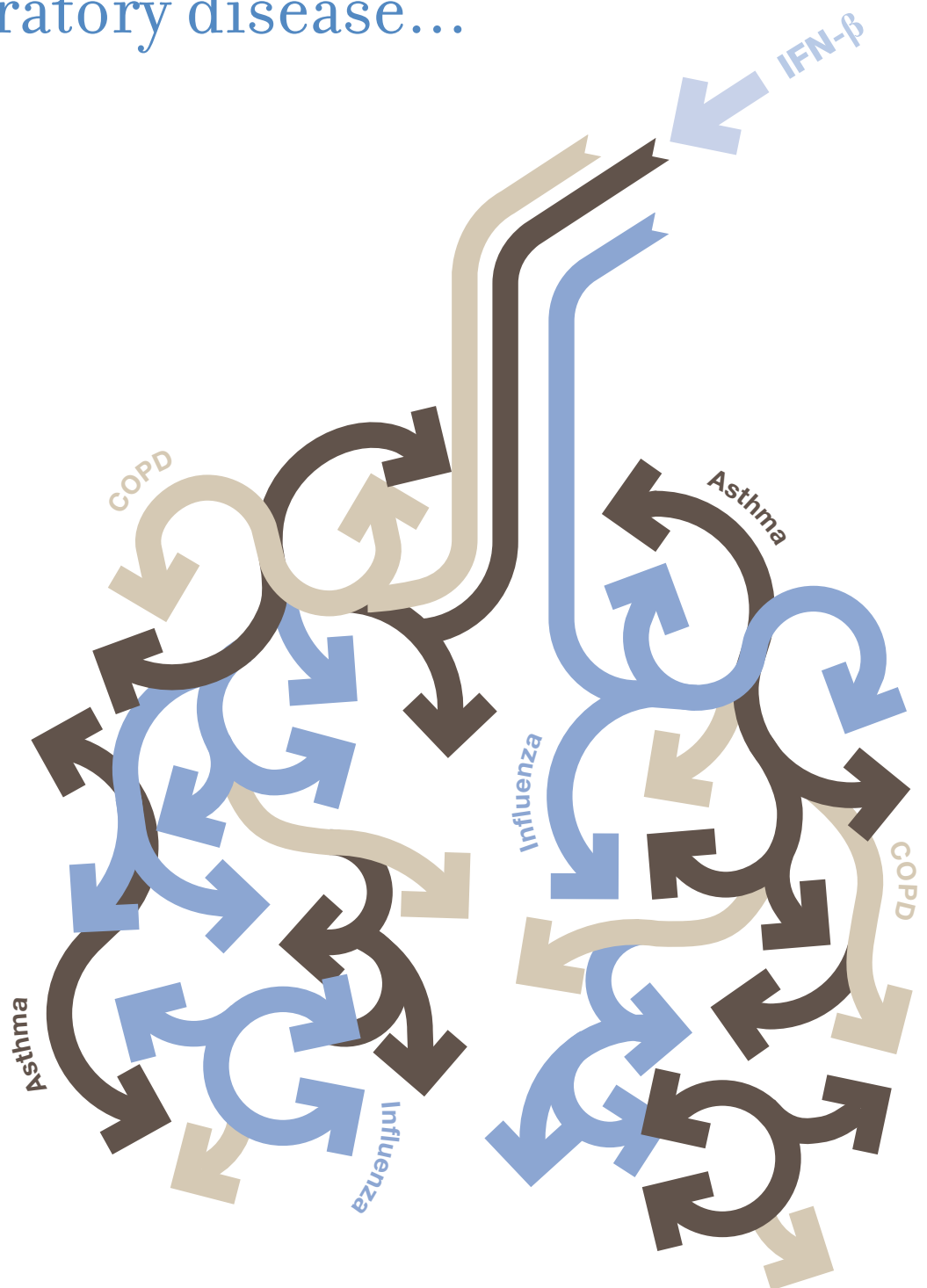


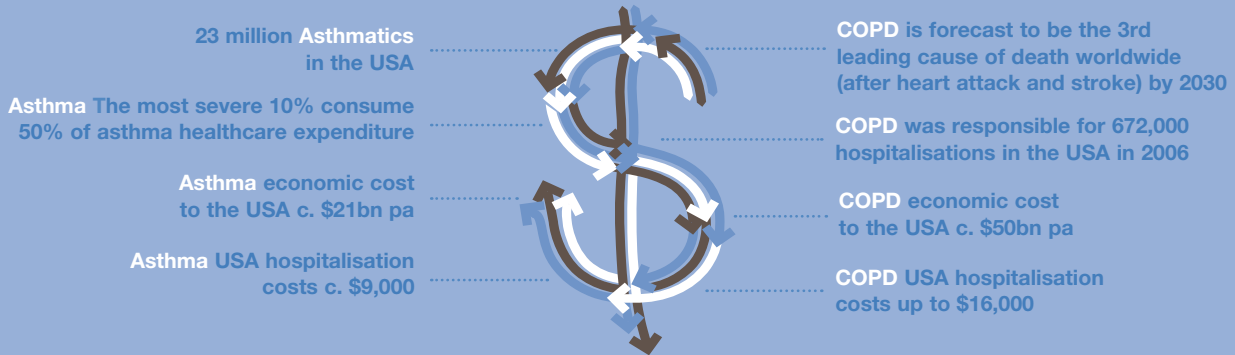
Targeting the causes of respiratory disease...



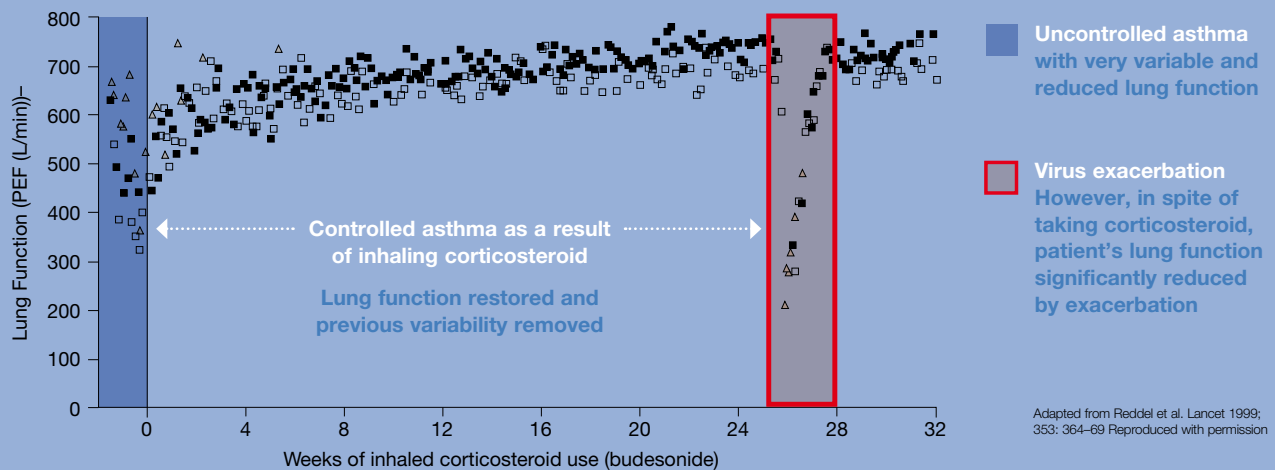
Exacerbations are the greatest unmet clinical need in Asthma and COPD

The common cold causes ~ 80% of asthma exacerbations
For COPD patients 50% of colds lead to exacerbations

The prevalence and cost of Asthma and COPD



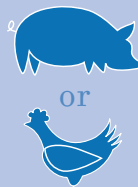
Loss of asthma control whilst on 'gold standard' inhaled corticosteroid therapy



Influenza: a new opportunity

Pandemic influenza

Government preparedness programmes to bridge gap until vaccines developed and administered



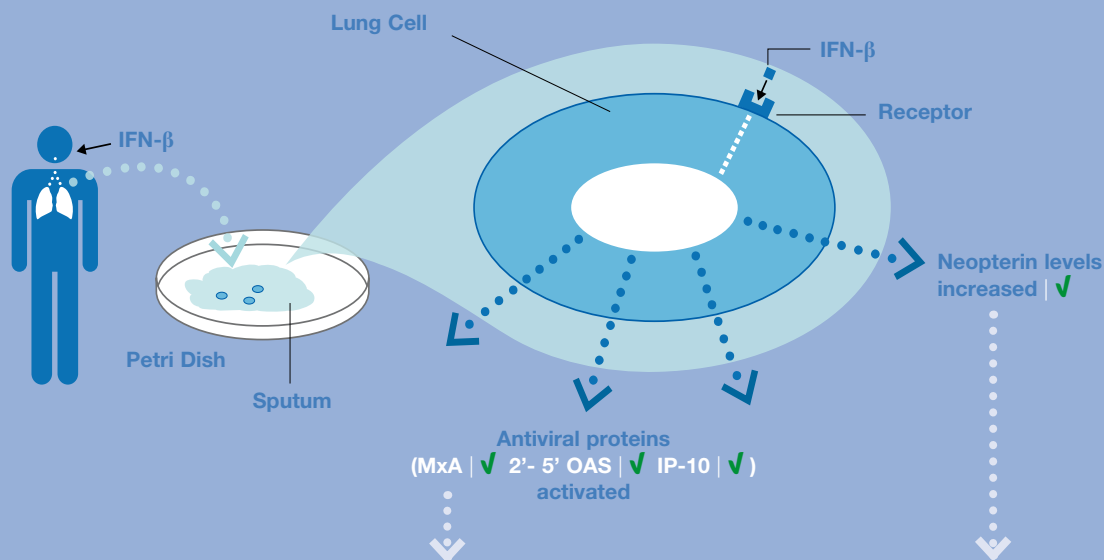
The next pandemic flu outbreak may be much more severe

Seasonal influenza

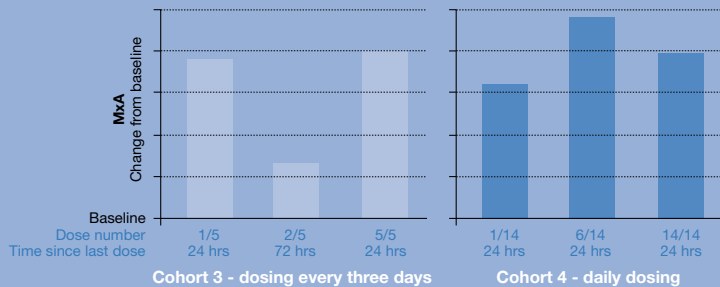
- Economic cost to the USA c. \$80bn pa
- 36,000 deaths in the USA pa
- Numbers likely to increase with ageing population

Scientific evidence:

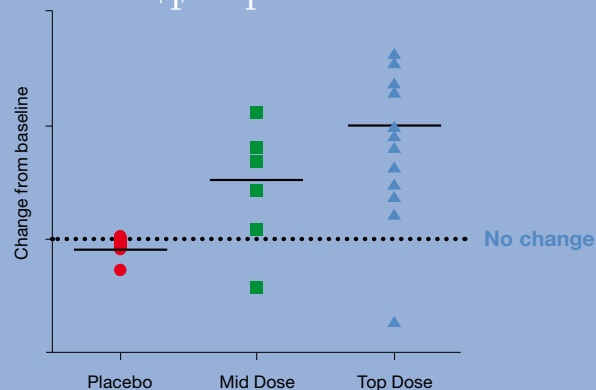
Biomarker data from Phase I study demonstrates successful delivery of biologically active drug to the lungs and activation of antiviral defence



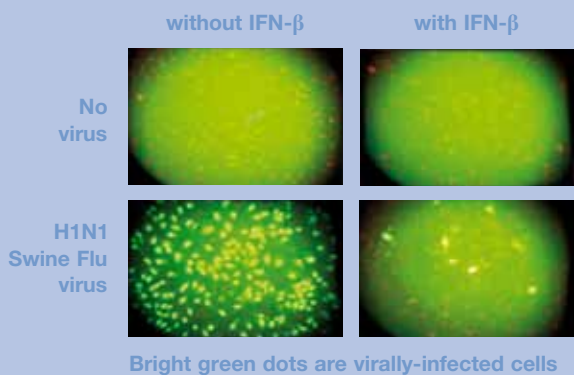
Upregulation of lung antiviral proteins only maintained with daily dosing



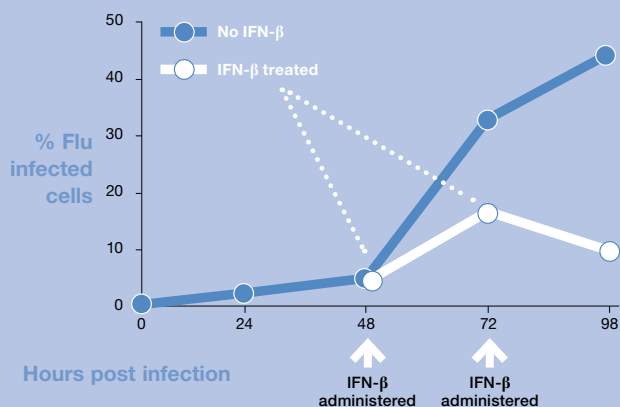
Sputum Neopterin levels 24hrs post dose



Pre-treatment with IFN-β minimises H₁N₁ cell infection



Treatment with IFN-β 48 and 72 hrs post infection inhibits influenza re-infection



Synairgen's inhaled IFN- β is an antiviral product being developed for three indications: asthma, COPD and the pulmonary complications of influenza

Summary development plan

Completed Milestones

November 2005 to August 2010

SG003 Phase I study in atopic non-asthmatic subjects

Licence and supply agreement to patent-protected formulation of IFN- β from Rentschler Group

Aerosol device selection and testing

Local tolerance study completed

SG004 Phase I study in asthmatic patients

SG004 biomarker data confirms antiviral activation in the lung

United States and European Union – IFN- β patents granted

Commencement of SG005
(Phase II proof of concept study in asthma)

Utility of IFN- β against established influenza in re-infection model

2011 Planned Milestones

Evaluation of lung-delivered IFN- β in pre-clinical model of influenza-induced lung complications

Complete preparation work for SG006
(Phase II proof of concept study in COPD)

Complete SG005
(Phase II proof of concept study in asthma)

Partner IFN- β programme

Synairgen is a respiratory drug discovery and development company with a particular focus on viral defence in:

Asthma

COPD

Influenza

Highlights for the year ended 30 June 2010

Operational highlights

- Successful completion of Phase I study (SG004) and commencement of a Phase II study of inhaled interferon beta ('IFN- β ') in exacerbation-prone asthmatics (SG005)
- Multiple biomarkers from SG004 confirm antiviral proof of mechanism of inhaled IFN- β
- IFN- β shown to have utility against established influenza infection in a novel re-infection model, creating a third indication for inhaled IFN- β . Additional patent filed
- Further evidence from *in vitro* testing of other respiratory viruses (RSV, H1N1 Swine flu and seasonal flu) indicates potential of inhaled IFN- β as a broad spectrum antiviral therapy
- Patent for the use of IFN- β granted in US and EU
- Proprietary platform technology further endorsed by external research collaboration commenced post year-end

Financial highlights

- Research and development expenditure for the year:
£2.1 million (2009: £2.1 million)
- Post-tax loss for the year:
£2.6 million (2009: £2.5 million)
- Cash at 30 June 2010:
£5.0 million (2009: £7.9 million)

Contents

Chairman's and Chief Executive Officer's Report	2
Financial Review	5
Scientific Review	6
Directors	10
Synairgen's Founders and Scientific Advisors	12
Directors' Report	13
Corporate Governance Statement	15
Directors' Remuneration Report	17
Independent Auditor's Report	20
Consolidated Statement of Comprehensive Income	21

Consolidated Statement of Changes in Equity	21
Consolidated Statement of Financial Position	22
Consolidated Statement of Cash Flows	23
Notes to the Consolidated Financial Statements	24
Parent Company Balance Sheet	36
Notes to the Parent Company Financial Statements	37
Notice of 2010 Annual General Meeting	40
Corporate Directory	43
Glossary	43

Chairman's and Chief Executive Officer's Report

Synaigen's IFN- β therapy 'boosts' the lungs' natural antiviral defence system and is therefore broader in reach and differs from drugs such as Tamiflu® and Relenza®

During the financial year Synaigen has advanced its lead programme, inhaled interferon beta ('IFN- β '), across three potential therapeutic applications. It has commenced a Phase II study in asthma, continued with preparatory work for a clinical trial in Chronic Obstructive Pulmonary Disease (COPD) and developed a new third indication to treat pulmonary complications triggered by any 'influenza-like illness'.

Influenza-like illness – a third indication for inhaled IFN- β

Last year we stated our intention to use our proprietary models of human disease to test the efficiency of IFN- β against other common viruses associated with exacerbations of respiratory disease. The risks of influenza-like illnesses to both healthy and respiratorily impaired people have long been known, but the Swine flu scare in 2009 highlighted the potential global threat of viral infection. Working with the Health Protection Agency at Porton Down, we showed that our IFN- β formulation was very effective at protecting cells from Swine flu infection. This discovery led to an enhancement of our planned asthma study SG005 to include subjects contracting influenza. This ensures that the study is conducted in a way which most accurately reflects the real life infection risks facing this patient group.

Recognising the potential of a broad spectrum antiviral therapy against both emerging influenza-like and seasonal viruses, Synaigen embarked on a programme to establish the potential use of IFN- β in these 'difficult to treat' patients.

Our research to date has included the successful development of a novel influenza 're-infection' model. In this model a small amount of virus is initially introduced to lung cell cultures and over the following days an increasing number of cells become infected. This *in vitro* model is intended to replicate the spread of viruses from the upper (nose and throat) to the lower (lungs) respiratory tract and therefore will be able to predict the impact of therapeutic intervention.

Having developed the *in vitro* re-infection model, we were able to demonstrate a marked reduction in the percentage of infected cells, even when IFN- β was applied some two days into the infection cycle. This opened up a third novel indication for Synaigen's IFN- β programme: the use of inhaled IFN- β for patients with severe lung illness triggered by an initial influenza-like illness. A patent has been filed and this discovery was presented at the American Thoracic Society meeting in May 2010.

