

synairgen plc

people. ideas. opportunities.

untangling the causes of respiratory disease...

annual report and accounts 2009

virus
defence



Synairgen's lead programme: IFN-beta for the treatment or prevention of exacerbations (attacks) of asthma and COPD caused by the common cold

Summary development plan

Completed Milestones

November 05 to August 09

SG003 Phase I study in atopic non-asthmatic subjects

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

Aerosol device selection and testing

Local tolerance study completed

**Sputum and blood IFN-beta antiviral
neopterin biomarker development**

**Preliminary data show elevation of neopterin in
SG003 and SG004 samples**

**SG004 Phase I study in asthmatic patients
- recruitment completed**

United States IFN-beta patent granted

Planned Milestones

2009

Analysis of SG004 safety data

Analysis of SG004 biomarker data

Evaluation of IFN-beta on other common cold viruses

2010

Start SG005 (Phase II proof of concept study for asthma)

Start SG006 (Phase II proof of concept study for COPD)

2011

Complete SG005

Complete SG006

Upon proof of concept, commence outlicensing

Synairgen's technology platform

Traditional research has been hampered by the inability of animal models to replicate disease pathology and chronicity, as well as the impact of environmental factors in asthma and COPD.

Synairgen has focussed on advanced cell models using tissue and cells from human subjects. Synairgen has developed a biobank of clinical samples obtained from well-characterised healthy control, asthma or COPD volunteers.



Synairgen's focus in Asthma and COPD:



Asthma

8% of Americans have asthma

Economic cost to USA: \$20bn pa

The most severe 10% consume 50% of asthma healthcare expenditure

Cost of treatment per hospitalisation in USA: \$9,000

the exacerbation

The greatest unmet clinical need for asthma and COPD sufferers



COPD

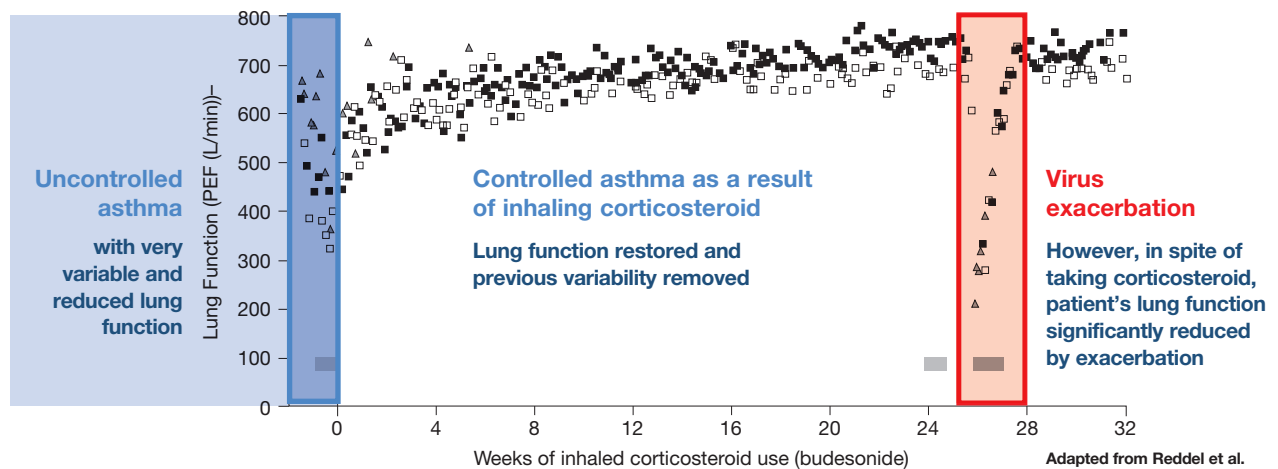
25% of long-term smokers develop COPD (Chronic Bronchitis/Emphysema)

Economic cost to USA c. \$43bn pa

> 700,000 hospitalisations for COPD in USA in 2005

Severe exacerbation hospitalisation cost in 1996 ranged from \$4,100 to \$16,000

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



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

Scientific evidence

IFN-beta restores antiviral defences against rhinovirus in both asthmatic and COPD human epithelial cell cultures



1. EPITHELIAL CELLS

Photographs of epithelial (lung lining) cells grown in the laboratory in the absence of either rhinovirus or IFN-beta. There are many cells present and they appear 'healthy'.

2. WITH RHINOVIRUS ADDED

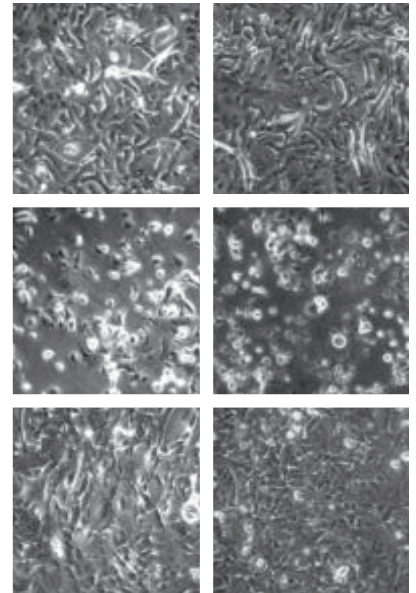
In the presence of rhinovirus, many of the cells have died, evidenced by the fact that there are fewer cells present. The dead cells in the photographs look much 'rounder' in shape.

3. Rhinovirus with IFN-beta

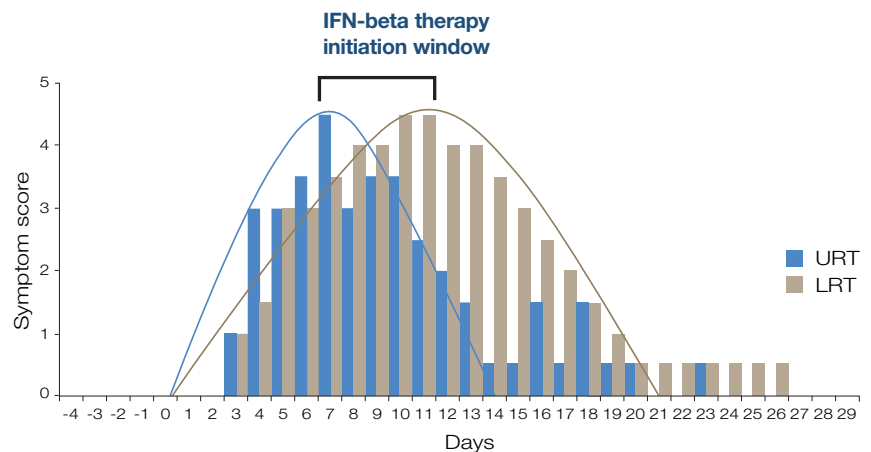
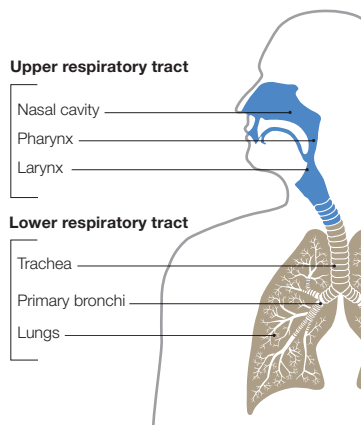
In the presence of IFN-beta the cells are protected from the effect of rhinovirus.

Asthma

COPD



Spread of the common cold from Upper Respiratory Tract (nose and throat) to Lower Respiratory Tract (lungs)



Upper (URT) and lower respiratory tract (LRT) symptoms of COPD patients *in vivo* experimentally infected with rhinovirus

Papi et al. Curr. Opin. Pharmacol. 2007 Jun;7(3):259-65 Reproduced with permission

Synairgen is a respiratory drug discovery and development company with a particular focus on viral defence in asthma and chronic obstructive pulmonary disease ('COPD')

Operational highlights

- July 2008, commencement of SG004, a four cohort Phase I safety and pharmacodynamic study of inhaled interferon beta ('IFN-beta') in asthmatic patients
- September 2008, test for biomarker (neopterin) successfully developed to measure IFN-beta driven antiviral activity in the lungs. Retrospective analysis of samples from non-asthmatic volunteers from the first Phase I study of inhaled IFN-beta (SG003) showed neopterin was elevated, indicating on target bioactivity of inhaled IFN-beta
- March 2009, successful completion of SG004 second cohort (a dose level predicted to be efficacious). A significant landmark in our lead programme
- April 2009, analysis of samples to date from SG004 (second cohort) showed neopterin biomarker to be elevated
- Activities commenced to initiate two Phase II proof of concept studies of inhaled IFN-beta in asthma and chronic obstructive pulmonary disease ('COPD') in Spring 2010
- August 2009 (post period-end), completion of patient recruitment for fourth and final cohort of SG004
- Post period-end, US IFN-beta patent granted

Financial highlights

- June 2009, fundraising of £6.35 million (gross) completed at 17p per share, representing a 4.2% discount to the closing mid market price prior to announcement, to finance two planned Phase II proof of concept studies
- Research and development expenditure for the year: £2.1 million (2008: £2.0 million)
- Post-tax loss for the year: £2.5 million (2008: £2.2 million)
- Cash at 30 June 2009: £7.9 million (2008: £4.0 million)



Synairgen's biobank contains samples of blood, sputum, biopsies, fibroblast and epithelial cells from clinically-characterised volunteers. In excess of 250 bronchoscopies have now been performed

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Chairman's and Chief Executive Officer's Report



During the financial year Synairgen has focused on advancing its lead programme, inhaled interferon beta ('IFN-beta') for the treatment of viral infection in asthma and chronic obstructive pulmonary disease ('COPD') sufferers.

