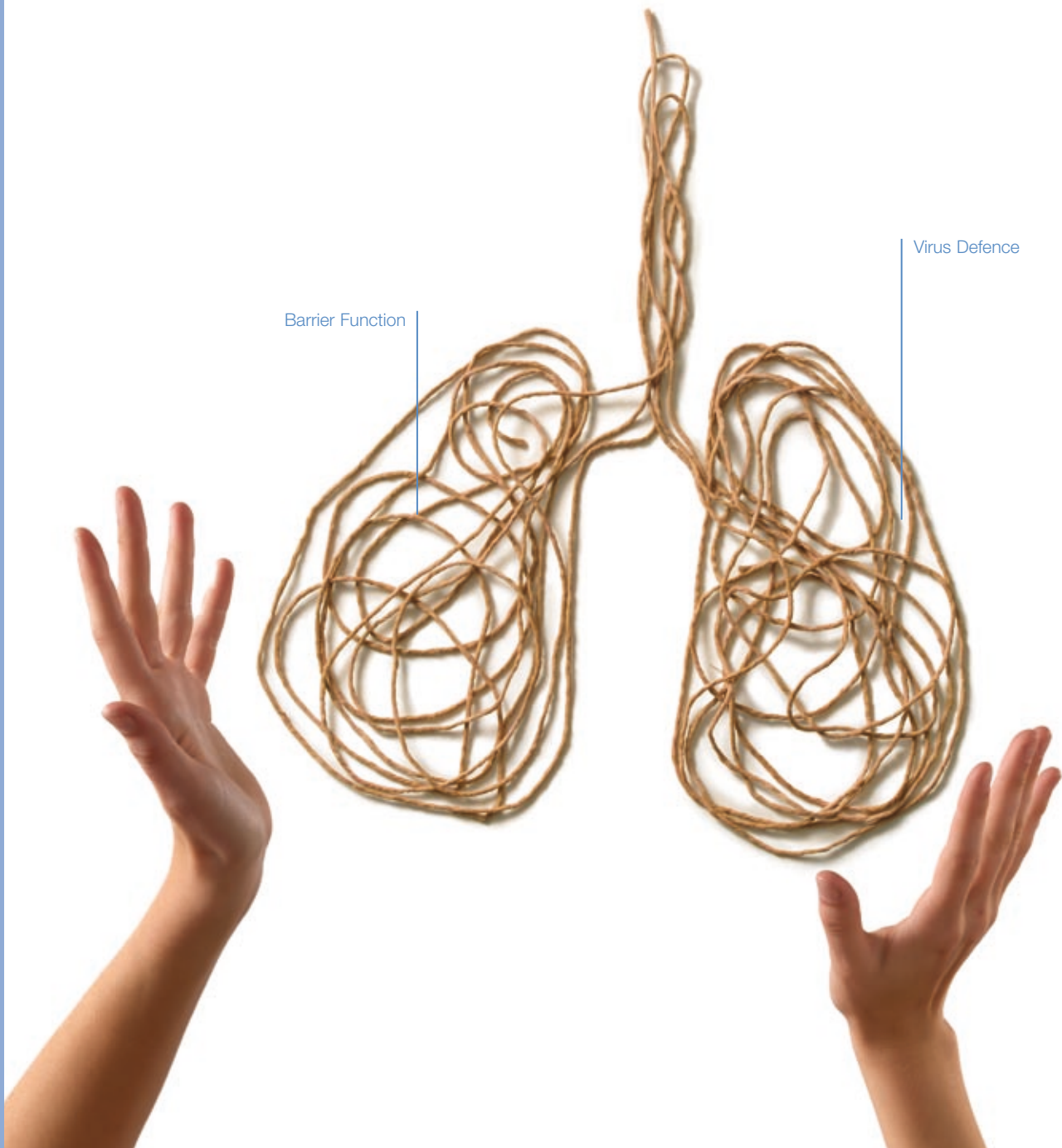


synairgen plc

people. ideas. opportunities.

# untangling the causes of respiratory disease...

annual report and accounts 2008



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

#### Programme status at 30 June 2008

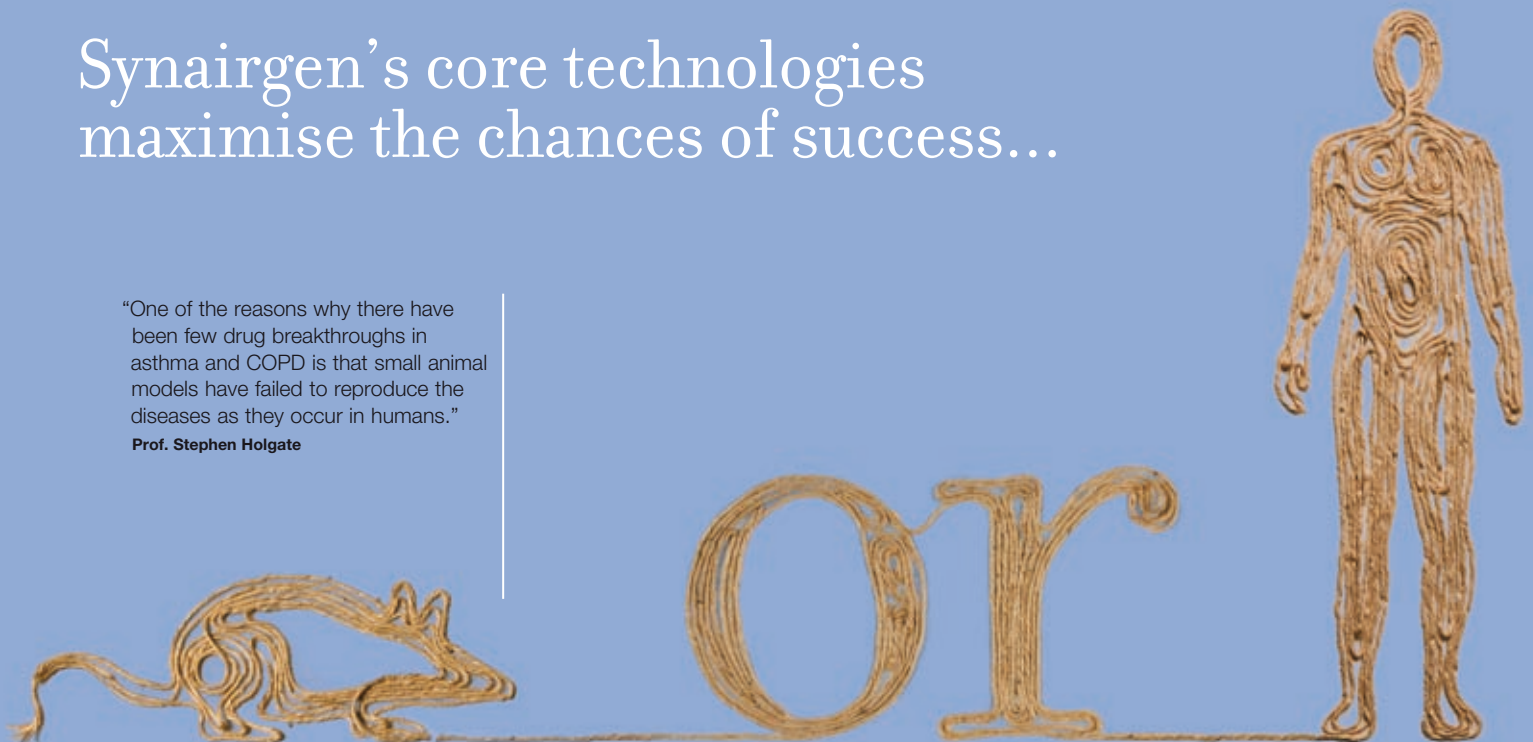
Candidate	Indication	Mechanism of Action	Discovery Phase	Preclinical Development	Clinical Phase I	Clinical Phase II
IFN-beta	Asthma	Virus Defence	[Progress bar: 80% complete]			●*
IFN-beta	COPD	Virus Defence	[Progress bar: 80% complete]			●
Protein	Asthma	Barrier Function	[Progress bar: 50% complete]			●
Collaboration	Asthma	Discovery	●	●	●	●
Other research programmes	Asthma	Discovery	●	●	●	●

\* Anti-viral biomarkers being monitored in sputum and blood

Synaergen's core technologies maximise the chances of success...

"One of the reasons why there have been few drug breakthroughs in asthma and COPD is that small animal models have failed to reproduce the diseases as they occur in humans."

**Prof. Stephen Holgate**



# IFN-beta for the treatment or prevention of exacerbations (attacks) of asthma and COPD caused by the common cold

## Clear unmet clinical need

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

Inhaled corticosteroids offer limited protection against common cold-induced attacks

The health economic impact of these prevalent diseases is high, with the annual cost of treating asthma and COPD in the USA alone being:

### Hospital care

Asthma \$4.7 billion | COPD \$11.3 billion

### Physician services

Asthma \$3.8 billion | COPD \$4.9 billion

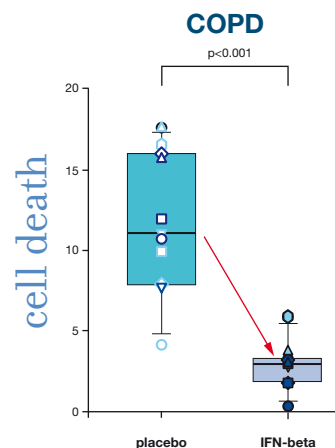
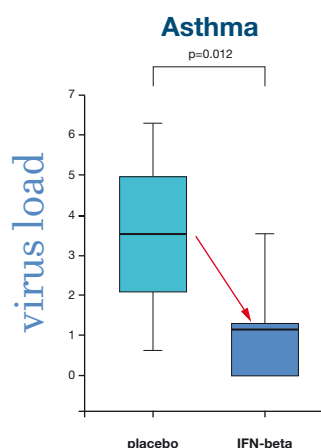
### Prescription drugs

Asthma \$6.2 billion | COPD \$6.2 billion



# Scientific evidence

IFN-beta restores anti-viral defences in both asthmatic and COPD human epithelial cell cultures



## Summary development plan

### Completed Tasks

SG003 Phase I study in atopic non-asthmatic subjects

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

Aerosol device selection and testing

Local tolerance study

IMPD preparation for MHRA, correspondence and successful application

**Sputum and blood IFN-beta and anti-viral biomarker development**

### Planned Tasks

#### SG004 Phase I

**SG004**  
14 day dosing in moderate asthmatics at Southampton and Manchester

**SG007**  
Validate RV-16 challenge model in inhaled corticosteroid - taking asthmatics

**SG008**  
Cross-linkage between models and target market – asthmatics admitted with virus exacerbations

#### SG005/006 Phase II

**SG005**  
Proof of Concept for asthma. Placebo-controlled study of IFN-beta in asthma

**SG006**  
Proof of Concept for COPD. Placebo-controlled study of IFN-beta in 'Healthy' Smokers

Nov 05 - June 08



# Developing advanced human tissue models of respiratory disease

Synairgen's business model is to advance each opportunity to a stage whereby it becomes an out-licensable 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.