The term 'influenza-like illness' is used because as many as 50% of illnesses which are thought to be attributable to influenza virus are actually caused by other viruses such as rhinovirus, parainfluenza virus, Respiratory Syncytial Virus (RSV), or coronavirus (of which SARS is an example). Synaigen's IFN- β therapy 'boosts' the lungs' natural antiviral defence system and is therefore broader in reach and differs from drugs such as Tamiflu® and Relenza® which solely target the influenza viruses. Thus there appears to be a potentially significant market opportunity for a first in class broad spectrum inhaled antiviral therapy such as inhaled IFN- β .

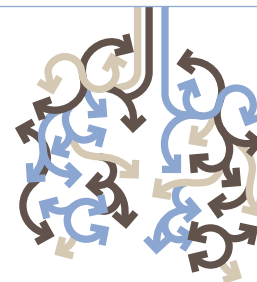
In this area, preclinical models have successfully predicted the clinical efficacy of the neuraminidase inhibitors Tamiflu and Relenza. Synaigen is therefore working with a world-leading influenza research group with a view to evaluating the efficacy of lung-delivered IFN- β in a preclinical model of influenza-induced lung complications. This will be conducted during the coming year.

Asthma

The period under review has been dominated by the successful conclusion of SG004, the Phase I study of inhaled IFN- β in moderate asthmatic patients, and the commencement of a Phase II study (SG005) in asthma.

In SG004 inhaled IFN- β was well tolerated over a 14 day period by moderate asthmatics. Results from SG004 also showed that certain antiviral pathways (genes MxA, 2' - 5' OAS, and IP-10) were markedly activated in cells from asthmatic patients' lungs after dosing. Upregulation of these genes and detection of elevated levels of the IFN- β biomarker neopterin in sputum showed the 'switching on' of the body's antiviral defence mechanism in the lungs and increased the confidence with which we commenced the Phase II clinical development of the product.

Following the completion of SG004 in the autumn of 2009, we ran a study (SG009) of the asthmatic population during the cold and

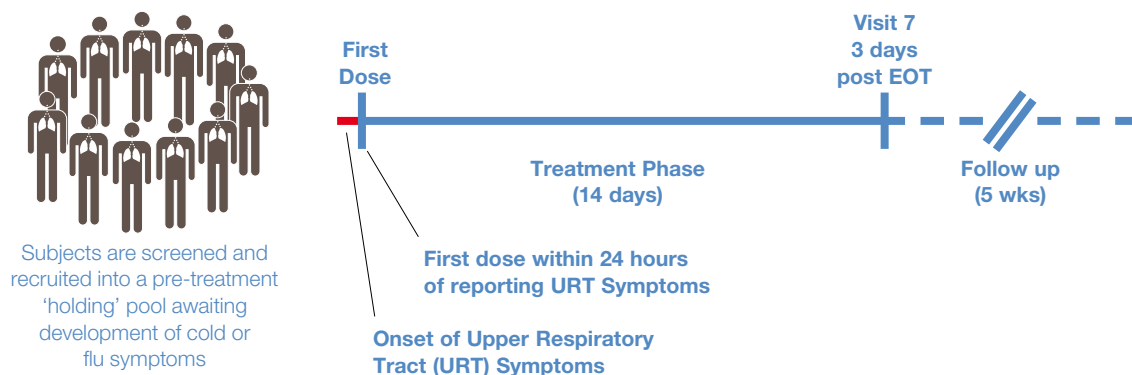


Phase II asthma study (SG005)

Location of trial sites to facilitate 'continual' winter programme



Trial structure



flu season. SG009 enabled us to test the design, practicalities and feasibility of studying these patients as they suffer virus-induced exacerbations. These findings have all been factored into the protocol for our Phase II study (SG005), which commenced in March 2010.

Our discovery that IFN- β showed *in vitro* efficacy against Swine flu (see above) encouraged us to broaden SG005 to include patients suffering from influenza as well as the common cold. The study will include 120 exacerbation-prone asthmatics, who will commence a 14 day course of inhaled IFN- β or placebo as soon as cold or flu symptoms develop. To facilitate this, we are recruiting a pool of subjects across a number of Northern Hemisphere sites in the UK and Southern Hemisphere sites in Australia; thus we will continually have access to subjects during a winter season. The study is designed to measure changes in asthma symptoms associated with respiratory viruses and is scheduled to complete by the end of the summer of 2011.

COPD

COPD is a smoking-related disease associated with accelerated lung function decline. It is forecast by the World Health Organisation to become the third leading cause of death worldwide by 2030. Frequent exacerbations of COPD lead to an accelerated deterioration of lung function. The majority of exacerbations are associated with cold or flu infections and/or secondary bacterial infections. Corroborating findings at Synairgen, researchers in the US have found that lung cells from subjects with COPD are more susceptible to infection with the common cold virus. Linking this to the clinical setting, a study at Imperial College in London found that lung cells from COPD subjects produced less IFN- β in response to infection and that this was associated with increased lung viral load and worse symptoms. Synairgen presented additional data at this year's American Thoracic Society meeting, demonstrating the protective effect of IFN- β against common cold infection in COPD lung cells. This provides further rationale for progressing the inhaled IFN- β into COPD as well as asthma.

Chairman's and Chief Executive Officer's Report (continued)

Our intention, as set out in last year's annual report, had been to conduct a controlled infection study, using a recently developed virus challenge model on some 80 long-term, otherwise healthy, smokers (as a surrogate for COPD patients). In this study, volunteers would be infected with the common cold virus having been pre-treated with either IFN- β or placebo. During the year, we conducted a pilot study (SG010) to assess the feasibility of our planned proof of concept study for COPD. The pilot study showed that, in order to avoid testing a very large number of volunteers and the associated expenses of conducting such a trial, the virus challenge study would need to be conducted in at least 'moderate' COPD patients (GOLD Stage 2 rather than Stage 1). However patients with more severe disease are less willing to be deliberately infected with virus (as the controlled infection trial required). We therefore concluded that the trial, as originally conceived, represented a greater technical and logistical challenge than we could justify, particularly in the face of the new influenza opportunity and its competing claim on Synairgen's capital resources. In the second half of the year our continuing research programme showed, through *in vitro* experiments, that the window for treating patients with viral infection may be longer than had previously been considered possible. This enabled us to reconsider the use of a 'wild type' COPD study, similar in structure to SG005, where patients are treated upon onset of naturally-acquired virus infections. Such a study will involve dosing more subjects than the original SG006 proposal, but suits better the expectations of potential partners, who have more recently expressed a preference for a study of naturally-infected volunteers. Following consultation with our panel of experts, we are drawing up a protocol to facilitate commencement of the revised SG006 during the winter season.

Key priorities

In 2009 we raised additional finance to fund the Company's then two primary programmes. Since then, we have initiated an influenza programme as a third standalone programme. Operationally we have now prioritised our resources to completing the enhanced asthma trial (SG005) and the pre-clinical influenza programme, both of which will report results during 2011. Over the coming period, we will be finalising the optimal approach to conducting the COPD Phase II study.

IFN- β intellectual property

The patent for inhaled IFN- β to treat rhinovirus infections in asthma and COPD has been granted in the US in August 2009 and in the EU in May 2010. Whilst these patents are owned by the University of Southampton, Synairgen has the benefit of an exclusive licence. A patent was filed by the Company during the year in respect of the influenza discovery.

IFN- β partnering strategy

Having commenced Phase II and added a further potentially valuable programme to the development portfolio over the year, we have engaged the biotechnology licensing team at Deloitte LLP to assist us to implement our business development strategy.

Core technology platform and biobank

Synairgen has long recognised that our proprietary technology platform has significant value to other companies' development programmes and, so long as it either supports, or does not detract from, our core IFN- β programmes, we are prepared to enter into collaborations that add to Synairgen's intellectual property base or enhance relations with potential partners for the IFN- β programmes. Post period-end, the Company has entered into one such collaboration with Pfizer Limited to use Synairgen's *in vitro* models to assist in refining a clinical development programme.

Staff and Board Changes

During the period we restructured the Board in order to better prepare ourselves for the next phase of Synairgen's development. We promoted Dr Phillip Monk to the Board as executive director and Chief Scientific Officer. We were delighted to welcome two new non-executive directors, Paul Clegg and Iain Buchanan, who bring significant biotech expertise to the Board in finance and investment and business development and licensing respectively. We also announced the departure of Sue Sundstrom to take up a new executive role in the West Country and we thank her for her valuable counsel since the inception of the Company.

The strides we have made in the last year would have been impossible without our small but dedicated team of scientists, clinicians and clinical research experts. Our thanks go to all Synairgen's staff, who show the utmost commitment to our mission and dedication to the effective delivery of our development programmes.

Outlook

During the forthcoming year, our focus will be on progressing the asthma, influenza and COPD programmes. These activities, together with the process being conducted on our behalf by Deloitte LLP's licensing team, will support the effective execution of our partnering strategy.

Simon Shaw

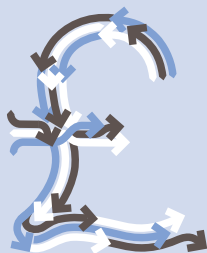
Chairman

Richard Marsden

Chief Executive Officer

28 July 2010

Financial Review



The Financial Review should be read in conjunction with the consolidated financial statements of the Company and Synairgen Research Limited (together the 'Group') and the notes thereto on pages 21 to 35. The consolidated financial statements are presented under International Financial Reporting Standards as adopted by the European Union. The financial statements of the Company continue to be prepared in accordance with UK Generally Accepted Accounting Practice and are set out on pages 36 to 39.

Statement of Comprehensive Income

Research and development expenditure for the year amounted to £2.11 million (2009: £2.11 million). As discussed in the Chairman's and Chief Executive Officer's Report, the main area of expenditure during the year has been the continuation of the clinical development programme for the asthma and COPD IFN- β indications: namely the completion of SG004; the two pilot studies (SG009 and SG010) for the Phase II studies SG005 and SG006; preparation for SG005 and SG006; and the start of SG005. In addition, a significant amount of laboratory work has been undertaken researching into the impact of inhaled IFN- β on other viruses, including the influenza discovery. During the forthcoming year, expenditure on SG005 will increase as the study continues to be rolled out across other sites and we enter the cold/flu season. Other administrative costs increased from £0.86 million to £0.88 million. Interest receivable fell from £0.13 million to £0.07 million on account of lower interest rates. The research and development tax credit increased to £0.37 million (2009: £0.35 million). The loss after tax was £2.55 million (2009: £2.49 million) and the loss per share was 4.27p (2009: loss of 10.64p).

Statement of Financial Position and cash flows

Following adoption of the revised IAS1 (Presentation of Financial Statements), the Balance Sheet has been redesignated as the Statement of Financial Position. At 30 June 2010, net assets amounted to £5.56 million (30 June 2009: £8.00 million), including net funds, as detailed below in Capital structure and funding, of £5.01 million (2009: £7.94 million).

The principal elements of the £2.93 million decrease (2009: £3.94 million increase) in net funds were:

- Cash used in operations of £3.14 million (2009: £2.68 million outflow);
- Research and development tax credits received of £0.34 million (2009: £0.33 million);
- Capital expenditure of £0.18 million (2009: £0.08 million);
- Interest received of £0.06 million (2009: £0.18 million); and
- Share issue proceeds (net of costs) £nil (2009: £6.20 million).

Capital expenditure during the year comprised investment into patent and licence costs (£0.15 million) and equipment (£0.03 million).

Treasury policy and financial risk management

Credit risk

The Group follows a risk-averse policy of treasury management. Sterling deposits are held with one or more approved UK-based financial institutions. The Group's primary treasury objective is to minimise exposure to potential capital losses whilst at the same time securing prevailing market rates.

Interest rate risk

The Group's cash held in current bank accounts is subject to the risk of fluctuating base rates. The majority of the Group's financial assets are placed on fixed-term interest deposits. The interest rate profile of financial assets is illustrated in note 17 to the financial statements.

Capital structure and funding

The Group is funded by equity capital, reflecting the early stage nature of its discovery and development programmes.

The Group considers its capital to be its total equity, which at 30 June 2010 amounted to £5.56 million (30 June 2009: £8.00 million). The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns to equity holders of the Company and benefits to other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. The Group manages this objective through tight control of its cash resources and, upon reaching significant drug development programme milestones (to decrease investment risk), by raising additional equity from shareholders to meet its forecast future cash requirements.

Net funds held by the Group at 30 June 2010 amounted to £5.01 million. This comprised cash and cash equivalents, short-term deposits (with original maturities of greater than three months and less than one year), less finance lease liabilities, as shown below:

	2010 £m	2009 £m	2008 £m	2007 £m	2006 £m
Short-term deposits	3.68	1.98	3.45	5.00	7.16
Cash and cash equivalents	1.33	5.96	0.56	1.02	0.33
Total cash	5.01	7.94	4.01	6.02	7.49
Finance lease liabilities	-	-	(0.01)	(0.01)	(0.01)
Net funds	5.01	7.94	4.00	6.01	7.48

The Group did not have any bank borrowings as at 30 June 2010 (2009: £nil).

There have been three significant issues of shares: in August 2003 £0.62 million (net of costs) was raised; in October 2004, when the Company completed its IPO on AIM, £8.98 million (net of costs) was raised; and in June 2009 the Company raised £6.20 million (net of costs). The other major sources of funding received by the Group from the formation of the business until 30 June 2010 have been: bank interest of £1.51 million, research and development tax credits of £1.18 million, and revenues from collaborative work of £0.44 million.

John Ward

Finance Director

28 July 2010

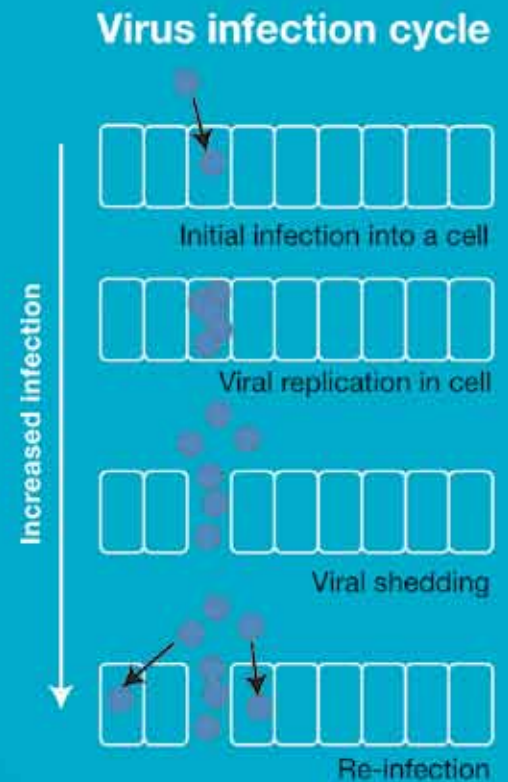
Scientific Review – A focus on influenza

Post infection treatment

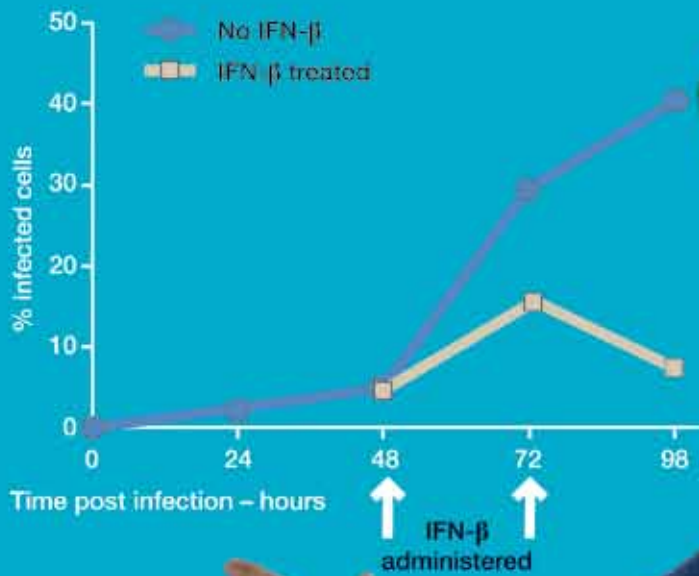
Prof. Stephen Holgate
Non-executive Director



Dr Phillip Monk
Chief Scientific Officer



with IFN- β inhibits influenza re-infection



Scientific Review (continued)

Reflections on the 'Swine flu' pandemic

In the spring of 2009, a novel H1N1 influenza of swine origin ('Swine flu') caused human infection and acute respiratory illness in Mexico and began to spread around the world resulting in the first pandemic since 1968. By March of this year, the World Health Organisation (WHO) stated that almost all countries had reported cases. While many have died (440 in the UK, 77% of whom had underlying risk factors¹) and even more have been infected, a global mass mortality scenario, last seen during the 1918 flu pandemic when an estimated 50 million people died or 3% of the world's population, failed to materialise. This was due to a combination of fortuitous circumstance and forward planning driven by concerns over outbreaks of highly pathogenic 'Bird flu' strains over recent years.

Fortunately the Swine flu virus was not highly pathogenic; for most people the illness was acute and self limiting. For those aged between 6 months and 64 years old, the population attributable risk was highest for chronic neurological disease (24%), immunosuppression (16%) and respiratory disease (15%). The results highlight the importance of early targeted effective intervention programmes¹. Despite the H1N1 virus mutating to drug resistant strains², the majority of illness remained responsive to currently available antiviral therapy, the neuraminidase inhibitors Tamiflu® and Relenza®. In addition, older people, usually overrepresented in those developing more serious illness following flu infection, appeared to be protected due to previous exposure to a related strain earlier in life³. Moreover, the outbreak timeline was favourable: the first wave of infections started in the spring in the Northern Hemisphere and burnt out over the summer, with the second wave beginning in the late autumn⁴. This enabled the development of a vaccine and implementation of mass vaccination programmes before the appearance of a second wave of infection.