In June 2009, on the back of the successful completion of the second cohort of our Phase I safety trial in asthma (SG004), we raised £6.35 million of additional funds to finance the Company and its Phase II proof of concept clinical trials into 2011. The Phase II data for inhaled IFN-beta in asthma and/or COPD will support our optimal commercialisation and development strategy, which is to out-license the product to a third party.

IFN-beta to prevent asthma exacerbations caused by common respiratory viruses

The common cold causes up to 80% of asthma exacerbations and resulting hospitalisations. In the US, this equates to an estimated 1.4 million emergency room visits and 400,000 hospital admissions (at an average cost of \$9,000 per admission). Despite their commercial success, existing therapies (inhaled corticosteroids, bronchodilators, and leukotriene inhibitors) do not prevent the virus spreading from the nose to the lungs. In laboratory experiments using Synairgen's *in vitro* technology platform, IFN-beta levels were lower in common cold infected cells from asthma patients than non-asthmatics. Restoring IFN-beta levels to normal has been shown to reduce the infection levels in the models. This provided Synairgen with the rationale to develop inhaled IFN-beta as a therapy to boost the lungs' natural defences against these common respiratory viruses. It is in this area of crucial unmet medical need that we will initially position our inhaled IFN-beta product.

The period under review has been dominated by SG004, the Phase I study of inhaled IFN-beta in moderate asthmatic patients, which commenced in July 2008. In March 2009, we announced the significant landmark of completing cohort two in SG004. This achievement was significant because we consider that the dose of IFN-beta taken by the asthmatic volunteers in cohort two over a 14 day period is predicted to be an effective dose to combat virus driven exacerbations. Cohort three was completed in June 2009 and in August 2009, after the period-end, the final volunteers were recruited for the fourth and final cohort. Final results (safety and biomarker) will be announced during late Autumn 2009.

IFN-beta to prevent COPD exacerbations caused by common respiratory viruses

COPD will affect 25% of long term smokers and is characterised by an irreversible loss of lung function until death. By 2030, COPD is predicted to become the third leading cause of death worldwide after ischemic heart disease (heart attack) and cerebrovascular disease (stroke). If a COPD patient catches a cold, there is a 50% chance that it will lead to an exacerbation of their disease. Many exacerbating COPD patients will be hospitalised, with associated health economic consequences. Up to 10% of COPD hospitalisations result in death.

Using the Synairgen *in vitro* model technology platform and COPD cells from the Company's biobank, our researchers established that small amounts of IFN-beta greatly protect lung cells against the common cold virus. Our Phase I IFN-beta trials have been designed to support a transition to proof of concept for COPD in long term smokers with or without mild COPD. Our research, and that of our collaborators, has shown that these long term smokers are a suitable surrogate for more severe COPD patients, and provide us with an opportunity to get an early proof of concept for our inhaled IFN-beta COPD therapy.

IFN-beta activity against other respiratory viruses

During the last few months, Synairgen has begun to research the effect of IFN-beta on other viruses typically affecting the respiratory tract. The hypothesis is that inhaled IFN-beta could create improvements in the lungs' defence against many viruses beyond the rhinovirus (rhinovirus is the most prevalent of the common cold viruses, accounting for between 60% and 80% of all colds). Other viruses of interest include the less widespread cold viruses and certain flu strains. Our early work indicates a protective effect against Respiratory Syncytial Virus ('RSV') and we expect to add evidence of a broader protective effect against others during the coming year.

Biomarker confirms inhaled IFN-beta antiviral activity in clinical trial samples

During the period, Synairgen completed the development and qualification of a sputum (phlegm) biomarker assay (test), which can detect IFN-beta-induced antiviral activity in clinical trials. Historically, this biomarker (neopterin) has been measured in blood to support the development of injected IFN-beta for multiple sclerosis. Sputum samples from Synairgen's first inhaled IFN-beta study (SG003) were retrospectively tested and the results confirmed that neopterin was elevated following inhalation of IFN-beta. A similar elevation has been observed in samples received to date from the second Phase I study (SG004). This confirms that many of the challenges faced during inhaled biologic drug development have been overcome, such as maintaining protein activity post aerosolisation and 'landing' the drug on the target. This in turn increases our confidence in being able to demonstrate efficacy in our Phase II proof of concept studies.

IFN-beta intellectual property

Post period-end, the patent for inhaled IFN-beta to treat rhinovirus infections in asthma and COPD has been granted in the US. Whilst the IFN-beta patent portfolio is owned by the University of Southampton, Synairgen has the benefit of an exclusive licence.

IFN-beta out-licensing strategy

Synairgen intends to out-license the IFN-beta programme upon demonstration of Phase IIa proof of concept in either asthma or COPD. These studies are scheduled to commence in Spring 2010, with results expected approximately 12 months later. Whilst the early evidence of antiviral biomarker activity improves the attractiveness of this opportunity to potential licensees, based on our ongoing dialogue with potential partners, Synairgen expects that optimal licensing terms will be achievable with Phase II data.

Phase II proof of concept studies

In the last quarter of the financial year, management's focus turned to designing and financing two Phase II studies, each intended to provide evidence of efficacy in its significant but separate area

of clinical need. In asthma, Synairgen plans to conduct SG005, a wild-type study which best reflects the real world circumstances in which the therapy will need to perform. Run through a number of study centres in the UK, each 'exacerbation-prone' asthmatic volunteer will use the inhaler with either IFN-beta or placebo on the onset of symptoms of a cold.

In COPD, we plan to conduct 'controlled infection' study SG006, using a virus challenge model on long-term smokers. Volunteers will be infected with the common cold virus having been 'pre-treated' with either IFN-beta or placebo.

Both studies will be subject to ethical and regulatory approval and are expected to commence in Spring 2010.

Core technology platform and biobank

During the year, Synairgen has secured Human Tissue Authority approval for its tissue bank of samples collected from asthmatic, COPD and control populations. Synairgen has conducted over 250 bronchoscopies since its inception and uses this technology platform extensively to support its clinical programmes. Synairgen recognises this technology platform may be of great value to other companies and, so long as it does not distract Synairgen from its core IFN-beta programmes, Synairgen will enter into collaborations that add to Synairgen's intellectual property base.

Staff

Synairgen has progressed significantly this year due to the sometimes exceptional efforts of our staff, both in the laboratories and those recruiting for, and managing, our clinical trials.

Outlook

Synairgen is focussed on preparing for and conducting the crucial next phase of clinical trials of IFN-beta. We are now well financed and resourced to deliver on this objective. During the forthcoming year, the key tasks will be to complete the analysis of the SG004 data, secure regulatory approval for SG005 and SG006, finalise the selection of the appropriate trial centres and commence the two studies. Alongside this, we continue to investigate the breadth of defensive action of inhaled IFN-beta against other viruses and to update potential licensing partners on progress for this exciting dual programme.

Simon Shaw

Chairman

Richard Marsden

Chief Executive Officer

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. This is the second annual report for the Group 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.

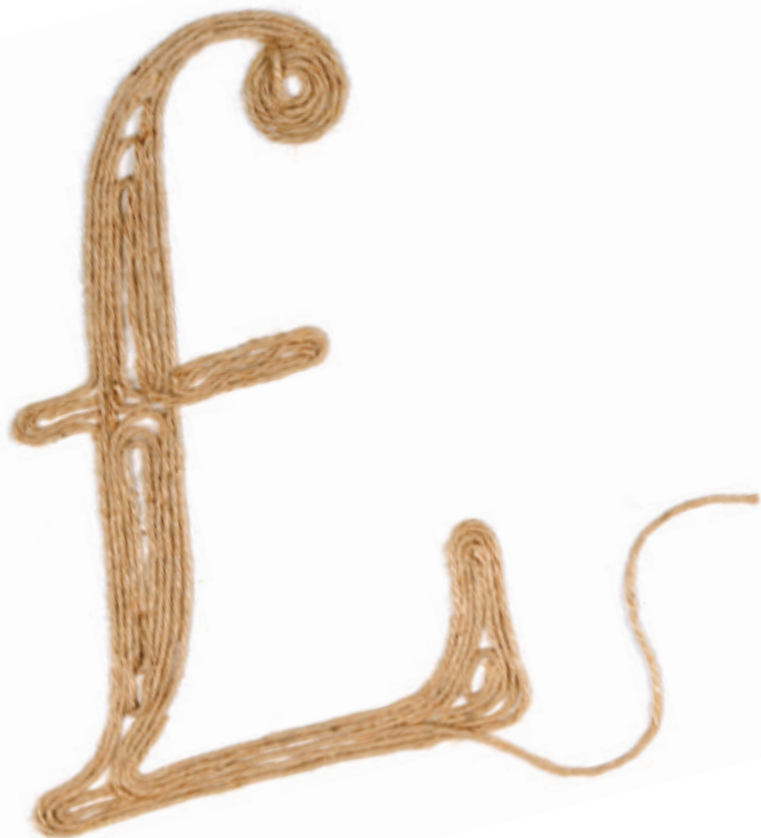
Fundraising

In June 2009, following successful completion of the second cohort of SG004 (as discussed in the Chairman's and Chief Executive Officer's Report) and shareholder approval at the General Meeting held on 12 June 2009, the Company raised £6.35 million (gross) through the issue of 37.35 million shares at a price of 17p. The issue price of 17p represented a 4.2% discount to the closing mid-market price on the day before the fundraising was announced. Costs of the issue amounted to £0.16 million (2.4%). The net proceeds of £6.20 million will be used to finance the two planned Phase IIa inhaled IFN-beta proof of concept studies, which are scheduled to commence in Spring 2010.

