

synairgen plc

people. ideas. opportunities.

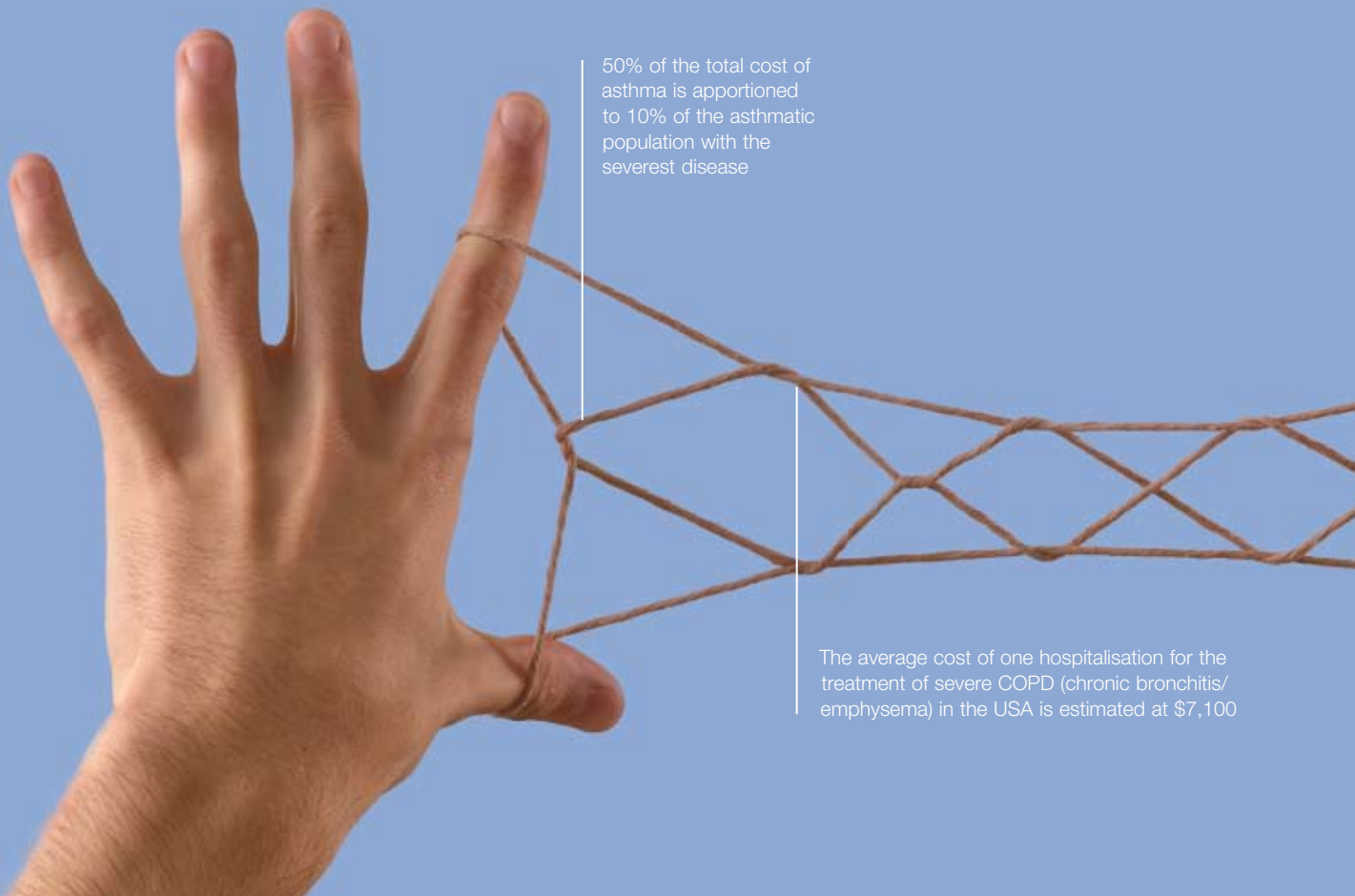
untangling the causes of respiratory disease...

annual report and accounts 2007



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

Synairgen's business model is to advance each opportunity to a stage whereby it becomes a marketable development programme to the pharmaceutical and biotechnology industry. We believe that collaborating with industry at an early stage improves the probability of bringing a novel medicine to market quickly.



50% of the total cost of asthma is apportioned to 10% of the asthmatic population with the severest disease

The average cost of one hospitalisation for the treatment of severe COPD (chronic bronchitis/emphysema) in the USA is estimated at \$7,100

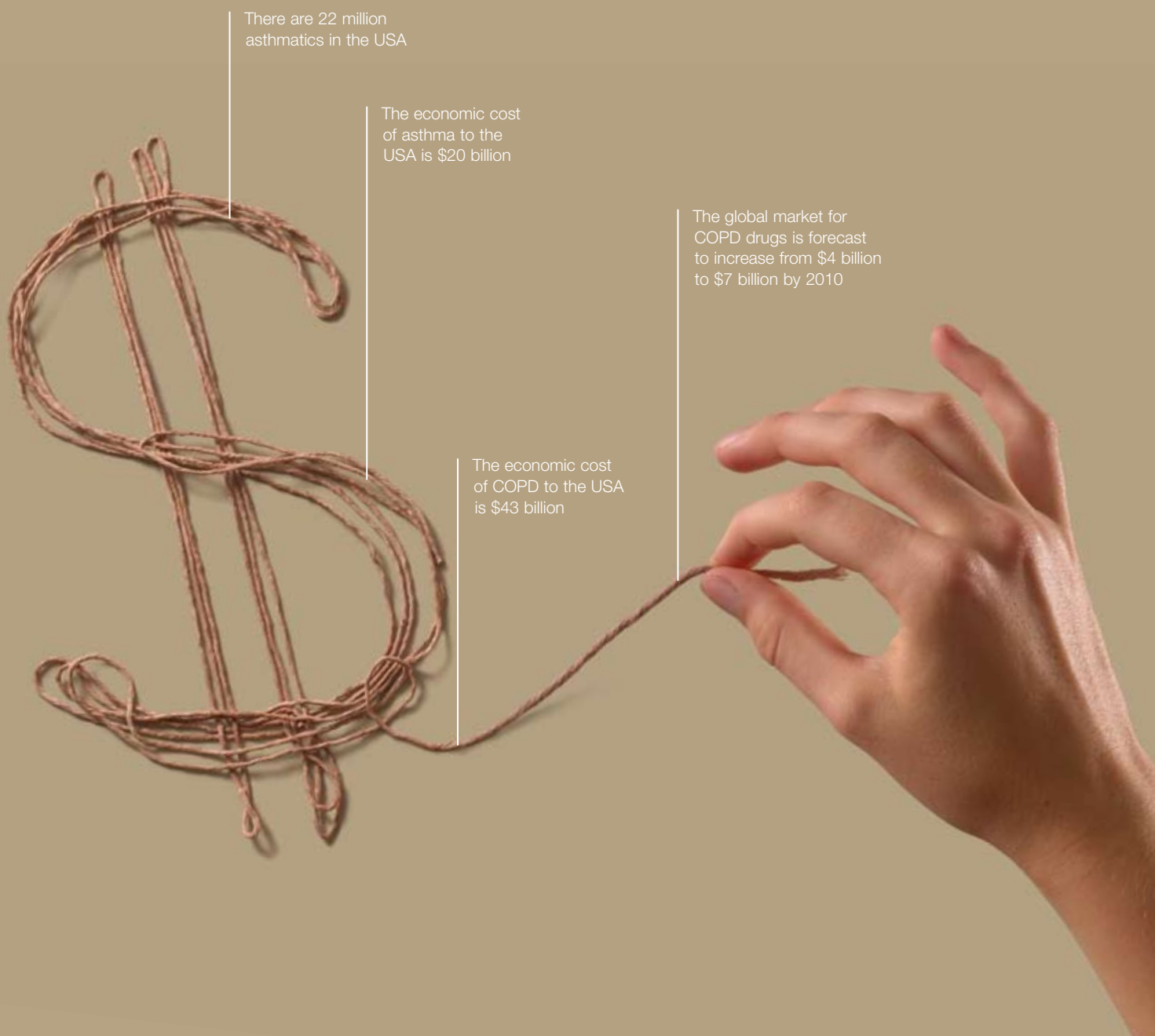
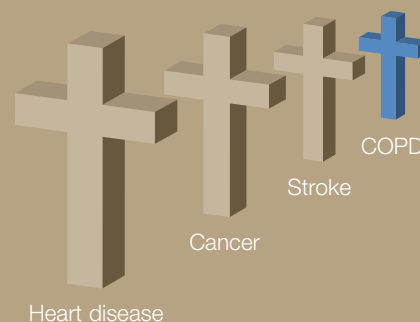
the market opportunity and clinical need...

Asthma/COPD – untangling the causes

- Synairgen develops therapies for asthma and COPD (chronic bronchitis/emphysema)
- Both are very significant markets:
Asthma: 80 million asthmatics
COPD: 5% of all deaths
- Top 4 drugs for asthma/COPD have cumulative annual sales in excess of \$12 billion
- Large remaining unmet clinical need, especially in COPD and severe asthma



Leading causes of death in the USA



There are 22 million asthmatics in the USA

The economic cost of asthma to the USA is \$20 billion

The global market for COPD drugs is forecast to increase from \$4 billion to \$7 billion by 2010

The economic cost of COPD to the USA is \$43 billion

the brainpower behind synairgen...

Asthma/COPD – untangling the causes

At Synairgen we aim to discover and develop new drugs both in-house and via collaborations with industry partners, using our advanced *in vitro* cell models of human disease. The founding technology stems from at least twenty years of development in the laboratories at the University of Southampton led by Professors Stephen Holgate, Donna Davies and Ratko Djukanovic, Synairgen's Founders, who are internationally acknowledged experts in the respiratory field and are strongly connected with the pharmaceutical and biotechnology industry.



Prof. Stephen Holgate is MRC Clinical Professor of Immunopharmacology and a world-acknowledged expert in respiratory research. He has published over 800 papers in peer-reviewed literature. He is currently president of the British Thoracic Society, Chairman /member of various MRC committees and a member of the Royal Commission on Environmental pollution. He is a scientific board member or advisor to a number of companies including Amgen, Merck and Novartis.



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 and sits on the Scientific Committee of Asthma UK. She has collaborative relationships with a number of pharmaceutical and biotechnology companies.



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

together we're solving complex problems...

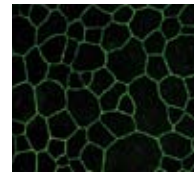
Asthma/COPD – untangling the causes

"One of the reasons why there have been few drug breakthroughs in asthma and COPD is that small animal models consistently fail to reproduce fully the diseases as they occur in humans." **Prof. Stephen Holgate**

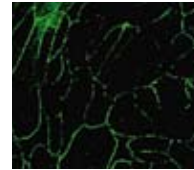
Synaigen has applied tissue engineering techniques to develop a whole new way of identifying drug targets and rapidly evaluating potential therapies in the test tube.