Governments were more prepared than in the past. Stockpiles of antiviral drugs, principally neuraminidase inhibitors, were available and arrangements had been made with pharmaceutical companies to scale-up production of vaccines. Improved surveillance enabled tracking of the spread of the virus and ensured that vaccines were more likely to be effective against emerging variants. Healthcare services and government bodies had an action plan in place.

Most experts would agree that we were lucky. If the virus had been more pathogenic and less responsive to current antiviral drugs, the picture might have looked very different.

There remains a clear unmet medical need for new treatments to bridge the gap between the outbreak of a novel strain of influenza and the development of a vaccine in conjunction with the implementation of mass vaccination programmes should the worse case scenario arise.

Seasonal flu kills thousands of people each year

In a study conducted in the 1990s, the American government agency CDC (Centers for Disease Control) estimated that deaths from seasonal flu in the US ranged from 17,000 during the mildest season to 52,000 during the most severe season (36,000 average)⁵. This was despite vaccination programmes targeting 'at risk' populations. By comparison, it is estimated that the 2009 H1N1 pandemic resulted in 12,000 flu-related deaths in the US. One of the reasons that the effects of seasonal flu go unreported is the age group which are affected. Most seasonal flu deaths occur in the over 65 year olds. By contrast, nearly 90 percent of deaths due to Swine flu occurred among people younger than 65 years of age. Therefore pandemic flu aside, there remains a need to develop more effective therapies to reduce morbidity and mortality associated with seasonal flu. An added driver is the fact that many of the current circulating H1N1 strains of seasonal flu are resistant to Tamiflu, the neuraminidase inhibitor⁶.

A new therapeutic approach

There is now strong evidence that the increased risk of flu is highly dependant on the level of immunity of a population and individuals within it⁷. As far as the immunological defence mechanisms against H1N1 or any other strain of influenza virus are concerned, the early induction of primary interferons such as IFN- β is crucial as the first line of defence⁸. Thus, Synairgen's recent discovery that IFN- β is highly effective at preventing the replication, release of and spread of influenza viruses in lung epithelial cells (even if administered a couple of days after the virus is introduced) provides us with a new therapeutic approach to such pandemics, especially if applied to known at-risk groups. Over the last year, we have also shown that inhaled IFN- β in asthmatic subjects activates the multiple antiviral defence systems in the airways without inducing systemic effects. Thus if there are further influenza outbreaks, this treatment, which increases the resistance of the infected host rather than targeting individual virus strains, offers the promise of a breakthrough therapy. Our work has also shown activity of IFN- β against other types of influenza virus, including seasonal flu strains along with multiple types of human rhinovirus and respiratory syncytial virus which are associated with the common cold. Every autumn and winter different respiratory viruses wreak havoc in our community; especially in children and adults with asthma and patients with smoking-related bronchitis and emphysema. Since inhaled IFN- β targets the host immunity by increasing resistance to viruses in the lining cells of the lung, it remains a high possibility that this treatment will have broad application beyond influenza.

Professor Stephen Holgate

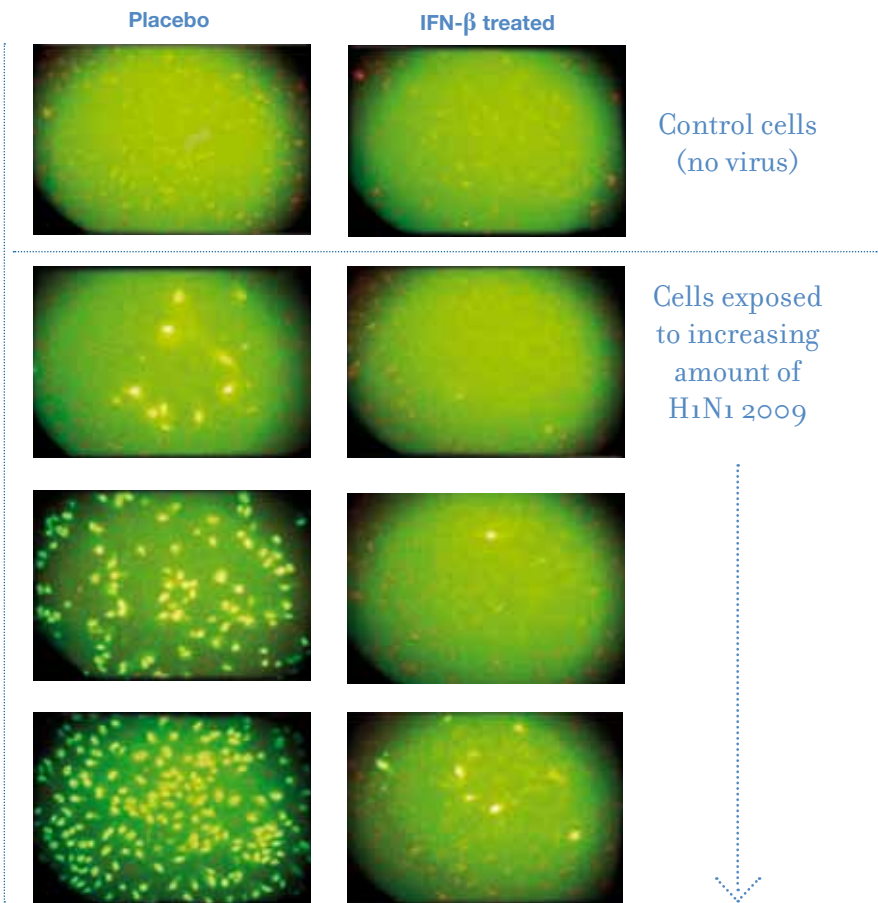
Founder and Non-executive Director

Dr Phillip Monk

Chief Scientific Officer

28 July 2010

IFN-β protects human lung epithelial cells from infection with pandemic Swine Flu (H1N1 2009)

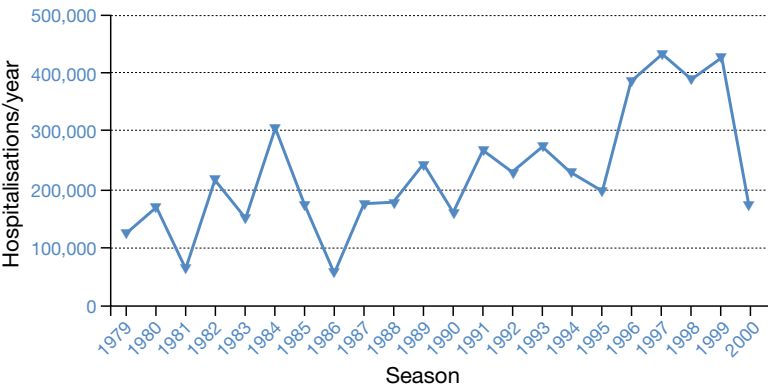


Bright green dots are cells infected with virus

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6. Janies DA, Voronkin IO, Studer J, Hardman J, Alexandrov BB, Treseder TW, Valson C. Selection for resistance to oseltamivir in seasonal and pandemic H1N1 influenza and widespread co-circulation of the lineages. *Int J Health Geogr*. 2010 Feb 24;9:13.
7. Mathews JD, McBryde ES, McVernon J, Pallaghy PK, McCaw JM. Prior Immunity helps to explain wave-like behaviour of pandemic influenza in 1918-19. *BMC Infect Dis*. 2010 May 25;10:128.
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9. Thompson WW et al. Influenza-associated hospitalizations in the United States. *JAMA*. 2004;292:1333-1340.

Annual numbers of hospitalisations in US linked to complications of respiratory and circulatory conditions caused by influenza⁹



Directors

Simon Shaw

Non-executive Chairman

Simon Shaw joined Synairgen as executive Chairman on its inception in June 2003 and became non-executive Chairman in October of that year. He is Group Chief Financial Officer of Savills plc. He was Chief Financial Officer of Gyrus Group PLC from 2003 until its sale to Olympus Corporation in 2008, having previously been Chief Operating Officer of Profile Therapeutics plc between 1998 and 2003. Between 1991 and 1997 he was a corporate financier, latterly at Hambros Bank Limited. He is a chartered accountant.



Richard Marsden

Chief Executive Officer

Richard Marsden joined Synairgen in a consulting role as General Manager in November 2003 and was appointed to the Board as Managing Director in June 2004. Between 1998 and 2003 he worked as Projects Manager and Cystic Fibrosis Business Development Manager at Profile Therapeutics plc, where he managed the Cystic Fibrosis business and played a major role in the development of its proprietary pharmaceutical unit, Profile Pharma Limited. Prior to this, he worked for Zimmer Limited, Genentech (UK) Limited and Roche Products Limited.



Dr Phillip Monk

Chief Scientific Officer

Phillip Monk joined Synairgen in October 2006 as Head of Bioscience Development and was appointed to the Board as Chief Scientific Officer in September 2009. Phillip was previously Director of the Respiratory and Inflammation Biology group at Cambridge Antibody Technology ('CAT') and led the scientific development of CAT-354, an anti-IL-13 antibody being developed for the treatment of severe asthma. Prior to joining CAT, he worked at Bayer AG within the respiratory disease therapeutic area, focusing on the development of novel therapies for asthma, COPD and cystic fibrosis.



John Ward

Finance Director

John Ward joined Synairgen in October 2004 as Finance Director. From December 1999 to July 2004 he was Chief Financial Officer and Company Secretary of Profile Therapeutics plc and was appointed to the Profile Therapeutics board in March 2003. From 1996 to 1999 he was Finance Director of Rapid Deployment Group Limited, the UK holding company for the healthcare operations of Ventiv Health, Inc. Prior to joining Rapid Deployment he was a Director of Corporate Finance at Price Waterhouse. He is a chartered accountant.

Paul Clegg

Non-executive Director

Paul Clegg was appointed as a non-executive director in September 2009. He is Chief Executive Officer of Accsys Technologies PLC. Paul was previously Managing Director and Chief Executive Officer of Cowen International Limited and director of Cowen Asset Management Limited until June 2008. Paul has over twenty years' senior investment banking experience, most recently with a particular focus on biotechnology.

Iain Buchanan

Non-executive Director

Iain Buchanan was appointed as a non-executive director in June 2010. He was Chief Executive Officer of Novexel SA ('Novexel'), a specialty pharmaceutical company focused on novel anti-infectives, from its formation in 2004 until 2010, when it was sold to AstraZeneca. He is currently a non-executive director of NOXXON Pharma AG ('NOXXON') and from 1 September 2010 will assume the role of interim Chief Executive Officer at NOXXON. He has some 35 years' commercial experience in the pharmaceutical and biotech industries. He joined Novexel from Vertex Pharmaceuticals (Europe) Limited, where he was Managing Director. Prior to Vertex, Iain was the Regional Licensing Director of Cilag A.G. International, a division of Johnson & Johnson based in Switzerland, where he managed Cilag's international licensee business from 1987 to 1994.

Dr Bruce Campbell

Non-executive Director

Bruce Campbell joined Synairgen as a non-executive Director in April 2006. He has 40 years of drug development experience and has developed many drugs in a wide range of indications which are now on the market. He is currently Head of Non-clinical Development at Proximagen Neuroscience plc and an advisor to IP Group plc. Formerly he was Senior VP of International Development at Neurocrine Biosciences, Inc. ('Neurocrine'). Prior to joining Neurocrine he worked for 27 years at Servier (United Kingdom), latterly as Scientific Director. In addition, he has also been a director and European Chairman of the Drug Information Association and a member of the European ICH Safety Working Party. He is a visiting Professor in Pharmacology at King's College, London.

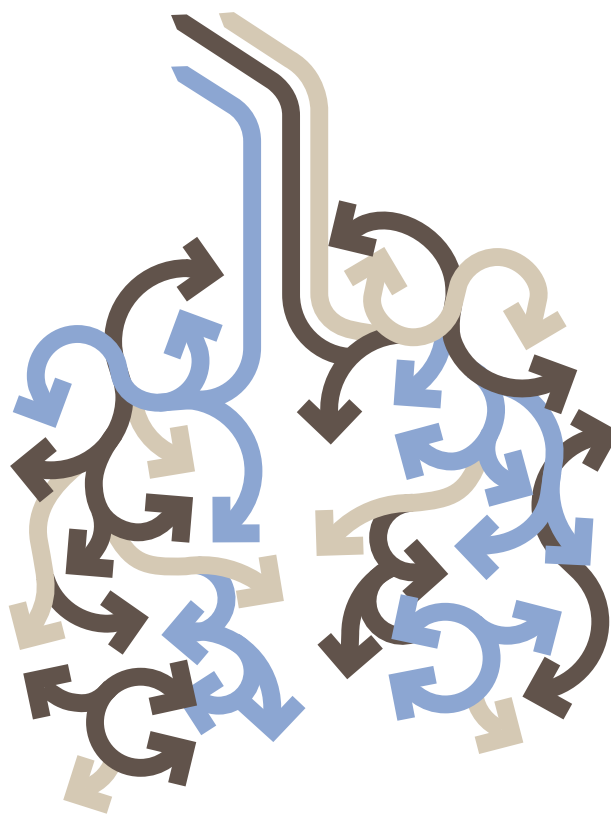


Prof. Stephen Holgate

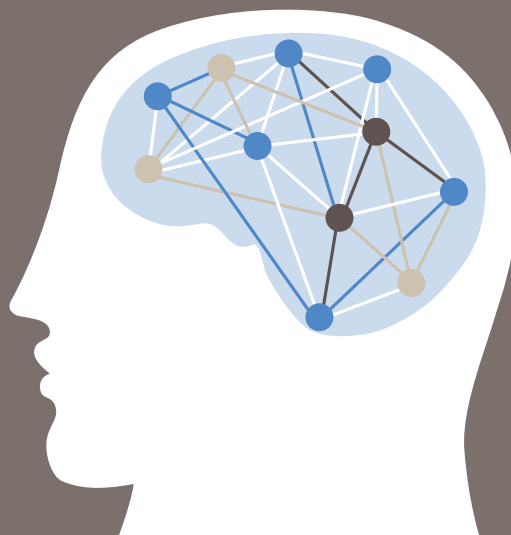
Non-executive Director

Stephen Holgate is a co-founder of Synairgen and was appointed a non-executive director in June 2003. After qualifying in Medicine at Charing Cross Hospital Medical School, London he has pursued an academic career leading to his appointment in 1987 to his current position as Medical Research Council Clinical Professor of Immunopharmacology at the University of Southampton. His research interests have been largely focused on the cellular and molecular mechanisms of asthma that has involved use of both epidemiological and genetic approaches. He has published over 950 papers in peer-reviewed literature and is co-editor of Clinical and Experimental Allergy. He is currently: Chairman of the Science Council's Science in Health Group; Chairman of the MRC's Population and Systems Medicine Board; a member of Council of the Academy of Medical Sciences; a member of the

MRC's Strategy Board and the MRC's Pharma Forum; Chairman of Defra's Advisory Committee on Hazardous Substances; a member of the FSA Advisory Committee on Novel Foods and Processes; a member of the Department of Health Committee on the Medical Effects of Air Pollution; and a scientific board member or advisor to eleven companies, including Amgen, Roche, Merck, Almiral, Rotta and Novartis. In 2010, he was appointed by the Higher Education Funding Council for England to be the Chair of the Research Excellence Framework (REF) Main Panel A covering Medicine, Health and Life Sciences.



Synairgen's Founders and Scientific Advisors



Synairgen's Founders



Prof. Stephen Holgate is MRC Clinical Professor of Immunopharmacology and a world-acknowledged expert in respiratory research. He has published over 950 papers in peer-reviewed literature and a brief curriculum vitae is given on page 11.



Prof. Donna Davies is Professor of Respiratory Cell and Molecular Biology at the University of Southampton. She has collaborative relationships with a number of pharmaceutical and biotechnology companies.



Prof. Ratko Djukanovic is Professor of Respiratory Medicine at the University of Southampton. His research focuses on mechanisms which determine the severity of asthma and COPD. He has had many collaborations with pharmaceutical companies.

Synairgen's Scientific Advisors



Prof. James Gern,
University of Wisconsin, USA



Prof. Sebastian Johnston,
of Imperial College, London



Prof. Wisia Wedzicha,
Royal Free and University
College Medical School, London

Directors' Report

The directors present their report and the audited financial statements for Synairgen plc (the 'Company') and its subsidiary (together the 'Group') for the year ended 30 June 2010.

Principal activities

Synairgen plc is the holding company for Synairgen Research Limited, a respiratory drug discovery and development company with a particular focus on viral defence.

Review of the business and future developments

A review of the business and anticipated future developments is included in the Chairman's and Chief Executive Officer's Report and the Financial Review set out on pages 2 to 5.

Research and development

During the year, the Group has invested £2,109,000 (2009: £2,107,000) in research and development activities and a review of this expenditure is included in the Financial Review.

Principal risks and uncertainties

The Board considers that the principal risks and uncertainties facing the Group may be summarised as follows:

• Reliance on the interferon beta programmes

The majority of the Group's resources are focused on the three interferon beta programmes. Whilst these are for separate indications (asthma, COPD and influenza) there is a risk that failure in one indication may have a negative impact upon the others.

• Failure to generate innovative discoveries

There can be no guarantee that the Group will successfully develop new pharmaceutical products.

• Clinical development and regulatory risk

The development of pharmaceutical drugs requires the necessary safety and efficacy to be demonstrated in clinical programmes in order to meet the requirements of the appropriate regulatory bodies. There can be no guarantee that the clinical trials will not be delayed or extended. There can be no guarantee that any of the Group's therapies will be able to obtain or maintain the necessary regulatory approvals. The Group seeks to reduce this risk by closely monitoring the progress of recruitment on its clinical trials, drawing on the experience of its Founders, seeking advice from regulatory advisers, and holding consultations with the appropriate regulatory bodies.