Income Statement

Research and development expenditure for the year amounted to £2.11 million (2008: £2.00 million). The main area of expenditure has continued to be the IFN-beta programme. SG004, the second Phase I study, which is being conducted in Southampton and Manchester, commenced in July 2008 and by 30 June 2009 with three of the four cohorts finished was 75% complete. During the year, SG007, the dual centre study to characterise the common cold model in asthma, has also progressed. Preparation for the two Phase II studies (SG005 and SG006) has commenced. In addition to clinical programme expenditure, further *in vitro* work continues to be undertaken to support both of the asthma and COPD IFN-beta programmes. Whilst the majority of cash resources have been focussed on IFN-beta, some research and development investment has also been made to develop further the Company's platform technology.

Other administrative costs increased from £0.75 million to £0.86 million. Interest receivable fell from £0.29 million to £0.13 million as interest rates and cash balances lowered. The research and development tax credit increased to £0.35 million (2008: £0.32 million). The loss after tax was £2.49 million (2008: £2.15 million) and the loss per share was 10.64p (2008: loss of 9.92p).



Balance sheet and cash flow

At 30 June 2009, net assets amounted to £8.00 million (30 June 2008: £4.19 million), including net funds, as detailed below in Capital structure and funding, of £7.94 million (2008: £4.00 million).

The principal elements of the £3.94 million increase (2008: £2.01 million decrease) in net funds were:

- Share issue proceeds (net of costs) of £6.20 million (2008: £nil);
- Cash used in operations of £2.68 million (2008: £2.50 million outflow);
- Research and development tax credits received of £0.33 million (2008: £0.25 million); and
- Interest received of £0.18 million (2008: £0.30 million)

Capital expenditure amounted to £0.08 million (2008: £0.07 million) and comprised investment into patent and licence costs and equipment.

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 2009 amounted to £8.00 million (30 June 2008: £4.19 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 2009 amounted to £7.94 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:

	2009 £m	2008 £m	2007 £m	2006 £m	2005 £m	30 June 2004 £m
Short-term deposits	1.98	3.45	5.00	7.16	8.23	-
Cash and cash equivalents	5.96	0.56	1.02	0.33	0.45	0.41
Total cash	7.94	4.01	6.02	7.49	8.68	0.41
Finance lease liabilities	-	(0.01)	(0.01)	(0.01)	-	-
Net funds	7.94	4.00	6.01	7.48	8.68	0.42

The Group did not have any bank borrowings as at 30 June 2009 (2008: £nil).

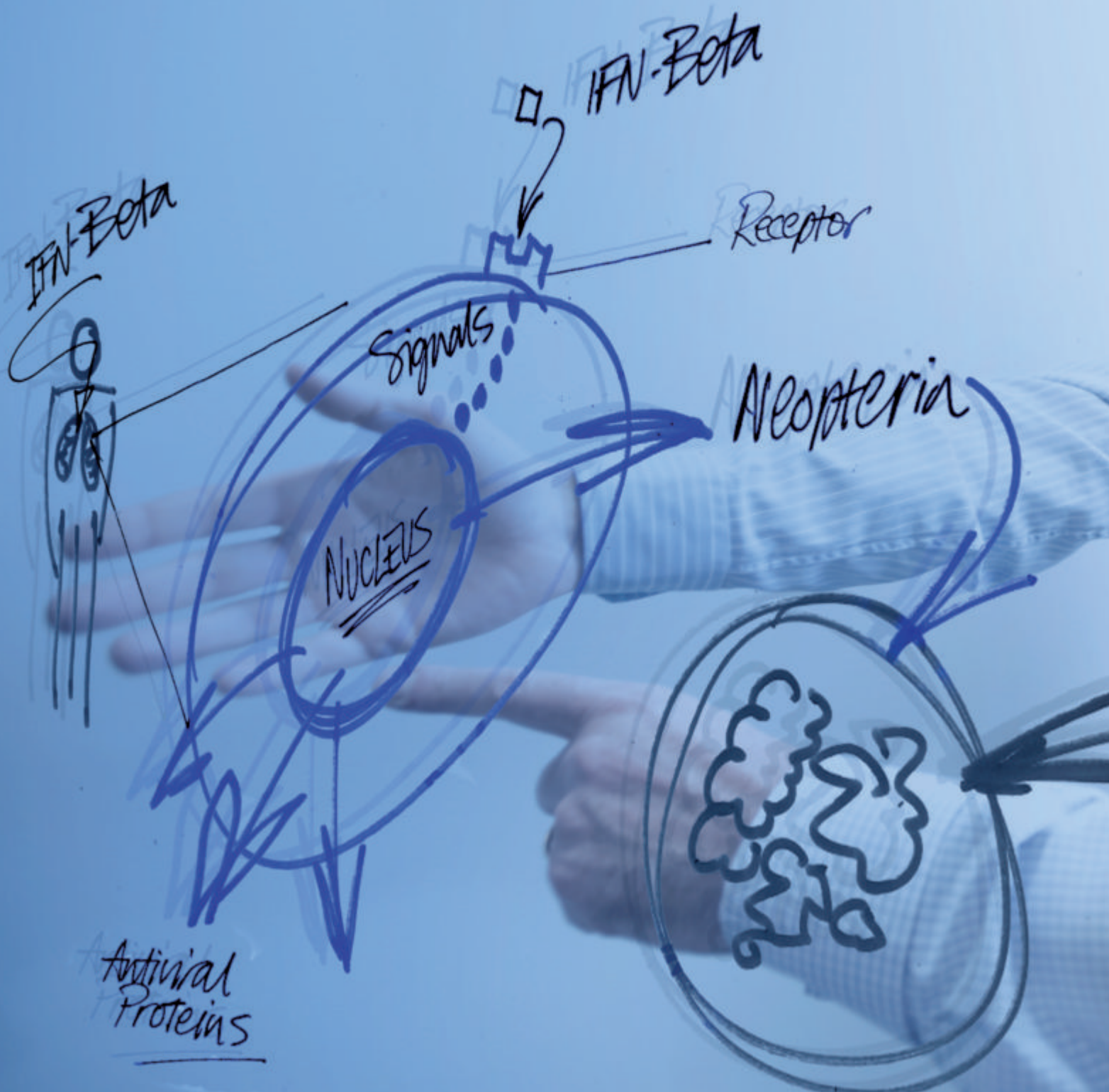
There have been three significant issues of shares: in August 2003 £0.62 million (net of costs) was raised; in October 2004, when the Company completed its IPO on AIM, £8.98 million (net of costs) was raised; and in June 2009 the Company raised £6.20 million (net of costs). The other major sources of funding received by the Group from the formation of the business until 30 June 2009 have been: bank interest of £1.45 million; research and development tax credits of £0.84 million; and revenues from collaborative work of £0.44 million.

John Ward

Finance Director

Scientific Review

Prof. Stephen Holgate
Non-executive Director
and Founder of Synairgen





Petri Dish
Sputum

Scientific Review (continued)

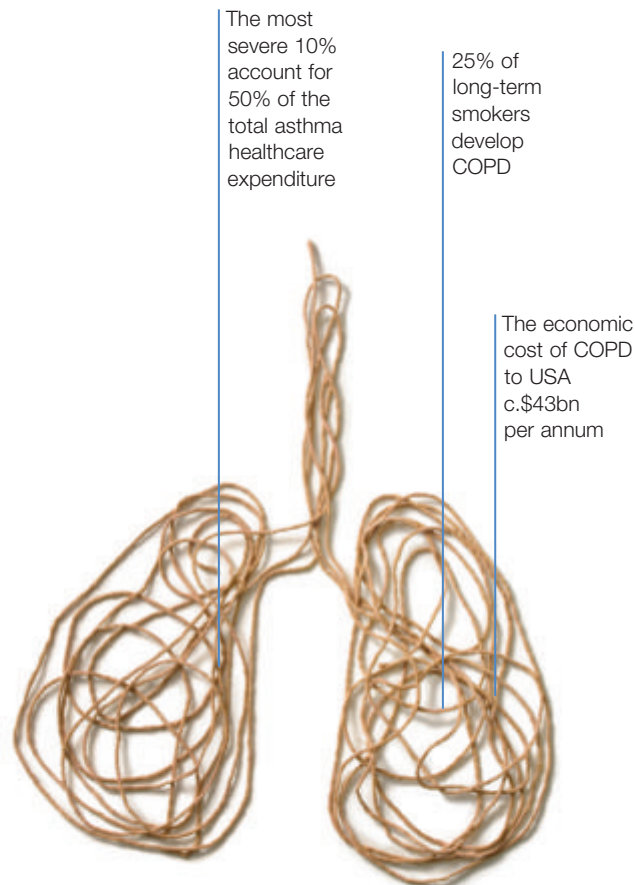


The recent pandemic H1N1 influenza outbreak (swine flu) has again highlighted the urgent need for antiviral therapies that protect 'at risk' populations such as those with asthma or smoking-related chronic obstructive pulmonary disease (COPD) when they encounter respiratory viruses.