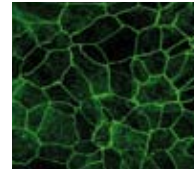
Synaigen works closely with the academic research groups at the University of Southampton led by the Founders and benefits from access to the clinical research facilities at Southampton General Hospital



Normal



Asthma



Asthma and Growth Factor

Growth Factor Programme

Hypothesis - "Leakiness" in asthmatic airways allows penetration of aggravating agents (e.g. pollen, smoke etc.) known to promote asthma attacks

Therapy - Growth Factor to restore junctions between cells, "sealing" up the "leakiness"

Programme Status - Growth Factor developed and pre-clinical testing due to commence

Photographs left show top down view of cell junctions, showing the impact of Growth Factor restoring junctions

Synaigen's Biobank of human tissue contains thousand of samples



the drug discovery pipeline...

Asthma/COPD – untangling the causes



IFN-beta Programme

Hypothesis - The inability of asthma and COPD sufferers to clear the common cold effectively is the probable cause of 50% - 80% of all asthmatic and COPD hospitalisations

Therapy - Inhaled IFN-beta to restore antiviral defences in asthma and COPD

Programme Status - First phase I clinical study successfully completed

Development Programmes

| Candidate | Indication | Mechanism of Action | Lead Selection | Preclinical Development | Clinical Phase I | Clinical Phase II |
|-----------------------------|------------|---------------------|------------------------|-------------------------|------------------------|------------------------|
| IFN-beta | Asthma | Virus Defence | <div><div></div></div> | <div><div></div></div> | <div><div></div></div> | <div><div></div></div> |
| IFN-beta | COPD | Virus Defence | <div><div></div></div> | <div><div></div></div> | <div><div></div></div> | <div><div></div></div> |
| Growth Factor | Asthma | Barrier Function | <div><div></div></div> | <div><div></div></div> | <div><div></div></div> | <div><div></div></div> |
| IL-4/IL-13 Blocking Peptide | Asthma | Cytokine Inhibition | <div><div></div></div> | <div><div></div></div> | <div><div></div></div> | <div><div></div></div> |

Discovery Programmes

| Programme | Indication | Target Identification | Target Validation | Lead Selection |
|------------------------------------|------------|------------------------|------------------------|------------------------|
| Proteomics | Asthma | <div><div></div></div> | <div><div></div></div> | <div><div></div></div> |
| Barrier Function Screen and Lesion | Asthma | <div><div></div></div> | <div><div></div></div> | <div><div></div></div> |
| Collaboration | Asthma | <div><div></div></div> | <div><div></div></div> | <div><div></div></div> |



Asthma accounts for 1.8 million emergency department visits a year in the USA

The cost of emergency department visits and in-patient care in relation to asthma in the USA is \$5 billion

COPD caused 118,171 deaths in the USA in 2004

Chairman's Statement

Synaigen is committed to discovering novel therapies which address the causes, rather than the symptoms, of respiratory disease. In combination with the University of Southampton, our research has yielded two potentially significant development programmes, interferon-beta (IFN-beta) against viral infection in asthma and COPD, and a proprietary growth factor in asthma. In addition we have a developing pipeline of potentially significant opportunities such as the novel peptide IL-13/IL-4 inhibitor in asthma.

In recent times it has become ever clearer both to industry participants and investors that long term drug pipelines are increasingly being filled through collaboration and licensing relationships with discoverers and early stage developers of novel therapies. Synaigen's business model is to develop each opportunity to a stage where it becomes a marketable development programme to the pharmaceutical and biotechnology industry. We believe that collaborating with a significant industry

participant at an early stage, under appropriate licence terms, improves the probability of bringing a novel medicine to market quickly through the combination of development, regulatory, market positioning and financial resources that a partner can bring to the programme. It is gratifying to see that the quantity and quality of our discussions with pharmaceutical and biotechnology companies, has stepped up a gear in the past year. This reflects the fact that we have successfully completed our first Phase I trial in the Company's lead programme.

During the forthcoming year, we will continue to add value to our portfolio of development and discovery programmes and to market our lead programmes with a view to collaborating on the next stages of their development.

Simon Shaw
Chairman

The common cold is the probable cause of 50-80% of all hospitalisations of asthmatic and COPD patients

Operational highlights

- Successful completion of Phase I safety study in healthy volunteers; follow-on safety study anticipated to start early 2008;
- US patent filed to protect discovery of IFN-beta potential impact against rhinovirus in the elderly; and
- Growth factor development programme progressing to plan.

Financial highlights

- Research and development expenditure for the year: £1.5 million (2006: £1.1 million);
- Retained loss for the year: £1.6 million (2006: loss of £1.0 million); and
- Cash at 30 June 2007 of £6.0 million (2006: £7.5 million).

Contents

| | |
|--------------------------------------|----|
| Chairman's Statement | 1 |
| Managing Director's Report | 2 |
| Financial Review | 5 |
| Scientific Review | 7 |
| Directors | 9 |
| Directors' Report | 10 |
| Corporate Governance Statement | 12 |
| Directors' Remuneration Report | 14 |
| Independent Auditors' Report | 17 |
| Consolidated Profit and Loss Account | 18 |
| Consolidated Balance Sheet | 19 |
| Company Balance Sheet | 20 |
| Consolidated Cash Flow Statement | 21 |
| Notes to the Financial Statements | 22 |
| Proforma IFRS Primary Statements | 33 |
| Notice of Annual General Meeting | 36 |
| Corporate Directory | 38 |
| Glossary | 38 |

Managing Director's Report

Synairgen discovers and develops novel patent-protected drug therapies for asthma and COPD. Both specialist respiratory physicians and the industry recognise the need for new ways of meeting the clinical need which is not adequately met by the currently available therapeutics in these substantial markets. Synairgen's model is to engage with its potential partners in out-licensing discussions at an early stage in the development programme to maximise the chances of candidates advancing through Phase II and III clinical trials as rapidly as possible, and ultimately reaching the market.



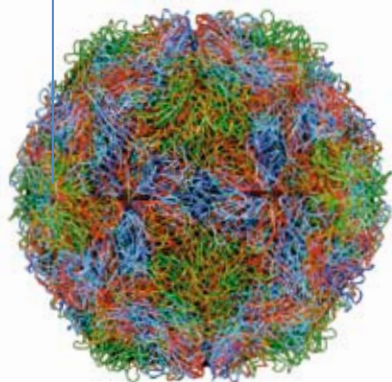
Smoking is responsible for 80-90% of COPD deaths in the USA

In excess of 5 million people in the UK are currently receiving treatment for asthma

None of the existing medications for COPD has been shown to modify the long-term decline in lung function that is the hallmark of this disease

Managing Director's Report (continued)

The rhinovirus is one of the viruses that causes the common cold, and is strongly linked to asthma and COPD exacerbations. Synairgen's lead proprietary programme for inhaled IFN-beta seeks to protect both severe asthmatics and chronic COPD patients from rhinovirus-induced exacerbations.



In our IFN-beta and growth factor programmes, Synairgen has two novel programmes that have reached the stage where they can sensibly be out-licensed. We have an ongoing contact with a number of the top 30 pharmaceutical and biotechnology companies worldwide to explore the potential for partnering these programmes.

Development programmes

IFN-beta programme

Synairgen is seeking to develop an inhaled interferon product which enables asthmatics and COPD patients to overcome the seriously debilitating effect of the main common cold virus (rhinovirus) on their condition.

The cost of the common cold

The common cold is the probable cause of 50-80% of all hospitalisations of asthmatic and COPD patients. Accordingly, the health economic impact of the common cold in these prevalent diseases is high, with hospitalisations in the US for asthma and COPD costing \$4.7 billion and \$11.3 billion per annum respectively.

IFN-beta in asthma

Scientists in Southampton, using a biobank of cells from asthmatic patients and proprietary *in vitro* lung models, discovered a deficiency in asthmatics' ability to produce IFN-beta, which is one of the human's primary defence mechanisms against viral attack. Simulated delivery of inhaled delivery of IFN-beta normalised the asthmatic cells' response to the common cold virus. This pioneering series of experiments was the catalyst for Synairgen's inhaled IFN-beta programme. IFN-beta is currently approved for administration by injection to treat multiple sclerosis patients; thus its systemic safety profile is well understood. Synairgen has needed to optimise and establish the safety of inhaled IFN-beta for use in asthma.

IFN-beta - safety study successfully completed

During the year under review, Synairgen successfully completed the important milestone of a Phase I safety study in healthy volunteers, and is expecting to start a follow-on safety study in early 2008. Phase II studies are expected to start in 2009.

IFN-beta in COPD

During this period, Synairgen also generated compelling data showing that the common cold virus is more destructive to cells from the lungs of smokers. This fits well with the impact of the common cold on the COPD population during the winter months.

Managing Director's Report (continued)

IFN-beta in the elderly

The common cold virus can have a devastating effect on vulnerable groups other than asthmatic and COPD patients. One report has linked rhinovirus to the death of nursing home residents. Whilst demonstrating the therapeutic potential of IFN-beta in COPD, Synairgen scientists observed a deficiency in the older control subjects' cells' ability to defend themselves against RV when compared to younger controls. IFN-beta significantly improved these cells' response to RV, limiting cell death. Synairgen has filed a patent in the US to protect this discovery.

Business Development activity

The market opportunity for a breakthrough product in asthma, COPD and other at risk groups, such as the elderly, is substantial. Synairgen is seeking to out-license its IFN-beta programme at an early stage to a large Pharma/Biotech partner and has several ongoing confidential dialogues at various stages of the process with suitable partners.

Growth factors to restore Barrier Function in asthma

The second licensable programme arose from our work showing that, in common with diseases of the gut and the skin, the cells that line the airways (the epithelium) of asthmatics form a poor barrier to the external environment. The "leaky" epithelium of asthmatics may be allowing the ingress of aggravating inhaled particles such as pollen, cigarette smoke or infectious agents which can trigger and maintain the asthma response.

Using epithelial cells from asthmatics, Synairgen has shown that a panel of growth factors can restore Barrier Function. Within the last year a therapeutic candidate has been selected, which can restore Barrier Function without promoting the unwanted structural changes in the lung that may be promoted by other growth factors. Manufacture of this lead candidate is being scaled-up to support preclinical safety and ultimately clinical studies.

Synairgen has commenced discussions regarding the out-licensing of its growth factor programme.

IL-4/IL-13 Blocking Peptide

Synairgen's earliest stage development programme is for the development of a novel peptide that has been shown to inhibit the two cytokines IL-4 and IL-13; both cytokines are the target of considerable industry interest in this field of allergy and asthma. During the year under review, Synairgen in-licensed from the University of Southampton a patent protecting the peptide. Synairgen is seeking to validate these early findings over the coming year.

Discovery programmes

Our proteomics programme, which is designed to identify potential new targets or markers in asthma, has uncovered approximately 80 proteins which differ significantly between asthmatic and normal subjects. In the coming year these will be identified and the list rationalised to generate between two and five possible targets for subsequent research. In addition we have continued to investigate the nature of the barrier function deficiency, which adds to our understanding of the underlying defect; a necessary precursor to discovering a treatment for the potential cause(s).

During the period we also extended our target discovery partnership with the unnamed North American Biotechnology company partner; data is currently being analysed.