• Intellectual property risk

The commercial success of the Group depends on its ability to obtain patent protection for its pharmaceutical discoveries in the US, Europe and other countries and to preserve the confidentiality of its know-how. There is no guarantee that patent applications will succeed or be broad enough to provide protection for the Group's intellectual property rights and exclude competitors with similar pharmaceutical products. The success of the Group is also dependent on non-infringement of patents, or other intellectual property rights, held by third parties. Competitors and third parties may hold intellectual property rights which the Group may not be able to license upon favourable terms, potentially inhibiting the Group's ability to develop and exploit its own business. Litigation may be necessary to protect the Group's intellectual property which may result in substantial costs.

The Group seeks to reduce this risk by seeking patent attorney advice that patent protection will be available prior to investing in a project, by seeking patent protection where appropriate and by minimising disclosure to third parties.

• Commercial risk

There can be no guarantee that the Group will succeed in securing and maintaining the necessary contractual relationships with licensing partners for its programmes under development. Even if the programmes are successfully out-licensed and pharmaceutical products are brought to market by a partner, there is no guarantee that such products will succeed in the marketplace.

The Group seeks to reduce this risk by structuring its development programmes to meet the needs and requirements of its potential partners and by engaging with partners who have the appropriate experience, resource and interest to bring such pharmaceutical products to the global marketplace.

• Competition risk

The Group's current and potential competitors include pharmaceutical and biotechnology companies and academic institutions, many of whom have significantly greater financial resources than the Group. There can be no assurance that competitors will not succeed in developing products that are more effective or economic than any developed by the Group, or which would render the Group's products non-competitive or obsolete.

• Funding risk

The Group continues to consume cash resources. Until the Group generates positive net cash inflows from successful out-licensing transactions and commercialisation of its products, it remains dependent upon securing additional funding through the injection of capital from share issues. The Group may not be able to generate positive net cash flows in the future or attract such additional funding required at all, or on suitable terms. In such circumstances the Group's discovery and development programmes may be delayed or cancelled and the business operations curtailed.

The Group seeks to reduce this risk through tight financial control, prioritising programmes which will generate the best returns and keeping shareholders informed on progress.

• Loss of biobank

The Group has built up a biobank of tissue samples from a broad range of well-characterised volunteers and loss of this biobank would impinge on its research capabilities. A number of practical loss prevention safeguards have been put in place including division of the biobank over a number of different locations, use of temperature alarms and back-up cooling and power systems. Additionally, insurance is maintained in the event of loss.

• Dependence on Founders, senior management and key staff

The Founders and certain members of staff are highly skilled scientists and clinicians. The Group has deliberately pursued a lean headcount policy to conserve financial resources. Failure to continue to attract and retain such individuals could adversely affect operational results.

The Group seeks to reduce this risk by appropriate incentivisation of staff through participation in long term equity incentive schemes.

Directors' Report (continued)

Key performance indicators ('KPIs')

The Board considers that the most important KPIs are non-financial and relate to the progress of the scientific programmes which are discussed in the Chairman's and Chief Executive Officer's Report.

The most important financial KPIs are the cash position and the operating loss of the Group. At 30 June 2010 cash and deposit balances amounted to £5.0 million and were above budgeted levels. The operating loss for the year of £3.0 million was also favourable to the budgeted loss for the year.

Results and dividends

The Group's loss for the year after taxation amounted to £2,550,000 (2009: loss of £2,494,000). A Financial Review is set out on page 5. The directors do not propose the payment of a dividend.

Financial instruments

The Group's use of financial instruments is discussed in the Financial Review on page 5 and in note 17 to the financial statements.

Substantial shareholdings

As at 28 July 2010, the Company had been advised of the following shareholders with interests of 3% or more in its ordinary share capital:

Name of shareholder	Number of ordinary shares	% of share capital
Lansdowne Partners Limited	11,949,037	20.0%
IP Group plc	6,423,077	10.8%
F&C Asset Management plc	5,718,600	9.6%
IP Venture Fund LP	4,411,764	7.4%
Southampton Asset Management Limited	3,600,000	6.0%
Mr MR Underwood	3,470,588	5.8%
Invesco Limited	2,784,801	4.7%

Directors

The directors of the Company during the year were:

<i>Executive directors:</i>	<i>Non-executive directors:</i>
Richard Marsden	Simon Shaw
John Ward	Dr Bruce Campbell
Dr Phillip Monk (appointed 3 September 2009)	Prof. Stephen Holgate
	Paul Clegg (appointed 3 September 2009)
	Iain Buchanan (appointed 28 June 2010)
	Susan Sundstrom (resigned 3 September 2009)

In accordance with the Company's Articles of Association, which require that each director appointed to the Board since the previous Annual General Meeting and one third of the remaining directors shall retire from office, at the Annual General Meeting on 3 November 2010 Iain Buchanan, John Ward, Simon Shaw and Dr Bruce Campbell will retire and, being eligible, offer themselves for re-appointment.

Directors' interests in ordinary shares

The directors, who held office at 30 June 2010, had the following interests in the ordinary shares of the Company:

	30 June 2010 Number of shares	1 July 2009 (or date of appointment if later) Number of shares
Richard Marsden	58,823	58,823
John Ward	191,751	191,751
Simon Shaw	1,275,988	1,275,988
Dr Bruce Campbell	216,923	216,923
Paul Clegg	147,058	147,058
Prof. Stephen Holgate (i)	841,405	841,405

(i) Prof. Stephen Holgate's shareholding includes 1,923 shares owned by his wife, Elizabeth Holgate.

Between 30 June 2010 and the date of this report there has been no change in the interests of directors in shares or share options as disclosed in this annual report.

Directors' remuneration and share options

Details of directors' remuneration and share options are given in the Directors' Remuneration Report on pages 18 and 19.

Directors' and officers' liability insurance

Qualifying indemnity Insurance cover has been arranged in respect of the personal liabilities which may be incurred by directors and officers of the Group during the course of their service with the Group. This insurance has been in place during the year and on the date of this report.

Payment of creditors

It is the policy of the Group and the Company that payments to suppliers are made in accordance with those terms and conditions agreed between the Group and its suppliers, provided that all trading terms and conditions have been complied with. At 30 June 2010 the Group had an average of 31 days' purchases outstanding in trade creditors (2009: 27 days' purchases).

Post balance sheet events

There are no events occurring post 30 June 2010 requiring disclosure.

Charitable and political donations

During the year the Group made a charitable donation of £34,000 (2009: nil) and no political donations (2009: nil).

Disabled employees

The Group gives every consideration to applications for employment from disabled persons where the requirements of the job may be adequately covered by a handicapped or disabled person. Should any employee become disabled, every practical effort is made to provide continued employment.

Annual general meeting ('AGM')

The AGM will be held at 12 noon on 3 November 2010 at Fasken Martineau LLP, 17 Hanover Square, London W1S 1HU.

Auditor information

All of the current directors have taken all the steps that they ought to have taken to make themselves aware of any information needed by the Company's auditor for the purposes of its audit and to establish that the auditor is aware of that information. The directors are not aware of any relevant audit information of which the auditor is unaware.

A resolution to re-appoint BDO LLP as auditor will be put to members at the AGM.

By order of the Board

John Ward
Company Secretary
28 July 2010

Corporate Governance Statement

The Board is accountable to the Company's shareholders for good corporate governance and it is the objective of the Board to attain a high standard of corporate governance. As an AIM-quoted company full compliance with The UK Corporate Governance Code (the 'Code') is not a formal obligation. The Company has not sought to comply with the full provisions of the Code, however it has sought to adopt the provisions that are appropriate to its size and organisation and establish frameworks for the achievement of this objective. This statement sets out the corporate governance procedures that are in place.

Board of directors

On 30 June 2010 the Board of directors (the 'Board') consisted of a non-executive Chairman (Simon Shaw), three executive directors (Richard Marsden, Dr Phillip Monk and John Ward), and four non-executive directors (Iain Buchanan, Dr Bruce Campbell, Paul Clegg and Prof. Stephen Holgate). Brief details about the directors are given on page 10 and 11. The responsibilities of the non-executive Chairman and the Chief Executive Officer are clearly divided. The non-executive directors bring relevant experience from different backgrounds and receive a fixed fee for their services and reimbursement of reasonable expenses incurred in attending meetings.

The Board retains full and effective control of the Group. This includes responsibility for determining the Group's strategy and for approving budgets and business plans to fulfil this strategy. The full Board ordinarily meets bi-monthly. It also meets on any other occasions it considers necessary. During the year ended 30 June 2010, the Board met ten times, with each member attending as follows:

Director	Number of meetings held whilst a Board member	Number of meetings attended
Simon Shaw	10	10
Richard Marsden	10	10
Dr Phillip Monk	6	6
John Ward	10	10
Iain Buchanan	1	1
Dr Bruce Campbell	10	10
Paul Clegg	6	6
Prof. Stephen Holgate	10	8
Susan Sundstrom	3	3

It is the duty of the Chairman to ensure that all directors are properly briefed on issues arising at Board meetings. Prior to each Board meeting, directors are sent an agenda and Board papers for each agenda item to be discussed. Additional information is provided when requested by the Board or individual directors.

The Company Secretary is responsible to the Board for ensuring that Board procedures are followed and that the applicable rules and regulations are complied with. All directors have access to the advice and services of the Company Secretary, and independent professional advice, if required, at the Company's expense. Removal of the Company Secretary would be a matter for the Board.

As appropriate, the Board has delegated certain responsibilities to Board committees.

Audit Committee

The Audit Committee currently comprises Simon Shaw (Chairman) and Dr Bruce Campbell. Whilst it is not normal in larger companies for the chairman of the Company to chair the Audit Committee, the Company considers it appropriate for Simon Shaw to be Chairman as he is considered to have the most significant, recent and relevant financial experience of the non-executive directors.

The committee has primary responsibility for ensuring that the financial performance of the Group is properly measured and reported on and it reviews the interim financial information and annual financial statements before they are submitted to the Board. The committee reviews accounting policies and material accounting judgements. The committee also reviews, and reports on, reports from the Group's auditor relating to the Group's accounting controls. It makes recommendations to the Board on the appointment of the auditor and the audit fee. The committee monitors the scope, results and cost-effectiveness of the audit. It has unrestricted access to the Group's auditor. In certain circumstances it is permitted by the Board for the auditor to supply non-audit services (in the provision of tax advice, or on specific projects where they can add value). The committee has approved and monitored the application of this policy in order to safeguard auditor objectivity and independence. The overall fees paid to the auditor are not deemed to be of such significance to them as to impair their independence. The Group does not have an internal audit function, but the Board considers that this is appropriate, given the size of the Group. The committee keeps this matter under review annually. During the year, the committee met five times and all meetings were attended by Simon Shaw and Dr Bruce Campbell.

Remuneration and Nomination Committee

The Remuneration and Nomination Committee currently comprises Paul Clegg (Chairman), Dr Bruce Campbell and Simon Shaw. Susan Sundstrom was Chairman until her resignation from the Board on 3 September 2009, when she was succeeded by Paul Clegg. The committee is responsible for making recommendations to the Board on remuneration policy for executive directors and the terms of their service contracts, with the aim of ensuring that their remuneration, including any share options and other awards, is based on their own performance and that of the Group generally. The committee administers the Long-Term Incentive Plan, the staff share option scheme and the Qualifying Non-Employee Option Scheme and approves grants under all three schemes. It also advises on the remuneration policy for the Group's employees. The committee is responsible for all senior appointments that are made within the Group. During the year ended 30 June 2010, the committee met six times, with each member attending as follows:

Director	Number of meetings held whilst a committee member	Number of meetings attended
Paul Clegg	4	4
Susan Sundstrom	2	2
Dr Bruce Campbell	6	6
Simon Shaw	6	6

Corporate Governance Statement (continued)

Investor relations

The directors seek to build a mutual understanding of objectives between the Company and its shareholders by meetings with major institutional investors and analysts after the Company's preliminary announcement of its year-end results and its interim results. The Company also maintains investor relations pages on its website (www.synairgen.com) to increase the amount of information available to investors.

There is an opportunity at the Annual General Meeting for individual shareholders to question the Chairman, the Chairmen of the Audit and Remuneration and Nomination committees, and the executive directors. Notice of the meeting is sent to shareholders at least 21 clear days before the meeting. Shareholders are given the opportunity to vote on each separate issue. The Company counts all proxy votes and will indicate the level of proxies lodged on each resolution, after it has been dealt with by a show of hands. Details of the resolutions and explanations thereto are included with the notice. This year's meeting will be held at 12 noon on 3 November 2010 at Fasken Martineau LLP, 17 Hanover Square, London W1S 1HU.

Internal control

The directors are responsible for establishing and maintaining the Group's system of internal control and reviewing its effectiveness. The system of internal control is designed to manage, rather than eliminate, the risk of failure to achieve business objectives and can only provide reasonable but not absolute assurance against material misstatement or loss.

The main features of the internal control system are as follows:

- a control environment exists through the close management of the business by the executive directors. The Group has a defined organisational structure with delineated approval limits. Controls are implemented and monitored by personnel with the necessary qualifications and experience;
- a list of matters reserved for board approval;
- monthly management reporting and analysis of variances;
- financial risks for each major transaction are identified and evaluated by the Board; and
- standard financial controls operate to ensure that the assets of the Group are safeguarded and that proper accounting records are maintained.

Directors' responsibilities

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and the Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of the profit or loss of the Group for that period.

The directors are also required to prepare financial statements in accordance with the rules of the London Stock Exchange for companies trading securities on the Alternative Investment Market.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- for the Group financial statements state whether they have been prepared in accordance with IFRSs as adopted by the European Union, subject to any material departures disclosed and explained in the financial statements;
- for the Company financial statements state whether they have been prepared in accordance with United Kingdom Generally Accepted Accounting Practice, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the requirements of the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Website Publication

The directors are responsible for ensuring the annual report and financial statements are made available on a website. Financial statements are published on the Group's website in accordance with AIM rules for companies and legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the Group's website is the responsibility of the directors. The directors' responsibility also extends to the ongoing integrity of the financial statements contained therein.

Going concern

The directors have prepared and reviewed financial forecasts. After due consideration of these forecasts and current cash resources, the directors consider that the Company and the Group have adequate financial resources to continue in operational existence for the foreseeable future (being a period of at least twelve months from the date of this report), and for this reason the financial statements have been prepared on a going concern basis.

By order of the Board

John Ward

Company Secretary

28 July 2010

Directors' Remuneration Report

This report is non-mandatory for AIM-quoted companies and has been produced on a voluntary basis. It includes and complies with the new disclosure obligations of the AIM Rules and with the principal disclosure requirements of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008.

Remuneration Committee

The Company's remuneration policy is the responsibility of the Remuneration and Nomination Committee (the 'Committee'), which was established in October 2004. The terms of reference of the Committee are outlined in the Corporate Governance Statement on page 15. The members are currently Paul Clegg (Chairman), Dr Bruce Campbell and Simon Shaw. Susan Sundstrom was Chairman of the Committee until she resigned from the Board on 3 September 2009, when Paul Clegg was appointed Chairman.

The Committee, which is required to meet at least twice a year, met six times during the year ended 30 June 2010. The Chairman and certain executives may be invited to attend meetings of the Committee to assist it with its deliberations but no executive is present when his or her own remuneration is discussed.

During the year, the Committee has been advised on director remuneration, including the 2009 Long-Term Incentive Plan ('LTIP') awards, the 2009 and 2010 Synairgen Qualifying Non-Employee Option Scheme ('QNEOS') awards and the fair valuation of share-based payments by its retained independent remuneration adviser, Hewitt New Bridge Street. No other advice has been provided to the Group by this firm during the year.

Remuneration policy

(i) Executive remuneration

The Committee has a duty to establish a remuneration policy which will enable it to attract and retain individuals of the highest calibre to run the Group. Its policy is to ensure that executive remuneration packages of Executive Directors and the fee of the Chairman are appropriate given performance, scale of responsibility, experience, and consideration of the remuneration packages for similar executive positions in companies it considers are comparable. Packages are structured to motivate executives to achieve the highest level of performance in line with the best interests of shareholders. A significant element of the total remuneration package, in the form of bonus and LTIP awards, is performance driven.

Executive remuneration currently comprises a base salary, an annual performance-related bonus, a pension contribution to the executive director's individual money purchase scheme (at 9% of base salary), family private health cover, permanent health and life assurance. Salaries and benefits are reviewed annually in July, taking into account Group and individual performance, external benchmark information and internal relativities. The Company operates a discretionary bonus scheme for executive directors for delivery of exceptional performance against personal and corporate objectives. During the year under review, the Committee reviewed and increased the maximum bonus payable from 100% to 200% of base salary recognising both the number of key strategic objectives as the Group moves into Phase II on the interferon beta programme and the continued desire to keep fixed costs low and, therefore, that bonus (and other incentives) are driven off a below market salary level. Bonuses payable to executive directors in respect of the year ended 30 June 2010 were 43% of base salary for Richard Marsden and John Ward and 40% of base salary for Dr Phillip Monk, amounting to £52,000 for Richard Marsden, £47,000 for John Ward and £33,000 for Dr Phillip Monk.

Executive directors are also rewarded for improvements in the performance of the Group sustained over a period of years in the form of Long-Term Incentive Plan share awards granted on a discretionary basis by the Committee.

Directors' remuneration for the year to 30 June 2010 is set out on page 19 of this document. The Committee has concluded that the salaries of the Chief Executive and the Finance Director will again not be increased for the year to 30 June 2011. The Committee has due regard to pay and conditions elsewhere in the Company in setting the package of the Executive Directors. On 1 July 2010, the salary of the Chief Scientific Officer will increase to £90,000, reflecting his successful integration onto the Board.

(ii) Chairman and non-executive director remuneration

The Chairman, Mr Buchanan and Mr Clegg receive a fixed fee of £25,000 per annum. Dr Campbell and Professor Holgate received a fixed fee of £15,000 per annum with effect from 1 September 2009. The fixed fee covers preparation for and attendance at meetings of the full Board and committees thereof. From 1 September 2009, a fee of £5,000 per annum was introduced for chairing each of the audit and remuneration committees. The Chairman and the executive directors are responsible for setting the level of non-executive remuneration. The non-executive directors are also reimbursed for all reasonable expenses incurred in attending meetings.