Whilst those with lung disease are no more likely to contract a respiratory tract infection, they are much more likely to develop respiratory complications leading to urgent medical interventions. Therefore, it is not surprising that asthmatics represent a relatively large proportion of those hospitalised in the current swine flu outbreak, and those with COPD are particularly vulnerable to seasonal flu. By way of example, the Centers for Disease Control and Prevention in the United States studied the hospital records of 268 patients hospitalised with swine flu early on during the outbreak. The analysis found that the prevalence of underlying lung disease was much higher among hospitalised swine flu patients when compared to the prevalence in the general U.S. population - whilst asthma occurs in approximately 8% of the U.S. population, 32% of hospitalised swine flu patients had asthma, underlining the problem¹.

Whilst swine flu has brought into sharp focus the morbidity and mortality associated with respiratory viruses both in adults and in children, on average influenza will only infect one in five people each year, and is only one of many respiratory virus types that cycle through the population each year. More importantly, the many common cold viruses, including rhinovirus, respiratory syncytial virus (RSV), coronavirus, adenovirus and parainfluenza will cause many more infections each year (2 to 4 per year in adults, more in children) and are more often associated with hospitalisations in the 'at risk' populations, especially those with existing respiratory disease². Indeed, diagnostic testing for H1N1 virus in the current pandemic reveals that only about one quarter of cases where symptoms were compatible with influenza infection, turn out to be infected with H1N1, other respiratory viruses being responsible for the remainder.

It has proved difficult to develop effective therapies against respiratory viruses. Creating a vaccine or a specific therapeutic against the non-influenza respiratory viruses is very challenging. This is due to the number of virus types associated with common cold symptoms and their naturally high mutation rate, which can lead to the development of drug resistant variants. For example, there are more than a hundred variants of the rhinovirus group alone³.



As with aggressive viral diseases such as HIV or hepatitis, in addition to targeting the virus, there are strong arguments for developing drugs which boost the host's natural antiviral defence in the vulnerable organ to prevent the loss of disease control following a respiratory viral infection particularly in high risk subpopulations. This is certainly the case for asthma and COPD, where researchers have found that the host antiviral defence against rhinovirus in the lung is compromised, providing a potential explanation for why the cold virus is more likely to spread to the lungs in these populations.

There are a number of approaches to boosting host antiviral defence in the lung. These include raising antibodies or other components of the adaptive immune response to block virus entry into target cells, as with antiviral vaccines. Another is to strengthen the target cell's response to infection once the virus enters the cell, as with antioxidants or agents that interfere with the pro-inflammatory transcription factor NFkB. However, in the case of asthma and COPD exacerbations there is another unique and powerful way to defend the lung against virus infection and that is to promote the lungs' own intrinsic antiviral defence. The target for common cold viruses linked to worsening asthma or COPD is the lining epithelial cell in which resides the first line of defence against virus infection. Our discovery that the epithelial cells of

Scientific Review (continued)

asthmatic^{4,5} and COPD⁶ patients are fundamentally deficient in their ability to neutralise respiratory viruses such as those that cause the common cold helps explain why such patients are so vulnerable to usually innocuous viruses. The deficiency lies in the impaired production of the antiviral interferon, IFN-beta^{4,7}. The nuclear double-stranded ribonucleic acid (RNA) that forms the genetic code for a virus is recognised as a danger signal inside infected epithelial cells by binding to a special receptor, toll-like receptor 3 (TLR3) that in normal cells triggers the cells to make large amounts of IFN-beta⁸. This functions to stop the virus from replicating and to melt any infected cells away without causing tissue injury or inflammation⁹. In asthma and COPD, the reduced functioning of this pathway leaves the epithelial cells vulnerable to viral replication and shedding to infect neighbouring cells and to cell death and tissue damage with inflammation. It is these events that underpin the exacerbation of asthma and COPD¹⁰.

These exciting findings create a new therapeutic opportunity of replacing the missing interferon response by giving the IFN-beta by inhalation at the start of an upper respiratory infection and thereby preventing the exacerbation in patients with severe disease who are at special risk. This is what Synairgen has in its therapeutic development profile for human recombinant IFN-beta. The advantage of giving the interferon by inhalation is that any side effects which might occur with systemic administration (as observed in the treatment of multiple sclerosis) are less likely to occur because of very much reduced systemic absorption and yet the concentration at the site where it is needed (epithelium) is high. We have been very pleased with the progress of our inhaled IFN-beta safety trials, and that preliminary data suggested that we are able to induce the IFN-beta pathways as shown by elevated levels of the biomarker neopterin¹¹ in samples taken from the lower airways. Of further interest to us is the demonstration that IFN-beta can also protect airway epithelial cells against different types of rhinovirus as well respiratory syncytial virus (RSV), another of the viruses associated with the common cold. It will be important now for us to see if similar protection can be afforded against other common cold viruses.

The association between respiratory viruses in asthma has become even more important: several recent studies have also placed respiratory virus infection as a major factor in the origins of asthma in early childhood^{12,13}. A recent large award of £2.5 million made to the University of Southampton and two of the Synairgen's founders (Donna Davies and myself) by the MRC for this work to be pursued is another exciting opportunity for the future.

We all look forward to the commencement of the inhaled IFN-beta proof of concept studies next year in asthma and COPD. A demonstration of efficacy will be a very significant breakthrough in antiviral defence in respiratory disease, and maybe beyond.

Professor Stephen Holgate

Founder and non-executive director



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Synairgen's Founders and Scientific Advisors

Synairgen's Founders



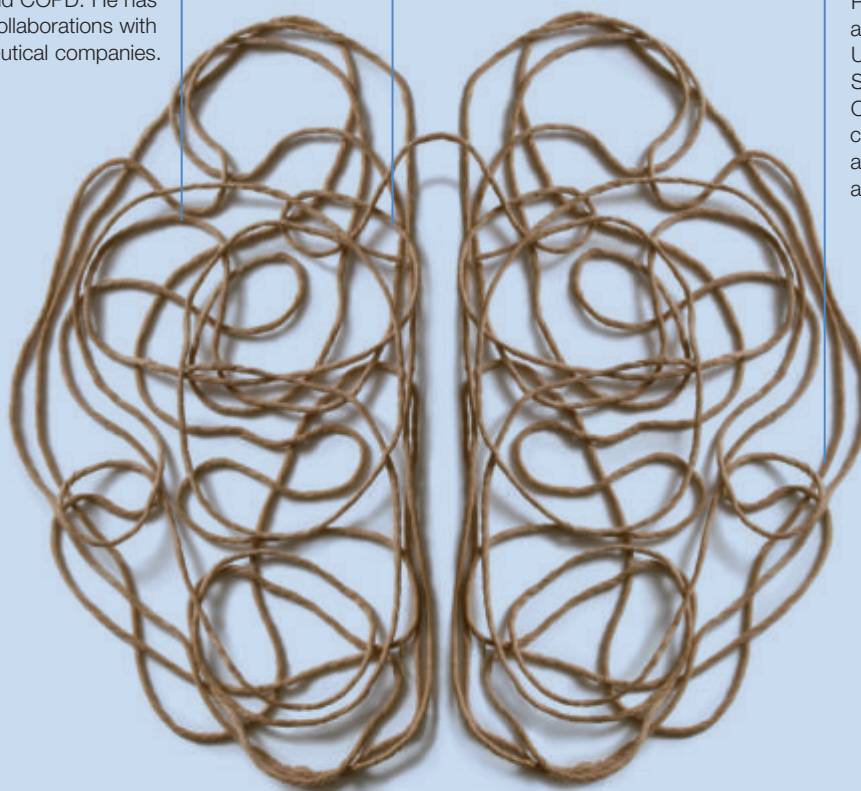
Prof. Ratko Djukanovic is Professor of Respiratory Medicine at the University of Southampton. His research focuses on mechanisms which determine the severity of asthma and COPD. He has had many collaborations with pharmaceutical companies.



Prof. Stephen Holgate is MRC Clinical Professor of Immunopharmacology and a world-acknowledged expert in respiratory research. He has published over 850 papers in peer-reviewed literature and a brief curriculum vitae is given on page 12.



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



Synairgen's Scientific Advisors

Prof. James Gern, University of Wisconsin, USA

Prof. Sebastian Johnston, of Imperial College, London

Prof. Peter Sterk, University of Amsterdam

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

Directors



Simon Shaw



Richard Marsden



John Ward



Dr Bruce Campbell



Prof. Stephen Holgate



Susan Sundstrom

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. Simon is a member of the techMARK Advisory Group of the London Stock Exchange, which advises the Exchange on matters of Technology and Mediscience.

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.

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.

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 Group Director of Drug Development, a non-executive director of 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 850 papers in peer-reviewed literature and is co-editor of Clinical and Experimental Allergy. He has been Visiting Professor at Vanderbilt, Wake Forest, Harvard, Yale, Chicago, Rochester, McMaster, Toronto, Vancouver (UBC), Pittsburgh and Edmonton Universities. 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 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 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.

Susan Sundstrom

Non-executive Director

Susan Sundstrom joined Synairgen as a non-executive director in June 2003. She is Director, Lifescience Enterprise of the University of Southampton's Technology Transfer group. Previously, her career includes twenty years with AstraZeneca where she held a wide range of international commercial positions, encompassing general management and global business development. Susan graduated from the London Business School and Wharton MBA programme with distinction and is a director of a number of private companies spun out from the University of Southampton

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 2009.

Principal activities

Synairgen plc is the holding company for Synairgen Research Limited, a drug discovery and development company focused on developing novel therapies which address the causes, rather than the symptoms, of respiratory disease.