Summary

The year has been one of considerable progress with our teams performing well across all our programmes. We have added significant value to our two lead programmes and brought them to a position where we are able to discuss them seriously with potential licensing partners.

We look forward to developments in the coming year.

Richard Marsden

Managing Director

Financial Review

The Financial Review should be read in conjunction with the financial statements and the notes thereto on pages 18 to 32. These financial statements have been compiled under UK Generally Accepted Accounting Practice ('UK GAAP') and comprise the consolidated financial statements of the Company and Synairgen Research Limited (together the 'Group').

Profit and loss account

Turnover for the year ended 30 June 2007 was £78k (year ended 30 June 2006: £82k) and arose primarily from the ongoing collaboration with the unnamed North American Biotechnology company. The operating loss for the year was £2.23 million (2006: loss of £1.68 million), in line with our expectations. Research and development expenditure increased from £1.08 million to £1.53 million as the Group progressed its four development programmes and broadened the number of discovery projects. During the year the number of research and clinical staff has increased from 16 to 18. Other administrative costs increased from £0.66 million to £0.75 million. Interest receivable decreased from £0.38 million to £0.34 million. The tax credit of £0.25 million comprises the research and development tax credit claim in respect of this year (£0.24 million) and amounts in respect of prior years. The prior year tax credit comprised claims relating to the years ending 30 June 2005 (£0.09 million) and 30 June 2006 (£0.17 million). The retained loss for the year was £1.64 million (2006: loss of £1.05 million) and the loss per share was 7.58p (2006: loss of 4.84p).

Balance sheet and cash flow

At 30 June 2007, net assets amounted to £6.28 million (30 June 2006: £7.84 million) including cash and deposit balances of £6.01 million (2006: £7.48 million).

The principal elements of the £1.47 million decrease (2006: £1.20 million decrease) in cash and deposit balances were:

- operating cash outflow of £1.97 million (2006: £1.53 million outflow);
- capital expenditure of £0.13 million (2006: £0.05 million);
- interest received of £0.36 million (2006: £0.40 million) and
- research and development tax credits received of £0.27 million (2006: £nil).

Capital expenditure comprised investment into patent and licence costs and equipment.

Adoption of Financial Reporting Standard 20 ('FRS 20')

As of 1 July 2006, the Group has adopted FRS 20 "Share-based Payment" in place of UITF 17 "Employee Share Schemes". FRS 20 requires fair value accounting for options and LTIPs granted after 7 November 2002 which have not vested by 1 July 2006. In accordance with standard practice, prior year results are restated. For the period up to 30 June 2006 the additional charge booked to the Profit and Loss Account following the adoption of FRS 20 amounted to £41k. The FRS 20 charge for the year ended 30 June 2007 was £83k.

Treasury policy and financial risk management

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 interest deposits. The interest rate profile of financial assets is illustrated in Note 18 to the financial statements.

Currency risk

The Group is exposed to US dollar currency exposure as some of its revenues are denominated in this currency. The Group does not routinely hedge against this currency exposure.

Adoption of International Financial Reporting Standards ('IFRS')

The Group has adopted IFRS, as adapted for use in the European Union, on 1 July 2007. For illustrative purposes comparative unaudited proforma primary statements prepared under IFRS are shown on pages 33 to 35. The changes between UK GAAP and IFRS are explained in detail with the proforma statements.

John Ward

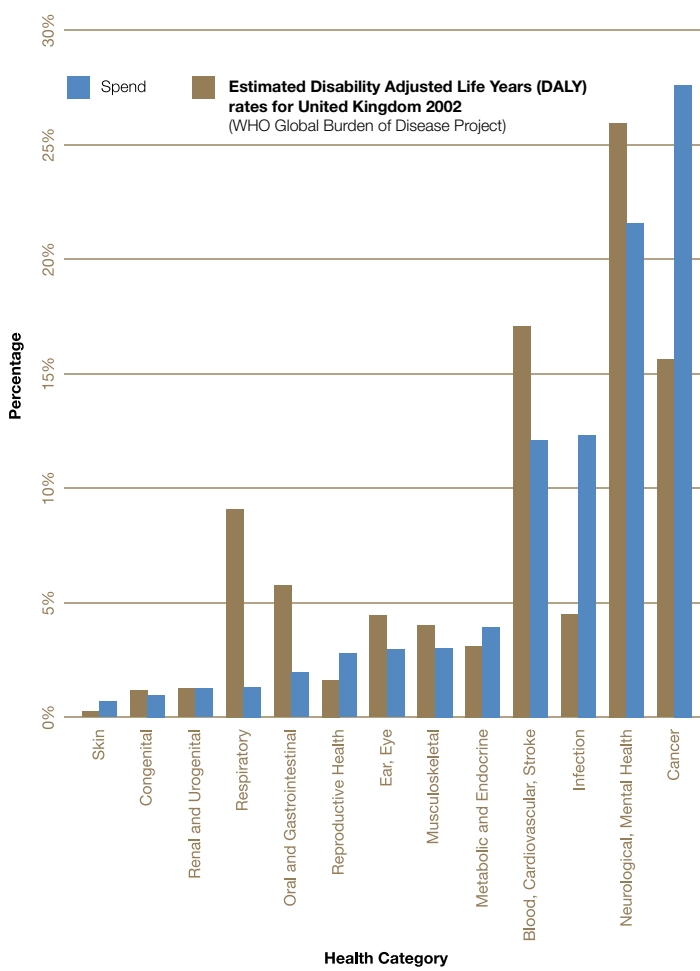
Finance Director



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

Industry has failed to produce drugs
which treat the underlying causes of
asthma and COPD; all currently available
therapies are aimed at alleviating the
symptoms of these diseases.

In 2005 the UK Clinical Research Collaboration that is made up of Research Council, Research Charities and Industry conducted a survey of UK research expenditure in specific disease areas and compared this to the disease burden both in terms of mortality and morbidity¹. Of twenty disease-related areas examined in this survey, lung disease fared the worst with the greatest disparity between these indicators being shown (Figure 1).



As a consequence of this, a renewed effort is needed to address the large unmet clinical needs that disease such as asthma and COPD present. At a national level I have brought together all the lung-related professional groups, the research charities and researchers themselves under the UK Respiratory Research Collaborative to address this key deficiency in lung-related research and the pull through to new products for treating these conditions². As this new way of conducting research in the UK starts to take off, it is of great interest that large pharmaceutical and biotechnology companies are increasing their outsourcing of discovery and early development research and in general are exploring new ways of connecting with the clinical and academic community. It seems to me that this is just the right time for Synairgen to interface with these activities as a catalyst for new drug development in common lung diseases such as asthma and COPD where drug pipelines are bare³.

A series of highly influential reports^{4,5,6,7} have been published which have all highlighted major concerns about the state of clinical and biomedical research in the UK with an urgent need for change. They have helped stimulate the establishment of a high level Department of Health Research for Patient Benefit Working Party⁸ which has arrived at far-reaching conclusions to overhaul radically health-related R & D activity including capacity building for clinical science and translational medicine.

Figure 1: Disparity between research activity and disease burden in the UK identified by UK Health Research Analysis. Published by the UKCRC.

Scientific Review (continued)

In December 2006 the influential Cooksey Report *A Review of UK Health Research Funding*⁹ has raised further important concerns regarding the harnessing of UK medical research into patient and commercial benefit ("Development Gaps"). The report identified two major barriers to research translation; the first Gap being taking forward basic science discoveries into proof of concept clinical trials on patient pathways and the second Gap being implementing these as part of evidence-based healthcare (Figure 2).

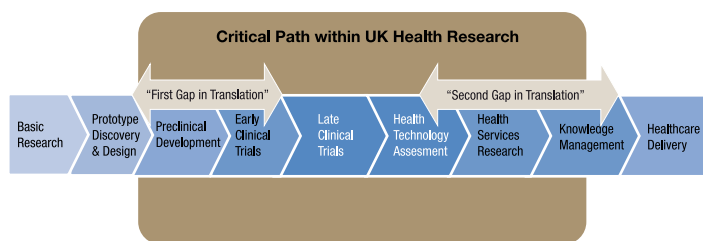


Figure 2: Development Gaps in health research identified in the Cooksey 2006 Report

To address these barriers a new overarching Office for Strategic Coordination of Health Research (OSCHR) was charged with the task of bringing together a seamless model of research from discovery to development and implementation. OSCHR will establish and oversee the activities of three new research boards - Translational Medicine, Public Health and "e" Health (research use of data bases e.g. the NHS Connecting for Health network)¹⁰.

Synaigen operates within this first Development Gap. A real strength of the Company has been the bringing together of research ideas and intellect at the University of Southampton to generate the necessary investment and expertise to develop these into practical products for patients. This may sound very straightforward, but in the current climate it is being increasingly recognised that this first Development Gap identified in the Cooksey Report (Figure 2) needs a very special approach so that the necessary skills and expertise can be brought to bear to generate the all important proof of concept clinical trials and then build on these towards product development. We believe that in the field of lung disease there is an urgent need for such activity because many of the large pharmaceutical and biotechnology companies are finding it increasingly difficult to fill their pipelines in common chronic diseases such as asthma and COPD where there remains a very real unmet clinical need. Part of the difficulty that has contributed to the lack of new products for treating lung diseases is the over-reliance on animal models that reproduce only part of the disease phenotype. For example in asthma almost all the animal models utilise allergen sensitisation and challenge even though allergic mechanisms account for only part of the disease in humans with virus infections and air pollution being two good examples of environmental factors that are major causes of exacerbations of disease for which there are no appropriate models. Modelling chronicity that characterises both COPD and asthma has also been problematic¹¹. While there clearly is a major

need for such models, Synaigen takes the view that human tissue based models that are obtained from well-characterised patients is the way to go. Already this has led us to discovering the interferon beta deficiency in asthma and COPD that increases the lung's susceptibility to virus infection and our latest finding of impaired barrier function in asthma that responds to growth factor replacement as a new approach to treatment.

Another important aspect of Synaigen's work has been our ability to conduct clinical trials in a first rate Clinical Research Facility at Southampton General Hospital. This has not only enabled us to generate an impressive and valuable biobank of airway tissue, but importantly meant that we can conduct our own trials with Synaigen staff working closely with those of the hospital and University. The completion of our first safety study with inhaled interferon beta with a clean bill of health is a good example of this. We are now moving forward with the safety studies in asthma.

In meeting the modern day challenge of discovering new treatments for asthma and COPD, we are in an excellent position. Developing basic science at the clinical interface is really reaping rewards and at Synaigen we look forward to the year ahead with great commitment, excitement and enthusiasm recognising that our skills lie in translational research operating in diseases where there remains substantial unmet clinical need.

