award agreement, is to be considered binding upon the Company and the option holders.

## 9. Warrants

### 9.1 The Warrants

The following Warrants have been issued by the Company or are to be issued, subject to and conditional on Admission and/or completion of the Placing:

<i>Warrant Type</i>	<i>Date of Issue</i>	<i>No. of Common Shares</i>	<i>Exercise Price per Common Share*</i>	<i>Expiry Date</i>
L	31.03.06	3,208,722	US \$0.164	31.03.11
RS	31.03.06	15,680,818	US \$0.0005	31.03.11
RS	31.03.06	36,481,902	US \$0.071	31.03.11
RW	31.03.06	1,687,168	US \$0.000005	31.03.11
X	31.03.06	4,278,298	US \$0.071	24.03.10
X	2.01.06	533,183	US \$0.071	2.01.11
W	31.03.06	26,809,141	US \$0.071	31.03.11
W	10.04.06	1,026,792	US \$0.071	10.04.11
W	14.06.06	1,069,575	US \$0.071	14.06.11
W	23.10.06	21,423,602	US \$0.117	23.10.11
W	9.02.07	705,919	US \$0.071	31.03.11
W	13.03.07	2,042,887	US \$0.071	31.03.11
W	13.03.06	2,117,758	US \$0.071	21.06.11
W	31.05.07	1,329,310	US \$0.071	31.05.12
W	13.08.07	677,512	US \$0.164	13.08.12
W	17.08.07	369,773	US \$0.164	17.08.12
W	on Admission	1,259,810	US \$0.164	fifth anniversary of Admission
W	on Admission	7,021,707	US \$0.194	fifth anniversary of Admission
W	on Admission	570,992	Placing Price	fifth anniversary of Admission
Platinum	13.03.07	1,909,619	US \$0.164	31.03.11
Platinum	on Admission	1,627,545	US \$0.164	fifth anniversary of Admission

\* *the relative exercise prices set out above are stated after taking account of the adjustments required under the terms of the relevant Warrants to take account of the forward split effected in accordance with the resolution referred to in paragraph 4.5.2 of this Part 7)*

### 9.2 *Principal terms of the W Warrants, the L Warrants, the RS Warrants and the Platinum Warrants*

These Warrants entitle the holders to purchase, at any time or times up to the expiration date, up to the total number of Common Shares specified in the Warrants at the specified exercise price. In addition, a holder may convert the unexercised portion of his Warrant into Common Shares, without payment, under a formula designed to give a holder the equivalent in value in fully paid Common Shares to the gain in the Warrant at the time of exercise (i.e. the difference between the aggregate exercise price for the Common Shares in respect of which the Warrant is exercised and the aggregate value at the time of such exercise for that number of Common Shares).

The Platinum Warrants restrict the holder from exercising conversion rights to the extent that the holder and its associates would beneficially own over 9.99% of the outstanding Common Shares.

The number of shares subject to these Warrants and the relative exercise prices are subject to adjustment in the event of sub-division, consolidation, re-classification, re-organization, merger, or the issue of options, rights, warrants and convertible and exchangeable securities at a consideration per Common Share less the exercise price stipulated in such Warrants, subject to specified exclusions (e.g. options granted under the Share Option Plans).

These Warrants carry no voting rights and may not be transferred without the Company's prior written consent, save that the Platinum Warrants can be transferred without the consent of the Company in certain specified circumstances.

The Platinum Warrants include a grant to the holder of "piggyback registration rights", which are summarised at paragraph 4.15 of this Part 7.

### 9.3 *Principal terms of the RW Warrants*

The terms of these Warrants are the same as for the Warrants referred to in paragraph 9.2 above, save that:

9.3.1 the Warrants may be exercised in whole only and not in part;

9.3.2 the number and kind of securities subject to these Warrants and the relative exercise prices are subject to adjustment only in the event of a sub-division, combination and other issuances.

### 9.4 *Principal terms of the X Warrants*

The terms of these Warrants are the same as for the Warrants referred to in paragraph 9.3 above, save that the Warrants may be exercised in whole or in part.

## 10. **Working capital**

The Directors are of the opinion (having made due and careful enquiry and taking into account the net proceeds of the Placing) that the working capital available to the Group will, from the time of Admission, be sufficient for the present requirements of the Group, that is for at least 12 months from the date of Admission.