(iii) Equity-based incentive schemes

The Committee strongly believes that equity-based incentive schemes increase the focus of employees in improving Group performance, whilst at the same time providing a strong incentive for retaining and attracting individuals of a high calibre.

Long-Term Incentive Plan

The Synairgen Long-Term Incentive Plan, comprising conditional (performance-related) share awards (technically structured as nominal cost options pursuant to which participants must pay 1p per share on the exercise of their awards), was introduced in 2005 as the primary long-term incentive vehicle for executive directors. Senior executives and other employees may be granted an award which will normally vest if demanding performance conditions are achieved over a three-year period and if the grantee remains an employee of the Group.

Grants under the LTIP in any financial year are capped at a maximum of 100% of base salary. In September 2009 Richard Marsden, John Ward and Dr Phillip Monk were granted awards over shares worth 92.5% of base salary. Executive directors are expected to retain no fewer than 50% of shares acquired upon vesting of awards under the LTIP, net of taxes, until such time as, in combination with any other shares the executives may have acquired, they hold shares with a value equivalent to 100% of base salary.

All awards will lapse at the end of the applicable performance period to the extent that the applicable performance criteria conditions have not been satisfied with no opportunity for retesting. In the event of a good leaver event or a change of control of the Company, the LTIP awards may vest early, but only to the extent that, in the opinion of the Committee, the performance conditions have been satisfied at that time. The awards will generally also be subject to a time pro-rated reduction to reflect the reduced period of time between the grant of the awards and the time of vesting although this reduction may not be applied in certain cases.

Directors' Remuneration Report (continued)

Performance conditions for the 2009 LTIP awards

The performance conditions for the 2009 LTIP awards were the same as the 2006, 2007 and 2008 LTIP awards except for the addition of an additional hurdle to the second condition and using a higher and more challenging base share price of 20p (rather than the actual of 18.5p) for the TSR condition. The awards are subject to two conditions. Firstly, awards will only vest to the extent that the percentage increase in the total shareholder return ('TSR') of the Company over the three year performance period is equal or greater than the percentage increase in the techMARK mediscience™ index over the same period as follows:

TSR growth over the performance period less percentage increase in the techMARK mediscience™ index over the same period	Vesting percentage of total number of shares subject to award
Less than 0%	0%
0%	25%
10%	50%
20%	100%
Performance between the steps	Pro-rata on a straight-line basis

Secondly, no award will vest unless the average annual growth in the TSR of the Company over the performance period is equal to or greater than RPI plus 2%. The 2009 LTIP award requires that, for more than 75% of an award to vest, annual average TSR must exceed RPI by at least 5% rather than 2%.

Qualifying Non-Employee Option Scheme

On 12 June 2009 shareholders in General Meeting unanimously approved the adoption of the QNEOS. This plan is a discretionary share scheme which will enable the Committee to grant market value share options to consultants and non-executive directors who, in the opinion of the Committee, make, or, in the case of new appointments, will make, a significant contribution to the Group and where the Committee considers it to be in the interests of shareholders to make such grants.

Directors' interests in share options

The interests of directors in share options over ordinary shares during the year were as follows:

Synairgen Long-Term Incentive Plan

Date of grant	At 1 July 2009	Granted during the year	Lapsed	At 30 June 2010	Exercise price	Earliest exercise date	Expiry date
Richard Marsden							
30 November 2006	70,606	-	(70,606)	-	1p	30 Nov 2009	29 Nov 2010
30 October 2007	129,853	-	-	129,853	1p	30 Oct 2010	29 Oct 2011
1 August 2008	165,000	-	-	165,000	1p	1 Aug 2011	31 Jul 2012
7 September 2009	-	605,000 ²	-	605,000	1p	7 Sept 2012	6 Sept 2013
John Ward							
30 November 2006	128,484	-	(128,484)	-	1p	30 Nov 2009	29 Nov 2010
30 October 2007	118,048	-	-	118,048	1p	30 Oct 2010	29 Oct 2011
1 August 2008	150,000	-	-	150,000	1p	1 Aug 2011	31 Jul 2012
7 September 2009	-	550,000 ²	-	550,000	1p	7 Sept 2012	6 Sept 2013
Dr Phillip Monk							
30 October 2007	39,439 ¹	-	-	39,439	1p	30 Oct 2010	29 Oct 2011
1 August 2008	50,000 ¹	-	-	50,000	1p	1 Aug 2011	31 Jul 2012
7 September 2009	-	414,625 ²	-	414,625	1p	7 Sept 2012	6 Sept 2013

Note 1: At date of appointment (3 September 2009). Note 2: The market value of a share on 7 September 2009 was 18.5p.

The options awarded in October 2007, August 2008 and September 2009 under the LTIP will only vest if the performance conditions outlined above are met.

During the year under review, the Committee granted options under the QNEOS to two newly-appointed non-executive directors, Paul Clegg and Iain Buchanan, whom it believes will make a significant contribution to the Group. No recipient of an award took part in any discussion around the making of an award to him.

The awards will only vest to the extent that the percentage increase in the total shareholder return ('TSR') of the Company over the three year performance period is as follows:

Percentage annual rate of TSR Growth over the Performance Period	Percentage of Shares Vesting
Less than 5% p.a.	Nil
Equal to 5% p.a. (i.e. 15% over three years)	25%
Between 5% p.a. and 10% p.a. (i.e. between 15% and 30% over three years)	Between 25% and 100% on a straight-line basis
Equal to or greater than 10% p.a. (i.e. equal to or greater than 30% over three years)	100%

(iv) Service contracts and letters of appointment

The executive directors have entered into service agreements which can be terminated on six months' notice by either party.

During the year, Richard Marsden was a non-executive director of Southampton Asset Management Limited but did not receive any fees with regards to this appointment. None of the other executive directors held non-executive directorships with other companies.

The Chairman and non-executive directors have entered into letters of appointment for an initial fixed period of twelve months, which renew automatically for a further twelve month period on the anniversary of commencement. The appointment can be terminated on three months' notice by either party.

Other options granted on or before the IPO or under the Synairgen plc Staff Option Scheme

Date of grant	At 1 July 2009 and 30 June 2010	Exercise price	Earliest exercise date	Expiry date
Richard Marsden				
11 October 2004	280,000	10p	11 Oct 2004	10 Oct 2014
11 October 2004	140,000	10p	30 Jun 2005	10 Oct 2014
26 October 2004	140,000	130p	30 Jun 2006	25 Oct 2014
26 October 2004	140,000	130p	30 Jun 2007	25 Oct 2014
John Ward				
26 October 2004	140,000	130p	30 Jun 2005	25 Oct 2014
26 October 2004	140,000	130p	30 Jun 2006	25 Oct 2014
Dr Phillip Monk				
2 October 2006	50,000 ¹	85.5p	2 Oct 2009	1 Oct 2016

Note 1: At date of appointment and 30 June 2010

The vesting and exercise of these other options is subject to the relevant option vesting continuing to be an employee or director of a company in the same Group as the Company at the relevant time. There are no further performance criteria.

Audited information

The following section (Directors' remuneration) contains the disclosures required by Schedule 5 to the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008, forms part of the financial statements for the year ended 30 June 2010 and has been audited by the Company's auditor, BDO LLP.

Directors' remuneration

The aggregate remuneration received by directors who served during the year ended 30 June 2010 was as follows:

£'000	Note	Salary/fee 2010	Benefits 2010	Bonus 2010	Total (excl. pension) 2010	Pension 2010	Total (incl. pension) 2010	Total (excl. pension) 2009	Pension 2009	Total (incl. pension) 2009
Executive directors										
Richard Marsden	(i)	121	1	52	174	11	185	170	11	181
John Ward		110	1	47	158	10	168	155	10	165
Dr Phillip Monk	(ii)	69	-	33	102	6	108	-	-	-
Non-executive directors										
Simon Shaw		29	-	-	29	-	29	25	-	25
Dr Bruce Campbell	(iii)	13	-	-	13	-	13	5	-	5
Prof. Stephen Holgate	(iv)	13	-	-	13	-	13	5	-	5
Paul Clegg	(v)	25	-	-	25	-	25	-	-	-
Iain Buchanan	(vi)	-	-	-	-	-	-	-	-	-
Former directors										
Susan Sundstrom	(vii)	1	-	-	1	-	1	5	-	5
Total	-	381	2	132	515	27	542	365	21	386

- (i) Richard Marsden was the highest paid director during the years ended 30 June 2009 and 2010
- (ii) Dr Phillip Monk was appointed as a director on 3 September 2009
- (iii) £13,000 was paid to IP2IPO Limited for the services of Dr Bruce Campbell
- (iv) In addition to this fee for his services as a director, Prof. Holgate received consultancy fees amounting to £12,000 (2009: £20,000) as disclosed in note 20 to the financial statements
- (v) Paul Clegg was appointed as a director on 3 September 2009

- (vi) Iain Buchanan was appointed as a director on 28 June 2010
- (vii) Susan Sundstrom resigned as a director on 3 September 2009. £1,000 was paid to the University of Southampton for the services of Susan Sundstrom
- (viii) The total amount paid to third parties amounted to £14,000 (2009: £10,000)

In addition to the amounts shown above, the share-based payment charge for the year ended 30 June 2010 was £38,000 (2009: £31,000) for Richard Marsden, £38,000 (2009: £37,000) for John Ward, and £14,000 for Dr Phillip Monk. Total share-based payment in respect of key management personnel amounted to £90,000 for the year ended 30 June 2010 (2009: £68,000).

By order of the Board

Paul Clegg

Chairman of the Remuneration and Nomination Committee

28 July 2010

Synairgen Qualifying Non-Employee Option Scheme

Date of grant	At appointment	Granted during the year	At 30 June 2010	Exercise price	Earliest exercise date	Expiry date
Paul Clegg						
7 Sept 2009	-	250,000 ¹	250,000	20p	7 Sept 2012	6 Sept 2019
Iain Buchanan						
28 June 2010	-	212,765 ²	212,765	23.5p	28 Jun 2013	27 Jun 2020

Note 1 The market value of a share on 7 September 2009 was 18.5p

Note 2 The market value of a share on 28 June 2010 was 23.5p

The options awarded in September 2009 and June 2010 will only vest if the performance condition above has been met.

There were no other options granted to directors or which were exercised or lapsed during the year.

The mid-market price of the Company's shares at 30 June 2010 was 23.5p. During the year then ended the mid-market price ranged from 16.75p to 58p. On 28 July 2010 the closing price was 24.5p.

Independent Auditor's Report to the shareholders of Synairgen plc

We have audited the financial statements of Synairgen plc for the year ended 30 June 2010 which comprise the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Changes in Equity, the Consolidated Statement of Financial Position, the Consolidated Statement of Cash Flows, the Parent Company Balance Sheet and the related notes. The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial reporting framework that has been applied in preparation of the Parent Company financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Statement of Directors' Responsibilities shown within the Corporate Governance Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditor.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and the Parent Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and the Parent Company's affairs as at 30 June 2010 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the Parent Company's financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Paul Anthony (senior statutory auditor)

For and on behalf of

BDO LLP, statutory auditor

Southampton, United Kingdom

28 July 2010

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127)

Consolidated Statement of Comprehensive Income

for the year ended 30 June 2010

	Notes	Year ended 30 June 2010 £000	Year ended 30 June 2009 £000
Research and development expenditure		(2,109)	(2,107)
Other administrative expenses		(880)	(864)
Total administrative expenses		(2,989)	(2,971)
Loss from operations	4	(2,989)	(2,971)
Finance income	6	71	130
Finance expense	6	-	(1)
Loss before tax		(2,918)	(2,842)
Tax	7	368	348
Loss and total comprehensive income for the year attributable to equity holders of the parent		(2,550)	(2,494)
Loss per ordinary share			
Basic and diluted loss per share (pence)	8	(4.27)p	(10.64)p

Consolidated Statement of Changes in Equity

for the year ended 30 June 2010

Notes	Share capital £000 19a	Share premium £000 19b	Merger reserve £000 19c	Retained deficit £000 19d	Total £000
At 1 July 2008	217	8,903	483	(5,416)	4,187
Issuance of ordinary shares	380	5,977	-	-	6,357
Transaction costs in respect of share issues	-	(155)	-	-	(155)
Recognition of share-based payments	-	-	-	104	104
Total comprehensive income for the year	-	-	-	(2,494)	(2,494)
At 30 June 2009	597	14,725	483	(7,806)	7,999
Recognition of share-based payments	-	-	-	115	115
Total comprehensive income for the year	-	-	-	(2,550)	(2,550)
At 30 June 2010	597	14,725	483	(10,241)	5,564

Consolidated Statement of Financial Position

as at 30 June 2010

	Notes	30 June 2010 £000	30 June 2009 £000
Assets			
Non-current assets			
Intangible assets	9	252	127
Property, plant and equipment	10	81	81
		333	208
Current assets			
Inventories	11	293	123
Current tax receivable		345	320
Trade and other receivables	12	106	75
Other financial assets – bank deposits	13	3,680	1,977
Cash and cash equivalents	14	1,334	5,963
		5,758	8,458
Total assets		6,091	8,666
Liabilities			
Current liabilities			
Trade and other payables	15	(525)	(662)
Obligations under finance leases	16	(2)	(3)
		(527)	(665)
Non-current liabilities			
Obligations under finance leases	16	-	(2)
Total liabilities		(527)	(667)
Total net assets		5,564	7,999
Equity			
Capital and reserves attributable to equity holders of the parent			
Share capital	18	597	597
Share premium	18	14,725	14,725
Merger reserve		483	483
Retained deficit		(10,241)	(7,806)
Total equity		5,564	7,999

The financial statements on pages 21 to 35 were approved and authorised for issue by the Board of directors on 28 July 2010 and signed on its behalf by:

Richard Marsden
Chief Executive Officer

John Ward
Finance Director

Consolidated Statement of Cash Flows

for the year ended 30 June 2010

	Year ended 30 June 2010 £000	Year ended 30 June 2009 £000
Cash flows from operating activities		
Loss before tax	(2,918)	(2,842)
Adjustments for:		
Finance income	(71)	(130)
Finance expense	-	1
Depreciation	34	64
Amortisation	23	43
Share-based payment charge	115	104
Cash flows from operations before changes in working capital	(2,817)	(2,760)
Increase in inventories	(170)	(20)
(Increase)/Decrease in trade and other receivables	(20)	15
(Decrease)/Increase in trade and other payables	(137)	84
Cash used in operations	(3,144)	(2,681)
Interest paid	-	(1)
Tax credit received	343	328
Net cash used in operating activities	(2,801)	(2,354)
Cash flows from investing activities		
Interest received	60	176
Purchase of property, plant and equipment	(34)	(23)
Purchase of intangible assets	(148)	(61)
(Increase)/Decrease in other financial assets	(1,703)	1,468
Net cash (used in)/generated from investing activities	(1,825)	1,560
Cash flows from financing activities		
Proceeds from issuance of ordinary shares	-	6,357
Transaction costs in respect of share issues	-	(155)
Repayments of obligations under finance leases	(3)	(2)
Net cash (used in)/generated from financing activities	(3)	6,200
(Decrease)/Increase in cash and cash equivalents	(4,629)	5,406
Cash and cash equivalents at beginning of year	5,963	557
Cash and cash equivalents at end of year	1,334	5,963

Notes to the Consolidated Financial Statements

for the year ended 30 June 2010

1. Accounting policies

Basis of preparation

The Group financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (Adopted IFRSs) and with those parts of the Companies Act 2006 applicable to companies preparing their financial statements under IFRSs.

The following new standards, amendments to standards and interpretations that have been issued by the International Accounting Standards Board and the International Financial Reporting Interpretations Committee are to be applied to financial statements with periods commencing on or after the following dates:

International Financial Reporting and Accountancy Standards (IFRS/IAS)

Effective date

IAS 39	Financial Instruments: recognition and measurement (amendment)	1 January 2010
IFRS 1*	First-time Adoption of IFRS (Amendment)	1 January 2010
IFRS 2	Share-based payment (Amendment)	1 January 2010
IAS 32	Financial Instruments: Presentation (Amendment)	1 February 2010
IFRS 1*	First-time Adoption of IFRS (Amendment)	1 July 2010
IFRS 3(R)	Business combinations	1 July 2010
IAS 21	The effects of changes in foreign exchange rates (Amendment)	1 July 2010
IAS 28	Investments in associates (Amendment)	1 July 2010
IAS 24*	Related Party Disclosures (Amendment)	1 January 2011
IFRS 1*	First-time Adoption of IFRS (Amendment)	1 January 2011
IFRS 7*	Financial instruments (Amendment)	1 January 2011
IAS 1(R)*	Presentation of financial statements (Amendment)	1 January 2011
IAS 34*	Interim financial reporting (Amendment)	1 January 2011
IFRS 9*	Financial Instruments	1 January 2013

International Financial Reporting Interpretations Committee (IFRIC)

IFRIC 19*	Extinguishing Financial Liabilities with Equity Instruments	1 April 2010
IFRIC 14, IAS 19*	Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	1 January 2011

* Not endorsed by the EU as at the date of approval of these financial statements.

The directors anticipate that the adoption of these standards and interpretations in future periods will have no material impact on the financial statements of the Group.

The Group financial statements are presented in Sterling.

Notes to the Consolidated Financial Statements

for the year ended 30 June 2010 (continued)

1. Accounting policies (continued)

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company made up to the reporting date. Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities. All intra-group transactions, balances, income and expenses are eliminated on consolidation. Business combinations that took place prior to 1 July 2006, the date of transition to IFRS, have not been restated as permitted by IFRS 1 “First-time Adoption of International Financial Reporting”. The consolidated financial statements have been prepared using the merger method of accounting.