Professor Stephen Holgate

Founder and non-executive director

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Directors

Simon Shaw

Non-executive Chairman (aged 42)

Simon Shaw joined Synaigen as executive Chairman on its inception in June 2003 and became non-executive Chairman in October of that year. He is currently Chief Financial Officer of Gyrus Group PLC, 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

Managing Director (aged 40)

Richard Marsden joined Synaigen 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 (aged 46)

John Ward joined Synaigen 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 (aged 62)

Bruce Campbell joined Synaigen 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 non-executive Chairman of Proximagen Neuroscience 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 (aged 60)

Stephen Holgate is a co-founder of Synaigen 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 800 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 (UCB), Pittsburgh and Edmonton Universities. He is currently President of the British Thoracic Society, Chairman of the Science Council's Science in Health Group, Chairman of the MRC's Physiological Systems and Clinical Sciences Board and their Evaluation Subcommittee, member of the Royal Commission on Environmental Pollution and a scientific board member or advisor to eleven companies, including Amgen, Merck Sharp and Dome and Novartis.

Susan Sundstrom

Non-executive Director (aged 50)

Susan Sundstrom joined Synaigen 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.



Simon Shaw



Richard Marsden



John Ward



Dr Bruce Campbell



Prof. Stephen Holgate



Susan Sundstrom

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 2007. This report includes the Corporate Governance Statement and the Directors' Remuneration Report on pages 12 to 16.

Principal activities

Synairgen plc is the holding company for Synairgen Research Limited, a drug discovery company focused on identifying the underlying causes of, and discovering new treatments for, asthma and chronic obstructive pulmonary disease ('COPD').

Review of the business and future developments

A review of the business and future developments is included in the Chairman's Statement, the Managing Director's Report, the Financial Review and the Scientific Review set out on pages 1 to 8.

Research and development

During the year, the Group has invested £1,527,000 (2006: £1,083,000) in research and development activities and a review of this expenditure is included in the Managing Director's Report.

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;
- discoveries do not complete clinical trials and regulatory approval process;
- patent applications do not succeed;
- failure to secure out-licensing agreements;
- failure to secure adequate finance;
- loss of research facilities and/or biobank; and
- loss of key staff.

Substantial shareholdings

As at 25 September 2007, 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 |
|--|---------------------------|--------------------|
| IP Group plc | 6,423,077 | 29.6% |
| Southampton Asset Management Limited | 3,600,000 | 16.6% |
| Lansdowne Partners Limited | 1,950,000 | 9.0% |
| AMVESCAP plc | 1,314,211 | 6.1% |
| Tudor BVI Global Portfolio Limited and Tudor Proprietary Trading LLC | 850,000 | 3.9% |
| Prof. S. Holgate (i) | 835,323 | 3.9% |
| Prof. D. Davies | 833,300 | 3.8% |
| Prof. R. Djukanovic | 833,300 | 3.8% |

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

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 Managing Director's Report. The most important financial KPIs are the cash position and the operating loss of the Group. At 30 June 2007 cash and deposit balances amounted to some £6.0 million and were above budgeted levels. The operating loss for the year was also favourable to the budgeted loss for the year.

Results and dividends

The Group's loss for the year after taxation amounted to £1,644,000 (2006 restated: loss of £1,049,000). A Financial Review is set out on page 5. The directors do not propose the payment of a dividend.

Financial instruments

The Group's use of financial instruments is discussed in the Financial Review on page 5 and in Note 18 to the financial statements.

Directors' Report (continued)

Directors

The directors of the Company during the year were:

Executive directors:

Richard Marsden
John Ward

Non-executive directors:

Simon Shaw
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 14 November 2007 John Ward and Simon Shaw will retire and, being eligible, offer themselves for re-appointment.

Directors' interests in ordinary shares

The directors, who held office at 30 June 2007, had the following interests in the ordinary shares of the Company:

| | 30 June 2007 No. of shares | 1 July 2006 No. of shares |
|-----------------------|-------------------------------|------------------------------|
| John Ward | 22,692 | 7,692 |
| Simon Shaw | 55,400 | 15,400 |
| Dr Bruce Campbell | 216,923 | — |
| Prof. Stephen Holgate | 835,323 | 835,323 |

Between 30 June 2007 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 15 and 16.

Directors' and officers' liability insurance

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.

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 2007 the Group had an average of 29 days' purchases outstanding in trade creditors (2006: 33 days' purchases).

Charitable and political donations

The Group made no charitable or political donations during the year (2006: 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 14 November 2007 at Fasken Martineau Stringer Saul 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

25 September 2007

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 (2003) (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 2007 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 9. The responsibilities of the non-executive Chairman and the Managing Director 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 meets regularly and during the year ended 30 June 2007 met eight times, with each member attending as follows:

| Name | Number of meetings held whilst a Board member | Number of meetings attended |
|-----------------------|---|-----------------------------|
| Simon Shaw | 8 | 8 |
| Richard Marsden | 8 | 8 |
| John Ward | 8 | 8 |
| Dr Bruce Campbell | 8 | 8 |
| Prof. Stephen Holgate | 8 | 7 |
| Susan Sundstrom | 8 | 8 |

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, reviewing the interim financial information and annual financial statements before they are submitted to the Board. 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 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 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 six times and all members attended all meetings.

Corporate Governance Statement (continued)

Investor relations

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

There is an opportunity at the Annual General Meeting for individual shareholders to question the Chairman, the Chairmen of the Audit and Remuneration and Nomination committees, and the executive directors. Notice of the meeting is sent to shareholders at least 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 14 November 2007 at Fasken Martineau Stringer Saul 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.

Statement of directors' responsibilities

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and United Kingdom Generally Accepted Accounting Practice.

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and of the Group and of the profit or loss of the Group for that year. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company and the Group will continue in business.

The directors are responsible for keeping proper accounting records that 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 Companies Act 1985. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The financial statements are published on the Company's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements. However, the information published on the internet is accessible in many countries with different jurisdictions. The maintenance and integrity of the Company's website is the responsibility of the directors. The directors' responsibility also extends to the ongoing integrity of the financial statements 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 accounts have been prepared on a going concern basis.

Simon Shaw

Chairman

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 requirements of Schedule VII (A) of the Companies Act 1985.

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 12.

The Committee, which is required to meet at least twice a year, met six times during the year ended 30 June 2007.

During the year, the Committee has been advised on executive director remuneration, including the 2006 Long-Term Incentive Plan awards, and the fair valuation of share-based payments necessitated by the adoption of FRS 20 (See Financial Review on page 5), by its retained independent remuneration adviser, New Bridge Street Consultants LLP. 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 two discretionary bonus schemes for executive directors. The overall aggregate maximum is normally 50% of base salary for delivery of exceptional performance. The first bonus had a maximum of 20% of base salary and was based upon individual performance and achievement of annual personal and corporate objectives. The second bonus had a maximum of 30% of base salary and was linked to the delivery of significant out-licensing transactions. Bonuses payable to executive directors in respect of the year ended 30 June 2007 amounted to £12,000 for Richard Marsden and £11,000 for John Ward and were in respect of the first scheme. 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.

(ii) Chairman and non-executive director remuneration

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 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. With the exception of Simon Shaw's options, which were granted at the inception of the Company when he was the founding executive, the non-executive directors have not been granted options and have not participated in any other incentive schemes.

(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 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 November 2006 Richard Marsden and John Ward were granted awards over shares worth 50% and 100% of base salary respectively. 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.

Performance conditions for the 2006 LTIP awards

During 2006, the Committee reviewed the LTIP and the suitability of the performance conditions attaching to awards made under it. As a result of this review, in order to provide a direct link between the performance of the Company and that of its peers, the Committee decided that 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:

Directors' Remuneration Report (continued)

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

Furthermore, to avoid the anomalous condition whereby shares might vest in spite of negative TSR, there is a second condition that 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%.

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 2006 | Granted during the year | At 30 June 2007 | Exercise price | Earliest exercise date | Expiry date |
|------------------------|----------------|-------------------------|-----------------|----------------|------------------------|-------------|
| Richard Marsden | | | | | | |
| 15 November 2005 | 43,829 | — | 43,829 | 1p | 15 Nov 2008 | 14 Nov 2009 |
| 30 November 2006 | — | 70,606 | 70,606 | 1p | 30 Nov 2009 | 29 Nov 2010 |
| John Ward | | | | | | |
| 15 November 2005 | 105,191 | — | 105,191 | 1p | 15 Nov 2008 | 14 Nov 2009 |
| 30 November 2006 | — | 128,484 | 128,484 | 1p | 30 Nov 2009 | 29 Nov 2010 |

The options awarded in November 2006 under the LTIP will only vest if the performance conditions outlined above are met. The awards granted in November 2005 will vest if the TSR of the Company over the three-year performance period exceeds the increase in the techMARK mediscience™ index over the same period and the following percentage annual rates of TSR, off a base share price of 130p, are achieved: 20% (25% of award vests); 25% (35% of award vests); 30% (60% of award vests); and 35% (100% of award vests).

(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.

Directors' Remuneration Report (continued)

Other options granted on or before the IPO

| Date of grant | At 1 July 2006 | Granted during the year | At 30 June 2007 | 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.

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 2007 was 60.5p. During the year then ended, the mid-market price ranged from 60p to 107p. On 25 September 2007 the closing price was 59.5p.

Audited information

The following section (Directors' remuneration) forms part of the financial statements for the year ended 30 June 2007 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 years ended 30 June 2007 and 30 June 2006 was as follows:

| £000 | Note | Salary/fee 2007 | Benefits 2007 | Bonus 2007 | Total (excl. pension) 2007 | Pension 2007 | Total (incl. pension) 2007 | Total (excl. pension) 2006 | Pension 2006 | Total (incl. pension) 2006 |
|--------------------------------|-------|-----------------|---------------|------------|----------------------------|--------------|----------------------------|----------------------------|--------------|----------------------------|
| Executive directors | | | | | | | | | | |
| Richard Marsden | (i) | 116 | 1 | 12 | 129 | 10 | 139 | 117 | 10 | 127 |
| John Ward | | 106 | 1 | 11 | 118 | 10 | 128 | 99 | 8 | 107 |
| Non-executive directors | | | | | | | | | | |
| Simon Shaw | | 25 | — | — | 25 | — | 25 | 25 | — | 25 |
| Dr Bruce Campbell | (ii) | 5 | — | — | 5 | — | 5 | 1 | — | 1 |
| Prof. Stephen Holgate | (iii) | 5 | — | — | 5 | — | 5 | 5 | — | 5 |
| Susan Sundstrom | (iv) | 5 | — | — | 5 | — | 5 | 5 | — | 5 |
| Former directors | | | | | | | | | | |
| David Norwood | | — | — | — | — | — | — | 4 | — | 4 |
| Total | | 262 | 2 | 23 | 287 | 20 | 307 | 256 | 18 | 274 |

(i) Richard Marsden was the highest paid director during the years ended 30 June 2006 and 2007.

(ii) This amount was paid to IP2IPO Limited for the services of Bruce Campbell.

(iii) In addition to this fee for his services as a director, Prof. Holgate received consultancy

fees amounting to £20,000 (2006: £15,000) as disclosed in Note 22 to the financial statements.

(iv) This amount was paid to the University of Southampton for the services of Susan Sundstrom.