## 11. **Litigation**

The Company is not currently engaged in any governmental, legal or arbitration proceedings, nor so far as the Company is aware, are there any such governmental, legal or arbitration proceedings pending or threatened by or against the Company which may have, or have had since the Company's incorporation, a significant effect on the Company's financial position.

## 12. **Principal establishment**

The principal establishment of the Company is as follows:

<i>Location</i>	<i>Approx area</i>	<i>Tenure</i>	<i>Current Rent and service charge per month excl of VAT)</i>	<i>Term of Lease</i>
12 Hanapach Street, P.O. Box 6314, Karmiel, 21653 Israel		Leasehold	US \$668.15	expires 31 December 2007
Turag House, Misgav Business Center (Teradion), D.N. Misgav, 20179, Israel		Leasehold	US \$4,509	from 17 November 2007 to 31 December 2010 (with an option to extend for a further year)

## 13. **UK, US and Israeli taxation**

### 13.1 **UK taxation for UK investors**

The following is a summary of advice received by the Company and is intended only as a general guide to certain aspects of UK law and HM Revenue and Customs practice relating to the taxation of foreign source dividends at the date of this Document. The Company is considered to be resident for tax purposes in the US. Accordingly, dividends received by shareholders resident for tax purposes in the UK will be characterised as foreign source dividends for UK tax purposes.

#### 13.1.1 Dividend withholding taxes in the US

As a company resident for tax purposes in US, dividends paid to investors resident for tax purposes in the UK may be subject to a withholding tax of up to 15 per cent in the US. For most UK investors this withholding tax will be credited against and thereby reduce, their UK tax liability in respect of any dividend income received. Withholding tax relief will not be available if the investor has a permanent establishment in the US and the dividends are attributable to such permanent establishment. For both individuals and companies having insufficient taxable income to give rise to a UK tax charge against which relief may be obtained for the withholding tax deducted under US law, the investor can elect to treat this withholding tax as an expense to be deducted

from the gross dividend so that the taxable receipt is reduced to the amount of the dividend net of withholding tax.

#### 13.1.2 Foreign dividend income

Dividends paid by the Company while it is or remains resident for tax purposes in the US will constitute "equivalent foreign income" for UK income tax purposes when received by individuals or trustees of a discretionary trust who are tax resident in the UK. Such dividends received by a UK tax resident corporate investor will form part of that Company's profits chargeable to corporation tax.

##### (a) Individuals

Individuals resident for tax purposes in the UK will be taxed on the aggregate of the net dividend received together with any withholding tax deducted in the US. This income will be regarded as the top slice of the individual's income and will be subject to tax at a rate of 32.5 per cent where the individual is liable at the higher rate or 10 per cent where liable at other rates (the starting, lower or basic rate). Any withholding tax deducted on payment of the dividend will be credited against the resulting UK income tax liability. Accordingly, a higher rate taxpayer will pay an additional 17.5 per cent of the gross dividend (net dividend plus withholding tax) received. Individuals liable at other rates will have no further UK income tax liability as a result of the offset of the withholding tax credit. Unutilised withholding tax is not repayable. Accordingly, those individuals liable at other than the higher rate will incur an effective tax charge of 15 per cent referable to the withholding tax deducted in the US.

##### (b) Trustees

UK resident trustees of a discretionary trust are liable to income tax at 32.5 per cent of the gross dividend. Any withholding tax deducted will be credited against this liability resulting in a net income tax liability equivalent to 17.5 per cent of the gross dividend.

##### (c) Companies

A company resident for tax purposes in the UK will be subject to corporation tax on the gross dividend received at its relevant rate of corporation tax. The full rate of corporation tax is currently 30 per cent (From 1 April 2008 the full rate of corporation tax is scheduled to change to 28 per cent). Lower rates of corporation tax may apply dependent upon the level of chargeable profits of the recipient company in the accounting period in which the dividend is received. Credit will be given against this corporation tax liability for any withholding tax deducted on payment of the dividend. Any unutilised withholding tax credit is not recoverable by repayment.

A UK resident corporation may also seek relief for the underlying tax (tax borne by the Company and its subsidiaries' on the profits out of which the dividend is paid) associated with the dividend where the company owns ten per cent or more of the voting rights in the Company.

As the credit given for US tax suffered on the dividend cannot exceed the UK corporation tax liability on the gross dividend, a company resident in the UK may be entitled to claim credit for any excess unrelieved foreign tax (both withholding and, where available, underlying tax) against dividends received from other sources.