Research and development

All ongoing research expenditure is currently expensed in the period in which it is incurred. Due to the regulatory and other uncertainties inherent in the development of the Group’s products, the criteria for development costs to be recognised as an asset, as set out in IAS 38 “Intangible Assets”, are not met until a product has been submitted for regulatory approval and it is probable that future economic benefit will flow to the Group. The Group currently has no such qualifying expenditure.

Employee benefits

All employee benefit costs, notably salaries, holiday pay, bonuses and contributions to Group stakeholder or personal defined contribution pension schemes are charged to the consolidated income statement on an accruals basis.

Share-based payments

In accordance with IFRS 2 “Share-based Payment”, option awards and awards made under the Group’s Long-Term Incentive Plan (‘LTIP’) granted after 7 November 2002 which had not vested by 1 July 2006 are fair valued and charged to the consolidated income statement over the period from grant to vesting. The Group has fair-valued option and LTIP awards using appropriate share valuation models. Options granted to non-employees are measured at the fair value of the goods or services received, except where the fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instrument granted. At each balance sheet date, the Group revises its estimate of the number of options that are expected to become exercisable. The credit for any charge is taken to equity.

Intangible assets

Intangible assets are stated at cost less any accumulated amortisation and any accumulated impairment losses. Patent and licence costs are amortised over ten years on a straight-line basis and the amortisation cost is charged to research and development expenditure in the consolidated statement of comprehensive income.

Property, plant and equipment

Property, plant and equipment are stated at cost less any accumulated depreciation and any accumulated impairment losses. Depreciation is provided on a straight-line basis at rates calculated to write off the cost of property, plant and equipment, less their estimated residual value over their expected useful lives, which are as follows:

Computer equipment:	3 years
Laboratory and clinical equipment:	5 years

The carrying values of property, plant and equipment are reviewed for impairment if events or changes in circumstances indicate that the carrying value may not be recoverable.

Inventories

Inventories are stated at the lower of cost and net realisable value.

Financial instruments

Financial assets and financial liabilities are recognised on the Group’s consolidated statement of financial position when the Group becomes a party to the contractual provisions of the instrument.

Financial assets

The Group classifies its financial assets as loans and receivables. These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are initially recognised at fair value plus transaction costs that are directly attributable to their acquisition or issue, and are subsequently carried at amortised cost using the effective interest rate method, less provision for impairment. Impairment provisions are recognised when there is objective evidence (such as significant financial difficulties on the part of the counterparty or default or significant delay in payment) that the Group will be unable to collect all of the amounts due under the terms receivable; the amount of such a provision being the difference between the net carrying amount and the present value of the future expected cash flows associated with the impaired receivable.

The Group’s loans and receivables comprise trade and other receivables, other financial assets and cash and cash equivalents in the consolidated statement of financial position. Other financial assets comprise short-term deposits not meeting the IAS 7 definition of a cash equivalent. Cash and cash equivalents includes cash in hand, deposits held at call with banks and other short-term bank deposits with a maturity period of three months or less from the date of initial deposit.

Notes to the Consolidated Financial Statements

for the year ended 30 June 2010 (continued)

1. Accounting policies (continued)

Financial liabilities

The Group classifies its financial liabilities as financial liabilities held at amortised cost. Trade payables and obligations under finance leases are initially recognised at fair value and subsequently carried at amortised cost using the effective interest rate method.

Leased assets

Where substantially all of the risks and rewards incidental to ownership of a leased asset have transferred to the Group (a 'finance lease'), the asset is treated as if it had been purchased outright. The amount initially recognised as an asset is the lower of the fair value of the leased property and the present value of the minimum lease payments payable over the term of the lease. The corresponding commitment is shown as a liability. Lease payments are analysed between capital and interest. The interest element is charged to the consolidated income statement over the period of the lease and is calculated so that it represents a constant proportion of the lease liability. The capital element reduces the balance owed to the lessor.

Where substantially all of the risks and rewards incidental to ownership are not transferred to the Group (an 'operating lease'), the total rentals payable under the lease are charged to the consolidated statement of comprehensive income on a straight-line basis over the lease term.

Taxation

Income tax is recognised or provided at amounts expected to be recovered or to be paid using the tax rates and tax laws that have been enacted or substantively enacted at the statement of financial position date. Research and development tax credits are included as an income tax credit under current assets.

Deferred tax balances are recognised in respect of all temporary differences that have originated but not reversed by the statement of financial position date except for differences arising on:

- investments in subsidiaries where the Group is able to control the timing of the reversal of the difference and it is probable that the difference could not reverse in the foreseeable future; and
- the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither accounting or taxable profit.

The amount of the asset or liability is determined using tax rates that have been enacted or substantially enacted by the statement of financial position date and are expected to apply when the deferred tax liabilities/(assets) are settled/(recovered).

Recognition of deferred tax assets is limited to the extent that the Group anticipates making sufficient taxable profits in the future to absorb the reversal of the underlying timing differences. Deferred tax balances are not discounted.

Foreign currencies

Transactions entered into by Group entities in a currency other than the currency of the primary economic environment in which they operate (their "functional currency") are recorded at the rates ruling when the transactions occur. Foreign currency monetary assets and liabilities are translated at the rates ruling at the statement of financial position date. Exchange differences arising on the retranslation of unsettled monetary assets and liabilities are recognised immediately in the consolidated statement of comprehensive income.

The functional currency of all entities in the Group is Sterling.

2. Critical accounting estimates and judgements

Critical accounting estimates, assumptions and judgements are continually evaluated by management based on available information and experience. As the use of estimates is inherent in financial reporting, actual results could differ from these estimates.

Inventory

The Group's raw material inventory shown in note 11 comprises the Group's biobank of human tissue, which is valued net of a provision for items which management consider will be excess to the Group's future research and development requirements.

Share-based payment

The critical accounting estimates, assumptions and judgements underpinning the valuation of the option and LTIP awards are disclosed in note 18.

3. Segmental analysis

The Group operates in one area of activity, namely drug discovery and development. All assets of the Group are located within the United Kingdom and all losses were generated in that territory.

Notes to the Consolidated Financial Statements

for the year ended 30 June 2010 (continued)

4. Loss from operations

The loss from operations has been arrived at after charging:

	2010 £000	2009 £000
Depreciation of property, plant and equipment	34	64
Amortisation of intangible assets	23	43
Research and development expenditure	2,109	2,107
Employee benefit expense (see note 5)	1,270	1,185
Operating lease rentals payable		
Land and buildings	55	55
Other operating lease rentals	102	102

The fees of the Group's auditor, BDO LLP, for services provided are analysed below:

	2010 £000	2009 £000
Audit services		
Fees payable to the Company's auditor for the audit of the consolidated financial statements	10	10
Fees payable to the Company's auditor for the audit of the Company's subsidiary's financial statements	10	9
Tax services		
Parent company	2	12
Subsidiary	3	3
Other services pursuant to legislation		
Parent company – interim review	5	5
Total fees	30	39

5. Employee benefit expense

The average monthly number of employees (including executive directors) was:

	2010	2009
Research	20	19
Administration	4	4
	24	23

Their aggregate remuneration comprised:

	2010 £000	2009 £000
Wages and salaries	986	923
Social security costs	110	103
Pension costs – defined contribution plans	52	51
Total cash-settled remuneration	1,148	1,077
Accrued holiday pay	7	4
Share-based payment	115	104
Total remuneration	1,270	1,185

Notes to the Consolidated Financial Statements

for the year ended 30 June 2010 (continued)

5. Employee benefit expense (continued)

Key management compensation

The directors represent the key management personnel and details of their remuneration are given in the Directors' Remuneration Report.

In respect of directors' remuneration, the disclosures required by Schedule 5 to the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 are included in the detailed disclosures in the audited section of the Remuneration Report on page 19, which is ascribed as forming part of these financial statements.

6. Finance income and Finance expense

For the years ended 30 June 2010 and 2009, Finance income represents bank interest receivable and Finance expense represents interest on obligations under finance leases.

7. Taxation

Current tax

	2010 £000	2009 £000
UK corporation tax credit on loss for the year	(345)	(320)
Adjustment in respect of prior years	(23)	(28)
Total income tax credit	(368)	(348)

The tax assessed on the loss on ordinary activities for the year is different to the standard rate of corporation tax in the UK of 28% (2009: 28%).

The differences are reconciled below:

	2010 £000	2009 £000
Loss on ordinary activities before tax	(2,918)	(2,842)
Loss on ordinary activities before tax multiplied by the standard rate of corporation tax in the UK	(817)	(796)
<i>Effects of:</i>		
Tax relief on options	-	(24)
Expenses not deductible for tax purposes	35	30
Enhanced research & development relief	(316)	(298)
Variable rates on tax losses surrendered for research & development tax credit	345	314
Movement in unrecognised losses and temporary differences	408	454
Overprovision in respect of previous periods	(23)	(28)
Total tax credit for the current year	(368)	(348)

Deferred tax

	2010 £000	2009 £000
<i>Recognised deferred taxation</i>		
Accelerated capital allowances	18	17
Other temporary differences	(7)	(7)
Losses	(11)	(10)
Charge for the year	-	-

Unrecognised deferred taxation

At 30 June 2010 the Group has trading losses carried forward which are available for offset against future profits of the Group amounting to £5,660,000 (2009: £4,393,000) and an unrecognised deferred tax asset in respect of these losses of £1,574,000 (2009: £1,230,000). The full utilisation of these losses in the foreseeable future is uncertain and no deferred tax asset has therefore been recognised.

Notes to the Consolidated Financial Statements

for the year ended 30 June 2010 (continued)

7. Taxation (continued)

The movement on the unrecognised deferred tax asset comprises the following:

	2010 £000	2009 £000
Unrecognised deferred tax asset at 1 July	(1,230)	(789)
Movement in year	(344)	(441)
Unrecognised deferred tax asset at 30 June	(1,574)	(1,230)

8. Loss per ordinary share

	Year ended 30 June 2010	Year ended 30 June 2009
Loss attributable to equity holders of the Company (£000)	(2,550)	(2,494)
Weighted average number of ordinary shares in issue	59,745,249	23,434,742

The loss attributable to ordinary shareholders and weighted average number of ordinary shares for the purpose of calculating the diluted earnings per ordinary share are identical to those used for basic earnings per share. This is because the exercise of share options would have the effect of reducing the loss per ordinary share and is therefore not dilutive under the terms of IAS 33. At 30 June 2010, there were 4,733,439 options outstanding (30 June 2009: 2,339,663 options outstanding) as detailed in note 18.

9. Intangible assets

	Patent and licence costs £000
Cost	
At 1 July 2008	141
Additions	61
Derecognised assets	(41)
At 30 June 2009	161
Additions	148
At 30 June 2010	309
Amortisation	
At 1 July 2008	32
Derecognised assets	(41)
Charge for the year	43
At 30 June 2009	34
Charge for the year	23
At 30 June 2010	57
Net book amount	
At 30 June 2010	252
At 30 June 2009	127
At 1 July 2008	109

At 30 June 2010 £243,000 (2009: £118,000) of the net book amount relates to interferon beta and lambda patent and licence costs, which has a remaining amortisation period of 8 years (2009: 8 years).

During the year ended 30 June 2009, the Group derecognised certain capitalised patent costs on programmes which it did not intend to pursue, resulting in accelerated amortisation of £24,000.

Notes to the Consolidated Financial Statements

for the year ended 30 June 2010 (continued)

10. Property, plant and equipment

	Computer equipment £000	Laboratory and clinical equipment £000	Total £000
Cost			
At 1 July 2008	65	266	331
Additions	-	23	23
Derecognised assets	-	(146)	(146)
At 30 June 2009	65	143	208
Additions	9	25	34
At 30 June 2010	74	168	242
Depreciation			
At 1 July 2008	49	160	209
Derecognised assets	-	(146)	(146)
Charge for the year	11	53	64
At 30 June 2009	60	67	127
Charge for the year	6	28	34
At 30 June 2010	66	95	161
Net book value			
At 30 June 2010	8	73	81
At 30 June 2009	5	76	81
At 1 July 2008	16	106	122

Included within laboratory and clinical equipment at 30 June 2010 are assets under finance leases at a cost of £14,000 (30 June 2009: £14,000) and net book value of £2,000 (30 June 2009: £5,000).

At 30 June 2010 the Group had no capital commitments (30 June 2009: nil).

During the year ended 30 June 2009, the Group derecognised certain laboratory equipment which was no longer used by the Group.

11. Inventories

	2010 £000	2009 £000
Raw materials	141	115
Finished goods	152	8
	293	123

Raw materials comprises the Group's biobank. Finished goods comprises nebulisers for the Phase II clinical trial.

12. Trade and other receivables

	2010 £000	2009 £000
<i>Amounts receivable within one year:</i>		
Other tax and social security	50	36
Prepayments and accrued income	56	39
	106	75

Notes to the Consolidated Financial Statements

for the year ended 30 June 2010 (continued)

13. Other financial assets – bank deposits

	2010 £000	2009 £000
<i>Amounts receivable within one year:</i>		
Sterling fixed rate deposits of greater than three months' maturity at inception	3,680	1,977

14. Cash and cash equivalents

	2010 £000	2009 £000
Cash in hand	1,334	103
Sterling fixed rate deposits of up to three months' maturity at inception	-	5,860
	1,334	5,963

15. Trade and other payables

	2010 £000	2009 £000
Trade payables	187	134
Social security and other taxes	35	29
Accrued expenses	303	499
	525	662

16. Obligations under finance leases

	Minimum lease payments		Present value of lease payments	
	2010 £000	2009 £000	2010 £000	2009 £000
<i>Amounts payable under finance leases</i>				
Within one year	2	3	2	3
In the second to fifth years inclusive	-	2	-	2
	2	5	2	5
Less future finance charges	-	-	-	-
Present value of lease obligations	2	5	2	5
Less: Amount due for settlement within 12 months (shown under current liabilities)			(2)	(3)
Amount due for settlement after 12 months			-	2

The finance lease is secured by a charge on the asset concerned.

Notes to the Consolidated Financial Statements

for the year ended 30 June 2010 (continued)

17. Financial instruments

An explanation of the Group's objectives, policies and strategies for financial instruments and analysis of the capital structure and capital funding of the Group can be found on page 5 in the Financial Review.

			2010		2009
	Notes	Book value £000	Fair value £000	Book value £000	Fair value £000
Group					
<i>Financial assets</i>					
<i>Loans and receivables</i>					
Trade and other receivables	(i)	66	66	43	43
Other financial assets (less than one year)		3,680	3,680	1,977	1,977
Cash and cash equivalents (less than one year)		1,334	1,334	5,963	5,963
Total		5,080	5,080	7,983	7,983
<i>Financial liabilities</i>					
<i>Other financial liabilities</i>					
Trade and other payables	(ii)	490	490	633	633
Obligations under finance leases (less than one year)		2	2	3	3
Obligations under finance leases (greater than one year)		-	-	2	2
Total		492	492	638	638

(i) Trade and other receivables shown above excludes prepayments, which are not a contractual obligation to receive cash, amounting to £40,000 (2009: £32,000)

(ii) Trade and other payables shown above excludes amounts due in respect of social security and other taxes, which are not a contractual obligation to pay cash, amounting to £35,000 (2009: £29,000)

The objective of holding financial instruments is to have access to finance for the Group's operations and to manage related risks. The main risks arising from holding these instruments are interest rate risk, liquidity risk, and credit risk.

Interest rate risk

Interest rate risk profile of financial assets, excluding short-term debtors:

		2010		2009	
		Fixed rate financial liabilities £000	Floating rate financial assets £000	Fixed rate financial liabilities £000	Floating rate financial assets £000
Group					
Sterling		2	5,014	5	7,940

Fixed rate financial liabilities comprises a hire purchase contract, which expires in 2011 and has a weighted average interest rate of 8.26%. The maturity profile is detailed in note 16. There is no material difference between the carrying amount and the fair value of the financial liabilities.

Floating-rate financial assets comprise cash on deposit and cash at bank. There is no difference between the carrying amount and the fair value of the financial assets.

Short-term deposits are placed with banks for periods of up to six months and are categorised as floating-rate financial assets. Contracts in place at 30 June 2010 had a weighted average period to maturity of 21 days and a weighted average annualised rate of interest of 1.02% (30 June 2009: 33 days, 0.66%).

Sensitivity analysis

It is estimated that a decrease of one percentage point in interest rates would have increased the Group's loss before taxation by approximately £65,000 (2009: £29,000).

Notes to the Consolidated Financial Statements

for the year ended 30 June 2010 (continued)

17. Financial instruments (continued)

Liquidity risk

The Group's policy is to maintain adequate cash resources to meet liabilities as they fall due. With the exception of its hire purchase liabilities, which are disclosed in note 16, all other Group payable balances as at 30 June 2010 and 30 June 2009 fall due for payment within one year. Cash balances are placed on deposit for varying periods with reputable banking institutions to ensure there is limited risk of capital loss. The Group does not maintain an overdraft facility.

Credit risk

The Group's credit risk is attributable to its banking deposits. The Group places its deposits with reputable financial institutions to minimise credit risk.

18. Share capital and premium

	Notes	Number of shares	Ordinary shares of 1p each £000	Share premium £000	Total £000
At 1 July 2008		21,692,308	217	8,903	9,120
Exercise of share options	(i)	700,000	7	-	7
Issuance of ordinary shares	(ii)	37,352,941	373	5,977	6,350
Costs of issuance of shares		-	-	(155)	(155)
At 30 June 2009 and 2010		59,745,249	597	14,725	15,322

(i) Simon Shaw exercised his 700,000 founder options on 17 October 2008 at nominal value and 700,000 ordinary shares of 1p were issued on that day

(ii) 7,852,948 and 29,499,993 ordinary shares of 1p were issued on 18 June 2009 and 19 June 2009 respectively at a premium of 16p per share to finance the two planned Phase IIa inhaled interferon beta proof of concept studies in asthma and COPD and to provide working capital for the Company. Funds raised net of expenses amounted to £6,195,000

The total authorised number of ordinary shares is 100 million shares (2009: 100 million shares) with a par value of 1p per share (2009: 1p per share). All issued shares are fully paid.