Compared to progress in other disease areas, there have been relatively few advances in the treatment of the major respiratory diseases, asthma and chronic obstructive pulmonary disease (COPD).

Research has been hampered by the inability of animal models to replicate disease pathology and chronicity, as well as the impact of environmental factors in asthma and COPD. As such, animal models have not always been predictive of efficacy in chronic respiratory diseases.

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

Synairgen's biobank contains samples of blood, sputum, biopsies, fibroblast and epithelial cells from clinically-characterised volunteers. In excess of 200 bronchoscopies have now been performed.



or



## Operational highlights

- Preparation for and commencement of dual-centre Phase I study (SG004) of inhaled interferon beta ('IFN-beta') in moderate asthmatics;
- Exclusive in-licence and supply agreement signed with Rentschler Group for novel patent-protected formulation of IFN-beta for the treatment of respiratory diseases by inhalation;
- Development and validation of biomarkers in blood and sputum relevant to IFN-beta response; and
- Advancement of core technology platform, including biobank.

## Financial highlights

- Research and development expenditure for the year: £2.0 million (2007: £1.5 million);
- Post tax loss for the year: £2.2 million (2007: £1.6 million); and
- Cash at 30 June 2008: £4.0 million (2007: £6.0 million).

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# Chairman's and Managing Director's Report

## Business Overview

During the year to 30 June 2008, we have made significant progress on our core programmes and have, in parallel, continued to develop our relationships with potential partners in the pharmaceutical industry.

The Group's finances have remained under tight control in preparation for the next clinical trial of our lead programme, inhaled interferon beta ('IFN-beta'), which is being developed to prevent exacerbations of asthma and Chronic Obstructive Pulmonary Disease ('COPD').

At the same time we have further enhanced the Group's technology platform based upon the use of our "biobank" of samples from both healthy volunteers and those with respiratory conditions. Samples from the biobank are used to create cell-based assays for target discovery and validation, screening of novel compounds, and modelling the pharmacokinetic and pharmacodynamic effects of new therapies.

Our success with this approach is largely due to the well-characterised nature of the biobank, which enables us to differentiate confidently between healthy controls and samples from volunteers with respiratory disease at different levels of severity. This capability has not only given rise to our own proprietary research and development programmes, but also represents a focal point for collaborative work with the biopharmaceutical industry, which is itself increasingly exploring new ways of harnessing innovation from companies such as Synairgen.

## Synairgen's proprietary activities

Synairgen currently has one programme in clinical development for two separate indications, and a second at the preclinical testing stage. In addition, the application of proteomics to our biobank and some targeted research alongside the University of Southampton continues to yield further innovative discovery opportunities.

## Inhaled IFN-beta

Synairgen's lead programme is the use of inhaled IFN-beta to combat the debilitating effect of virus infections, typically human rhinovirus (the common cold), on asthma and COPD sufferers. The common cold causes up to 80% of all hospitalisations associated with asthma and is also a significant cause of COPD exacerbations. A therapy that prevents or minimises this effect in either patient group would address a major and costly unmet clinical need, and would add significantly to the respiratory physician's armoury, with potential marketplace revenues in each indication of well over \$1 billion per annum.

This year, in preparation for our first study in moderate asthma we have achieved a significant number of project milestones:

- In the first half of the year we successfully completed the analysis of the first safety study (SG003) in atopic subjects (healthy volunteers who have allergies).

- Since then, we have selected and exclusively in-licensed a novel formulation of IFN-beta for the treatment of respiratory diseases by inhalation from the Rentschler Group of Germany, including appropriate access to the regulatory and safety data that supported the marketing authorisation application for systemic administration of IFN-beta for multiple sclerosis sufferers. This patent-protected formulation has many advantages over alternative IFN-beta preparations and is suitable for both clinical development and the marketplace. We have successfully completed the pre-clinical safety studies to allow this formulation to be used in our next trial (SG004).
- Furthermore we have secured the supply of a specialist inhalation device, the I-neb®, manufactured by Respironics Inc., which we have validated for use in the next trial. The I-neb has the advantage over alternative systems in that it enables liquid aerosol delivery to be biased to the conducting (central) airways, which are the primary sites of rhinovirus infection in the lungs.

Each of these steps was necessary for us to assemble a package that met the needs of the development plan and the regulatory authorities. The establishment of appropriate infrastructure, quality systems and documentation to conduct SG004, which will primarily investigate the safety and tolerability of inhaled IFN-beta at escalating single and multiple doses in moderate asthmatic patients, was carried out in the first half of 2008. In June 2008 we received all necessary approvals to commence the study, which will be conducted at both the Wellcome Trust Clinical Research Facility in Southampton and the Medicines Evaluation Unit in Manchester. The first volunteer entered into the study on 28 July 2008 and the study is expected to complete in the second quarter of 2009.

Alongside the preparation for SG004, we have worked on developing and validating biomarkers in blood and sputum to indicate whether inhaled IFN-beta sets in motion the body's natural anti-viral defences.

During the forthcoming year, study SG007 will be advanced at Southampton and Imperial College under the guidance of Professors Ratko Djukanovic and Sebastian Johnston respectively. This study seeks to validate the administration of rhinovirus to moderate asthmatics in advance of our first clinical proof of concept Phase IIa studies in asthma and COPD (SG005 and SG006), which are scheduled for the winter season of 2009/10.

## Barrier function

The cells lining a healthy individual's lung (the "epithelium") form a natural barrier to protect against unwanted particles and environmental contamination of the sensitive underlying tissues. Synairgen has shown this barrier to be defective in asthma sufferers. In particular, the tight junction proteins that normally "knit" epithelial cells together are poorly organised and contribute to the creation of a "leaky" barrier. Synairgen's first candidate in this arena is SNG-3, a protein that re-organises and re-establishes this barrier. This is currently being tested in collaboration with

Wayne State University, USA, in proprietary models established by Professor David Bassett, with results expected during the second half of 2008. In addition, Synairgen is seeking to screen other potential candidates for this exciting area, using our proprietary patent-protected screening assays applied to samples from our biobank.

### Collaborative and discovery activities

Alongside our proprietary programmes, we continue to work with collaborators using our proprietary technology platform and the “bench-to-bedside” expertise afforded by being so closely associated with the University of Southampton’s School of Medicine and the NHS Trust at Southampton General Hospital.

During the year, the discovery programme with our unnamed North American biotechnology partner completed the second phase of its work and has identified novel targets worthy of further investigation. We are currently discussing next steps with the partner.

Our in-house proteomics work has continued to generate interesting discoveries through analysis of lung tissue. In conjunction with academic investigators we continue to develop the areas from which new proprietary and partnered programmes will emerge.

### Intellectual property and technology platform

During the year, we added two significant pieces of intellectual property to our portfolio; first we obtained an exclusive licence to the patent-protected Rentschler formulation of IFN-beta; an essential milestone for our lead programme. In February 2008, a US patent was granted for our proprietary screening method to test the effect of potential drug candidates on the lung’s barrier function.

Our biobank activities increased substantially during the period, with the 200<sup>th</sup> bronchoscopy conducted in house. We are now in the enviable position of holding a broad bank of well-characterised samples, to which we continue to add, and which provides a valuable platform for our future research activities.

### Staff

In an organisation which is deliberately kept lean, none of this would be possible without the dedication and focus of our small but highly expert team consisting of both scientists, including aerosol and epithelial assay specialists, and Synairgen’s core clinical team of nurses and doctors who collect biobank samples and carry out our clinical trials so effectively.

### Outlook

In July 2008 we commenced SG004, a critical study for our lead IFN-beta programme, and we expect it to complete during the next year. This will allow us to move on to the clinical proof of concept stage (Phase IIa), for which preparation has also commenced. In short, the primary focus of Synairgen’s current resources is on successfully progressing our two potential blockbuster indications (asthma and COPD) for inhaled IFN-beta over the next phase of development.

In addition, knowing that the Group’s research and early development capability has broader utility, we are currently responding to significant interest in collaborative work using our proprietary technology platform in respect of barrier function, virus work, and other challenges facing the lung. In this arena our goal is to build our base of projects and intellectual property interest through collaborative non-conflicting programmes that complement our core focus.

### Simon Shaw

Chairman

### Richard Marsden

Managing Director

Asthma prevalence in the UK is one of the highest in the world

In 2005 more women in the UK died from COPD than breast cancer

By 2020 COPD is forecast to be the 3rd commonest cause of death globally

COPD is one of the most common causes of hospitalisation in the UK

# Financial Review

The Financial Review should be read in conjunction with the consolidated financial statements of the Company and Synairgen Research Limited (together the 'Group') and the notes thereto on pages 21 to 38.