##### (d) Non-residents

Non-residents should consult their own advisers concerning their tax liabilities on dividends received.

#### 13.1.3 Capital Gains Tax and Taper Relief

##### (a) Individuals and trustees

Shares in the Company may qualify as business assets for the purposes of Taper Relief where the shares are held by individuals or trustees resident in the UK. Under current rules 75 per cent of any gain is excluded from charge on a disposal where full business asset Taper Relief has accrued. Full business asset Taper Relief is available once the asset has been owned for two full years. Gains benefiting from full business asset Taper Relief are subject to capital gains tax at

an effective rate of 10 per cent when realised by an individual taxable at the higher rate or a trustee. The treatment described assumes that the Company will exploit any intellectual property it may develop by way of a trading activity. If this is not the case, Taper Relief may be restricted to the "non business" rate, which excludes a maximum of 40 per cent of the chargeable gain after 10 years of ownership, an effective rate of 24 per cent when realised by an individual taxable at the higher rate or a trustee.

(b) Companies

Companies are not entitled to the benefit of Taper Relief. In general, gains of companies, as reduced by indexation relief (which increases the cost of the asset by reference to the movement in the RPI index over the period of ownership) are subject to corporation tax at the company's relevant rate.

13.1.4 Stamp Duty and Stamp Duty Reserve Tax

Under current UK legislation relating to stamp duty and stamp duty reserve tax:

- (a) no liability to stamp duty or stamp duty reserve tax will arise on the allotment of Common Shares by the Company under the Offer;
- (b) a transfer or sale of Common Shares will generally be subject to stamp duty on the instrument of transfer, normally at the rate of 0.5% of the amount or value of the consideration. Where an agreement to transfer such shares is not completed by a duly stamped instrument of transfer, a charge to stamp duty reserve tax (generally at the same rate) will normally arise;
- (c) special rules apply to market-makers, broker-dealers and certain other persons; and
- (d) transfers on sale and agreements to transfer shares to charities will not give rise to stamp duty or stamp duty reserve tax.

13.1.5 Enterprise Investment Scheme Relief

The shares issued pursuant to this offer will not be eligible for EIS income tax, capital gains tax relief and deferral relief as the company is not considered to constitute a Qualifying Company for the purpose of EIS.

13.2 **US Taxation for US investors**

13.2.1 The following is a summary of certain material US federal income tax consequences for US and Non-US Holders (as defined below) of the purchase, ownership and disposition of Common Shares. This is intended only as a descriptive summary for informational purposes and does not purport to be a complete analysis or listing of all possible tax considerations. In particular, this discussion does not address US state and local tax issues. The discussion deals only with Common Shares held as capital assets and does not address any special US tax consequences that may be applicable to US taxpayers that are subject to special treatment under the US Internal Revenue Code of 1986, as amended (the "Revenue Code"), including, without limitation, dealers in securities, financial institutions, life insurance companies, tax-exempt entities, shareholders who acquired their shares as compensation, investors holding the Common Shares as part of a conversion transaction, as part of a hedge or hedging transaction or as part of a straddle or other risk reduction transaction, investors liable for alternative minimum tax or investors who constructively own 10 per cent or more of the voting stock of the Company. In addition, it does not address tax consequences to holders owing Common Shares through partnerships (or other pass-through entities). If a partnership, including any entity treated as a partnership for US federal income tax purposes, is a holder of Common Shares, the US federal income tax treatment of a partner in such partnership will generally depend upon the status of such partner and the activities of the partnership.

This summary is based on the provisions of the Revenue Code, the US Treasury regulations promulgated thereunder and rulings and judicial decisions thereunder in effect as of the date hereof. Such authorities may be repealed, revoked or modified (possibly on a retroactive basis) so as to result in US federal income tax consequences different from those discussed below. No rulings have been or will be sought from the Internal Revenue Service ("IRS") regarding any matter discussed in this document and counsel to the Company has not rendered any legal opinion regarding any of the tax consequences discussed herein. No assurance can be given that the IRS would not

assert, or that a court would not sustain, a position contrary to any of the tax aspects set forth below. Prospective US and Non-US Holders (and partners in partnerships that are prospective holders) are urged to consult their tax advisers to determine the US federal, state, local and non-US income and other tax consequences of acquiring, holding and disposing of the Common Shares, as well as the effect of tax laws of the jurisdictions of which they are citizens, residents or domiciliaries or in which they conduct business.