By order of the Board

Susan Sundstrom

Chairman of the Remuneration and Nomination Committee

25 September 2007

Independent Auditors' Report to the shareholders of Synairgen plc

We have audited the group and parent company financial statements (the 'financial statements') of Synairgen plc for the year ended 30 June 2007 which comprise the Consolidated Profit and Loss Account, the Consolidated and Company Balance Sheets, the Consolidated Cash Flow Statement and the related notes. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and have been properly prepared in accordance with the Companies Act 1985 and whether the information given in the Directors' Report is consistent with those financial statements. We also report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. The other information comprises only the Chairman's Statement, the Managing Director's Report, the Financial Review, the Scientific Review, the Directors' Report, the Corporate Governance Statement and the Directors' Remuneration Report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Our report has been prepared pursuant to the requirements of the Companies Act 1985 and for no other purpose. No person is entitled to rely on this report unless such a person is a person entitled to rely upon this report by virtue of and for the purpose of the Companies Act 1985 or has been expressly authorised to do so by our prior written consent. Save as above, we do not accept responsibility for this report to any other person or for any other purpose and we hereby expressly disclaim any and all such liability.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's and company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion:

- the group financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the group's affairs as at 30 June 2007 and of its loss for the year then ended;
- the parent company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the parent company's affairs as at 30 June 2007;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

BDO Stoy Hayward LLP

Chartered Accountants and Registered Auditors
Southampton

25 September 2007

Consolidated Profit and Loss Account

for the year ended 30 June

| | Notes | 2007 £000 | Restated 2006 £000 |
|--|-------|--------------|--------------------------|
| Turnover | 3 | 78 | 82 |
| Cost of sales | | (33) | (15) |
| Gross profit | | 45 | 67 |
| Administrative expenses | | | |
| Research and development expenditure | | (1,527) | (1,083) |
| Other | | (750) | (664) |
| Total administrative expenses | | (2,277) | (1,747) |
| Operating loss | 4 | (2,232) | (1,680) |
| Bank interest receivable | | 342 | 376 |
| Finance lease interest payable | | (1) | – |
| Loss on ordinary activities before taxation | | (1,891) | (1,304) |
| Tax on loss on ordinary activities | 6 | 247 | 255 |
| Loss on ordinary activities after taxation and retained loss for the year | 20 | (1,644) | (1,049) |
| Loss per ordinary share | | | |
| Basic and diluted loss per share (pence) | 7 | (7.58)p | (4.84)p |

There are no recognised gains and losses other than the above and, in the current year, the cumulative loss from the prior year adjustment on the adoption of FRS 20 (£41,000) as detailed in Notes 2 and 20.

All amounts relate to continuing activities.

Consolidated Balance Sheet

as at 30 June

| | Notes | 2007 £000 | Restated 2006 £000 |
|---|-------|--------------|--------------------------|
| Fixed assets | | | |
| Intangible assets | 9 | 99 | 36 |
| Tangible assets | 10 | 146 | 157 |
| | | 245 | 193 |
| Current assets | | | |
| Stocks | 12 | 96 | 68 |
| Debtors | 13 | 367 | 423 |
| Investments: short-term deposits | | 5,903 | 7,464 |
| Cash at bank and in hand | | 115 | 33 |
| | | 6,481 | 7,988 |
| Creditors: amounts falling due within one year | 14 | (442) | (334) |
| Net current assets | | 6,039 | 7,654 |
| Total assets less current liabilities | | 6,284 | 7,847 |
| Creditors: amounts falling due after more than one year | 15 | (8) | (10) |
| Net assets | | 6,276 | 7,837 |
| Capital and reserves | | | |
| Called up share capital | 19 | 217 | 217 |
| Share premium account | 20 | 8,903 | 8,903 |
| Merger reserve | 20 | 483 | 483 |
| Share-based payment reserve | 20 | 163 | 80 |
| Profit and loss account | 20 | (3,490) | (1,846) |
| Shareholders' funds | 20 | 6,276 | 7,837 |

The financial statements on pages 18 to 32 were approved and authorised for issue by the Board of directors on 25 September 2007 and signed on its behalf by:

Richard Marsden

Managing Director

John Ward

Finance Director

Company Balance Sheet

as at 30 June

| | Notes | 2007 £000 | Restated 2006 £000 |
|---|-------|--------------|--------------------------|
| Fixed assets | | | |
| Investments | 11 | 3,790 | 1,957 |
| Current assets | | | |
| Debtors | 13 | 77 | 95 |
| Investments: short-term deposits | | 5,903 | 7,464 |
| Cash at bank and in hand | | 16 | 6 |
| | | 5,996 | 7,565 |
| Creditors: amounts falling due within one year | 14 | (80) | (34) |
| Net current assets | | 5,916 | 7,531 |
| Total assets less current liabilities | | 9,706 | 9,488 |
| Capital and reserves | | | |
| Called up share capital | 19 | 217 | 217 |
| Share premium account | 20 | 8,903 | 8,903 |
| Profit and loss account | 20 | 586 | 368 |
| Shareholders' funds | 20 | 9,706 | 9,488 |

The financial statements on pages 18 to 32 were approved and authorised for issue by the Board of directors on 25 September 2007 and signed on its behalf by:

Richard Marsden

Managing Director

John Ward

Finance Director

Consolidated Cash Flow Statement

for the year ended 30 June

| | Notes | 2007 £000 | 2006 £000 |
|--|----------|----------------|--------------|
| Net cash outflow from operating activities | 21(i) | (1,974) | (1,530) |
| Returns on investments and servicing of finance | | | |
| Bank interest received | | 358 | 397 |
| Finance lease interest paid | | (1) | – |
| Net cash inflow from returns on investments and servicing of finance | | 357 | 397 |
| Taxation | | | |
| Research and development tax credits received | | 267 | – |
| Capital expenditure and financial investment | | | |
| Purchase of intangible fixed assets | | (77) | (17) |
| Purchase of tangible fixed assets | | (49) | (35) |
| Net cash outflow from capital expenditure | | (126) | (52) |
| Net cash outflow before management of liquid resources and financing | | (1,476) | (1,185) |
| Management of liquid resources | | | |
| Decrease in short-term deposits | | 1,561 | 1,141 |
| Financing | | | |
| Repayment of capital element of finance leases and hire purchase contracts | | (3) | (1) |
| Increase/(Decrease) in cash | 21 (iii) | 82 | (45) |

Notes to the Financial Statements

for the year ended 30 June 2007

1. Accounting policies

Accounting convention and basis of consolidation

The consolidated financial statements have been prepared under the historical cost convention, in accordance with the Companies Act 1985 and applicable UK accounting standards. The consolidated financial statements incorporate the financial statements of the Company and its subsidiary undertaking for the year ended 30 June 2007 and have been prepared using the merger method of accounting.

The accounting policies used in preparing the financial statements have been applied consistently throughout all periods presented with the exception of Financial Reporting Standard 20 “Share-based Payment” (‘FRS 20’) and Urgent Issues Task Force Abstract No. 44 “Group and Treasury Share Transactions” (‘UITF 44’), the latter of which has been adopted early. The Group has adopted FRS 20 and UITF 44 for the first time for the year ended 30 June 2007 and therefore restated prior year results to reflect the historic impact of this change. See Note 2 (Prior year adjustment) below.

A summary of the material accounting policies which have been applied consistently throughout the year is set out below.

Turnover

Turnover is stated net of value added tax and is recognised when products or services are supplied, except in respect of long-term contracts where turnover represents the sales value of work done in the year and is calculated as that proportion of total contract value which costs incurred to date bear to total expected costs for that contract.

Research and development

Expenditure on pure and applied research is charged to the profit and loss account in the year in which it is incurred.

Development costs are charged to the profit and loss account in the year of expenditure, unless individual projects satisfy all of the following criteria:

- the project is clearly defined and related expenditure is separately identifiable;
- the project is technically feasible and commercially viable;
- current and future costs are expected to be exceeded by future sales; and
- adequate resources exist for the project to be completed.

Any capitalised amounts are subsequently amortised over the directors’ estimate of their useful economic life from the commencement of commercial production.

Intangible fixed assets

Intangible assets are stated at cost less amortisation. Patent and licence costs are amortised over ten years on a straight-line basis.

Tangible fixed assets

Tangible fixed assets are stated at cost less depreciation.

Depreciation is provided on a straight-line basis at rates calculated to write off the cost of fixed assets, 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 tangible fixed assets are reviewed for impairment if events or changes in circumstances indicate that the carrying value may not be recoverable.

Fixed asset investments

Investments in subsidiaries are held in the Company financial statements at cost less provision for impairment.

Stocks

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

Liquid resources

Liquid resources are defined as short-term deposit investments.

Finance and operating leases

Assets acquired under finance leases are included in fixed assets and are depreciated over the shorter of the lease period or their expected economic useful lives. The capital elements of the leasing commitments are shown as obligations under finance leases. The lease rentals are treated as consisting of capital and interest elements. The capital element is applied to reduce the outstanding obligations and the interest element is charged to the profit and loss account so as to give a constant periodic rate of charge on the remaining balance outstanding at the end of each accounting period. Costs in respect of operating leases are charged to the profit and loss account on a straight-line basis over the term of the lease.

Deferred taxation

Deferred tax balances are recognised in respect of all timing differences that have originated but not reversed by the balance sheet date except that the recognition of deferred tax assets is limited to the extent that the 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

Foreign currency transactions are translated at the rates ruling when they occurred. Foreign currency monetary assets and liabilities are translated at the rate of exchange ruling at the balance sheet date. Any differences are taken to the profit and loss account.

Financial instruments

The Group’s policies in relation to financial instruments are set out in Note 18. Financial instruments are initially and subsequently recognised at cost. The Group has taken advantage of the exemption allowed under Financial Reporting Standard 13 “Derivatives and Financial Instruments”, and excluded short-term debtors and creditors under financial instruments other than the disclosures required in respect of currency risk.

Notes to the Financial Statements

for the year ended 30 June 2007 (continued)

Pensions

The Group operates a defined contribution stakeholder pension scheme and contributes to certain employees' personal pension plans. The pension charge to the profit and loss account represents the amounts payable by the Group in respect of the year.

Share-based payments

In accordance with FRS 20 "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 profit and loss account over the period from grant to vesting. The Group has valued option awards using the Black-Scholes model and awards under the LTIP using the Stochastic model. 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 the Share-based payment reserve.

The Group has adopted UITF 44 in the current year. When the parent entity grants options over equity instruments directly to the employees of a subsidiary undertaking, then in the parent company financial statements 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.

3. Turnover

All turnover is generated within the United Kingdom from continuing activities and is stated net of value added tax.

The Group operates in one area of activity, namely drug discovery. Turnover by destination to third parties is analysed as follows:

| Geographical area | 2007 £000 | 2006 £000 |
|--------------------------|--------------|--------------|
| United States of America | 78 | 77 |
| Rest of the world | – | 5 |
| | 78 | 82 |

All assets of the Group are located in the United Kingdom and all losses were generated in that territory.

4. Operating loss

This is arrived at after charging:

| | 2007 £000 | 2006 £000 |
|-------------------------|--------------|--------------|
| Depreciation | 60 | 46 |
| Amortisation | 14 | 2 |
| Auditors' remuneration: | | |
| Audit services | 16 | 15 |
| Non-audit services | 16 | 13 |
| Operating leases: | | |
| Land and buildings | 50 | – |
| Other | 90 | – |

Of the above auditors' remuneration for audit services, £8,000 (2006: £7,000) related to Synairgen plc and £8,000 (2006: £8,000) relates to Synairgen Research Limited.