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 £2,107,000 (2008: £2,004,000) 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:

• Failure to generate innovative discoveries

There can be no guarantee that the Group will successfully develop new pharmaceutical products. The Group seeks to reduce this risk by collaborating with the University of Southampton and other pharmaceutical and biotechnology companies, and where appropriate, in-licensing opportunities for development.

• 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 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 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.

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.

Directors' Report (continued)

The most important financial KPIs are the cash position and the operating loss of the Group. At 30 June 2009 cash and deposit balances amounted to £7.9 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 £2,494,000 (2008: loss of £2,152,000). A Financial Review is set out on pages 4 and 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.

Share issues

Details of share issues during the year are shown in note 18 to the financial statements.

Substantial shareholdings

As at 3 September 2009, 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%
F&C Asset Management plc	7,618,600	12.8%
IP Group plc	6,423,077	10.8%
IP Venture Fund LP	4,411,764	7.4%
Southampton Asset Management Limited	3,600,000	6.0%
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
	Prof. Stephen Holgate
	Susan Sundstrom

In accordance with the Company's Articles of Association, which require that one third of the directors shall retire from office, at the Annual General Meeting on 11 November 2009 Richard Marsden and Stephen Holgate will retire and, being eligible, offer themselves for re-appointment.

Directors' interests in ordinary shares

The directors, who held office at 30 June 2009, had the following interests in the ordinary shares of the Company:

	30 June 2009 No. of shares	1 July 2008 No. of shares
Richard Marsden	58,823	-
John Ward	189,751	22,692
Simon Shaw	1,275,988	105,400
Dr Bruce Campbell	216,923	216,923
Prof. Stephen Holgate (i)	841,405	835,323

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

Between 30 June 2009 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 2009 the Group had an average of 27 days' purchases outstanding in trade creditors (2008: 50 days' purchases).

Post balance sheet events

There are no events occurring post 30 June 2009 requiring disclosure.

Charitable and political donations

During the year the Group made no charitable donations (2008: £77,000) and no political donations (2008: 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 11 November 2009 at Fasken Martineau LLP, 17 Hanover Square, London W1S 1HU.

Auditors

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 auditors for the purposes of their audit and to establish that the auditors are aware of that information. The directors are not aware of any relevant audit information of which the auditors are unaware.

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

By order of the Board

John Ward

Company Secretary

3 September 2009

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 Principles of Good Governance and Code of Best Practice (2006) (the 'Combined Code') is not a formal obligation. The Company has not sought to comply with the full provisions of the Combined 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 2009 the Board of directors (the 'Board') consisted of a non-executive Chairman (Simon Shaw), two executive directors (Richard Marsden and John Ward), and three non-executive directors (Dr Bruce Campbell, Prof. Stephen Holgate, and Susan Sundstrom). Brief details about the directors are given on page 12. 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, including for example during the recent finance raising. During the year ended 30 June 2009 the Board met twelve times, with each member attending as follows:

Name	Number of meetings held whilst a Board member	Number of meetings attended
Simon Shaw	12	11
Richard Marsden	12	12
John Ward	12	12
Dr Bruce Campbell	12	12
Prof. Stephen Holgate	12	6
Susan Sundstrom	12	11

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 auditors relating to the Group's accounting controls. It makes recommendations to the Board on the appointment of auditors and the audit fee. The committee monitors the scope, results and cost-effectiveness of the audit. It has unrestricted access to the Group's auditors. In certain circumstances it is permitted by the Board for the auditors 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 auditors 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 three times and all meetings were attended by Simon Shaw and Dr Bruce Campbell.

Remuneration and Nomination Committee

The Remuneration and Nomination Committee currently comprises Susan Sundstrom (Chairman), Dr Bruce Campbell and Simon Shaw. It 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 and the staff share option scheme and approves grants under both 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 the Committee has met three times and all meetings were attended by Susan Sundstrom, Dr Bruce Campbell and Simon Shaw.

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.synaigen.com) to increase the amount of information available to investors.

Corporate Governance Statement (continued)

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 20 working 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 11 November 2009 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 keeping adequate accounting records that show and explain the Company's transactions, 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.

The directors are required by the Companies Act 2006 to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and the Group as at the end of the financial year and of the profit or loss of the Group for the financial year. The directors are required to prepare financial statements in accordance with the rules of the London Stock Exchange for companies trading securities on the Alternative Investment Market. The directors have chosen to prepare financial statements for the Company in accordance with United Kingdom Generally Accepted Accounting Practice.

In preparing the Group and Company financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- for the Group financial statements, state whether they have been prepared in accordance with International Financial Reporting Standards as adopted by the EU;
- for the Company financial statements, state whether applicable UK Accounting Standards have been followed; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and Company will continue in business.

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

3 September 2009

Directors' Remuneration Report

This report is non-mandatory for AIM-quoted companies and has been produced on a voluntary basis. It is not intended to comply with the remuneration 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 composition and terms of reference of the Committee is outlined in the Corporate Governance Statement on page 15.

The Committee, which is required to meet at least twice a year, met three times during the year ended 30 June 2009. 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 executive director remuneration, including the 2008 Long-Term Incentive Plan ('LTIP') awards and the fair valuation of share-based payments, and the Synairgen Qualifying Non-Employee Option Scheme 2009 (see below) 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 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 with a maximum of 100% of base salary for delivery of exceptional performance against personal and corporate objectives. Bonuses payable to executive directors in respect of the year ended 30 June 2009 were 40% of base salary (2008: 10% of base salary), amounting to £48,000 (2008: £12,000) for Richard Marsden and £44,000 (2008: £11,000) for John Ward. 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 2009 is set out on page 19 of this document. The Committee has concluded that the salaries of the executive directors will again not be increased for the year to 30 June 2010 and that their annual bonus potential will remain at 100% of base salary.

(ii) Chairman and non-executive director remuneration

The Chairman receives a fixed fee of £25,000 and his remuneration is reviewed periodically by the Committee. Currently, each of the non-executive directors receives a fixed fee, which covers preparation for and attendance at meetings of the full Board and committees thereof. 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. The standard fixed fee for non-executive directors was reviewed for the first time and became £15,000 with effect from 1 September 2009. In addition, a fee for chairing each of the audit and remuneration committees was introduced from that date of £5,000.

(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 August 2008 Richard Marsden and John Ward were granted awards over shares worth 66% 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 2008 LTIP awards

The performance conditions for the 2008 LTIP awards were the same as the 2006 & 2007 LTIP awards. 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%.

It is envisaged that the next awards will be made in September 2009 over shares worth up to 100% of salary with the same performance conditions as were applied to prior awards, except that, in respect of any award in excess of 75% of salary, the second condition will require that annual average TSR exceeds RPI by at least 10% rather than 2%.

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 2008	Granted during the year	Lapsed	At 30 June 2009	Exercise price	Earliest exercise date	Expiry date
Richard Marsden							
15 November 2005	43,829	-	(43,829)	-	lp	n/a	n/a
30 November 2006	70,606	-	-	70,606	lp	30 Nov 2009	29 Nov 2010
30 October 2007	129,853	-	-	129,853	lp	30 Oct 2010	29 Oct 2011
1 August 2008	-	165,000	-	165,000	lp	1 Aug 2011	31 Jul 2012
John Ward							
15 November 2005	105,191	-	(105,191)	-	lp	n/a	n/a
30 November 2006	128,484	-	-	128,484	lp	30 Nov 2009	29 Nov 2010
30 October 2007	118,048	-	-	118,048	lp	30 Oct 2010	29 Oct 2011
1 August 2008	-	150,000	-	150,000	lp	1 Aug 2011	31 Jul 2012

The options awarded in November 2006, October 2007 and August 2008 under the LTIP will only vest if the performance conditions outlined above are met.

Qualifying Non-Employee Option Scheme

On 12 June 2009 shareholders in General Meeting unanimously approved the adoption of the Synairgen Qualifying Non-Employee Option Scheme 2009. 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. It is not intended that non-executive directors will receive awards simply for fulfilling the normal duties of a non-executive director and no director will participate in any discussions leading to an award to him or herself. All options granted under the plan will contribute towards the existing overall issuance limits of 10% of the issued share capital in any 10 year period under the Company's existing employee share schemes.

(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.

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

Date of grant	At 1 July 2008	Exercised	At 30 June 2009	Exercise price	Earliest exercise date	Expiry date
Simon Shaw						
11 October 2004	420,000	(420,000)	-	1p	11 Oct 2004	10 Oct 2014
11 October 2004	280,000	(280,000)	-	1p	26 Oct 2004	10 Oct 2014
Richard Marsden						
11 October 2004	280,000	-	280,000	10p	11 Oct 2004	10 Oct 2014
11 October 2004	140,000	-	140,000	10p	30 June 2005	10 Oct 2014
26 October 2004	140,000	-	140,000	130p	30 June 2006	25 Oct 2014
26 October 2004	140,000	-	140,000	130p	30 June 2007	25 Oct 2014
John Ward						
26 October 2004	140,000	-	140,000	130p	30 June 2005	25 Oct 2014
26 October 2004	140,000	-	140,000	130p	30 June 2006	25 Oct 2014

The vesting and exercise of these other options is subject to the relevant option holder 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.

Simon Shaw exercised his options on 17 October 2008 (see below in Audited information for details). 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 2009 was 20.25p. During the year then ended the mid-market price ranged from 13p to 44p. On 3 September 2009 the closing price was 17p.