As used in this section, the term "US Holder" generally means a beneficial owner of the Common Shares who is (i) an individual citizen or resident of the US for US federal income tax purposes; (ii) a corporation, or other entity treated as a corporation for US federal income tax purposes, created or organised under the laws of the US or any state or political subdivision thereof; (iii) a partner described in (i) or (ii) above in a partnership or an entity treated as a partnership for US federal income tax purposes; (iv) an estate whose income is subject to US federal income taxation regardless of its source; or (v) a trust if a court within the US is able to exercise primary supervision over the administration of the trust and one or more US Persons have the authority to control all substantial decisions of the trust, or if the trust has a valid election in effect under US Treasury regulations to be taxed as a US Person.

For purposes of this section, a "Non-US Holder" generally is any beneficial owner of the Common Shares who is not a US Holder.

For purposes of this section, a "Tax-Exempt Investor" is any beneficial owner of the Common Shares, other than a Non-US Holder, that is exempt from US federal income taxation under the Revenue Code.

#### 13.2.2 Dividends

Dividends paid on the Common Shares generally should be treated as US source dividend income for US federal income tax purposes to the extent paid out of the Company's current or accumulated earnings and profits as determined for US federal income tax purposes. To the extent that a distribution exceeds the Company's earnings and profits, it should be treated, first, as a non-taxable return of capital to the extent of a holder's tax basis in the Common Shares (thereby potentially increasing the amount of gain, or decreasing the amount of loss, to be recognised by a holder on a subsequent disposition of the Shares) and thereafter as a capital gain from the sale of the Common Shares. To the extent a distribution is treated as a capital gain, the rules for sale and other dispositions, set out below, are applicable.

Any Non-US Holder who is resident in the UK will generally be subject to US dividend withholding tax at a rate of 15 per cent on any dividends received on the Common Shares, under the terms of the US/UK Double Tax Agreement, provided the Shareholder furnishes the Company, or other withholding agent, with a properly completed US Form W8-BEN or other required documentation before the payment of dividends.

Any Non-US Holder, who is not resident in the UK will, under the US domestic law, generally be subject to withholding tax at a 30 per cent rate, although this may be reduced by a Double Tax Agreement that is applicable to the Non-US Holder in question. The Company is obliged under the US domestic law to withhold and pay any amount withheld to the IRS. A Non-US Holder of the Common Shares who wishes to claim the benefit of an applicable treaty rate for dividends will be required to (a) complete IRS Form W-8BEN (or other applicable form) and certify under penalties of perjury that such holder is not a US Person and is eligible for treaty benefits or (b) if the Common Shares are held through certain foreign intermediaries, satisfy the relevant certification requirements of applicable US Treasury regulations. Special certification and other requirements apply to certain Non-US Holders that are pass-through entities rather than corporations or individuals.

#### 13.2.3 Capital Gains

A US Holder generally should recognise capital gain or loss on the sale or other disposition of the Common Shares equal to the difference between the US dollar value of the amount realised and the US Holder's adjusted tax basis (determined in US dollars) in the Common Shares. Generally, such gain or loss should be a US source capital gain or loss and should be a long-term capital gain or loss if the US Holder's holding period for such Common Shares is greater than one year. Long-term capital

gains of non-corporate Holders are currently subject to US federal income tax at a maximum rate of 15 per cent.

A Non-US Holder will generally not be subject to US federal income tax, including by way of withholding, on gain recognised on a sale, exchange or other disposition of the Common Shares unless any one of the following is true:

- the Foreign Investment in Real Property Tax Act, or "FIRPTA", rules apply generally because of the Company's status as a "US real property holding corporation" (generally meaning that 50 per cent of the value of the Company consists of US real property interests) and the Non-US Holder has satisfied certain holding requirements;
- the Non-US Holder, who is an individual, is present in the US for 183 days or more in the taxable year of sale, exchange or other disposition and some additional conditions are met;
- the Non-US Holder, who is an individual, is present in the US for 183 days or more in the taxable year of sale, exchange or other disposition and some additional conditions are met; or
- the gain is effectively connected with the Non-US Holder's conduct of a trade or business in the US and, if an applicable tax treaty applies, is attributable to a permanent establishment (or, in the case of an individual, a fixed base) maintained by the Non-US Holder in the US, in which case, the branch profits tax may also apply if the Non-US Holder is a corporation.