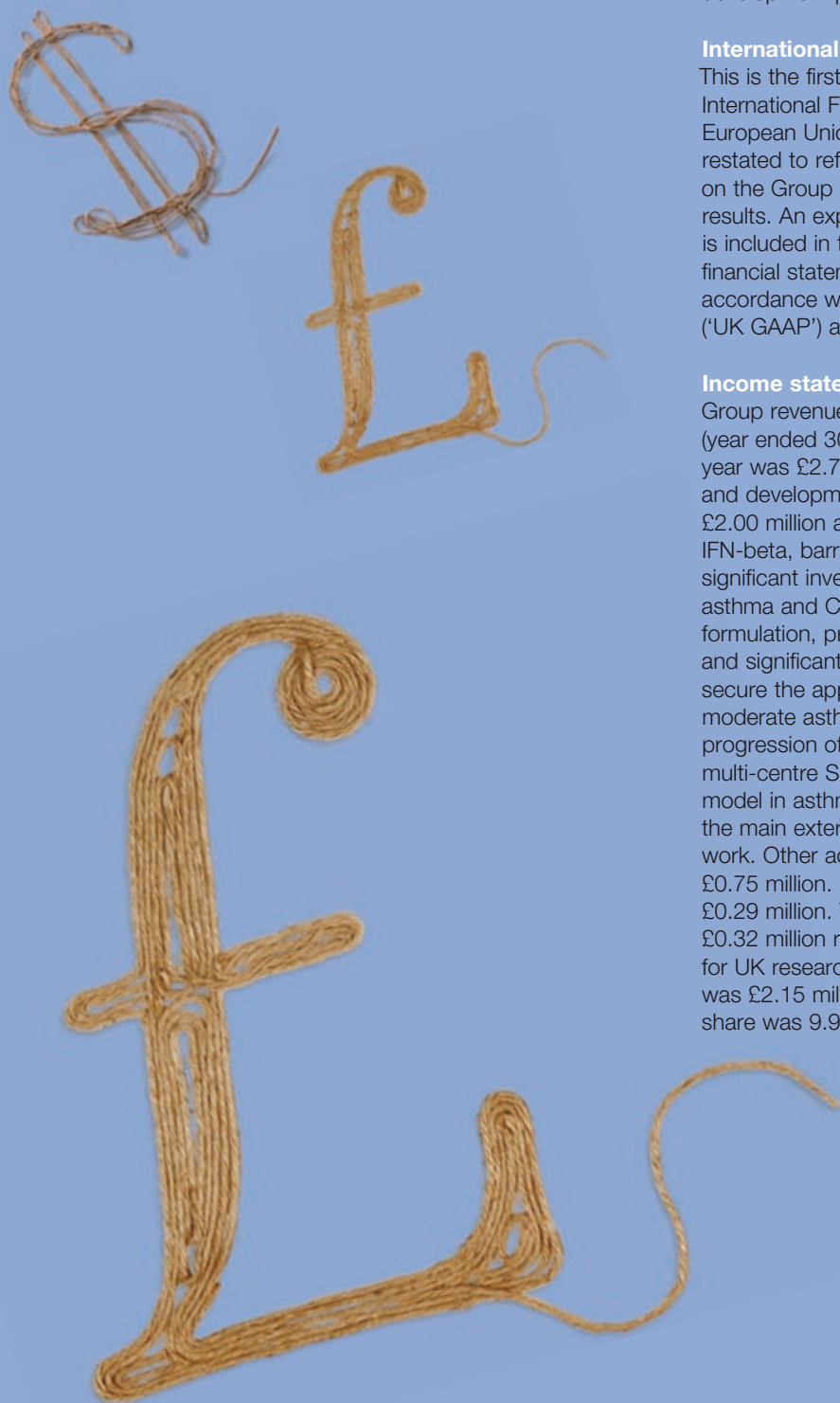
The financial focus of the period under review has been consistent with a primary tenet of this company since its foundation in 2003; namely to achieve significant biotechnological and clinical advances efficiently and as cost effectively as possible. This allows us to maximize the use of our cash and ensure that we have a sensible period in which to move to the next stage of our lead development programmes.

## International Financial Reporting Standards

This is the first annual report for the Group presented under International Financial Reporting Standards as adopted by the European Union ('IFRS'). The comparative figures have also been restated to reflect this. There has been no significant impact on the Group in either the current year or the restated historic results. An explanation, including the impact of transition to IFRS, is included in the notes to the Group financial statements. The financial statements of the Company continue to be prepared in accordance with UK Generally Accepted Accounting Principles ('UK GAAP') and are set out on pages 39 to 41.

## Income statement

Group revenue for the year ended 30 June 2008 was £nil (year ended 30 June 2007: £78k). The operating loss for the year was £2.76 million (2007: loss of £2.23 million). Research and development expenditure increased from £1.52 million to £2.00 million as the Group increased its investment into the IFN-beta, barrier function and other programmes. The most significant investment has been into the IFN-beta programmes for asthma and COPD. Following the in-licensing of the Rentschler formulation, pre-clinical work has been satisfactorily completed and significant regulatory preparation work has been required to secure the approvals for the forthcoming SG004 safety study in moderate asthmatics. Other areas of expenditure have included progression of the COPD programme and preparation for the multi-centre SG007 study to characterise the common cold model in asthma. With regards to the barrier function programme, the main external costs related to further pre-clinical formulation work. Other administrative costs were held at their 2007 level of £0.75 million. Interest receivable decreased from £0.34 million to £0.29 million. The increase in the tax credit from £0.25 million to £0.32 million reflects the higher level of expenditure which qualifies for UK research and development tax credits. The loss after tax was £2.15 million (2007: loss of £1.64 million) and the loss per share was 9.92p (2007: loss of 7.56p).







# Synairgen's Founders and Scientific Advisors

## Synairgen's Founders



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



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



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



## Synairgen's Scientific Advisors

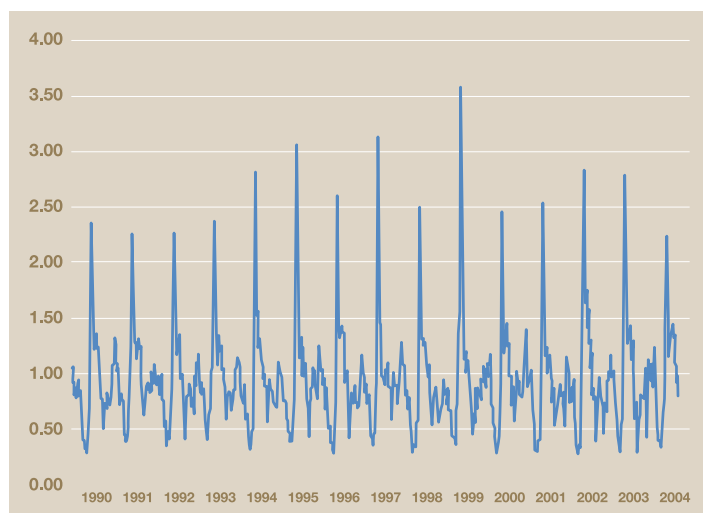
Prof. James Gern, University of Wisconsin, USA

Prof. Sebastian Johnston, of Imperial College, London

Prof. Peter Sterk, University of Amsterdam

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

Exacerbations take central stage in Asthma and COPD. Asthma and smoking-related chronic obstructive pulmonary disease (COPD) are chronic inflammatory diseases of the conducting airways in the lungs that are, in large part, treated by inhaled corticosteroids or combinations with long-acting bronchodilators. These drugs are certainly effective in asthma but far less so in COPD. For both diseases the major unmet clinical need is the unexpected rapid deterioration that characterises exacerbations.



*Figure 1: The annual cycle of asthma hospitalization in children age 2 to 15 years in Canada from 1990 to 2004, expressed as multiples of the within-year weekly mean number of hospitalizations showing epidemic peak occurring in September every year.*

Sears MR, Johnston NW. Understanding the September asthma epidemic. *J Allergy Clin Immunol.* 2007 Sep;120 (3): 527

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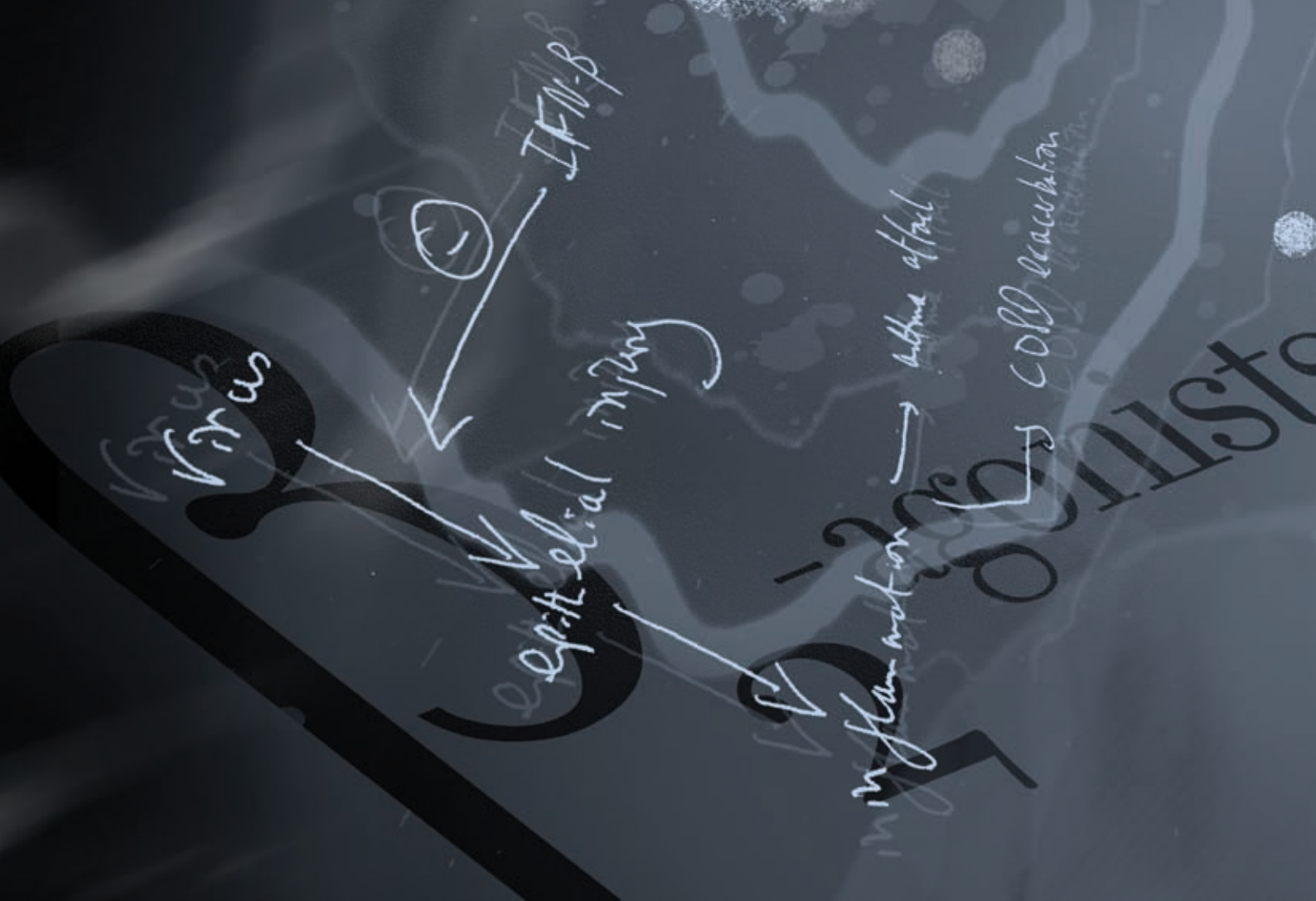
Exacerbations can last from days to weeks and are the most frequent reasons for hospital admission, unscheduled doctor visits and courses of oral corticosteroids. In clinical trials, asthma and COPD exacerbations are assuming great importance as patient-centred end points because of their great impact on quality of life.