Options

At 30 June 2010 there were options outstanding over 4,733,439 un-issued ordinary shares, equivalent to 7.9% of the issued share capital, as follows:

Date of grant	Number of shares	Exercise price	Earliest exercise date	Latest exercise date
Approved EMI scheme				
26 October 2004	64,515	130p	30 June 2005	25 October 2014
26 October 2004	64,515	130p	30 June 2006	25 October 2014
26 October 2004	42,000	130p	26 October 2007	25 October 2014
12 May 2005	28,000	136.5p	12 May 2008	11 May 2015
2 October 2006	119,159	85.5p	2 October 2009	1 October 2016
29 October 2007	52,534	61.5p	29 October 2010	28 October 2017
Unapproved schemes				
11 October 2004	280,000	10p	11 October 2004	10 October 2014
11 October 2004	140,000	10p	30 June 2005	10 October 2014
26 October 2004	75,485	130p	30 June 2005	25 October 2014
26 October 2004	215,485	130p	30 June 2006	25 October 2014
26 October 2004	140,000	130p	30 June 2007	25 October 2014
30 October 2007 (LTIP)	355,394	1p	30 October 2010	29 October 2011
1 August 2008 (LTIP)	456,214	1p	1 August 2011	31 July 2012
7 September 2009 (LTIP)	1,987,373	1p	7 September 2012	6 September 2013
7 September 2009 (QNEOS)	250,000	20p	7 September 2012	6 September 2019
16 October 2009 (QNEOS)	250,000	20p	16 October 2012	15 October 2019
28 June 2010 (QNEOS)	212,765	23.5p	28 June 2013	27 June 2020
	4,733,439			

Notes to the Consolidated Financial Statements

for the year ended 30 June 2010 (continued)

18. Share capital and premium (continued)

The Group has no legal or constructive obligation to repurchase or settle the options in cash. The movement in the number of share options is set out below:

	Number	2010 Weighted average exercise price	Number	2010 Weighted average exercise price
Outstanding at 1 July	2,339,663	46.2p	2,805,944	42.0p
Granted during the year	2,762,678	6.0p	487,902	1.0p
Lapsed during the year	(368,902)	20.6p	(254,183)	37.8p
Exercised during the year	-	n/a	(700,000)	1.0p
Number of outstanding options at 30 June	4,733,439	24.7p	2,339,663	46.2p

At 30 June 2010, 1,169,159 share options were capable of being exercised (2009: 1,078,000) and had an average exercise price of 82.5p (2009: 83.4p). The options outstanding at 30 June 2010 had a weighted average remaining contractual life of 4.3 years (2009: 4.3 years).

The Group uses a number of share-based incentive schemes as detailed above. The fair value per award granted and the assumptions used in the calculations for the 3,893,439 options which had not vested at 30 June 2006 (being the date after which IFRS 2 has been applied) are as follows:

Date of grant	Type of award	Number of shares	Exercise price (p)	Share price at date of grant (p)	Fair value per option (p)	Award life (years)	Risk free rate	Expected	Performance conditions
26 Oct 2004	Unapproved	140,000	130p	155p	57.7p	5	4.59%	20%	None
26 Oct 2004	EMI	42,000	130p	155p	57.7p	5	4.59%	20%	None
12 May 2005	EMI	28,000	136.5p	135.5p	36.9p	5	4.35%	20%	None
2 Oct 2006	EMI	119,159	85.5p	85.5p	24.4p	5	4.75%	20%	None
29 Oct 2007	EMI	52,534	61.5p	61.5p	17.8p	5	4.95%	20%	None
30 Oct 2007	LTIP	355,394	1p	61.5p	28.9p	3	5.02%	20%	Market
1 Aug 2008	LTIP	456,214	1p	44p	17.3p	3	4.85%	20%	Market
7 Sept 2009	LTIP	1,987,373	1p	18.5p	7.1p	3	2.09%	30%	Market
7 Sept 2009	QNEOS	250,000	20p	18.5p	4.0p	5	2.67%	30%	Market
16 Oct 2009	QNEOS	250,000	20p	20p	6.3p	5	2.65%	30%	Non-market
28 Jun 2010	QNEOS	212,765	23.5p	23.5p	5.6p	5	2.09%	30%	Market
		3,893,439							

In accordance with IFRS 2, the Company has applied IFRS 2 to all share-based payments granted after 7 November 2002 which had not vested by 1 July 2006. The following comments apply to those options which have been fair valued in accordance with IFRS 2.

- (i) Stochastic valuation methodology was used for the LTIP awards and the QNEOS awards with market performance conditions and Black-Scholes methodology for the other awards
- (ii) The rates used for expected volatility reflect historical data from the time of the company's initial public offering, with allowance made for days where no share trading has taken place or where there has been extreme share price movement
- (iii) Expected dividend yield is nil, consistent with the Directors' view that the Group's model is to generate value through capital growth rather than payment of dividends
- (iv) The risk free rate is equal to the prevailing UK Gilts rate at grant date that most closely matches the expected term of the grant
- (v) The fair value charge is spread evenly over the expected vesting period
- (vi) The charge for the year ended 30 June 2010 for Share-based payment, as disclosed in note 5, amounted to £115,000 (2009: £104,000)
- (vii) The performance criteria for the options awarded under the LTIP and the QNEOS awards made on 7 September 2009 and 28 June 2010 are summarised in the Directors' Remuneration Report
- (viii) The QNEOS award on 16 October 2009 was made to a consultant to the Group and is subject to performance conditions related to the Group's interferon beta programme

Notes to the Consolidated Financial Statements

for the year ended 30 June 2010 (continued)

19. Capital and reserves

19a Share capital

Share capital represents the nominal value of shares issued.

19b Share premium

Share premium represents amounts subscribed for share capital in excess of nominal value less the related costs of share issues.

19c Merger reserve

The merger reserve represents the reserve arising on the acquisition of Synairgen Research Limited on 11 October 2004 via a share for share exchange accounted for as a Group reconstruction using merger accounting under UK GAAP.

19d Retained deficit

The retained deficit represents cumulative net gains and losses recognised in the consolidated income statement, adjusted for cumulative recognised share-based payments.

20. Related party transactions and balances

During the year ended 30 June 2010, the Group incurred fees and expenses of £14,000 (2009: £6,000) with IP2IPO Limited for the provision of business consultancy services. Included within these amounts are fees for the provision of Dr Bruce Campbell as a director, as detailed on page 19. IP2IPO Limited has an interest in the Company. At the balance sheet date the amount unpaid in respect of these charges was £4,000 (2009: £1,000).

During the year ended 30 June 2010, the Group incurred costs, fees and expenses of £351,000 (2009: £318,000) with the University of Southampton in connection with premises, services and research and development activities. Included within these amounts are fees for the provision of Susan Sundstrom as a director, as detailed on page 19. The University of Southampton is the controlling shareholder of Southampton Asset Management Limited which has an interest in the Company. At the balance sheet date the amount unpaid in respect of these charges was £100,000 (2009: £116,000).

During the year ended 30 June 2010, the Group incurred consultancy fees with Prof. Stephen Holgate, a director of the Company, amounting to £12,000 (2009: £20,000) in addition to his director's remuneration disclosed on page 19. At the balance sheet date the amount unpaid in respect of these charges was £3,000 (2009: £5,000).

Details of key management personnel and their compensation are given in note 5 and on page 19 of the Directors' Remuneration Report.

Parent Company Balance Sheet

as at 30 June 2010

Company number: 5233429

	Notes	30 June 2010 £000	30 June 2009 £000
Fixed assets			
Investments	5	11,156	8,334
Current assets			
Debtors	6	23	25
Investments: short-term deposits		3,680	7,837
Cash at bank and in hand		1,302	14
		5,005	7,876
Creditors: amounts falling due within one year	7	(104)	(115)
Net current assets		4,901	7,761
Total assets less current liabilities		16,057	16,095
Capital and reserves			
Called up share capital	8	597	597
Share premium account	8	14,725	14,725
Profit and loss account	9	735	773
Shareholders' funds	9	16,057	16,095

The financial statements on pages 36 to 39 were approved and authorised for issue by the Board of directors on 28 July 2010 and signed on its behalf by:

Richard Marsden

Chief Executive Officer

John Ward

Finance Director

Notes to the Parent Company Financial Statements

for the year ended 30 June 2010

1. Basis of preparation

Synaigen plc's Parent Company balance sheet has been prepared under the historical cost convention and in accordance with UK Generally Accepted Accounting Practice ('UK GAAP').

As permitted by Section 408 of the Companies Act 2006, the profit and loss account of the Company is not presented in this Annual Report. As permitted by FRS 1 "Cash Flow Statements", no cash flow statement for the Company has been included on the grounds that the Group includes the Company in its own published consolidated financial statements. The Company has taken advantage of the exemption in FRS 8 "Related Party Disclosures" not to disclose related party transactions with wholly-owned subsidiaries.

2. Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material to the Company's financial statements.

Investment in subsidiary undertakings

Investments in subsidiary undertakings where the Company has control are stated at cost less any provision for impairment. Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

Short-term deposits

Short-term deposits comprise deposits with UK banks for periods of up to six months. The deposits are initially recognised at fair value plus transaction costs that are directly attributable to their acquisition or issue, and are subsequently carried at amortised cost using the effective interest rate method, less provision for impairment. Impairment provisions are recognised when there is objective evidence (such as significant financial difficulties on the part of the counterparty or default or significant delay in payment) that the Company will be unable to collect all of the amounts due under the terms receivable; the amount of such a provision being the difference between the net carrying amount and the present value of the future expected cash flows associated with the impaired receivable.

Share-based payments

In accordance with UITF 44, when the Company grants options over equity instruments directly to the employees of a subsidiary undertaking, the effect of the share-based payment, as calculated in accordance with FRS 20, is capitalised as part of the investment in the subsidiary as a capital contribution, with a corresponding increase in equity.

Taxation

The charge for taxation is based on the loss for the year and takes into account taxation deferred.

Current tax is measured at amounts expected to be paid using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax balances are recognised in respect of all timing differences that have originated but not reversed by the balance sheet date, except that the recognition of deferred tax assets is limited to the extent that the company anticipates making sufficient taxable profits in the future to absorb the reversal of the underlying timing differences.

Deferred tax balances are not discounted.

3. Loss attributable to member of the Parent Company

As permitted by Section 408 of the Companies Act 2006, the Company's profit and loss account has not been included in these financial statements. The loss dealt with in the financial statements of the Parent Company was £153,000 (2009: loss of £91,000).

4. Staff numbers and costs

The only employees of the Company are the executive directors.

In respect of directors' remuneration, the disclosures required by Schedule 5 to the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 are included in the detailed disclosures in the audited section of the Directors' Remuneration Report on page 19, which is ascribed as forming part of these financial statements.

Notes to the Parent Company Financial Statements

for the year ended 30 June 2010 (continued)

5. Investments

	Investment in subsidiary undertaking £000	Loan to subsidiary undertaking £000	Capital contribution £000	Total £000
At 1 July 2009	140	7,842	352	8,334
Additions	-	2,707	115	2,822
At 30 June 2010	140	10,549	467	11,156

At 30 June 2010 the Company has an investment in the following subsidiary undertaking:

Name of company	Country of incorporation	Proportion of voting rights and ordinary share capital held	Nature of business
Synaigen Research Limited	England	100%	Drug discovery and development

6. Debtors

	2010 £000	2009 £000
Other tax and social security	2	15
Prepayments and accrued income	21	10
	23	25

All amounts fall due for payment within one year.

7. Creditors: amounts falling due within one year

	2010 £000	2009 £000
Trade creditors	6	13
Amounts due to subsidiary undertaking	64	63
Accruals and deferred income	34	39
	104	115

8. Share capital and share premium

	Notes	Number of shares	Ordinary shares of 1p each £000	Share premium £000	Total £000
At 1 July 2008		21,692,308	217	8,903	9,120
Exercise of share options	(i)	700,000	7	-	7
Issuance of ordinary shares	(ii)	37,352,941	373	5,977	6,350
Costs of issuance of shares		-	-	(155)	(155)
At 30 June 2009 and 2010		59,745,249	597	14,725	15,322

(i) Simon Shaw exercised his 700,000 founder options on 17 October 2008 at nominal value and 700,000 ordinary shares of 1p were issued on that day

(ii) 7,852,948 and 29,499,993 ordinary shares of 1p were issued on 18 June 2009 and 19 June 2009 respectively at a premium of 16p per share to finance the two planned Phase IIa inhaled interferon beta proof of concept studies in asthma and COPD and to provide working capital for the Company. Funds raised net of expenses of £155,000 amounted to £6,195,000

Details of the Company's share option schemes and long term incentive plan can be found in note 18 to the consolidated financial statements on pages 33 and 34.

Notes to the Parent Company Financial Statements

for the year ended 30 June 2010 (continued)

9. Reconciliation of movements in reserves and shareholders' funds

	Share capital £000	Share premium account £000	Profit and loss account £000	Shareholders' funds £000
At 1 July 2008	217	8,903	760	9,880
Loss for the year	-	-	(91)	(91)
Share-based payment credit	-	-	104	104
Exercise of share options	7	-	-	7
Issuance of ordinary shares	373	5,977	-	6,350
Transaction costs in respect of share issues	-	(155)	-	(155)
At 30 June 2009	597	14,725	773	16,095
Loss for the year	-	-	(153)	(153)
Share-based payment credit	-	-	115	115
At 30 June 2010	597	14,725	735	16,057

10. Related party transactions

Details of payments made to related parties for the provision of the services of Dr Bruce Campbell and Susan Sundstrom are given in note 20 to the consolidated financial statements on page 35.

Notice of 2010 Annual General Meeting

Notice is hereby given that the 2010 Annual General Meeting ('AGM') of Synairgen plc will be held at the offices of Fasken Martineau LLP, 17 Hanover Square, London W1S 1HU on Wednesday, 3 November 2010 at 12 noon to transact the business detailed below.

Ordinary Business

To consider and, if thought fit, to pass the following resolutions, all of which will be proposed as ordinary resolutions:

1. To receive and adopt the audited accounts of the Company for the financial year ended 30 June 2010, together with the Directors' and Auditor's reports in respect of such accounts.
2. To re-appoint as a director Iain Buchanan, who is retiring in accordance with Article 130 of the Company's Articles of Association and who, being eligible, offers himself for re-appointment.
3. To re-appoint as a director John Ward, who is retiring by rotation in accordance with Article 124 of the Company's Articles of Association and who, being eligible, offers himself for re-appointment.
4. To re-appoint as a director Simon Shaw, who is retiring by rotation in accordance with Article 124 of the Company's Articles of Association and who, being eligible, offers himself for re-appointment.
5. To re-appoint as a director Dr Bruce Campbell, who is retiring by rotation in accordance with Article 124 of the Company's Articles of Association and who, being eligible, offers himself for re-appointment.
6. To re-appoint BDO LLP as the Company's Auditor to hold office from the conclusion of the meeting to the conclusion of the next meeting at which the accounts are laid before the Company and to authorise the directors to fix its remuneration.
7. To approve the Directors' Remuneration Report for the financial year ended 30 June 2010.

Special Business

As special business to consider and, if thought fit, pass resolution 8, which will be proposed as an ordinary resolution of the Company, and resolution 9, which will be proposed as a special resolution of the Company.

8. That the directors be and they are hereby generally and unconditionally authorised pursuant to section 551 of the Companies Act 2006 (the 'Act') to allot equity securities (within the meaning of section 560 of the Act) up to an aggregate nominal amount of £265,501. This authority shall expire on the earlier of 31 December 2011 and the conclusion of the 2011 Annual General Meeting save that the Company may make an offer or agreement which would or might require equity securities to be allotted after the expiry of this authority and the directors may allot equity securities pursuant to that offer or agreement as if this authority had not expired; and this authority shall be in substitution for any other authority to allot equity securities but without prejudice to the continuing authority of the directors to allot equity securities in pursuance of an offer or agreement made before the expiry of the authority pursuant to which such offer or agreement was made.
9. That subject to the passing of resolution 8 above the directors be and they are hereby empowered pursuant to section 571 of the

Companies Act 2006 (the 'Act') to allot equity securities (within the meaning of section 560 of the Act) for cash pursuant to the authority conferred by resolution 8 above and to allot equity securities where such allotment constitutes an allotment of equity securities by virtue of section 560(2) of the Act in each case as if section 561(1) of the Act did not apply to such allotment provided that this power shall be limited to:

- (a) the allotment of equity securities, whether by way of rights issue, open offer or otherwise, to holders of Ordinary Shares and to holders of other securities in the Company that by their terms are entitled to participate in such rights issue, open offer or otherwise in such a manner that the number of equity securities allotted to them is in proportion (as nearly as may be) to their respective holdings of such securities or in accordance with the rights attached thereto and the directors may deal as they see fit with fractional entitlements, overseas shareholders and with the legal or practical problems or requirements of any regulatory body or stock exchange in any territory;
- (b) the allotment of equity securities up to an aggregate nominal amount of £16,928 upon the exercise of options granted by the Company other than pursuant to an employee share scheme (as defined in the Act); and
- (c) (other than pursuant to sub-paragraphs (a) and (b) above) the allotment or sale of equity securities up to an aggregate nominal amount of £89,618 (representing approximately 15% of the nominal value of the issued share capital of the Company at 1 October 2010);

and this power shall be in substitution for all such powers previously given but without prejudice to the continuing power of directors to allot equity securities pursuant to an offer or agreement made by the Company before the date this resolution is passed, and unless previously renewed, varied or revoked by the Company in general meeting shall expire on the earlier of 31 December 2011 and the conclusion of the Annual General Meeting of the Company to be held in 2011 save that the Company may, before such expiry, make an offer or agreement which would or might require equity securities to be allotted after such expiry and the directors may allot equity securities (including where such allotment constitutes an allotment of equity securities by virtue of section 560(2) of the Act) in pursuance of such offer or agreement as if the authority conferred hereby had not expired.