#### 13.2.4 Information Reporting and Backup Withholding

A US and Non-US Holder may be subject to a backup withholding tax (currently at a rate of 28 per cent) when such holder receives certain "reportable payments", which may include dividends or proceeds on the sale or other disposition of Common Shares. Certain holders (including, among others, corporations and certain tax-exempt organisations) are generally not subject to backup withholding. The Company must report annually to the IRS and to each Non-US and US Holder the amount of dividends paid to such holder and the tax withheld with respect to such dividends and proceeds, regardless of whether withholding was required. Copies of the information returns reporting such dividends and withholding may also be made available to the tax authorities in the country in which a Non-US Holder resides under the provisions of an applicable income tax treaty. The backup withholding tax is not an additional tax and taxpayers may use amounts withheld as a credit against their US federal income tax liability or may claim a refund as long as they timely provide certain information to the IRS.

A US Holder will be subject to backup withholding tax if such holder is not otherwise exempt and such holder:

- fails to furnish the Company or its paying agent with its taxpayer identification number ("TIN"), which, for an individual, is ordinarily his or her social security number;
- furnishes an incorrect TIN and the Company or its paying agent have received notice from the IRS of such incorrect TIN;
- has failed to properly report payments of interest or dividends to the IRS and the Company or its paying agent have received notice from the IRS of such failure; or fails to certify, under penalties of perjury, that it has furnished the Company a correct TIN and that the IRS has not notified the US Holder that it is subject to backup withholding; or fails properly to report payments of interest or dividends to the IRS and the Company or its paying agent have received notice from the IRS of such failure; or
- US Holders should consult their personal tax advisers regarding their qualification for an exemption from backup withholding and the procedures for obtaining such an exemption, if applicable.

A Non-US Holder will be subject to backup withholding for dividends paid to such holder unless such holder certifies under penalties of perjury that it is a Non-US Holder and the payer does not have actual knowledge or reason to know that such holder is a US Person, as defined, or such holder otherwise establishes an exemption. Information reporting and, depending on the circumstances, backup withholding will

apply to the proceeds of a sale of the Common Shares within the US or conducted through certain US-related financial intermediaries, unless the beneficial owner certifies under penalties of perjury that it is a Non-US Holder (and the payer does not have actual knowledge or reason to know that the beneficial owner is a US Person) or such owner otherwise establishes an exemption.

Any amounts withheld under the backup withholding rules may be allowed as a refund or a credit against a Non-US Holder's US federal income tax liability provided the required information is furnished to the IRS.

#### 13.2.5 US Treasury Department Circular 230 Disclosures

The above general summary is not intended or written to be used, nor can it be used, by any taxpayer, for the purposes of avoiding any US federal tax-related penalty that may be imposed on the taxpayer. In addition, this summary was written to support the transactions or matters addressed therein and a taxpayer should seek advice based on the taxpayer's particular circumstances from an independent tax adviser.

This summary is limited to the US federal income tax issues addressed therein and additional issues may exist that could affect the US federal income tax treatment of these transactions or matters. The above discussion does not consider or provide a conclusion with respect to any such additional issues (or any state, local income or other tax issues) and does not reach a conclusion at any particular confidence level with respect to any of the tax issues addressed.

Nothing herein shall be construed as a limitation on the disclosure of the tax treatment or tax structure of the transactions that are the subject of the above discussion.

The above is a summary of certain aspects of current law and practice in the UK and the US. A Shareholder who is in any doubt as to his tax position, or who is subject to tax in a jurisdiction other than the UK or US, should consult his or her professional adviser.

### 13.3 ***Israeli Taxation for Israeli investors***

13.3.1 On 25 July 2005 amendment No. 147 to the Israeli Income Tax Ordinance (New Version), 1961, of the Israeli Tax Ordinance, was enacted. This amendment became effective on 1 January 2006. As of 12 April 2007, not all of the regulations that were expected to be published as a consequence of the amendment have been published. Additionally, as of April 12, 2007, no acceptable practices existed regarding some of the directives of the amendment and no court ruling existed to interpret the new tax directives in the amendment.