As can be seen left in Figure 1, asthma exacerbations are highly seasonal, with a large peak occurring in the autumn, winter and spring months, with asthma exacerbations reaching epidemic levels following school return after the summer vacation. These exacerbations are predominantly associated with the common cold<sup>1</sup>. A similar peak for COPD also occurs in the winter<sup>2</sup>. There exists a smaller peak of asthma in the summer that is explained by the high pollen count and allergic responses. Thus, it is clear now that exacerbations of asthma are caused more by virus infection than by allergen exposure, even though the latter can augment the airway responses to viruses.

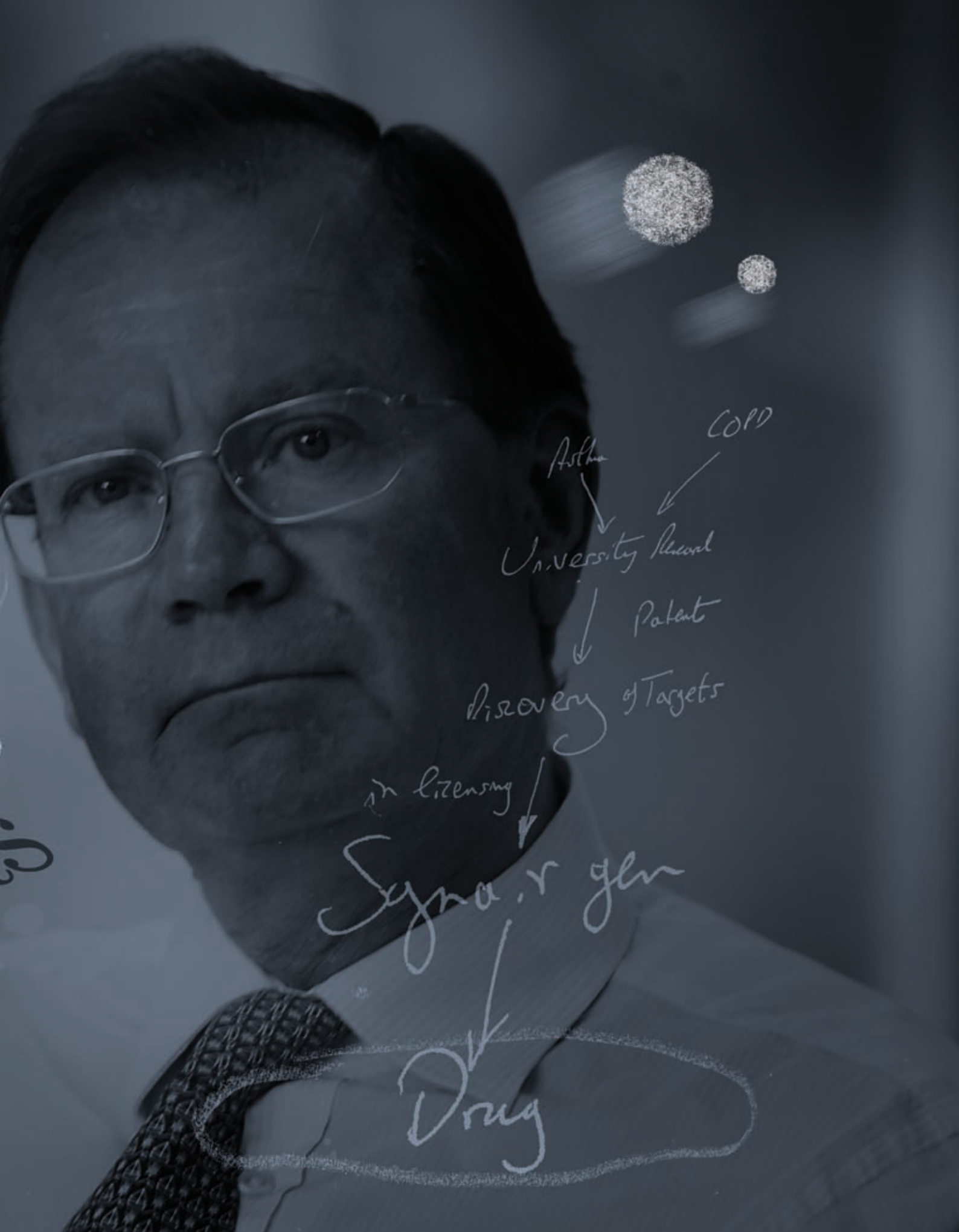
## Scientific Review (continued)

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

A combination of careful  
epidemiological *in vivo* and  
*in vitro* experiments has led to  
the identification of interferon  
beta as a central lesion in  
asthma exacerbations







Asthma

COPD

University Record

Patent

Discovery of Targets

in licensing

Syna.r gen

Drug

# Scientific Review (continued)



The development of highly sensitive detection techniques for respiratory viruses has revealed that up to 83% of exacerbations in children and 65% in adults are caused by virus infection<sup>3</sup>. In the case of COPD, virus infections precede winter exacerbations in over 60% of cases<sup>4</sup>. The recent development of new viral detection techniques has also identified a far larger range of viruses than was previously thought to exist, suggesting that the prevalence figures relating virus infection to exacerbation may be an underestimate<sup>5,6</sup>. In all of these studies, it is the common cold virus (rhinovirus, RV), including new strains, that is the principal cause of exacerbations.

The frequency of asthma and COPD exacerbations is now being used as an indicator of the degree of disease control, with the recognition of the exacerbation prone asthma phenotype<sup>7</sup>. Since asthma exacerbations triggered by viral infection only weakly or completely fail to respond to increasing the dose of inhaled corticosteroid, there remains a real unmet clinical need for effective treatments especially because exacerbations account for the majority of the health costs of both asthma and COPD.

There are no specific treatments for virus-induced exacerbations other than for those caused by influenza virus<sup>3,8</sup>. Lack of effective therapies mandates a search for new ways of increasing the ability of asthmatic and COPD lungs to cope with virus infections by increasing their ability to eliminate virus and prevent viral replication<sup>8,9</sup>. Our discovery that asthmatic and COPD airways are deficient in their ability to cope with RV infection due to reduced interferon beta production upon contact with virus and that this protective capacity can be restored by addition of exogenous interferon beta<sup>10</sup> provides the rationale for Synairgen's inhaled formulation of interferon beta to prevent exacerbations and their attendant impact on disease expression in both severe asthma and COPD.

Recent research has revealed that RV may be playing an even greater role in asthma than previously recognised. A key study, presented at the major scientific meeting for the respiratory disease area (American Thoracic Society Meeting) this year, involving 259 children followed prospectively from birth to six

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years of age identified a viral cause for infant wheezing in 90% of episodes<sup>11</sup>. By the age of three, wheezing with RV increased the risk of a child having asthma at six years of age by 25-fold (a significant finding when compared to allergen exposure having less than 4-fold influence). Nearly 90% of children who wheezed with RV in year three had asthma at six years of age. This is especially important because RV infection is the most common cause of early infant wheezing<sup>12</sup>. Thus, it follows that impaired viral clearance may be important in the initial causation of asthma in early childhood.

Another study has shown that severe asthma exacerbations predict a greater decline in baseline lung function in asthma<sup>13</sup>. This study, coupled with the observations that RV persists in the airway tissue in severe asthma<sup>14</sup> and that RV infection can stimulate the release of growth factors involved in the remodelling structural changes that accompany chronic severe disease<sup>15</sup>, suggest a wider involvement of RV in asthma. Indeed, these exciting new findings indicate that viruses, and specifically RV,

may be more centrally involved in the origins and progression of asthma than has hitherto been thought. The unique defect in innate immunity in asthma is restricted to the lower intrapulmonary airways and not the nasal mucosa<sup>16</sup>. In relation to COPD, the ability of RV to impair bacterial clearance provides additional evidence for virus infection predisposing to bacterial colonization of the airways in this disease<sup>17</sup>.

Synaigen is in a unique position to take advantage of such developments in asthma by its focus on a human-based translational research and experimental medicine approach. A combination of careful epidemiological *in vivo* and *in vitro* experiments has led to the identification of interferon beta as a central lesion in asthma exacerbations, but our new research is also pointing to the possible importance of the interferon defect in COPD and in the origins and progression of chronic and persistent disease.