By order of the Board

Registered Office:

Mailpoint 810, Level F, South Block
Southampton General Hospital
Tremona Road, Southampton SO16 6YD

John Ward

Company Secretary

1 October 2010

Notes

Entitlement to attend and vote

1. Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, the Company specifies that only those members registered on the Company's register of members at:
 - 12 noon on 1 November 2010; or,
 - if this Meeting is adjourned, at 12 noon on the day two days prior to the adjourned meeting, shall be entitled to attend and vote at the Meeting.

Appointment of proxies

2. If you are a member of the Company at the time set out in note 1 above, you are entitled to appoint one or more proxies to exercise all or any of your rights to attend, speak and vote at the Meeting and you should have received a proxy form with this notice of meeting. You can only appoint a proxy using the procedures set out in these notes and the notes to the proxy form.
3. A proxy does not need to be a member of the Company but must attend the Meeting to represent you. Details of how to appoint the Chairman of the Meeting or another person as your proxy using the proxy form are set out in the notes to the proxy form. If you wish your proxy to speak on your behalf at the Meeting you will need to appoint your own choice of proxy (not the Chairman) and give your instructions directly to them.
4. A vote withheld is not a vote in law, which means that the vote will not be counted in the calculation of votes for or against the resolution. If you either select the "Discretionary" option or if no voting indication is given, your proxy will vote or abstain from voting at his or her discretion. Your proxy will vote (or abstain from voting) as he or she thinks fit in relation to any other matter which is put before the Meeting.

Appointment of proxy using hard copy proxy form

5. The notes to the proxy form explain how to direct your proxy how to vote on each resolution or withhold their vote.

To appoint a proxy using the proxy form, the form must be:

- completed and signed;
- sent or delivered to Capita Registrars (Proxies), The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU;

and received by Capita Registrars no later than 12 noon on 1 November 2010.

In the case of a member which is a company, the proxy form must be executed under its common seal or signed on its behalf by an officer of the company or an attorney for the company.

Any power of attorney or any other authority under which the proxy form is signed (or a duly certified copy of such power or authority) must be included with the proxy form.

Appointment of proxy by joint members

6. In the case of joint holders, where more than one of the joint holders purports to appoint a proxy, only the appointment submitted by the most senior holder will be accepted. Seniority is determined by the order in which the names of the joint holders appear in the Company's register of members in respect of the joint holding (the first-named being the most senior).

Corporate representatives

7. In order to facilitate voting by corporate representatives at the meeting, arrangements will be put in place at the meeting so that (i) if a corporate shareholder has appointed the Chairman of the meeting as its corporate representative with instructions to vote on a poll in accordance with the directions of all the other corporate representatives for that shareholder at the meeting who have been appointed in respect of different parts of the holding of that corporate shareholder then on a poll those corporate representatives will give voting directions to the Chairman and the Chairman will vote (or withhold a vote) in respect of each different part of the shareholding as corporate representative in accordance with the directions he has received from such corporate representatives in relation to the respective parts of the shareholding in respect of which they are each appointed or (ii) if more than one corporate representative for the same corporate shareholder attends the meeting but the corporate shareholder has not appointed the Chairman of the meeting as its corporate representative, a designated corporate representative will be nominated, from those corporate representatives who attend, who will vote on a poll in accordance with the directions he receives from the other corporate representatives in respect of the parts of the corporate shareholders shareholding in respect of which such corporate representatives have each been appointed.

Changing proxy instructions

8. To change your proxy instructions simply submit a new proxy appointment using the methods set out above. Note that the cut-off time for receipt of proxy appointments (see above) also applies in relation to amended instructions; any amended proxy appointment received after the relevant cut-off time will be disregarded.

Where you have appointed a proxy using the hard-copy proxy form and would like to change the instructions using another hard-copy proxy form, please contact Capita Registrars (Proxies), The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU.

If you submit more than one valid proxy appointment, the appointment received last before the latest time for the receipt of proxies will take precedence.

Termination of proxy appointments

9. In order to revoke a proxy instruction you will need to inform the Company by sending a signed hard copy notice clearly stating your intention to revoke your proxy appointment as above. In the case of a member which is a company, the revocation notice must be executed under its common seal or signed on its behalf by an officer of the company or an attorney for the company.

Any power of attorney or any other authority under which the revocation notice is signed (or a duly certified copy of such power or authority) must be included with the revocation notice.

The revocation notice must be received by Capita Registrars no later than 12 noon on 1 November 2010. If you attempt to revoke your proxy appointment but the revocation is received after the time specified then, subject to the paragraph directly below, your proxy appointment will remain valid.

Appointment of a proxy does not preclude you from attending the Meeting and voting in person. If you have appointed a proxy and attend the Meeting in person, your proxy appointment will automatically be terminated.

Notice of 2010 Annual General Meeting (continued)

Issued shares and total voting rights

10. As at 6.00 p.m. on 30 September 2010, the Company's issued share capital comprised 59,745,249 ordinary shares of 1p each. Each ordinary share carries the right to one vote at a general meeting of the Company and, therefore, the total number of voting rights in the Company as at 6.00 p.m. on 30 September 2010 was 59,745,249.

Transactions by Directors

11. A statement or summary of transactions of directors (and their family interests) in the share capital of the Company and copies of their service contracts will be available for inspection at the Company's registered office during normal business hours (Saturdays and public holidays excepted) from the date of this notice until the conclusion of the AGM and will also be available for inspection at the place of the AGM for at least 15 minutes prior to and during the meeting.

The explanatory notes below summarise the purpose of each resolution to be passed:

Resolutions 1 to 7 comprise the ordinary business of the AGM.

Resolution 1: Report and Accounts

For each financial year, the directors are required to lay the Directors' Report, the audited accounts and the Auditor's Report before the Company in general meeting. The shareholders are requested to receive and adopt the Report and Accounts for the year ended 30 June 2010.

Resolutions 2 to 5: Appointment of directors

Article 130 of the Company's Articles of Association requires that, at the AGM, any director appointed to the Board since the previous AGM shall retire from office. As a consequence, Iain Buchanan, who was appointed by the Board on 28 June 2010, shall retire and, being eligible, offer himself for re-appointment. Resolution 2 proposes his re-appointment.

Iain Buchanan was appointed to the Board as a non-executive director in June 2010. He is currently interim Chief Executive Officer of NOXXON Pharma AG, having previously been Chief Executive Officer of Novexel SA, a speciality pharmaceutical company, until its sale to AstraZeneca earlier in 2010. He has some 35 years' commercial experience in the pharmaceutical and biotechnology industries.

Article 124 of the Company's Articles of Association requires that, at the AGM, one third of directors (excluding directors retiring in accordance with Article 130) shall retire. Accordingly, John Ward, Simon Shaw and Dr Bruce Campbell shall retire and, being eligible, offer themselves for re-appointment. Resolutions 3, 4 and 5 propose their re-appointment.

Biographical details for John Ward, Simon Shaw and Dr Bruce Campbell are given on page 10 and 11 of this report.

Resolution 6: Appointment of auditor

At each general meeting at which the accounts are laid before shareholders, the Company is required to appoint an auditor to serve until the next such meeting. Resolution 6 proposes the re-appointment of BDO LLP as the Company's auditor and that the directors be authorised to fix its remuneration.

Resolution 7: Approval of the Directors' Remuneration Report

Resolution 7 proposes the approval of the Directors' Remuneration Report for the financial year ended 30 June 2010, as set out on pages 17 to 19 of the 2010 Annual Report.

The Directors' Remuneration Report contains, amongst other things, a forward-looking statement of the Company's policy on directors' remuneration for subsequent financial years, details of the directors' service contracts and specific disclosures relating to each director's remuneration.

Resolution 7 will be proposed as an ordinary resolution.

Resolutions 8 and 9 are the special business of the AGM.

Resolution 8: Authority to Allot Shares

By an ordinary resolution of the Company passed on 11 November 2009 at the 2009 AGM, shareholders authorised the directors under section 551 of the Companies Act 2006 to issue equity securities without the prior consent of shareholders for a period from 11 November 2009 until the conclusion of the 2010 Annual General Meeting. Resolution 8 proposes to authorise the directors to allot equity securities up to a maximum nominal amount of £265,501 (which equates to 26,550,100 shares), which represents the sum of:

- £198,952, being approximately 33.3% of the nominal value of the issued share capital of the Company as at 30 September 2010; and
- £66,549, being the nominal value of shares under option.

Other than pursuant to the exercise of share options, including awards made under the Long-Term Incentive Plan and the Qualifying Non-Employee Option Scheme, the directors have no present intention to issue any ordinary shares. This authority will expire on the conclusion of the 2011 Annual General Meeting.

Resolution 8 will be proposed as an ordinary resolution.

Resolution 9: Disapplication of Pre-emption Rights

Also on 11 November 2009, a special resolution was passed, under section 571 of the Companies Act 2006, empowering the directors to allot equity securities for cash without first being required to offer such shares to existing shareholders for a period from 11 November 2009 until the conclusion of the 2010 Annual General Meeting. It is proposed that this authority also be renewed. The authority relates to: pre-emptive issues; the allotment of up to 1,692,800 ordinary shares on the exercise of options already granted by the Company other than pursuant to an employee share scheme (as defined in the Companies Act 2006); and 8,961,800 shares, which represents approximately 15% of the issued ordinary share capital of the Company as at 30 September 2010. This authority will expire on the conclusion of the 2011 Annual General Meeting.

Resolution 9 will be proposed as a special resolution.

Corporate Directory

Company number

5233429

Directors

Executive: Richard Marsden,
Dr Phillip Monk, John Ward

Non-executive: Simon Shaw (Chairman),
Iain Buchanan, Dr Bruce Campbell,
Paul Clegg, Prof. Stephen Holgate

Secretary

John Ward

Head office and Registered office

Mailpoint 810, Level F, South Block,
Southampton General Hospital,
Tremona Road, Southampton SO16 6YD
Telephone and fax: +44 (0) 2380 512 800

Website

www.synairgen.com

E-mail

info@synairgen.com

Advisers

Independent auditor

BDO LLP
Arcadia House, Maritime Walk,
Ocean Village, Southampton
SO14 3TL

Bankers

HSBC Bank plc
165 High Street, Southampton SO14 2NZ

Financial public relations

Threadneedle Communications
Aldermay House, 10-15 Queen Street,
London EC4V 6DX

Nominated adviser and broker

Matrix Corporate Capital LLP
One Vine Street, London W1J 0AH

Registrars

Capita Registrars

Northern House, Woodsome Park,
Fenay Bridge, Huddersfield HD8 0GA

Solicitors

Fasken Martineau LLP
17 Hanover Square, London W1S 1HU

Glossary

2' - 5' OAS

A protein produced within cells
in response to IFN- β to prevent
viral replication

Adenovirus

A virus that can cause respiratory
disease (eg. the common cold),
conjunctivitis and gastroenteritis

Airways (or bronchial tubes)

The tubes that carry air in and out of
the lungs

Allergen

A substance that may provoke an
allergic response in a susceptible
person. Common allergens include
house dust mite faeces, grass pollen
and cat dander

Antibody

A protein produced by cells of the
immune system which specifically
recognises a target molecule known
as an antigen. A key component of the
body's immune defence mechanism to
foreign agents

Antigen

A molecule that is capable of
stimulating production of an antibody
in the body - usually a foreign or
potentially toxic molecule

Antiviral

Any substance that can either destroy
viruses or suppress their growth

Assay

A laboratory test to determine
parameters such as the strength of a
solution, the proportion of a compound
in a mixture, the potency of a drug or
the purity of a preparation

Asthma

A disorder in which the airways
become episodically narrowed, leading
to wheeze, shortness of breath, cough
and chest tightness

β_2 -agonists

Also known as beta agonists - see
Bronchodilators

Barrier Function

Linked together by protein complexes,
called tight junctions, cells lining the
airways create a physical barrier to
the external environment. Failure of
this "barrier" enables agents known to
promote asthma attacks (eg. allergens
and pollutants) access to the interior
tissue of the lung

Biobank

A collection of samples from clinically-
characterised volunteers comprising
blood, induced sputum, bronchial
biopsies and epithelial cells. These
samples are used to develop the
complex *in vitro* human disease models

Biomarker

A biomarker is a biochemical feature
or facet that can be used to measure
the progress of disease or the effects
of treatment

Bronchodilators

Medicines which relax the muscles
around the airways, helping the
airways to open up, so making it easier
to breathe. There are several types
of bronchodilators, of which short-
acting beta-agonist drugs are the most
commonly used

Chronic

Persistent

Chronic bronchitis

An inflammation of the airways
accompanied by coughing and
production of phlegm. The symptoms
are present for at least three months in
each of two consecutive years.
See COPD

Clinical Trial Authorisation or CTA

An authorisation from the MHRA to
conduct a clinical trial

COPD

Chronic obstructive pulmonary
disease covers two conditions:
chronic bronchitis and emphysema.
COPD usually results from long-term
exposure to irritants to the lungs, of
which the most prevalent is tobacco
smoke. Unlike asthma, where airflow
obstruction varies, in COPD airflow
obstruction is usually irreversible

Coronavirus

A virus that can cause respiratory
disease such as the common cold
or SARS (depending on the type of
coronavirus) and gastroenteritis

Drugable

Suitable for pharmaceutical
development

Glossary (continued)

Emphysema

A destructive process involving the air spaces (alveoli) of the lungs, which leads to over-inflation of the lung and, when sufficiently advanced, causes breathlessness and lack of oxygenation of blood. See COPD

Epithelium

In the lung, the epithelium is a thin layer of cells which lines the airway tubes in order to protect and regulate the tissue underneath

Exacerbation

A rapid deterioration of a chronic disease that makes the symptoms worse

H1N1

A subtype of influenza A and the most common cause of 'flu' in humans. The recent 'swine flu' is a H1N1 virus. The 'H' stands for haemagglutinin, which is a protein on the surface of influenza which allows the virus to enter the cell, thus causing infection. The 'N' stands for neuraminidase, a protein on the surface of influenza, which allows the newly-formed virus particles to be released from the cell

IFN-β

Interferon beta is a natural protein found in the body which helps to regulate the immune system and fight off viruses. IFN-β is currently marketed by a number of companies as an injectable therapy for the treatment of multiple sclerosis

Influenza-like illness

Set of symptoms presenting similar to those for influenza of which influenza may or may not be the cause

Influenza

A contagious viral infection of the respiratory tract, leading to fever, headaches, sore throat, congestion of the nose and body aches

Interferon lambda

Interferon lambda is another natural protein found in the body which helps to regulate the immune system and fight off viruses

IgE

Immunoglobulin E, a class of antibodies, which play a major role in allergic diseases

In vitro

Carried out in the laboratory, e.g. in a test tube or culture plate

In vitro model (complex)

A research model which contains more than one cell type and allows the study of interactions between different cell types and 'test' agents relevant to the disease or a therapy

IP-10

A protein released by cells in response to IFN-β which attracts other cell types involved in antiviral defence of the lungs

Lower airway

The airway tubes in the lung running from the throat down, ending in the air spaces (alveoli) where gas exchange occurs

MHRA

The Medicines and Healthcare products Regulatory Agency; a UK government body tasked with ensuring that medicines and medical devices work and are safe

Morbidity

Incidence or prevalence of a disease

Mucus

A gelatinous substance normally produced by the epithelium to protect and hydrate the airway surface from harmful agents

MxA

A protein produced within cells in response to IFN-β to prevent viral replication

Neuraminidase inhibitor

A class of drug used to treat influenza by interfering with virus release from the infected cell by blocking neuraminidase (a protein found on the virus cell surface), of which Tamiflu® and Relenza® are examples

Neopterin

An antiviral biomarker

Parainfluenza

A virus that can cause the common cold. Parainfluenza is also responsible for 75% of croup cases in children

Patent Cooperation Treaty or PCT

A system by which a patent application can be filed in many different countries at once. A single international application is filed initially at a receiving office. After a search and publication, the application may be converted to a series of national applications in different countries

Phase I Clinical Trial

A study conducted in volunteers to determine the biological effects of a drug, especially safety and tolerability

Phase II Clinical Trial

A study in patients with the aim of making a preliminary determination of the efficacy of a drug to provide proof of concept and/or to study drug dose ranges

Phase III Clinical Trial

A full scale clinical trial to determine drug efficacy and safety prior to seeking marketing approval

Phlegm

See Sputum

Protein

Large molecules made of smaller biological units known as 'amino acids'. Proteins are responsible for the majority of the function and much of the structure of living things, including humans

Pulmonary

Relating to, functioning like, or associated with the lungs

Rhinovirus

Rhinoviruses are the most common viral infective agents in humans. The most well known disease caused by rhinoviruses is the common cold

RSV

Respiratory syncytial virus (RSV) can cause both mild respiratory illness (e.g. the common cold) and serious respiratory tract infections (such as bronchiolitis

and pneumonia). More severe infections can occur in the very young, the very old and those with weakened immune systems

Safety study

See Phase I Clinical Trial

SARS

Severe Acute Respiratory Syndrome (SARS) is a type of coronavirus that can cause potentially fatal respiratory illness. SARS was first reported in Asia in 2002

Sputum

The thick mucus which is coughed up by a person. Sputum contains cells and soluble substances secreted into the airways (bronchi), some of which can mediate disease if present in amounts different to normal. Sputum is also commonly called phlegm

Steroids

A group of chemicals that is produced naturally in the body by the adrenal gland. In asthma, steroids are given by inhalation or by mouth to reduce the inflammation of the airways

Tissue engineering

The creation of living tissues for therapeutic purposes. In Synairgen's case, tissue is grown in complex *in vitro* models to recapitulate the airways

Upper airway

The tubes in the nose and neck which conduct air into the lung

Virus

A virus is a non-living small particle that infects cells in biological organisms. Viruses can reproduce only by invading and controlling other cells as they lack the cellular machinery for self-reproduction

Wheeze

A whistling sound made by a person who has airflow obstruction when breathing

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Synairgen plc, Mailpoint 810, Level F, South Block, Southampton General Hospital, Tremona Road, Southampton, SO16 6YD United Kingdom

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