13.3.2 The following summary contains a discussion of the material Israeli tax consequences to resident investors in Common Shares and Warrants. As is customary when reaching decisions about financial investments, investors should consider the tax implications connected to an investment. This summary does not discuss all the aspects of Israeli tax law that may be relevant to a particular investor in light of his or her personal investment circumstances or to some types of investors subject to special treatment under Israeli law. To the extent that the discussion is based on new tax legislation that has not been subject to judicial or administrative interpretation, it cannot be assured that the tax authorities will accept the views expressed in the following paragraphs of this paragraph 13.3. The views expressed herein are not intended, and should not be taken, as legal or professional tax advice and are not exhaustive of all possible tax considerations. Israeli resident holders of Common Shares and Warrants should consult their own tax or legal advisers as to the Israeli (and other) tax consequences of the purchase, ownership and disposition of such securities.

#### 13.3.3 Capital Gains from the Sale of Common Shares

Under Section 91 of the Israeli Tax Ordinance, real capital gains from the sale of securities by an individual Israeli resident are subject to tax at the applicable marginal tax rates for such individual, under Section 121 of the Israeli Tax Ordinance, but at a rate that will not exceed 20% and the capital gain will be treated as the highest level on the scale of taxable income. The aforesaid will not apply to the sale of securities by an individual who is classified as a "significant shareholder" in the company – i.e. who holds, directly or indirectly, alone or together with another (as such terms are defined in the Israeli Tax Ordinance), at least 10% in one or more of the means of control in the company, either at the time of sale of the securities or at any time during the 12 months that preceded the above stated sale, in which case the rate of tax in respect of

the real capital gains will not exceed 25%. Furthermore, until the determination of directives and conditions for deduction of real interest and related expenses, tax will be payable at a rate of 25% on real capital gains from the sale of such securities. The aforesaid reduced tax rates will not apply to an individual for whom the income from the sale of securities is classified as "business" income under Section 2(1) of the Israeli Tax Ordinance.

An association of individuals (including a company) will be taxed on real capital gains from the sale of the securities at the corporate tax rate, which is scheduled to decrease gradually to a rate of 25% by the 2010 tax year (29% for the 2007 tax year, 27% for the 2008 tax year and 26% for the 2009 tax year). However, an association of individuals that was not subject to Chapter B of the Income Tax Law (Inflationary Adjustments), 1985, or Section 130A of the Israeli Tax Ordinance prior to the date of publication of the amendment, will be taxable at a rate of 25% on real capital gains as of January 1, 2006 and onwards.

Losses during the tax year which result from sale of the offered securities during the tax year, will be offset against capital gains and property betterment, including gains from the sale of securities, traded or not traded, Israeli or foreign and additionally, against interest and dividends paid on the same security or on other securities (provided that the tax rate applicable to said interest or dividend does not exceed 25%), in the same tax year. The offset of losses is carried out by deduction of the capital losses against capital gains, or against income from interest or dividends as stated above.

Regarding the withholding of tax at the source from the real capital gain on the sale of the offered securities, in accordance with the Income Tax Regulations (Deduction from Consideration, Payment or Capital Gains on the Sale of a Security, from the Sale of Mutual Fund Units or from a Future Transaction), 2002, a payer paying a seller consideration from the sale of securities shall withhold tax at a rate of 20% from the real capital gain if the seller is an individual and a rate of 25% from the real capital gain if the seller is an association of individuals, subject to applicable exemptions from withholding of tax at the source and subject to offset of losses that the payer is authorised to apply. In addition, no tax will be withheld at source for pension funds, mutual funds and other entities that are exempt from withholding of tax at the source under applicable law. It should be noted that if at the date of sale the entire amount of tax on the real capital gains is not withheld at the source, the provisions of Section 91 (D) of the Israeli Tax Ordinance, regarding the reporting and payment of advance tax, will apply to such sale. In general, taxes that are paid in the US on the sale of securities, will be permitted as a foreign tax credit against tax that is paid in Israel, in accordance with the provisions of the Israeli Tax Ordinance and the provisions of the Treaty.

#### 13.3.4 Rate of Tax Applicable to Income from Dividends on Common Shares

In general, individuals who are residents of Israel will be liable for tax at a rate of 20% on dividends received on Common Shares, except with respect to individuals who are significant shareholders at the time of receiving the dividend, or at any time during the 12 month period preceding that date, for whom the rate of tax will be 25%. The rate of tax in respect of dividends received by Israeli companies is, in general, 0% but in respect of dividends that derive from a source outside Israel, the rate of tax will be 25%. Dividends received by a Taxable Mutual Fund shall be subject to the tax at the rate of tax applicable to an Israeli resident individual (for whom the income is not classified as "business" income).