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 2009 and has been audited by the Company's auditors, BDO Stoy Hayward LLP.

Directors' remuneration

The aggregate remuneration received by directors who served during the year ended 30 June 2009 was as follows:

£000	Note	Salary/fee 2009	Benefits 2009	Bonus 2009	Total (excl. pension) 2009	Pension 2009	Total (incl. pension) 2009	Total (excl. pension) 2008	Pension 2008	Total (incl. pension) 2008
Executive directors										
Richard Marsden	(i)	121	1	48	170	11	181	135	11	146
John Ward		110	1	44	155	10	165	123	10	133
Non-executive directors										
Simon Shaw	(ii)	25	-	-	25	-	25	25	-	25
Dr Bruce Campbell	(iii)	5	-	-	5	-	5	5	-	5
Prof. Stephen Holgate	(iv)	5	-	-	5	-	5	5	-	5
Susan Sundstrom	(v)	5	-	-	5	-	5	5	-	5
Total		271	2	92	365	21	386	298	21	319

(i) Richard Marsden was the highest paid director during the years ended 30 June 2008 and 2009.

(ii) Simon Shaw exercised 700,000 options over 1p ordinary shares at an exercise price of 1p per share on 17 October 2008 and has since retained the shares. On 17 October 2008 the closing mid-market price of the Company's shares was 22.5p, resulting in a nominal pre-tax gain of £151,000.

(iii) £5,000 was paid to IP2IPO Limited for the services of Bruce Campbell.

(iv) In addition to this fee for his services as a director, Prof. Holgate received consultancy fees amounting to £20,000 (2008: £20,000) as disclosed in note 20 to the financial statements.

(v) £5,000 was paid to the University of Southampton for the services of Susan Sundstrom.

(vi) The total amount paid to third parties amounted to £10,000 (2008: £10,000).

In addition to the amounts shown above, the share-based payment charge for the year ended 30 June 2009 was £31,000 (2008: £19,000) for Richard Marsden and £37,000 (2008: £27,000) for John Ward.

By order of the Board

Susan Sundstrom

Chairman of the Remuneration and Nomination Committee

3 September 2009

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 2009 which comprise the Consolidated Income Statement, the Consolidated Statement of Changes in Equity, the Consolidated Balance Sheet, the Consolidated Cash Flow Statement, 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 sections 495 and 496 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 auditors

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 Auditors.

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 2009 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 matter 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.

Kim Hayward (senior statutory auditor)

For and on behalf of

BDO Stoy Hayward LLP, statutory auditor

Southampton

3 September 2009

Consolidated Income Statement

for the year ended 30 June 2009

	Notes	Year ended 30 June 2009 £000	Year ended 30 June 2008 £000
Research and development expenditure		(2,107)	(2,004)
Other administrative expenses		(864)	(753)
Total administrative expenses		(2,971)	(2,757)
Operating loss		(2,971)	(2,757)
Finance income	6	130	291
Finance expense	6	(1)	(1)
Loss before tax		(2,842)	(2,467)
Tax	7	348	315
Loss for the year attributable to equity holders of the parent		(2,494)	(2,152)
Loss per ordinary share			
Basic and diluted loss per share (pence)	8	(10.64)p	(9.92)p

All amounts relate to continuing activities.

Consolidated Statement of Changes in Equity

for the year ended 30 June 2009

Notes	Share capital £000 19a	Share premium £000 19b	Merger reserve £000 19c	Retained deficit £000 19d	Total £000
Changes in equity for the year ended 30 June 2008					
Balance at 1 July 2007	217	8,903	483	(3,349)	6,254
Loss for the year	-	-	-	(2,152)	(2,152)
Recognition of share-based payments	-	-	-	85	85
Balance at 30 June 2008	217	8,903	483	(5,416)	4,187
Changes in equity for the year ended 30 June 2009					
Issuance of ordinary shares	380	5,977	-	-	6,357
Transaction costs in respect of share issues	-	(155)	-	-	(155)
Loss for the year	-	-	-	(2,494)	(2,494)
Recognition of share-based payments	-	-	-	104	104
Balance at 30 June 2009	597	14,725	483	(7,806)	7,999

The loss for the year represents the total recognised income and expense for the year.

Consolidated Balance Sheet

as at 30 June 2009

	Notes	30 June 2009 £000	30 June 2008 £000
Assets			
Non-current assets			
Intangible assets	9	127	109
Property, plant and equipment	10	81	122
		208	231
Current assets			
Inventories	11	123	103
Current tax receivable		320	300
Trade and other receivables	12	75	136
Other financial assets	13	1,977	3,445
Cash and cash equivalents	14	5,963	557
		8,458	4,541
Total assets		8,666	4,772
Liabilities			
Current liabilities			
Trade and other payables	15	(662)	(578)
Obligations under finance leases	16	(3)	(2)
		(665)	(580)
Non-current liabilities			
Obligations under finance leases	16	(2)	(5)
Total liabilities		(667)	(585)
Total net assets		7,999	4,187
Equity			
Capital and reserves attributable to equity holders of the parent			
Share capital	18	597	217
Share premium	18	14,725	8,903
Merger reserve		483	483
Retained deficit		(7,806)	(5,416)
Total equity		7,999	4,187

The financial statements on pages 21 to 35 were approved and authorised for issue by the Board of directors on 3 September 2009 and signed on its behalf by:

Richard Marsden
Chief Executive Officer

John Ward
Finance Director

Consolidated Cash Flow Statement

for the year ended 30 June 2009

	Year ended 30 June 2009 £000	Year ended 30 June 2008 £000
Cash flows from operating activities		
Loss before tax	(2,842)	(2,467)
Adjustments for:		
Finance income	(130)	(290)
Finance expense	1	1
Depreciation	64	68
Amortisation	43	15
Share-based payment charge	104	85
Cash flows from operations before changes in working capital	(2,760)	(2,588)
Increase in inventories	(20)	(7)
Decrease/(Increase) in trade and other receivables	15	(16)
Increase in trade and other payables	84	116
Cash used in operations	(2,681)	(2495)
Interest paid	(1)	(1)
Tax credit received	328	250
Net cash used in operating activities	(2,354)	(2,246)
Cash flows from investing activities		
Interest received	176	302
Purchase of property, plant and equipment	(23)	(44)
Purchase of intangible assets	(61)	(25)
Decrease in other financial assets	1,468	1,553
Net cash generated from investing activities	1,560	1,786
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	(2)	(3)
Net cash generated from/(used in) financing activities	6,200	(3)
Increase/(Decrease) in cash and cash equivalents	5,406	(463)
Cash and cash equivalents at beginning of year	557	1,020
Cash and cash equivalents at end of year	5,963	557

Notes to the Consolidated Financial Statements

for the year ended 30 June 2009

1. Accounting policies

Basis of preparation

The Group financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by 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 are to be applied to financial statements commencing on or after the following dates:

International Financial Reporting and Accounting Standards (IFRS/IAS)		Effective dates
IFRS 1	First-time Adoption of IFRS (Amendment)	1 January 2009
IFRS 2	Share-based payment (Amendment)	1 January 2009
IFRS 7	Financial Instruments: Disclosures (Amendment)	1 January 2009
IFRS 8	Operating Segments	1 January 2009
IAS 1	Presentation of Financial Statements (Amendment)	1 January 2009
IAS 32	Financial Instruments: Presentation (Amendment)	1 January 2009
IAS 1*	Presentation of Financial Statements (Amendment)	1 January 2009
IAS 23	Borrowing Costs (Amendment)	1 January 2009
IAS 27	Cost of an Investment in a subsidiary, joint-controlled entity or associate (Amendment)	1 January 2009
	Improvements to IFRSs	1 January 2009
IAS 39*	Embedded Derivatives (Amendment)	30 June 2009
IFRS 3	Business Combinations (Amendment)	1 July 2009
IAS 27	Consolidated and Separate Financial Statements (Amendment)	1 July 2009
IAS 39	Financial Instruments: Recognition and Measurement: Eligible Hedged Items	1 July 2009
	Improvements to IFRSs (2010)	1 January 2010
IFRS 2	Share-based payment (Amendment)	1 January 2010
IFRS 1	First-time Adoption of IFRS (Amendment)	1 January 2010

International Financial Reporting Interpretations Committee (IFRIC)		Effective dates
IFRIC 16	Hedges of a Net Investment in a Foreign Operation	1 October 2008
IFRIC 15	Agreements for the Construction of Real Estate	1 January 2009
IFRIC 9*	Embedded Derivatives (Amendment)	30 June 2009
IFRIC 14*	IAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	1 July 2009
IFRIC 17	Distributions of Non-cash Assets to Owners	1 July 2009
IFRIC 18	Transfer of Assets from Customers	1 July 2009

* 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 2009 (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 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 income statement.

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 balance sheet 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 arise principally through the provision of goods and services to customers (for example trade receivables), but also incorporate other types of contractual monetary asset. 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.

Notes to the Consolidated Financial Statements

for the year ended 30 June 2009 (continued)

1. Accounting policies (continued)

The Group's loans and receivables comprise trade and other receivables, other financial assets and cash and cash equivalents in the balance sheet. 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.

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 income statement 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 balance sheet 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 balance sheet 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 balance sheet 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 balance sheet date. Exchange differences arising on the retranslation of unsettled monetary assets and liabilities are recognised immediately in the consolidated income statement.