Of the auditors' remuneration for non-audit services, £8,000 (2006: £11,000) related to taxation advice services and £8,000 (2006: £2,000) other services.

2. Prior year adjustment

All AIM-quoted companies are required to implement FRS 20 "Share-based Payment" for accounting periods beginning on or after 1 January 2006. Adoption of FRS 20 supersedes UITF Abstract 17 (revised 2003) "Employee Share Schemes", under which the Company had previously accounted for shares and share options awarded to employees. FRS 20 requires that options awards and awards made under the Company's Long-Term Incentive Plan ('LTIP') granted after 7 November 2002 which had not vested by 1 July 2006 be fair valued and charged to the profit and loss account over the period from grant to vesting. The Company has valued option awards using the Black-Scholes model and awards under the LTIP using the Stochastic model. As required by FRS 20 prior year results have been restated. This change in accounting policy, after the reversal of the UITF 17 charge included in the prior year financial statements, results in a credit of £11,000 for the year ended 30 June 2007 (year ended 30 June 2006: charge of £7,000). Under UITF 17, the credit for the charge was taken to the Profit and Loss reserve and reported in the reconciliation of movements in shareholders' funds. Under FRS 20 the credit for the charge is taken to reserves. The restatement has no impact on net assets in the periods presented in these financial statements.

In the parent company accounts, the Company has accounted for the cost of issuing options to employees of its subsidiary in accordance with UITF 44. This results in an increase in the investment in a subsidiary when such options are issued, with the credit entry being taken to the profit and loss reserve. In the year ended 30 June 2007 £83,000 was debited to investments (capital contribution) and credited to profit and loss reserve (year ended 30 June 2006: £46,000).

Notes to the Financial Statements

for the year ended 30 June 2007 (continued)

5. Staff costs

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

| | 2007 | Group 2006 | 2007 | Company 2006 |
|----------------|------|---------------|------|-----------------|
| Research | 17 | 11 | – | – |
| Administration | 3 | 3 | 2 | 2 |
| | 20 | 14 | 2 | 2 |

Their aggregate remuneration comprised:

| | 2007 £000 | Restated Group 2006 £000 | 2007 £000 | Company 2006 £000 |
|-----------------------|--------------|-----------------------------------|--------------|-------------------------|
| Wages and salaries | 776 | 503 | – | – |
| Social security costs | 86 | 57 | – | – |
| Pension costs | 45 | 33 | – | – |
| Share-based payment | 83 | 46 | – | – |
| | 990 | 639 | – | – |

The Company's costs in respect of the two executive directors are recharged in full to Synairgen Research Limited.

In respect of directors' remuneration, the disclosures required by Schedule 6 to the Companies Act 1985 are included in the detailed disclosures in the audited section of the Remuneration Report on page 16, which are ascribed as forming part of these financial statements.

6. Tax on loss on ordinary activities

There is a taxation credit of £247,000 for the year (2006: credit of £255,000), analysed as follows:

| | 2007 £000 | 2006 £000 |
|---|--------------|--------------|
| Current tax | | |
| UK corporation tax on profits of the period | (235) | (166) |
| Adjustment in respect of prior periods | (12) | (89) |
| | (247) | (255) |

The tax assessed on the loss on ordinary activities for the year is different to the standard rate of corporation tax in the UK of 30%. The differences are reconciled below:

| | 2007 £000 | Restated 2006 £000 |
|---|--------------|--------------------------|
| Loss on ordinary activities before tax | (1,891) | (1,304) |
| Loss on ordinary activities before tax multiplied by the standard rate of corporation tax in the UK | (567) | (391) |
| Effects of: | | |
| Expenses not deductible for tax purposes | 25 | 3 |
| Fixed asset timing differences | 10 | 7 |
| Enhanced research & development relief | (155) | (104) |
| Variable rates on tax losses surrendered for research & development tax credit | 229 | 145 |
| Losses carried forward | 223 | 174 |
| Over provision in respect of previous periods | (12) | (89) |
| Group tax credit for the current year | (247) | (255) |

Notes to the Financial Statements

for the year ended 30 June 2007 (continued)

7. Loss per ordinary share

| | 2007 | Restated 2006 |
|---|------------|------------------|
| Loss on ordinary activities after taxation (£000) | (1,644) | (1,049) |
| Weighted average number of ordinary shares in issue | 21,692,308 | 21,692,308 |

The loss attributable to ordinary shareholders and the 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 Financial Reporting Standard 22. At 30 June 2007 there were 2,404,939 options outstanding (30 June 2006: 1,946,594 options outstanding).

8. Profit attributable to members of the parent company

As permitted by Section 230 of the Companies Act 1985, the Company's profit and loss account has not been included in these financial statements. The profit dealt with in the financial statements of the parent company was £135,000 (2006: £150,000).

9. Intangible fixed assets

| Group | Patent & licence costs £000 |
|---------------------------------|--------------------------------|
| Cost | |
| At 1 July 2006 | 39 |
| Additions | 77 |
| At 30 June 2007 | 116 |
| Amortisation | |
| At 1 July 2006 | 3 |
| Provided for the year | 14 |
| At 30 June 2007 | 17 |
| Net book amount at 30 June 2007 | 99 |
| Net book amount at 30 June 2006 | 36 |

10. Tangible fixed assets

| Group | Computer equipment £000 | Laboratory and clinical equipment £000 | Total £000 |
|--------------------------------|-------------------------------|--|---------------|
| Cost | | | |
| At 1 July 2006 | 41 | 197 | 238 |
| Additions | 17 | 32 | 49 |
| At 30 June 2007 | 58 | 229 | 287 |
| Depreciation | | | |
| At 1 July 2006 | 13 | 68 | 81 |
| Provided for the year | 18 | 42 | 60 |
| At 30 June 2007 | 31 | 110 | 141 |
| Net book value at 30 June 2007 | 27 | 119 | 146 |
| Net book value at 30 June 2006 | 28 | 129 | 157 |

Included within laboratory and clinical equipment at 30 June 2007 are assets under hire purchase contracts at a cost of £14,000 (30 June 2006: £14,000) and net book value of £11,000 (30 June 2006: £14,000).

Notes to the Financial Statements

for the year ended 30 June 2007 (continued)

11. Investments

| Company | Investment in subsidiary undertaking £000 | Loan to subsidiary undertaking £000 | Capital contribution £000 | Total £000 |
|--|--|--|------------------------------|---------------|
| At 30 June 2005 (as originally stated) | 140 | 435 | – | 575 |
| Prior year adjustment (see Note 2) | – | – | 34 | 34 |
| At 1 July 2005 (restated) | 140 | 435 | 34 | 609 |
| Additions | – | 1,302 | 46 | 1,348 |
| At 30 June 2006 (restated) | 140 | 1,737 | 80 | 1,957 |
| Additions | – | 1,750 | 83 | 1,833 |
| At 30 June 2007 | 140 | 3,487 | 163 | 3,790 |

Subsidiary undertakings included in the consolidated group accounts:

| 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 |

12. Stocks

| Group | 2007 £000 | 2006 £000 |
|----------------|--------------|--------------|
| Raw materials | 96 | 60 |
| Finished goods | – | 8 |
| | 96 | 68 |

13. Debtors

| | 2007 £000 | Group 2006 £000 | 2007 £000 | Company 2006 £000 |
|--------------------------------|--------------|-----------------------|--------------|-------------------------|
| Corporation tax recoverable | 235 | 255 | – | – |
| Other tax and social security | 32 | 29 | 3 | 5 |
| Prepayments and accrued income | 100 | 139 | 74 | 90 |
| | 367 | 423 | 77 | 95 |

All amounts fall due for payment within one year.

14. Creditors: amounts falling due within one year

| | 2007 £000 | Group 2006 £000 | 2007 £000 | Company 2006 £000 |
|--|--------------|-----------------------|--------------|-------------------------|
| Obligations under finance leases and hire purchase contracts (Note 16) | 2 | 3 | – | – |
| Trade creditors | 110 | 108 | 2 | 3 |
| Amounts due to group undertakings | – | – | 40 | 5 |
| Other tax and social security | 29 | 22 | 2 | – |
| Other creditors | 10 | 6 | – | – |
| Accruals and deferred income | 291 | 195 | 36 | 26 |
| | 442 | 334 | 80 | 34 |

Notes to the Financial Statements

for the year ended 30 June 2007 (continued)

15. Creditors: amounts falling due after more than one year

| Group | 2007 £000 | 2006 £000 |
|---|--------------|--------------|
| Obligations under finance leases and hire purchase contracts (Note 16) | 8 | 10 |

16. Obligations under finance leases and hire purchase contracts

| Group | 2007 £000 | 2006 £000 |
|--|--------------|--------------|
| Amounts payable: | | |
| Within one year | 3 | 4 |
| In one to two years | 3 | 3 |
| In two to five years | 6 | 9 |
| | 12 | 16 |
| Less finance charges allocated to future periods | (2) | (3) |
| | 10 | 13 |

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

17. Deferred taxation

Recognised deferred taxation

| Group | 2007 £000 | 2006 £000 |
|--------------------------------|--------------|--------------|
| Accelerated capital allowances | 30 | 39 |
| Other timing differences | (1) | – |
| Trading losses | (29) | (39) |
| Charge for the year | – | – |

Unrecognised deferred taxation

The Group has an unrecognised deferred tax asset of £486,000 at 30 June 2007 (2006: £312,000), 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.

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

| | £000 |
|---|-------|
| Unrecognised deferred tax asset at 1 July 2006 | (312) |
| Movement in current year | (174) |
| Unrecognised deferred tax asset at 30 June 2007 | (486) |

Notes to the Financial Statements

for the year ended 30 June 2007 (continued)

18. Financial instruments

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

Other than short-term debtors and creditors that arise directly from operations, the Group's financial instruments comprise cash and hire purchase finance. The fair value is not materially different to their book values. The objective of holding financial instruments is to have access to finance for the Group's operations and manage related risks. The main risks arising from holding these instruments are liquidity, interest rate risk and currency risk.

Interest rate risk

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

| Group | Fixed-rate financial liabilities £000 | 2007 Floating-rate financial assets £000 | Fixed-rate financial liabilities £000 | 2006 Floating-rate financial assets £000 |
|-----------|---|---|---|---|
| Sterling | 10 | 5,990 | 13 | 7,497 |
| US Dollar | – | 28 | – | – |
| Total | 10 | 6,018 | 13 | 7,497 |

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, in accordance with Financial Reporting Standard 13, are categorised as floating-rate financial assets. Contracts in place at 30 June 2007 had a weighted average period to maturity of 88 days and a weighted average annualised rate of interest of 5.65%.

Liquidity risk

The Group's policy is to maintain adequate cash resources to meet liabilities as they fall due. 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.

Currency risk

The Group is exposed to US dollar currency exposures as some of its revenues are denominated in this currency. The Group does not routinely hedge against these currency exposures.