An Exempt Mutual fund and pension funds and other entities exempt from tax under Section 9(2) of the Income Tax Ordinance, are exempt from tax on such dividends. Tax will be withheld at the source upon the distribution of dividends, in accordance with the Income Tax Regulations (Deduction From Interest, Dividends and Certain Income), 2005.

## **14. Miscellaneous**

- 14.1 Blomfield has given and has not withdrawn its written consent to the issue of this document and the references to itself in the form and context in which such references appear in this document.
- 14.2 haysmacintyre has given and has not withdrawn its written consent to the inclusion of its reports as set out in Part 3, Part 4 and Part 5 of this document and to the issue of this document and the references to itself in the form and context in which such references appear in this document.
- 14.3 SVS has given and has not withdrawn its written consent to the issue of this document and the references to itself in the form and context in which such references appear in this document.
- 14.4 Pearl Cohen Zedek Latzer LLP has given and has not withdrawn its written consent to the issue of this document and the references to itself in the form and context in which such references appear in this document.
- 14.5 ProPharma Partners Limited has given and has not withdrawn its written consent to the issue of this document and the references to itself in the form and context in which such references appear in this document.
- 14.6 The accounting reference date of the Company is 31 December.
- 14.7 Except as disclosed in the Accountants' Report and in the Interim Results of the Group, set out respectively in Part 3 and Part 4 of this document, there has been no significant change in the trading or financial position of the Company since 31 December 2006, being the latest date to which audited accounts have been prepared for the Company.
- 14.8 The auditors of the Group for each of the three financial years ended 31 December 2004, 2005 and 2006 were Kost Forer Gabbay & Kasierer, a member of Ernst and Young Global, whose address is at 3 Aminadav Street, Tel Aviv 67067, Israel. Kost Forer Gabbay & Kasierer have given unqualified audit reports on the statutory accounts of the Company for each of the three financial years ended 31 December 2006. Statutory accounts of the Company for each of the three financial years ended 31 December 2004, 2005 and 2006 have been prepared in accordance with the provisions of US GAAP.
- 14.9 The financial information set out in this document does not constitute statutory accounts within the meaning of Section 240 of the Companies Act 1985 (as amended).
- 14.10 Information in this document sourced from third parties has been accurately reproduced and, as far as the Company is aware and is able to ascertain from information published by such third parties, no facts have been omitted which would make such reproduced information inaccurate or misleading.
- 14.11 Save in connection with the application for Admission, none of the Common Shares have been admitted to dealings on a recognised investment exchange and no application for such admission has been made nor are there intended to be any other arrangements for dealings in the Common Shares.
- 14.12 The Directors are not aware of any environmental issues that may affect the Group's utilisation of its tangible fixed assets.
- 14.13 Save as disclosed in this document, the Directors are not aware of any exceptional factors that have influenced the Group's activities.
- 14.14 Save as disclosed in this document, the Directors of the Company have not committed the Company to enter into any future investments.
- 14.15 There have been no interruptions in the Company's business that have or have had in the last twelve months a significant effect on the Company's financial position.
- 14.16 The total costs and expenses of and relating to the Proposals that are payable in cash by the Company are estimated to be approximately £1,087,816 excluding VAT. The Advisers' Shares, which are to be issued by the Company at or immediately prior to Admission in satisfaction of part of the costs and expenses of and relating to the Proposals, are valued at the Placing Price at £308,442. Accordingly, based on 38,039,082 Common Shares being issued under the Proposals, the net proceeds of the Proposals (excluding recoverable VAT) will be £2,189,169.

- 14.17 The Company has no administrative, management or supervisory boards or bodies other than the Board and the audit and remuneration and nominations committees of the Board, all of which have no members other than certain of the Directors. Details of the composition of such committees are given in Part 1 of this document.
- 14.18 Monies received from applicants pursuant to the Placing will be held in accordance with the terms of the placing letters issued by SVS until such time as the Placing Agreement becomes unconditional in all respects. If the Placing Agreement does not become unconditional in all respects by 4 December 2007 (or such later date as SVS, Blomfield and the Company may agree being no later than 31 December 2007), the investment monies will be returned to the applicants at their own risk without interest.

## **15. Availability of Admission Document**

Copies of this document will be available free of charge from the date of this document until the date which is one month after Admission, from the offices of Blomfield during normal business hours.

28 November 2007