### Professor Stephen Holgate

Founder and non-executive director

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# Directors



**Simon Shaw**



**Richard Marsden**



**John Ward**



**Dr Bruce Campbell**



**Prof. Stephen Holgate**



**Susan Sundstrom**

## **Simon Shaw**

Non-executive Chairman

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

## **Richard Marsden**

Managing Director

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

## **John Ward**

Finance Director

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

## **Dr Bruce Campbell**

Non-executive Director

Bruce Campbell joined Synairgen as a non-executive director in April 2006. He has 40 years of drug development experience and has developed many drugs in a wide range of indications which are now on the market. He is currently 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

Stephen Holgate is a co-founder of Synairgen and was appointed a non-executive director in June 2003. After qualifying in Medicine at Charing Cross Hospital Medical School, London he has pursued an academic career leading to his appointment in 1987 to his current position as Medical Research Council Clinical Professor of Immunopharmacology at the University of Southampton. His research interests have been largely focused on the cellular and molecular mechanisms of asthma that has involved use of both epidemiological and genetic approaches. He has published over 850 papers in peer-reviewed literature and is co-editor of Clinical and Experimental Allergy. He has been Visiting Professor at Vanderbilt, Wake Forest, Harvard, Yale, Chicago, Rochester, McMaster, Toronto, Vancouver (UBC), Pittsburgh and Edmonton Universities. He is currently Chairman of the Science Council's Science in Health Group, Chairman of the MRC's Population and Systems Medicine Board and member of the MRC's Strategy Board, Chairman of Defra's Advisory Committee on Hazardous Substances and a scientific board member or advisor to eleven companies, including Amgen, Roche, Merck Sharp and Dohme, Amiral, Rotta and Novartis.

## **Susan Sundstrom**

Non-executive Director

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



# Directors' Report

The directors present their report and the audited financial statements for Synairgen plc (the 'Company') and its subsidiary (together the 'Group') for the year ended 30 June 2008.

## Principal activities

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

## Review of the business and future developments

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

## Research and development

During the year, the Group has invested £2,004,000 (2007: £1,523,000) in research and development activities and a review of this expenditure is included in the Financial Review.

## Principal risks and uncertainties

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

### • Failure to generate innovative discoveries

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

### • Clinical development and regulatory risk

The development of pharmaceutical drugs requires the necessary safety and efficacy to be demonstrated in clinical programmes in order to meet the requirements of the appropriate regulatory bodies. There can be no guarantee that any of the Group's therapies will be able to obtain or maintain the necessary regulatory approvals. The Group seeks to reduce this risk by drawing on the experience of its Founders, seeking advice from regulatory advisers, and holding consultations with the appropriate regulatory bodies.

### • Intellectual property risk

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

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

### • Commercial risk

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

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

### • Competition risk

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

### • Funding risk

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

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

### • Loss of biobank

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

### • Dependence on Founders, senior management and key staff

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

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

## Key performance indicators ('KPIs')

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

# Directors' Report (continued)

The most important financial KPIs are the cash position and the operating loss of the Group. At 30 June 2008, cash and deposit balances amounted to some £4.0 million and were above budgeted levels. The operating loss for the year of £2.8 million was also favourable to the budgeted loss for the year.

## Results and dividends

The Group's loss for the year after taxation amounted to £2,152,000 (2007: loss of £1,640,000). A Financial Review is set out on pages 4 and 5. The directors do not propose the payment of a dividend.

## Financial instruments

The Group's use of financial instruments is discussed in the Financial Review on pages 4 and 5 and in note 18 to the financial statements.

## Substantial shareholdings

As at 30 July 2008, 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.

## Directors

The directors of the Company during the year were:

<i>Executive directors:</i>	<i>Non-executive directors:</i>
Richard Marsden	Simon Shaw
John Ward	Dr Bruce Campbell
	Prof. Stephen Holgate
	Susan Sundstrom

In accordance with the Company's Articles of Association, which require that one third of the directors shall retire from office, at the Annual General Meeting on 13 November 2008 Dr Bruce Campbell and Susan Sundstrom will retire and, being eligible, offer themselves for re-appointment.

## Directors' interests in ordinary shares

The directors, who held office at 30 June 2008, had the following interests in the ordinary shares of the Company:

	30 June 2008 No. of shares	1 July 2007 No. of shares
John Ward	22,692	22,692
Simon Shaw	105,400	55,400
Dr Bruce Campbell	216,923	216,923
Prof. Stephen Holgate	835,323	835,323

Between 30 June 2008 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 17 to 19.

## 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 2008 the Group had an average of 50 days' purchases outstanding in trade creditors (2007: 29 days' purchases).

## Charitable and political donations

During the year, the Group made charitable donations of £77,000 (2007: £nil) and no political donations (2007: £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 13 November 2008 at Fasken Martineau LLP, 17 Hanover Square, London W1S 1HU.

## Auditors

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

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

By order of the Board

## John Ward

Company Secretary

30 July 2008

# 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 2008 the Board of directors (the 'Board') consisted of a non-executive Chairman (Simon Shaw), two executive directors (Richard Marsden and John Ward), and three non-executive directors (Dr Bruce Campbell, Prof. Stephen Holgate, and Susan Sundstrom). Brief details about the directors are given on page 12. The responsibilities of the non-executive Chairman and the 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 bi-monthly and on any other occasions it considers necessary. During the year ended 30 June 2008 the Board 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	5
Susan Sundstrom	8	7

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

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

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

## Audit Committee

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

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

## Remuneration and Nomination Committee

The Remuneration and Nomination Committee currently comprises Susan Sundstrom (Chairman), Dr Bruce Campbell and Simon Shaw. It is responsible for making recommendations to the Board on remuneration policy for executive directors and the terms of their service contracts, with the aim of ensuring that their remuneration, including any share options and other awards, is based on their own performance and that of the Group generally. The committee administers the Long-Term Incentive Plan and the staff share option scheme and approves grants under both schemes. It also advises on the remuneration policy for the Group's employees. The committee is responsible for all senior appointments that are made within the Group. During the year the committee has met four times. Susan Sundstrom and Simon Shaw attended all meetings; Dr Bruce Campbell attended three meetings.

## 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](http://www.synairgen.com)) to increase the amount of information available to investors.

# Corporate Governance Statement (continued)

There is an opportunity at the Annual General Meeting for individual shareholders to question the Chairman, the Chairmen of the Audit and Remuneration and Nomination committees, and the executive directors. Notice of the meeting is sent to shareholders at least 20 working days before the meeting. Shareholders are given the opportunity to vote on each separate issue. The Company counts all proxy votes and will indicate the level of proxies lodged on each resolution, after it has been dealt with by a show of hands. Details of the resolutions and explanations thereto are included with the notice. This year's meeting will be held at 12 noon on 13 November 2008 at Fasken Martineau LLP, 17 Hanover Square, London W1S 1HU.

## Internal control

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

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

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

## Statement of directors' responsibilities

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 directors are responsible for preparing the Annual Report and the financial statements in accordance with the Companies Act 1985. The directors are also required to prepare financial statements for the Group in accordance with International Financial Reporting Standards as adopted by the European Union ('IFRS') and the rules of the London Stock Exchange for companies trading securities on the Alternative Investment Market. The directors have chosen to continue to prepare financial statements for the Company in accordance with United Kingdom Generally Accepted Accounting Practice.

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.

## Group financial statements

International Accounting Standard 1 requires that financial statements present fairly for each financial year the Group's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's "Framework for the preparation and presentation of financial statements". In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable IFRS. A fair presentation also requires the directors to:

- consistently select and apply appropriate accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information; and
- provide additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.

## Parent company financial statements

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 profit or loss of the Company 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 will continue in business.

## 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.

By order of the Board

**John Ward**

Company Secretary

30 July 2008



# 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 15.

The Committee, which is required to meet at least twice a year, met four times during the year ended 30 June 2008.

During the year, the Committee has been advised on executive director remuneration, including the 2007 Long-Term Incentive Plan ('LTIP') awards and the fair valuation of share-based payments, by its retained independent remuneration adviser, Hewitt New Bridge Street. No other advice has been provided to the Group by this firm during the year.

## Remuneration policy

### (i) Executive remuneration

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

Executive remuneration currently comprises a base salary, an annual performance-related bonus, a pension contribution to the executive director's individual money purchase scheme (at 9% of base salary), family private health cover, permanent health and life assurance. Salaries and benefits are reviewed annually in July, taking into account Group and individual performance, external benchmark information and internal relativities. The Company operates a discretionary bonus scheme for executive directors with a maximum of 100% of base salary for delivery of exceptional performance against personal and corporate objectives. Bonuses payable to executive directors in respect of the year ended 30 June 2008 amounted to £12,000 (2007: £12,000) for Richard Marsden and £11,000 (2007: £11,000) for John Ward. Executive directors are also rewarded for improvements in the performance of the Group sustained over a period of years in the form of Long-Term Incentive Plan share awards granted on a discretionary basis by the Committee.

Directors' remuneration for the year to 30 June 2008 is set out on page 19 of this document. The Committee has concluded that the salaries of the executive directors will not be increased for the year to 30 June 2009 and that their annual bonus potential will remain at 100% of base salary.

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

### (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 October 2007 Richard Marsden and John Ward were granted awards over shares worth 66% of base salary. Executive directors are expected to retain no fewer than 50% of shares acquired upon vesting of awards under the LTIP, net of taxes, until such time as, in combination with any other shares the executives may have acquired, they hold shares with a value equivalent to 100% of base salary.

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

#### Performance conditions for the 2007 LTIP awards

The performance conditions for the 2007 LTIP awards were the same as the 2006 LTIP awards. The awards are subject to two conditions. Firstly, awards will only vest to the extent that the percentage increase in the total shareholder return ('TSR') of the Company over the three year performance period is equal to 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

Secondly, no award will vest unless the average annual growth in the TSR of the Company over the performance period is equal to or greater than RPI plus 2%.

## Directors' interests in share options

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

### Synaigen Long-Term Incentive Plan

Date of grant	At 1 July 2007	Granted during the year	At 30 June 2008	Exercise price	Earliest exercise date	Expiry date
<b>Richard Marsden</b>						
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
30 October 2007	—	129,853	129,853	1p	30 Oct 2010	29 Oct 2011
<b>John Ward</b>						
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
30 October 2007	—	118,048	118,048	1p	30 Oct 2010	29 Oct 2011

The options awarded in November 2006 and October 2007 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).