19. Called up share capital and share options

| Authorised | 2007 £000 | | 2006 £000 | |
|--|----------------|----------------|--------------|--------------|
| Equity | | | | |
| Ordinary shares of 1p each | | 1,000 | | 1,000 |
| <hr/> | | | | |
| Issued, called up, allotted and fully paid | 2007 Number | 2006 Number | 2007 £000 | 2006 £000 |
| Equity | | | | |
| Ordinary shares of 1p each | 21,692,308 | 21,692,308 | 217 | 217 |

Notes to the Financial Statements

for the year ended 30 June 2007 (continued)

19. Called up share capital and share options (continued)

Options

At 30 June 2007 there were options outstanding over 2,404,939 un-issued ordinary shares, equivalent to 11.1% 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 | 70,000 | 130p | 26 October 2007 | 25 October 2014 |
| 12 May 2005 | 28,000 | 136.5p | 12 May 2008 | 11 May 2015 |
| 15 November 2005 | 19,574 | 117.5p | 15 November 2008 | 14 November 2015 |
| 2 October 2006 | 179,255 | 85.5p | 2 October 2009 | 1 October 2016 |
| Unapproved schemes | | | | |
| 11 October 2004 | 420,000 | 1p | 11 October 2004 | 10 October 2014 |
| 11 October 2004 | 280,000 | 1p | 26 October 2004 | 10 October 2014 |
| 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 |
| 15 November 2005 (LTIP) | 149,020 | 1p | 15 November 2008 | 14 November 2009 |
| 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 |
| | 2,404,939 | | | |

(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 2009.

The earliest and latest exercise dates, as set out above, assume continuing employment by option holders. 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:

| | 2007 | 2006 |
|---|------------------|-----------|
| Outstanding at 1 July | 1,946,594 | 1,813,500 |
| Granted during the year | 464,777 | 168,594 |
| Lapsed during the year | (6,432) | (35,500) |
| Exercised during the year | – | – |
| Number of outstanding options at 30 June | 2,404,939 | 1,946,594 |

At 30 June 2007, 1,680,000 share options were capable of being exercised (2006: 1,540,000). The options outstanding at 30 June 2007 had a weighted average exercise price of 48p (2006: 48p) and a weighted average remaining contractual life of 6.9 years (2006: 7.9 years).

Notes to the Financial Statements

for the year ended 30 June 2007 (continued)

19. Called up share capital and share options (continued)

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 864,939 options which had not vested at 30 June 2006 are as follows:

| Date of grant | Type of award | Number of shares | Exercise price | Share price at date of grant | Fair value per option | 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 | 70,000 | 130p | 155p | 57.7p | 5 | 4.59% | None |
| 12 May 2005 | EMI | 28,000 | 136.5p | 135.5p | 36.9p | 5 | 4.35% | None |
| 15 November 2005 | EMI | 19,574 | 117.5p | 117.5p | 32.4p | 5 | 4.37% | None |
| 15 November 2005 | Unapproved LTIP | 149,020 | 1p | 117.5p | 4.9p | 3 | 4.37% | Market |
| 2 October 2006 | EMI | 18,518 | 85.5p | 85.5p | 24.4p | 5 | 4.75% | Non-market |
| 2 October 2006 | EMI | 160,737 | 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 |
| | | 864,939 | | | | | | |

In accordance with FRS 20, the Company has applied FRS 20 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 FRS 20.

- (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.
- (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 2007 for Share-based payment, as disclosed in Note 5, amounted to £83,000 (2006: £46,000).
- (viii) The performance criteria for the options awarded under the LTIP are summarised in the Directors' Remuneration Report. The non-market performance criteria for the options granted on 2 October 2006 relate to achievement of operational objectives.

20. Reconciliation of movements in reserves and shareholders' funds

| Group | Share capital £000 | Share premium account £000 | Merger reserve £000 | Share-based payment reserve £000 | Profit and loss account £000 | Shareholders' funds £000 |
|---|-----------------------|----------------------------------|---------------------------|--|------------------------------------|--------------------------------|
| At 30 June 2005 (as originally stated) | 217 | 8,903 | 483 | – | (763) | 8,840 |
| Prior year adjustment for FRS 20 charge | – | – | – | 34 | (34) | – |
| At 30 June 2005 (restated) | 217 | 8,903 | 483 | 34 | (797) | 8,840 |
| Loss for the year (restated) | – | – | – | – | (1,049) | (1,049) |
| Share-based payment | – | – | – | 46 | – | 46 |
| At 30 June 2006 (restated) | 217 | 8,903 | 483 | 80 | (1,846) | 7,837 |
| Loss for the year | – | – | – | – | (1,644) | (1,644) |
| Share-based payment | – | – | – | 83 | – | 83 |
| At 30 June 2007 | 217 | 8,903 | 483 | 163 | (3,490) | 6,276 |

Notes to the Financial Statements

for the year ended 30 June 2007 (continued)

20. Reconciliation of movements in reserves and shareholders' funds (continued)

| Company | Share capital £000 | Share premium account £000 | Profit and loss account £000 | Shareholders' funds £000 |
|--|-----------------------|----------------------------------|------------------------------------|--------------------------------|
| At 30 June 2005 (as originally stated) | 217 | 8,903 | 138 | 9,258 |
| Prior year adjustment for UITF 44 credit | – | – | 34 | 34 |
| At 1 June 2005 (restated) | 217 | 8,903 | 172 | 9,292 |
| Profit for the year | – | – | 150 | 150 |
| UITF 44 credit | – | – | 46 | 46 |
| At 30 June 2006 (restated) | 217 | 8,903 | 368 | 9,488 |
| Profit for the year | – | – | 135 | 135 |
| UITF 44 credit | – | – | 83 | 83 |
| At 30 June 2007 | 217 | 8,903 | 586 | 9,706 |

21. Notes to the Cash Flow Statement

(i) Reconciliation of operating loss to net cash outflow from operating activities

| Group | 2007 £000 | Restated 2006 £000 |
|--|----------------|--------------------------|
| Operating loss | (2,232) | (1,680) |
| Depreciation & amortisation | 74 | 48 |
| FRS 20 charge | 83 | 46 |
| Increase in stocks | (28) | (13) |
| Decrease in debtors | 20 | 136 |
| Increase/(Decrease) in creditors | 109 | (67) |
| Net cash outflow from operating activities | (1,974) | (1,530) |

(ii) Reconciliation of net cash flow to movement in net funds

| Group | 2007 £000 | 2006 £000 |
|---|----------------|--------------|
| Increase/(Decrease) in cash in year | 82 | (45) |
| Decrease in short-term deposits | (1,561) | (1,141) |
| Cash used to repay capital element of finance leases and hire purchase contracts | 3 | 1 |
| Change in net funds resulting from cash flows | (1,476) | (1,185) |
| New finance leases and hire purchase contracts | – | (14) |
| Movement in net funds | (1,476) | (1,199) |
| Net funds at start of year | 7,484 | 8,683 |
| Net funds at end of year | 6,008 | 7,484 |

Notes to the Financial Statements

for the year ended 30 June 2007 (continued)

21. Notes to the Cash Flow Statement (continued)

(iii) Analysis of net funds

| Group | At 1 July 2006 £000 | Cash Flow £000 | At 30 June 2007 £000 |
|--------------------------|---------------------------|-------------------|----------------------------|
| Cash at bank and in hand | 33 | 82 | 115 |
| Short-term deposits | 7,464 | (1,561) | 5,903 |
| Hire purchase contracts | (13) | 3 | (10) |
| | 7,484 | (1,476) | 6,008 |

22. Related party transactions and balances

During the year ended 30 June 2007, the Group incurred fees and expenses of £15,000 (2006: £30,000) with IP2IPO Limited for the provision of business consultancy services. IP2IPO Limited has an interest in the Company and Dr Bruce Campbell was a director of IP Group plc, the parent company of IP2IPO Limited, during the year ended 30 June 2007. At the balance sheet date the amount unpaid in respect of these charges was £4,000 (2006: £4,000).

During the year ended 30 June 2007, the Group incurred costs, fees and expenses of £366,000 (2006: £383,000) with the University of Southampton in connection with premises, services and research and development activities. 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 £111,000 (2006: £138,000).

During the year ended 30 June 2007, the Group incurred consultancy fees with Prof. Stephen Holgate, a director of the Company, amounting to £20,000 (2006: £15,000). At the balance sheet date the amount unpaid in respect of these charges was £5,000 (2006: £4,000).

23. Commitments

The Group's annual commitments under non-cancellable operating leases are as follows:

| Group | 2007 £000 | Land and buildings 2006 £000 | 2007 £000 | Other 2006 £000 |
|-----------------------------------|--------------|------------------------------------|--------------|-----------------------|
| Leases which expire with one year | 38 | — | 74 | — |

The Company has no annual commitments under non-cancellable operating leases.

Proforma IFRS Primary Statements

(not forming part of the Financial Statements)

Consolidated Balance Sheets at 30 June 2007

| Prepared under IFRS (unaudited) | | | Prepared under UK GAAP (audited) | | |
|---|--------------|-------|--|--------------|--|
| | £000 | Notes | | £000 | |
| Assets | | | | | |
| Non-current assets | | | Fixed assets | | |
| Intangible assets | 99 | | Intangible assets | 99 | |
| Property, plant and equipment | 146 | | Tangible assets | 146 | |
| | 245 | | | 245 | |
| Current assets | | | Current assets | | |
| Inventories | 96 | | Stocks | 96 | |
| Income tax receivable | 235 | 1 | | | |
| Trade and other receivables | 132 | 1 | Debtors | 367 | |
| Short-term deposits | 4,998 | 2 | Investments: short-term deposits | 5,903 | |
| Cash and cash equivalents | 1,020 | 2 | Cash at bank and in hand | 115 | |
| | 6,481 | | | 6,481 | |
| Total assets | 6,726 | | | | |
| Liabilities | | | | | |
| Current liabilities | | | | | |
| Trade and other payables | (462) | 3 | | | |
| Obligations under finance leases | (2) | 4 | Creditors: amounts falling due within one year | (442) | |
| | (464) | | | | |
| Net current assets | 6,017 | | Net current assets | 6,039 | |
| | | | Total assets less current liabilities | 6,284 | |
| Non-current liabilities | | | Creditors: amounts falling due after more than one year | | |
| Obligations under finance leases | (8) | 4 | | (8) | |
| Total liabilities | (472) | | | | |
| Net assets | 6,254 | | Net assets | 6,276 | |
| Equity | | | | | |
| Capital and reserves attributable to equity holders of the Company | | | Capital and reserves | | |
| Ordinary shares | 217 | | Called up share capital | 217 | |
| Share premium | 8,903 | | Share premium account | 8,903 | |
| Merger reserve | 483 | | Merger reserve | 483 | |
| Share-based payment reserve | 163 | | Share-based payment reserve | 163 | |
| Retained earnings | (3,512) | 3 | Profit and loss account | (3,490) | |
| Total equity | 6,254 | | Shareholders' funds | 6,276 | |

Notes

- Under IFRS, Income tax receivable (which represents the research and development tax credit in respect of the year ended 30 June 2007) has to be separately disclosed. Under UK GAAP it is included within debtors.
- Under IFRS (IAS 7), cash equivalents include short-term deposits with a maturity period of three months or less from the date of initial deposit.
- Under IFRS (IAS 9), it is necessary to accrue for holiday entitlement not yet taken. At 30 June 2007 this reserve amounted to £22,000.
- Under IFRS, Obligations under finance leases have to be separately disclosed. Under UK GAAP such amounts are included within creditors.