The Group's functional currency 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. Areas of activity and geographical segments

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 2009 (continued)

4. Operating loss

The operating loss has been arrived at after charging:

	2009 £000	2008 £000
Depreciation of property, plant and equipment	64	68
Amortisation of intangible assets	43	15
Research and development expenditure	2,107	2,004
Employee benefit expense (see note 5)	1,185	1,120
Operating lease rentals payable		
Land and building	55	51
Other operating lease rentals	102	97

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

	2009 £000	2008 £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	9	9
Tax services		
Parent company	12	2
Subsidiary	3	4
Other services pursuant to legislation		
Parent company – interim review	5	5
Total fees	39	30

5. Employee benefit expense

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

	2009	2008
Research	19	19
Administration	4	4
	23	23

Their aggregate remuneration comprised:

	2009 £000	2008 £000
Wages and salaries	923	886
Social security costs	103	98
Pension costs – defined contribution plans	51	50
Total cash-settled remuneration	1,077	1,034
Accrued holiday pay	4	1
Share-based payment	104	85
Total remuneration	1,185	1,120

Notes to the Consolidated Financial Statements

for the year ended 30 June 2009 (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 2009 and 2008, Finance income represents bank interest receivable and Finance expense represents interest on obligations under finance leases.

7. Taxation

Current tax

	2009 £000	2008 £000
UK corporation tax credit on loss for the year	(320)	(300)
Adjustment in respect of prior years	(28)	(15)
Total income tax credit	(348)	(315)

The tax assessed on the loss on ordinary activities for the year is different to the standard rate of corporation tax in the UK. The differences are reconciled below:

	2009 £000	2008 £000
Loss on ordinary activities before tax	(2,842)	(2,467)
Loss on ordinary activities before tax multiplied by the standard rate of corporation tax in the UK	(796)	(728)
Effects of:		
Tax relief on options	(24)	-
Expenses not deductible for tax purposes	30	26
Enhanced research & development relief	(298)	(172)
Variable rates on tax losses surrendered for research & development tax credit	314	281
Movement in unrecognised losses and temporary differences	454	293
Over provision in respect of previous periods	(28)	(15)
Total tax credit for the current year	(348)	(315)

Deferred tax

	2009 £000	2008 £000
Recognised deferred taxation		
Accelerated capital allowances	17	27
Other temporary differences	(7)	(8)
Losses	(10)	(19)
Charge for the year	-	-

Unrecognised deferred taxation

The Group has an unrecognised deferred tax asset of £1,230,000 at 30 June 2009 (2008: £789,000), representing trading losses carried forward which are available for offset against future profits of the Group. 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 2009 (continued)

7. Taxation (continued)

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

	2009 £000	2008 £000
Unrecognised deferred tax asset at 1 July	(789)	(499)
Movement in year	(441)	(290)
Unrecognised deferred tax asset at 30 June	(1,230)	(789)

8. Loss per ordinary share

	Year ended 30 June 2009	Year ended 30 June 2008
Loss attributable to equity holders of the Company (£000)	(2,494)	(2,152)
Weighted average number of ordinary shares in issue	23,434,742	21,692,308

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 2009 there were 2,339,663 options outstanding (30 June 2008: 2,805,944 options outstanding) as detailed in note 18.

9. Intangible assets

	Patent & licence costs £000
Cost	
At 1 July 2007	116
Additions	25
At 30 June 2008	141
Additions	61
Derecognised assets	(41)
At 30 June 2009	161
Amortisation	
At 1 July 2007	17
Charge for the year	15
At 30 June 2008	32
Derecognised assets	(41)
Charge for the year	43
At 30 June 2009	34
Net book amount	
At 30 June 2009	127
At 30 June 2008	109
At 1 July 2007	99

During the year ended 30 June 2009 the Group has derecognised certain capitalised patent costs on programmes which it does not intend to pursue, resulting in accelerated amortisation of £24,000. At 30 June 2009 £118,000 (2008: £77,000) of the net book amount relates to interferon beta and lambda patent and licence costs, which has a remaining amortisation period of 8 years (2008: 8 years).

Notes to the Consolidated Financial Statements

for the year ended 30 June 2009 (continued)

10. Property, plant and equipment

	Computer equipment £000	Laboratory and clinical equipment £000	Total £000
Cost			
At 1 July 2007	58	229	287
Additions	7	37	44
At 30 June 2008	65	266	331
Additions	-	23	23
Derecognised assets	-	(146)	(146)
At 30 June 2009	65	143	208
Depreciation			
At 1 July 2007	31	110	141
Charge for the year	18	50	68
At 30 June 2008	49	160	209
Derecognised assets	-	(146)	(146)
Charge for the year	11	53	64
At 30 June 2009	60	67	127
Net book value			
At 30 June 2009	5	76	81
At 30 June 2008	16	106	122
At 1 July 2007	27	119	146

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

Included within laboratory and clinical equipment at 30 June 2009 are assets under hire purchase contracts at a cost of £14,000 (30 June 2008: £14,000) and net book value of £5,000 (30 June 2008: £8,000).

At 30 June 2009 the Group had no capital commitments (30 June 2008: £9,000).

11. Inventories

	2009 £000	2008 £000
Raw materials	115	103
Finished goods	8	-
	123	103

12. Trade and other receivables

	2009 £000	2008 £000
Amounts receivable within one year:		
Other tax and social security	36	41
Prepayments and accrued income	39	95
	75	136

Notes to the Consolidated Financial Statements

for the year ended 30 June 2009 (continued)

13. Other financial assets

	2009 £000	2008 £000
Amounts receivable within one year:		
Sterling fixed-rate deposits of greater than three months' maturity	1,977	3,445

14. Cash and cash equivalents

	2009 £000	2008 £000
Cash in hand	103	71
Sterling fixed-rate deposits of up to three months' maturity	5,860	486
	5,963	557

15. Trade and other payables

	2009 £000	2008 £000
Trade payables	134	240
Social security and other taxes	29	36
Accrued expenses	499	302
	662	578

16. Obligations under finance leases

	Minimum lease payments		Present value of lease payments	
	2009 £000	2008 £000	2009 £000	2008 £000
Amounts payable under finance leases				
Within one year	3	3	3	3
In the second to fifth years inclusive	2	5	2	5
	5	8	5	8
Less future finance charges	-	(1)	-	(1)
Present value of lease obligations	5	7	5	7
Less: Amount due to settlement within 12 months (shown under current liabilities)			(3)	(2)
Amount due to settlement after 12 months			2	5

The hire purchase contract is secured by a charge on the asset concerned.

Notes to the Consolidated Financial Statements

for the year ended 30 June 2009 (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.

Group	Notes	Book value £000	2009 Fair value £000	Book value £000	2008 Fair value £000
Financial assets					
<i>Loans and receivables</i>					
Trade and other receivables	(i)	43	43	106	106
Other financial assets (less than one year)		1,977	1,977	3,445	3,445
Cash and cash equivalents (less than one year)		5,963	5,963	557	557
Total		7,983	7,983	4,108	4,108
Financial liabilities					
<i>Other financial liabilities</i>					
Trade and other payables	(ii)	633	633	542	542
Obligations under finance leases (less than one year)		3	3	3	3
Obligations under finance leases (greater than one year)		2	2	5	5
Total		638	638	550	550

(i) Trade and other receivables shown above excludes prepayments, which are not a contractual obligation to receive cash, amounting to £32,000 (2008: £30,000).

(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 £29,000 (2008: £36,000).

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 liabilities and financial assets, excluding short-term receivables:

Group	Fixed-rate financial liabilities £000	2009 Floating-rate financial assets £000	Fixed-rate financial liabilities £000	2008 Floating-rate financial assets £000
Sterling	5	7,940	7	4,001
US Dollar	-	-	-	1
Total	5	7,940	7	4,002

Fixed-rate financial liabilities comprises a hire purchase contract, which expires in 2010 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 2009 had a weighted average period to maturity of 33 days and a weighted average annualised rate of interest of 0.66% (30 June 2008: 72 days, 5.55%).

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 £29,000 (2008: £50,000).

Notes to the Consolidated Financial Statements

for the year ended 30 June 2009 (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 2009 and 30 June 2008 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 2007 and 30 June 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		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 (2008: 100 million shares) with a par value of 1p per share (2008: 1p per share). All issued shares are fully paid.

Options

At 30 June 2009 there were options outstanding over 2,339,663 un-issued ordinary shares, equivalent to 3.9% 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	60,145	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
2 October 2006	80,000	85.5p	See (i) below	1 October 2016
30 November 2006 (LTIP)	199,090	1p	30 November 2009	29 November 2010
30 October 2007 (LTIP)	357,205	1p	30 October 2010	29 October 2011
1 August 2008 (LTIP)	474,064	1p	1 August 2011	31 July 2012
	2,339,663			

(i) The earliest exercise date for these options is linked to certain performance criteria, which, in the opinion of the directors, are unlikely to occur before 2010.