It is envisaged that the same performance conditions be applied to the 2008 awards, likely to be made in August 2008, and that the value of shares subject to award will not exceed the 2007 level of 66% of salary.

## (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 2007 and 30 June 2008	Exercise price	Earliest exercise date	Expiry date
<b>Simon Shaw</b>				
11 October 2004	420,000	1p	11 Oct 2004	10 Oct 2014
11 October 2004	280,000	1p	26 Oct 2004	10 Oct 2014
<b>Richard Marsden</b>				
11 October 2004	280,000	10p	11 Oct 2004	10 Oct 2014
11 October 2004	140,000	10p	30 June 2005	10 Oct 2014
26 October 2004	140,000	130p	30 June 2006	25 Oct 2014
26 October 2004	140,000	130p	30 June 2007	25 Oct 2014
<b>John Ward</b>				
26 October 2004	140,000	130p	30 June 2005	25 Oct 2014
26 October 2004	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 2008 was 44p. During the year then ended, the mid-market price ranged from 42.5p to 61.5p. On 30 July 2008 the closing price was 44p.

## Audited information

The following section (Directors' remuneration) forms part of the financial statements for the year ended 30 June 2008 and has been audited by the Company's auditors, BDO Stoy Hayward LLP.

## Directors' remuneration

The aggregate remuneration received by directors who served during the year ended 30 June 2008 was as follows:

£000	Note	Salary/fee 2008	Benefits 2008	Bonus 2008	Total (excl. pension) 2008	Pension 2008	Total (incl. pension) 2008	Total (excl. pension) 2007	Pension 2007	Total (incl. pension) 2007
<b>Executive directors</b>										
Richard Marsden	(i)	121	2	12	135	11	146	129	10	139
John Ward		110	2	11	123	10	133	118	10	128
<b>Non-executive directors</b>										
Simon Shaw		25	—	—	25	—	25	25	—	25
Dr Bruce Campbell	(ii)	5	—	—	5	—	5	5	—	5
Prof. Stephen Holgate	(iii)	5	—	—	5	—	5	5	—	5
Susan Sundstrom	(iv)	5	—	—	5	—	5	5	—	5
<b>Total</b>		<b>271</b>	<b>4</b>	<b>23</b>	<b>298</b>	<b>21</b>	<b>319</b>	<b>287</b>	<b>20</b>	<b>307</b>

(i) Richard Marsden was the highest paid director during the years ended 30 June 2007 and 2008.

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

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

fees amounting to £20,000 (2007: £20,000) as disclosed in Note 21 to the financial statements.

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

In addition to the amounts shown above, the share-based payment charge for the year ended 30 June 2008 was £19,000 (2007: £36,000) in respect of Richard Marsden and £27,000 (2007: £12,000) in respect of John Ward.

By order of the Board

**Susan Sundstrom**

Chairman of the Remuneration and Nomination Committee

30 July 2008

# 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 2008 which comprise the Consolidated Income Statement, the Consolidated Statement of Changes in Equity, the Consolidated Balance Sheet, the Consolidated Cash Flow Statement, the Parent Company Balance Sheet and the related notes. 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 Annual Report and Group financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and for preparing the Parent Company 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. This other information comprises only the Chairman's and 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 IFRSs as adopted by the European Union, of the state of the Group's affairs as at 30 June 2008 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 2008;
- 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

30 July 2008



# Consolidated Income Statement

for the year ended 30 June 2008

	Notes	Year ended 30 June 2008 £000	Year ended 30 June 2007 £000
Revenue		–	78
Cost of sales		–	(33)
<b>Gross profit</b>		<b>–</b>	<b>45</b>
Research and development expenditure		<b>(2,004)</b>	(1,523)
Other administrative expenses		<b>(753)</b>	(750)
<b>Total administrative expenses</b>		<b>(2,757)</b>	<b>(2,273)</b>
<b>Operating loss</b>		<b>(2,757)</b>	<b>(2,228)</b>
Finance income	7	<b>291</b>	342
Finance expense	7	<b>(1)</b>	(1)
<b>Loss before tax</b>		<b>(2,467)</b>	<b>(1,887)</b>
Tax	8	<b>315</b>	247
<b>Loss for the year attributable to equity holders of the parent</b>		<b>(2,152)</b>	<b>(1,640)</b>
<b>Loss per ordinary share</b>			
Basic and diluted loss per share (pence)	9	<b>(9.92)p</b>	(7.56)p

All amounts relate to continuing activities.

# Consolidated Statement of Changes in Equity

for the year ended 30 June 2008

Notes	Share capital £000 20a	Share premium £000 20b	Merger reserve £000 20c	Retained deficit £000 20d	Total £000
<b>Changes in equity for the year ended 30 June 2007</b>					
Balance at 1 July 2006	217	8,903	483	(1,792)	7,811
Loss for the year	–	–	–	(1,640)	(1,640)
Recognition of share-based payments	–	–	–	83	83
<b>Balance at 30 June 2007</b>	<b>217</b>	<b>8,903</b>	<b>483</b>	<b>(3,349)</b>	<b>6,254</b>
<b>Changes in equity for the year ended 30 June 2008</b>					
Loss for the year	–	–	–	(2,152)	(2,152)
Recognition of share-based payments	–	–	–	85	85
<b>Balance at 30 June 2008</b>	<b>217</b>	<b>8,903</b>	<b>483</b>	<b>(5,416)</b>	<b>4,187</b>

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

# Consolidated Balance Sheet

as at 30 June 2008

	Notes	30 June 2008 £000	30 June 2007 £000
<b>Assets</b>			
<b>Non-current assets</b>			
Intangible assets	10	<b>109</b>	99
Property, plant and equipment	11	<b>122</b>	146
		<b>231</b>	245
<b>Current assets</b>			
Inventories	12	<b>103</b>	96
Current tax receivable		<b>300</b>	235
Trade and other receivables	13	<b>136</b>	132
Other financial assets	14	<b>3,445</b>	4,998
Cash and cash equivalents	15	<b>557</b>	1,020
		<b>4,541</b>	6,481
<b>Total assets</b>		<b>4,772</b>	6,726
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables	16	<b>(578)</b>	(462)
Obligations under finance leases	17	<b>(2)</b>	(2)
		<b>(580)</b>	(464)
<b>Non-current liabilities</b>			
Obligations under finance leases	17	<b>(5)</b>	(8)
<b>Total liabilities</b>		<b>(585)</b>	(472)
<b>Total net assets</b>		<b>4,187</b>	6,254
<b>Equity</b>			
<b>Capital and reserves attributable to equity holders of the parent</b>			
Share capital	19	<b>217</b>	217
Share premium		<b>8,903</b>	8,903
Merger reserve		<b>483</b>	483
Retained deficit		<b>(5,416)</b>	(3,349)
<b>Total equity</b>		<b>4,187</b>	6,254

The financial statements on pages 21 to 38 were approved and authorised for issue by the Board of directors on 30 July 2008 and signed on its behalf by:

**Richard Marsden**

Managing Director

**John Ward**

Finance Director

# Consolidated Cash Flow Statement

for the year ended 30 June 2008

	Year ended 30 June 2008 £000	Year ended 30 June 2007 £000
<b>Cash flows from operating activities</b>		
Loss before tax	(2,467)	(1,887)
Adjustments for:		
Finance income	(290)	(342)
Finance expense	1	1
Depreciation	68	60
Amortisation	15	14
Share-based payment charge	85	83
<b>Cash flows from operations before changes in working capital</b>	<b>(2,588)</b>	<b>(2,071)</b>
(Increase) in inventories	(7)	(28)
(Increase)/Decrease in trade and other receivables	(16)	20
Increase in trade and other payables	116	105
<b>Cash used in operations</b>	<b>(2,495)</b>	<b>(1,974)</b>
Interest paid	(1)	(1)
Tax credit received	250	267
<b>Net cash used in operating activities</b>	<b>(2,246)</b>	<b>(1,708)</b>
<b>Cash flows from investing activities</b>		
Interest received	302	358
Purchase of property, plant and equipment	(44)	(49)
Purchase of intangible assets	(25)	(77)
Decrease in other financial assets	1,553	2,165
<b>Net cash generated from investing activities</b>	<b>1,786</b>	<b>2,397</b>
<b>Cash flows from financing activities</b>		
Repayments of obligations under finance leases	(3)	(3)
<b>(Decrease)/Increase in cash and cash equivalents</b>	<b>(463)</b>	<b>686</b>
Cash and cash equivalents at beginning of year	1,020	334
<b>Cash and cash equivalents at end of year</b>	<b>557</b>	<b>1,020</b>

# Notes to the Consolidated Financial Statements

for the year ended 30 June 2008

## 1. Accounting policies

### Basis of preparation

The Group financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union ('IFRS') for the first time, having previously been prepared in accordance with UK Generally Accepted Accounting Practice ('UK GAAP'). The disclosures required by IFRS 1 "First-time Adoption of International Financial Reporting Standards" concerning the transition from UK GAAP to IFRS are given in note 2.

The preparation of the consolidated financial statements in accordance with IFRS resulted in changes to the accounting policies compared with the most recent Group financial statements prepared under UK GAAP. The accounting policies, which are set out below, have been applied to all periods presented in these Group financial statements and are in accordance with IFRS, as adopted by the European Union, and International Financial Reporting Interpretations Committee ('IFRIC') interpretations that were applicable for the year ended 30 June 2008.

The Group has elected to make use of the exemptions available in IFRS 1 as follows:

- IFRS 3 "Business Combinations" has not been applied retrospectively to business combinations that occurred before 1 July 2006 which were accounted for using the merger method of accounting under UK GAAP.

The Group has made estimates under IFRS as at 1 July 2006, the date of transition, which are consistent with those estimates made at the same date under UK GAAP and there is no objective evidence that those estimates were in error.