Proforma IFRS Primary Statements (continued)

(not forming part of the Financial Statements)

Consolidated Income Statement/Consolidated Profit and Loss Account for the year ended 30 June 2007

Consolidated Income Statement – prepared under IFRS (unaudited)

| | £000 | Notes |
|--|----------------|-------|
| Revenue | 78 | |
| Cost of sales | (33) | |
| Gross profit | 45 | |
| Research and development expenditure | (1,523) | 1 |
| Administrative costs | (750) | |
| Operating loss | (2,228) | |
| Finance income | 342 | |
| Finance costs | (1) | |
| Loss before tax | (1,887) | |
| Tax | 247 | |
| Loss for the year attributable to equity holders of the company | (1,640) | |
| Loss per share | | |
| Basic and diluted loss per share (pence) | (7.56)p | |

Consolidated Profit and Loss Account – prepared under UK GAAP (audited)

| | £000 |
|--|----------------|
| Turnover | 78 |
| Cost of sales | (33) |
| Gross profit | 45 |
| Administrative expenses | |
| Research and development expenditure | (1,527) |
| Other | (750) |
| Total administrative expenses | (2,277) |
| Operating loss | (2,232) |
| Bank interest receivable | 342 |
| Finance lease interest payable | (1) |
| Loss on ordinary activities before taxation | (1,891) |
| Tax on loss on ordinary activities | 247 |
| Loss on ordinary activities after taxation and retained loss for the year | (1,644) |
| Loss per ordinary share | |
| Basic and diluted loss per share (pence) | (7.58)p |

Notes

1. As explained in Note 3 on page 33, it is necessary under IFRS to make provision for accrued holiday pay. During the year ended 30 June 2007 the reserve decreased by £4,000 resulting in a credit to the Income Statement.

Proforma IFRS Primary Statements (continued)

(not forming part of the Financial Statements)

Consolidated Cash Flow Statements for the year ended 30 June 2007

Prepared under IFRS (unaudited)

| | £000 | Notes |
|--|----------------|-------|
| Operating activities | | 1 |
| Cash used in operations | (1,974) | |
| Interest paid | (1) | |
| Tax credit received | 267 | |
| Net cash used in operating activities | (1,708) | |

Prepared under UK GAAP (audited)

| | £000 |
|--|----------------|
| Net cash flow from operating activities | (1,974) |

| | |
|--|------------|
| Returns on investments and servicing of finance | |
| Interest received | 358 |
| Interest paid | (1) |
| | 357 |

| | |
|---|------------|
| Taxation | |
| Research and development tax credits received | 267 |

| | | |
|---|--------------|---|
| Investing activities | | 1 |
| Interest received | 358 | |
| Purchases of property, plant and equipment | (49) | |
| Purchases of intangible assets | (77) | |
| Decrease in short-term deposits | 2,165 | |
| Net cash generated from investing activities | 2,397 | |

| | |
|---|--------------|
| Capital expenditure and financial investment | |
| Purchase of intangible fixed assets | (77) |
| Purchase of tangible fixed assets | (49) |
| Net cash outflow from capital expenditure | (126) |

| | |
|---|----------------|
| Net cash outflow before management of liquid resources and financing | (1,476) |
|---|----------------|

| | |
|---------------------------------------|--------------|
| Management of liquid resources | |
| Decrease in short-term deposits | 1,561 |

| | | |
|--|------------|---|
| Financing activities | | 1 |
| Repayments of obligations under finance leases | (3) | |
| Net increase in cash and cash equivalents | 686 | 2 |

| | |
|--|------------|
| Financing | |
| Repayment of capital element of finance leases and hire purchase contracts | (3) |
| Increase in cash | 82 |

| | |
|--|-----|
| Cash and cash equivalents at beginning of year | 334 |
|--|-----|

| | |
|--|--------------|
| Cash and cash equivalents at end of year | 1,020 |
|--|--------------|

Notes

- Under IFRS there are only three cash flow activities (operating, investing and financing). Under UK GAAP there are nine headings.
- As explained within the Balance Sheet Notes on page 33, IFRS introduces the concept of cash and cash equivalents. The cash flow movement therefore includes movements on cash equivalents.

Notice of 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 Stringer Saul LLP, Fourth Floor, 17 Hanover Square, London W1S 1HU on Wednesday, 14 November 2007 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 2007, together with the Directors' and Auditors' reports in respect of such accounts.
2. To re-appoint as a director John Ward, who is retiring by rotation in accordance with Article 102 of the Company's Articles of Association and who, being eligible, offers himself for re-appointment.
3. To re-appoint as a director Simon Shaw, who is retiring by rotation in accordance with Article 102 of the Company's Articles of Association and who, being eligible, offers himself for re-appointment.
4. 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.
5. To approve the Directors' Remuneration Report for the financial year ended 30 June 2007.

Special Business

As special business to consider and, if thought fit, pass resolution 6, which will be proposed as an ordinary resolution of the Company, and resolution 7, which will be proposed as a special resolution of the Company.

6. That the directors be and they are hereby generally and unconditionally authorised pursuant to section 80 of the Companies Act 1985 (the 'Act') to allot relevant securities (within the meaning of section 80 of the Act) up to an aggregate nominal amount of £96,221. This authority shall expire on the earlier of 31 December 2008 and the conclusion of the 2008 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 relevant securities in pursuance of an offer or agreement made before the expiry of the authority pursuant to which such offer or agreement was made.
7. That, subject to the passing of the resolution 6 above, the directors be and they are hereby empowered pursuant to section 95 of the Companies Act 1985 (the 'Act') to allot equity securities

(within the meaning of section 94 of the Act) for cash pursuant to the authority conferred by resolution 6 above and to sell or make offers or agreements to sell equity securities which immediately before the sale are held by the Company as treasury shares (as defined by section 162A of the Act) in each case as if section 89(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 £17,600 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 £10,846 (representing 5% of the nominal value of the issued share capital of the Company at 9 October 2007);

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 2008 and the conclusion of the Annual General Meeting of the Company to be held in 2008 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 or sell equity securities which immediately before the sale are held by the Company as treasury shares (as defined by section 162A 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

9 October 2007

Notes

1. A member entitled to attend and vote at the meeting convened by this notice is entitled to appoint one or more proxies to attend and to speak and vote instead of him. A proxy need not be a member of the Company. A form of proxy is enclosed. To be effective, it must be deposited at the Company's registrars, Capita Registrars, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4BR, so as to be received not less than 48 hours before the time of the meeting. Return of the form of proxy does not preclude a member from attending and voting in person. Where any resolution is considered on a poll, proxies may be deposited so as to be received not later than 24 hours before the time for taking the poll where the poll is to be taken more than 48 hours after it is demanded.
2. 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.
3. The Company, pursuant to Regulation 41 of The Uncertificated Securities Regulations 2001, specifies that only those members on the register of the Company as at 6 pm on 12 November 2007 shall be entitled to vote at the Annual General Meeting in respect of the number of shares registered in their name at that time. Changes to entries on the register after 6 pm on 12 November 2007 shall be disregarded in determining the rights of any person to attend or vote at the meeting.

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

Resolutions 1 to 5 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 Auditors' 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 2007.

Resolutions 2 and 3: Appointment of directors

Article 102 of the Company's Articles of Association requires that, at the AGM, one third of directors (excluding directors retiring in accordance with Article 108) shall retire. Accordingly, John Ward and Simon Shaw shall retire and, being eligible, offer themselves for re-appointment. Resolutions 2 and 3 propose their re-appointment.

Biographical details are given on page 9 of the Annual Report.

Resolution 4: 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 4 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 5: Approval of the Directors' Remuneration Report

Resolution 5 proposes the approval of the Directors' Remuneration Report for the financial year ended 30 June 2007, as set out on pages 14 to 16 of the 2007 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 5 will be proposed as an ordinary resolution.

Resolutions 6 and 7 are the special business of the AGM.

Resolution 6: Authority to Allot Shares

By an ordinary resolution of the Company passed on 15 November 2006 at the 2006 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 15 November 2006 until the conclusion of the 2007 Annual General Meeting. Resolution 6 proposes to authorise the directors to allot relevant securities up to a maximum nominal amount of £96,221 (which equates to 9,622,100 shares), which represents the sum of:

- £72,308, being approximately 33.3% of the nominal value of the issued share capital of the Company as at 9 October 2007; and
- £23,913, being the nominal value of shares under option.

Other than pursuant to the exercise of share options and 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 2008 Annual General Meeting.

Resolution 6 will be proposed as an ordinary resolution.

Resolution 7: Disapplication of Pre-emption Rights

Also on 15 November 2006, 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 15 November 2006 until the conclusion of the 2007 Annual General Meeting. It is proposed that this authority also be renewed. The authority relates to: pre-emptive issues; the allotment of up to 1,760,000 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 1985); and 1,084,600 shares, which represents approximately 5% of the issued ordinary share capital of the Company as at 9 October 2007. This authority will expire on the conclusion of the 2008 Annual General Meeting.

Resolution 7 will be proposed as a special resolution.

Corporate Directory

Company number

5233429

Directors

Executive: Richard Marsden, John Ward

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

Secretary

John Ward

Head office and Registered office

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

Website

www.synairgen.com

E-mail

info@synairgen.com

Advisers

Independent auditors

BDO Stoy Hayward LLP

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

Bankers

HSBC Bank plc

165 High Street, Southampton SO14 2NZ

Financial public relations

Hogarth Partnership Limited

No. 1 London Bridge, London SE1 9BG

Nominated adviser and broker

Landsbanki Securities (UK) Limited

Beaufort House, 15 St Botolph Street,
London EC3A 7QR

Patent agents

Marks & Clerk

Nash Court, Oxford Business Park South,
Oxford OX4 2RU

Registrars

Capita Registrars

The Registry, 34 Beckenham Road,
Beckenham, Kent BR3 4TU

Solicitors

Fasken Martineau Stringer Saul LLP

17 Hanover Square, London W1S 1HU

Glossary

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

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. Also see Severe asthma

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

Bronchodilators

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

Chronic

Persistent

Chronic bronchitis

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

Clinical Trial Authorisation or CTA

An authorisation from the MHRA to conduct a clinical trial

COPD

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

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

Growth factor

A protein capable of promoting cell maturation and division. Growth factors typically act as signalling molecules between cells. Growth factors have been associated with the restoration of Barrier Function

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

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

Proteomics

The systematic and comprehensive identification and characterisation of proteins expressed from cells, tissues or organisms in terms of quality, structural modification, location within cells, activity and function

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

Safety study

See Phase I Clinical Trial

Severe asthma

Severe asthma is defined by Asthma UK as the level of asthma which causes disturbed sleep on a weekly basis, or attacks of wheeze on a monthly basis, or one or more speech-limiting attacks in the last year

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

Tight junctions

See Barrier Function

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