Notes to the Consolidated Financial Statements

for the year ended 30 June 2009 (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	2009 Weighted average exercise price	Number	2008 Weighted average exercise price
Outstanding at 1 July	2,805,944	42.0p	2,404,939	48.0p
Granted during the year	487,902	1.0p	449,482	10.2p
Lapsed during the year	(254,183)	37.8p	(48,477)	45.0p
Exercised during the year	(700,000)	1.0p	-	n/a
Number of outstanding options at 30 June	2,339,663	46.2p	2,805,944	42.0p

At 30 June 2009, 1,078,000 share options were capable of being exercised (2008: 1,820,244) and had an average exercise price of 83.4p (2008: 52.1p). The options outstanding at 30 June 2009 had a weighted average remaining contractual life of 4.3 years (2008: 5.5 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 1,499,663 options which had not vested at 30 June 2006 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 per option (years)	Risk free rate	Performance conditions
26 October 2004	Unapproved	140,000	130p	155p	57.7p	5	4.59%	None
26 October 2004	EMI	42,000	130p	155p	57.7p	5	4.59%	None
12 May 2005	EMI	28,000	136.5p	135.5p	36.9p	5	4.35%	None
2 October 2006	EMI	119,159	85.5p	85.5p	24.4p	5	4.75%	None
2 October 2006	Unapproved	80,000	85.5p	85.5p	24.4p	5	4.75%	Non-market
30 November 2006	Unapproved LTIP	199,090	1p	82.5p	40.3p	3	4.94%	Market
30 October 2007	EMI	60,145	61.5p	61.5p	17.8p	5	4.95%	None
31 October 2007	Unapproved LTIP	357,205	1p	61.5p	28.9p	3	5.02%	Market
1 August 2008	Unapproved LTIP	474,064	1p	44p	17.3p	3	4.85%	Market
		1,499,663						

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 Black-Scholes methodology for the other awards.
- (ii) A figure of 20% has been used for expected volatility. This reflects historical data from the time of the company's initial public offering, with allowance made for days where no share trading has taken place.
- (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 unapproved options granted on 2 October 2006 were granted to a consultant to the Group for his exclusive services with regards to one of the Group's projects. As the Group cannot estimate reliably the value of the exclusive nature of this arrangement, these options have been valued using Black-Scholes methodology.
- (vii) The charge for the year ended 30 June 2009 for Share-based payment, as disclosed in Note 5, amounted to £104,000 (2008: £85,000).
- (viii) The performance criteria for the options awarded under the LTIP are summarised in the Directors' Remuneration Report.

Notes to the Consolidated Financial Statements

for the year ended 30 June 2009 (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 2009, the Group incurred fees and expenses of £6,000 (2008: £15,000) 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 £1,000 (2008: £4,000).

During the year ended 30 June 2009, the Group incurred costs, fees and expenses of £318,000 (2008: £368,000) 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 £116,000 (2008: £249,000).

During the year ended 30 June 2009, the Group incurred consultancy fees with Prof. Stephen Holgate, a director of the Company, amounting to £20,000 (2008: £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 £5,000 (2008: £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 2009

	Notes	30 June 2009 £000	30 June 2008 £000
Fixed assets			
Investments	5	8,334	5,960
Current assets			
Debtors	6	25	71
Investments: short-term deposits		7,837	3,932
Cash at bank and in hand		14	14
		7,876	4,017
Creditors: amounts falling due within one year	7	(115)	(97)
Net current assets		7,761	3,920
Total assets less current liabilities		16,095	9,880
Capital and reserves			
Called up share capital	8	597	217
Share premium account	8	14,725	8,903
Profit and loss account	9	773	760
Shareholders' funds	9	16,095	9,880

The financial statements on pages 36 to 39 were approved and authorised for issue by the Board of directors on 3 September 2009 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 2009

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 other members of the Group.

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

Corporation taxes are recorded on taxable profits at the current rate.

Deferred tax is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19 "Deferred Tax". In accordance with FRS 19, deferred tax assets are recognised to the extent that it is regarded as more likely than not that there will be suitable taxable profits from which the future reversal of underlying timing differences can be deducted.

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 £91,000 (2008: profit of £89,000).

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 2009 (continued)

5. Investments

	Investment in subsidiary undertaking £000	Loan to subsidiary undertaking £000	Capital contribution £000	Total £000
At 1 July 2008	140	5,572	248	5,960
Additions	-	2,270	104	2,374
At 30 June 2009	140	7,842	352	8,334

At 30 June 2009 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

	2009 £000	2008 £000
Other tax and social security	15	10
Prepayments and accrued income	10	61
	25	71

All amounts fall due for payment within one year.

7. Creditors: amounts falling due within one year

	2009 £000	2008 £000
Trade creditors	13	1
Amounts due to subsidiary undertaking	63	63
Accruals and deferred income	39	33
	115	97

8. Share capital and premium

	Note	Number of shares	Ordinary shares of 1p each £000	Share premium £000	Total £000
At 1 July 2007 and 30 June 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		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 options schemes and Long Term Incentive Plan can be found in note 18 to the Group accounts on pages 33 and 34.

Notes to the Parent Company Financial Statements

for the year ended 30 June 2009 (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 2007	217	8,903	586	9,706
Profit for the year	-	-	89	89
Share-based payment credit	-	-	85	85
At 30 June 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

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 2009 Annual General Meeting

Notice is hereby given that the Annual General Meeting ('AGM') of Synairgen plc will be held at the offices of Fasken Martineau LLP, Fourth Floor, 17 Hanover Square, London W1S 1HU on Wednesday, 11 November 2009 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 2009, together with the Directors' and Auditor's reports in respect of such accounts.
2. To re-appoint as a director Phillip Monk, 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 Paul Clegg, who is retiring in accordance with Article 130 of the Company's Articles of Association and who, being eligible, offers himself for re-appointment.
4. To re-appoint as a director Richard Marsden, 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 Stephen Holgate, 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 Stoy Hayward LLP as the Company's Auditors 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 their remuneration.
7. To approve the Directors' Remuneration Report for the financial year ended 30 June 2009.

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 £245,348. This authority shall expire on the earlier of 31 December 2010 and the conclusion of the 2010 Annual General Meeting save that the Company may make an offer or agreement which would or might require relevant securities to be allotted after the expiry of this authority and the directors may allot relevant 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 relevant 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 £13,100 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 5 October 2009);

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 2010 and the conclusion of the Annual General Meeting of the Company to be held in 2010 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

5 October 2009

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 9 November 2009; or,
 - if this Meeting is adjourned, at 9.30 a.m. 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 9 November 2009.

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. Corporate shareholders are referred to the guidance issued by the Institute of Chartered Secretaries and Administrators on proxies and corporate representatives – www.icsa.org.uk – for further details of this procedure. The guidance includes a sample form of representation letter if the Chairman is being appointed as described in (i) above.

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 9 November 2009. 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 2009 Annual General Meeting (continued)

Issued shares and total voting rights

10. As at 6.00 p.m. on 5 October 2009, 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 5 October 2009 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 2009.

Resolutions 2 to 5: Appointment of directors

Article 130 of the Company's Articles of Association requires that, at the AGM, each director appointed to the Board since the previous AGM shall retire from office. As a consequence, Phillip Monk and Paul Clegg, who were appointed by the Board on 3 September 2009, shall retire and, being eligible, offer themselves for re-appointment. Resolutions 2 and 3 propose their re-appointment.

Dr Phillip Monk joined Synairgen in October 2006 as Head of Bioscience Development and was appointed to the Board in September 2009 as Chief Scientific Officer. Previously he was 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.

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

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, Richard Marsden and Stephen Holgate shall retire and, being eligible, offer themselves for re-appointment. Resolutions 4 and 5 propose their re-appointment.

Biographical details for Richard Marsden and Stephen Holgate are given on page 12 of this report.

Resolution 6: Appointment of auditors

At each general meeting at which the accounts are laid before shareholders, the Company is required to appoint auditors to serve until the next such meeting. Resolution 6 proposes the re-appointment of BDO Stoy Hayward LLP as the Company's auditors and that the directors be authorised to fix their 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 2009, as set out on pages 17 to 19 of the 2009 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 13 November 2008 at the 2008 AGM, shareholders authorised the directors under section 80 of the Companies Act 1985 to allot relevant securities without the prior consent of shareholders for a period from 13 November 2008 until the conclusion of the 2009 Annual General Meeting. The final provisions of the Companies Act 2006 came into force on 1 October 2009 and the authority to allot relevant securities that was formerly given under section 80 of the Companies Act 1985 has now been replaced by an authority to issue equity securities under section 551 of the Companies Act 2006. Resolution 8 proposes to authorise the directors to allot equity securities up to a maximum nominal amount of £245,348 (which equates to 24,534,800 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 5 October 2009; and
- £46,396, 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, the directors have no present intention to issue any ordinary shares. This authority will expire on the conclusion of the 2010 Annual General Meeting.

Resolution 8 will be proposed as an ordinary resolution.

Resolution 9: Disapplication of Pre-emption Rights

Also on 13 November 2008, a special resolution was passed, under section 95 of the Companies Act 1985, empowering the directors to allot equity securities for cash without first being required to offer such shares to existing shareholders for a period from 13 November 2008 until the conclusion of the 2009 Annual General Meeting. The final provisions of the Companies Act 2006 came into force on 1 October 2009 and the authority to allot equity securities that was formerly given under section 95 of the Companies Act 1985 has now been replaced by an authority to issue equity securities under section 571 of the Companies Act 2006. It is proposed that this authority also be renewed. The authority relates to: pre-emptive issues; the allotment of up to 1,310,000 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 5 October 2009. This authority will expire on the conclusion of the 2010 Annual General Meeting. Resolution 9 will be proposed as a special resolution.

Corporate Directory

Company number

5233429

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Non-executive: Simon Shaw (Chairman), Dr Bruce Campbell,
Prof. Stephen Holgate, Susan Sundstrom

Secretary

John Ward

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Glossary

Adenovirus

A virus that can cause respiratory disease (e.g. 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

Glossary (continued)

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

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 current circulating '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-beta

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

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

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

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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