The following new standards, amendments to standards and interpretations that have been issued are not effective for the financial year ended 30 June 2008 and have not been applied early as the directors do not expect these standards and interpretations to be relevant to the Group and will have no effect on the financial statements:

International Financial Reporting and Accounting Standards (IFRS/IAS)		Effective for accounting periods beginning on or after:
IFRS 2*	Share-based payment (Amendment)	1 January 2009
IFRS 8	Operating Segments	1 January 2009
IAS 1*	Presentation of Financial Statements (Amendment)	1 January 2009
IAS 32*	Financial Instruments: Presentation (Amendment)	1 January 2009
IAS 1*	Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation (Amendment)	1 January 2009
IAS 23*	Borrowing Costs (Amendment)	1 January 2009
IFRS 1/IAS 27*	Cost of an Investment in a Subsidiary, Jointly-Controlled Entity or Associate	1 January 2009
IFRS 3*	Business Combinations (Amendment)	1 July 2009
IAS 27*	Consolidated and Separate Financial Statements (Amendment)	1 July 2009
	Improvements to IFRS	1 July 2009

International Financial Reporting Interpretations Committee (IFRIC)		Effective for accounting periods beginning on or after:
IFRIC 12*	Service Concession Arrangements	1 January 2008
IFRIC 13*	Customer Loyalty Programmes	1 July 2008
IFRIC 16*	Hedges of a Net Investment in a Foreign Operation	1 October 2008
IFRIC 15*	Agreements for the Construction of Real Estate	1 January 2009
IFRIC 14*	IAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	1 July 2009

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

The Group financial statements are presented in Sterling.



# Notes to the Consolidated Financial Statements

for the year ended 30 June 2008 (continued)

## 1. Accounting policies (continued)

### Basis of consolidation

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

### Revenue

Revenue is stated net of value added tax and is recognised when products or services are supplied, except in respect of long-term contracts where revenue 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

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

### Employee benefits

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

### Share-based payments

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

### Intangible assets

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

### Property, plant and equipment

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

Computer equipment: 3 years

Laboratory and clinical equipment: 5 years

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

### Inventories

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

# Notes to the Consolidated Financial Statements

for the year ended 30 June 2008 (continued)

## 1. Accounting policies (continued)

### Financial instruments

Financial assets and financial liabilities are recognised on the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument.

#### Financial assets

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

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

#### Financial liabilities

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

#### Leased assets

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

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

### Taxation

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

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

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

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

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

### Foreign currencies

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

# Notes to the Consolidated Financial Statements

for the year ended 30 June 2008 (continued)

## 2. Reconciliation of UK GAAP to IFRS

This is the first year that the Group has presented its full consolidated financial information under IFRS. The transition to IFRS has had no impact on the consolidated cash flow statement, other than the requirement within IFRS to classify bank deposits with a maturity of three months or less as cash equivalents. The tables on the following pages show the reconciliations of equity at 1 July 2006 and 30 June 2007 and the loss for the year ended 30 June 2007.

### Reconciliation of equity at 1 July 2006

The effect of the changes to the Group's accounting policies on the equity of the Group at the date of transition, 1 July 2006, was as follows:

	Notes	As reported under UK GAAP £000	Effect of transition to IFRS £000	IFRS £000
<b>Assets</b>				
<b>Non-current assets</b>				
Intangible assets		36	–	36
Property, plant and equipment		157	–	157
		193	–	193
<b>Current assets</b>				
Inventories		68	–	68
Current tax receivable		255	–	255
Trade and other receivables		168	–	168
Other financial assets	(i)	7,464	(301)	7,163
Cash and cash equivalents	(i)	33	301	334
		7,988	–	7,988
<b>Total assets</b>		8,181	–	8,181
<b>Liabilities</b>				
<b>Current liabilities</b>				
Trade and other payables	(ii)	(331)	(26)	(357)
Obligations under finance leases		(3)	–	(3)
		(334)	(26)	(360)
<b>Non-current liabilities</b>				
Obligations under finance leases		(10)	–	(10)
<b>Total liabilities</b>		(344)	(26)	(370)
<b>Total net assets</b>		7,837	(26)	7,811
<b>Equity</b>				
<b>Capital and reserves attributable to equity holders of the parent</b>				
Share capital		217	–	217
Share premium		8,903	–	8,903
Merger reserve		483	–	483
Share-based payment reserve	(iii)	80	(80)	–
Retained deficit	(iv)	(1,846)	54	(1,792)
<b>Total equity</b>		7,837	(26)	7,811

(i) Other financial assets excludes short-term deposits with a maturity period of three months or less from the date of initial deposit, which in accordance with IAS 7 are included within cash and cash equivalents.

(ii) Accrual for holiday entitlement not yet taken established under IAS 19.

(iii) Transfer of share-based payment reserve into retained deficit.

(iv) The combined effect of (ii) and (iii) above.

# Notes to the Consolidated Financial Statements

for the year ended 30 June 2008 (continued)

## 2. Reconciliation of UK GAAP to IFRS (continued)

### Reconciliation of equity at 30 June 2007

The effect of the changes to the Group's accounting policies on the equity of the Group at the date of the last financial statements presented under UK GAAP, 30 June 2007, was as follows:

	Notes	As reported under UK GAAP £000	Effect of transition to IFRS £000	IFRS £000
<b>Assets</b>				
<b>Non-current assets</b>				
Intangible assets		99	–	99
Property, plant and equipment		146	–	146
		245	–	245
<b>Current assets</b>				
Inventories		96	–	96
Current tax receivable		235	–	235
Trade and other receivables		132	–	132
Other financial assets	(i)	5,903	(905)	4,998
Cash and cash equivalents	(i)	115	905	1,020
		6,481	–	6,481
<b>Total assets</b>		6,726	–	6,726
<b>Liabilities</b>				
<b>Current liabilities</b>				
Trade and other payables	(ii)	(440)	(22)	(462)
Obligations under finance leases		(2)	–	(2)
		(442)	(22)	(464)
<b>Non-current liabilities</b>				
Obligations under finance leases		(8)	–	(8)
<b>Total liabilities</b>		(450)	(22)	(472)
<b>Total net assets</b>		6,276	(22)	6,254
<b>Equity</b>				
<b>Capital and reserves attributable to equity holders of the parent</b>				
Share capital		217	–	217
Share premium		8,903	–	8,903
Merger reserve		483	–	483
Share-based payment reserve	(iii)	163	(163)	–
Retained deficit	(iv)	(3,490)	141	(3,349)
<b>Total equity</b>		6,276	(22)	6,254

(i) Other financial assets excludes short-term deposits with a maturity period of three months or less from the date of initial deposit, which in accordance with IAS 7 are included within cash and cash equivalents.

(ii) Accrual for holiday entitlement not yet taken established under IAS 19.

(iii) Transfer of share-based payment reserve into retained deficit.

(iv) The combined effect of (ii) and (iii) above.



# Notes to the Consolidated Financial Statements

for the year ended 30 June 2008 (continued)

## 2. Reconciliation of UK GAAP to IFRS (continued)

### Reconciliation of loss for year ended 30 June 2007

The changes in accounting policies had the following effect on the loss reported for the year ended 30 June 2007:

	Notes	As reported under UK GAAP £000	Effect of transition to IFRS £000	IFRS £000
Revenue		78	–	78
Cost of sales		(33)	–	(33)
<b>Gross profit</b>		<b>45</b>	<b>–</b>	<b>45</b>
Research and development expenditure	(i)	(1,527)	4	(1,523)
Other administrative expenses		(750)	–	(750)
<b>Total administrative expenses</b>		<b>(2,277)</b>	<b>4</b>	<b>(2,273)</b>
<b>Operating loss</b>		<b>(2,232)</b>	<b>4</b>	<b>(2,228)</b>
Finance income		342	–	342
Finance expense		(1)	–	(1)
<b>Loss before tax</b>		<b>(1,891)</b>	<b>4</b>	<b>(1,887)</b>
Tax		247	–	247
<b>Loss for the year attributable to equity holders of the parent</b>		<b>(1,644)</b>	<b>4</b>	<b>(1,640)</b>

(i) Movement on holiday pay accrual as established under IAS 19.

## 3. Critical accounting estimates and judgements

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

### Inventory

The Group's raw material inventory shown in note 12 comprises the Group's biobank of human tissue, which is valued net of a provision for items which management consider will be excess to the Group's future research and development requirements.

### Share-based payment

The critical accounting estimates, assumptions and judgements underpinning the valuation of the option and LTIP awards are disclosed in note 19.

## 4. Revenue and geographical segments

All revenue is generated within the United Kingdom from continuing activities. The Group operates in one area of activity, namely drug discovery. The geographical destination of the Group's revenues in the year ended 30 June 2007 was the United States of America. Such revenues were for services rendered.

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

# Notes to the Consolidated Financial Statements

for the year ended 30 June 2008 (continued)

## 5. Operating loss

The operating loss has been arrived at after charging:

	2008 £000	2007 £000
Depreciation of property, plant and equipment	68	60
Amortisation of intangible assets	15	14
Research and development expenditure	2,004	1,523
Employee benefit expense (see note 6)	1,120	986
Operating lease rentals payable		
Land and buildings	51	50
Other operating lease rentals	97	90

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

	2008 £000	2007 £000
<b>Audit fee</b>		
Parent company	10	8
Subsidiary	9	8
	19	16
<b>Other services</b>		
<i>Other taxation</i>		
Parent company	2	2
Subsidiary	4	6
<i>All other services</i>		
Parent company – interim review	5	5
Parent company – IFRS conversion review	–	3
<b>Total fees</b>	<b>30</b>	<b>32</b>

## 6. Employee benefit expense

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

	2008	2007
Research	19	17
Administration	4	3
	23	20

Their aggregate remuneration comprised:

	2008 £000	2007 £000
Wages and salaries	886	776
Social security costs	98	86
Pension costs – defined contribution plans	50	45
<b>Total cash-settled remuneration</b>	<b>1,034</b>	<b>907</b>
Accrued holiday pay	1	(4)
Share-based payment	85	83
<b>Total remuneration</b>	<b>1,120</b>	<b>986</b>

# Notes to the Consolidated Financial Statements

for the year ended 30 June 2008 (continued)

## 6. Employee benefit expense (continued)

### Key management compensation

The directors represent the key management personnel.

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 19, which are ascribed as forming part of these financial statements.

## 7. Finance income and finance expense

For the years ended 30 June 2008 and 2007, finance income represents bank interest receivable and finance expense represents interest on obligations under finance leases.

## 8. Taxation

### Current tax

	2008 £000	2007 £000
UK corporation tax credit on loss for the year	(300)	(235)
Adjustment in respect of prior years	(15)	(12)
<b>Total income tax credit</b>	<b>(315)</b>	<b>(247)</b>

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

	2008 £000	2007 £000
Loss on ordinary activities before tax	(2,467)	(1,887)
Loss on ordinary activities before tax multiplied by the standard rate of corporation tax in the UK of 30%/28% (2007: 30%)	(728)	(566)
Effects of:		
Expenses not deductible for tax purposes	26	25
Enhanced research & development relief	(172)	(155)
Variable rates on tax losses surrendered for research & development tax credit	281	229
Movement in unrecognised losses and temporary differences	293	232
Over provision in respect of previous periods	(15)	(12)
<b>Total tax credit for the current year</b>	<b>(315)</b>	<b>(247)</b>

### Deferred tax

	2008 £000	2007 £000
<b>Recognised deferred taxation</b>		
Accelerated capital allowances	27	30
Other temporary differences	(8)	(8)
Trading losses	(19)	(22)
<b>Charge for the year</b>	<b>–</b>	<b>–</b>

### Unrecognised deferred taxation

The Group has an unrecognised deferred tax asset of £789,000 at 30 June 2008 (2007: £499,000), representing trading losses carried forward which are available for offset against future profits of the Group. The full utilisation of these losses in the foreseeable future is uncertain and no deferred tax asset has therefore been recognised.

# Notes to the Consolidated Financial Statements

for the year ended 30 June 2008 (continued)

## 8. Taxation (continued)

### Unrecognised deferred taxation (continued)

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

	2008 £000	2007 £000
Unrecognised deferred tax asset at 1 July	(499)	(320)
Movement in year	(290)	(179)
Unrecognised deferred tax asset at 30 June	(789)	(499)

## 9. Loss per ordinary share

	Year ended 30 June 2008	Year ended 30 June 2007
Loss attributable to equity holders of the Company (£000)	(2,152)	(1,640)
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 IAS 33. At 30 June 2008 there were 2,805,944 options outstanding (30 June 2007: 2,404,939 options outstanding).

## 10. Intangible fixed assets

	Patent & licence costs £000
<b>Cost</b>	
At 1 July 2006	39
Additions	77
At 30 June 2007	116
Additions	25
At 30 June 2008	141
<b>Amortisation</b>	
At 1 July 2006	3
Charge for the year	14
At 30 June 2007	17
Charge for the year	15
At 30 June 2008	32
<b>Net book amount</b>	
At 30 June 2008	109
At 30 June 2007	99
At 1 July 2006	36

At 30 June 2008 £77,000 (2007: £76,000) of the net book amount relates to interferon beta and lambda patent and licence costs, which has a remaining amortisation period of 8 years (2007: 9 years).

# Notes to the Consolidated Financial Statements

for the year ended 30 June 2008 (continued)

## 11. Property, plant and equipment

	Computer equipment £000	Laboratory and clinical equipment £000	Total £000
<b>Cost</b>			
At 1 July 2006	41	197	238
Additions	17	32	49
At 30 June 2007	58	229	287
Additions	7	37	44
At 30 June 2008	<b>65</b>	<b>266</b>	<b>331</b>
<b>Depreciation</b>			
At 1 July 2006	13	68	81
Charge for the year	18	42	60
At 30 June 2007	31	110	141
Charge for the year	18	50	68
At 30 June 2008	<b>49</b>	<b>160</b>	<b>209</b>
<b>Net book value</b>			
At 30 June 2008	<b>16</b>	<b>106</b>	<b>122</b>
At 30 June 2007	27	119	146
At 1 July 2006	28	129	157

Included within laboratory and clinical equipment at 30 June 2008 are assets under hire purchase contracts at a cost of £14,000 (30 June 2007: £14,000) and net book value of £8,000 (30 June 2007: £11,000).

At 30 June 2008 the Group had capital commitments amounting to £9,000 in respect of clinical equipment (30 June 2007: £nil).

## 12. Inventories

	2008 £000	2007 £000
Raw materials	<b>103</b>	96

## 13. Trade and other receivables

	2008 £000	2007 £000
Amounts receivable within one year:		
Other tax and social security	<b>41</b>	32
Prepayments and accrued income	<b>95</b>	100
	<b>136</b>	132



# Notes to the Consolidated Financial Statements

for the year ended 30 June 2008 (continued)

## 14. Other financial assets

	2008 £000	2007 £000
Amounts receivable within one year:		
Sterling fixed rate deposits of greater than three months' maturity	3,445	4,998

## 15. Cash and cash equivalents

	2008 £000	2007 £000
Cash in hand	71	115
Sterling fixed rate deposits of up to three months' maturity	486	905
	557	1,020

## 16. Trade and other payables

	2008 £000	2007 £000
Trade payables	240	110
Social security and other taxes	36	29
Accrued expenses	302	323
	578	462

All trade and other payables at 30 June 2008 and 30 June 2007 were due to be settled within one year.

## 17. Obligations under finance leases

	Minimum lease payments		Present value of lease payments	
	2008 £000	2007 £000	2008 £000	2007 £000
<b>Amounts payable under finance leases</b>				
Within one year	3	3	3	3
In the second to fifth years inclusive	5	9	5	9
	8	12	8	12
Less future finance charges	(1)	(2)	(1)	(2)
Present value of lease obligations	7	10	7	10
Less: Amount due to settlement within 12 months (shown under current liabilities)			(2)	(2)
Amount due to settlement after 12 months			5	8

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

# Notes to the Consolidated Financial Statements

for the year ended 30 June 2008 (continued)

## 18. Financial instruments

An explanation of the Group's objectives, policies and strategies for financial instruments can be found on pages 4 and 5 in the Financial Review.

	Notes	Book value £000	2008 Fair value £000	Book value £000	2007 Fair value £000
<b>Financial assets</b>					
<i>Loans and receivables</i>					
Trade and other receivables	(i)	106	106	96	96
Other financial assets (less than one year)		3,445	3,445	4,998	4,998
Cash and cash equivalents (less than one year)		557	557	1,020	1,020
<b>Total financial assets</b>		<b>4,108</b>	<b>4,108</b>	<b>6,114</b>	<b>6,114</b>
<b>Financial liabilities</b>					
<i>Other financial liabilities</i>					
Trade and other payables	(ii)	542	542	433	433
Obligations under finance leases (less than one year)		3	3	3	3
Obligations under finance leases (greater than one year)		5	5	9	9
<b>Total financial liabilities</b>		<b>550</b>	<b>550</b>	<b>445</b>	<b>445</b>

(i) Trade and other receivables shown above excludes prepayments, which are not a contractual obligation to receive cash, amounting to £30,000 (2007: £36,000).

(ii) Trade and other payables shown above excludes amounts due in respect of social security and other taxes, which are not a contractual obligation to pay cash, amounting to £36,000 (2007: £29,000).

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 interest rate risk, liquidity risk and currency risk.

### Interest rate risk

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

Group	Fixed-rate financial liabilities £000	2008 Floating-rate financial assets £000	Fixed-rate financial liabilities £000	2007 Floating-rate financial assets £000
Sterling	7	4,001	10	5,990
US Dollar	–	1	–	28
<b>Total</b>	<b>7</b>	<b>4,002</b>	<b>10</b>	<b>6,018</b>

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 17.

Floating-rate financial assets comprise cash on deposit and cash at bank.

Short-term deposits are placed with banks for periods of up to six months and are categorised as floating-rate financial assets. Contracts in place at 30 June 2008 had a weighted average period to maturity of 72 days and a weighted average annualised rate of interest of 5.55% (30 June 2007: 88 days, 5.65%).

### Sensitivity analysis

It is estimated that a decrease of one percentage point in interest rates would have increased the Group's loss before taxation by approximately £50,000 (2007: £68,000).

### Liquidity risk

The Group's policy is to maintain adequate cash resources to meet liabilities as they fall due. With the exception of its hire purchase liabilities, which are disclosed in note 17, all other Group payable balances as at 30 June 2008 and 30 June 2007 fall due for payment within one year. Cash balances are placed on deposit for varying periods with reputable banking institutions to ensure there is limited risk of capital loss. The Group does not maintain an overdraft facility.

# Notes to the Consolidated Financial Statements

for the year ended 30 June 2008 (continued)

## 18. Financial instruments (continued)

### Currency risk

The Group is exposed to US dollar currency exposures as some of its costs are denominated in this currency. The amounts involved are not significant and the Group does not routinely hedge against these currency exposures. At 30 June 2008 the amount of the Group's trade and other payables denominated in US dollars amounted to £17,000 (2007: £nil).

### Sensitivity analysis

It is estimated that if Sterling had been 10% weaker against the US Dollar during the year, this would have increased the Group's loss before taxation for the year ended 30 June 2008 by £3,000. For the year ended 30 June 2007 the Group was a net receiver of US Dollars; thus if Sterling had been 10% weaker against the US Dollar during the year, the Group's loss before taxation would have decreased by £2,000.

### Credit risk

The Group's credit risk is attributable to its trade receivables and banking deposits. At 30 June 2007 and 2008 the Group had no trade receivables due. The Group places its deposits with reputable financial institutions to minimise credit risk.

## 19. Called up share capital and share options

Authorised	2008 Number	2007 Number	2008 £000	2007 £000
Ordinary shares of 1p each	100,000,000	100,000,000	1,000	1,000
Allotted, called up and fully paid				
Ordinary shares of 1p each	21,692,308	21,692,308	217	217

### Options

At 30 June 2008 there were options outstanding over 2,805,944 un-issued ordinary shares, equivalent to 12.9% of the issued share capital, as follows:

Date of Grant	Number of shares	Exercise price	Earliest exercise date	Latest exercise date
<b>Approved EMI scheme</b>				
26 October 2004	64,515	130p	30 June 2005	25 October 2014
26 October 2004	64,515	130p	30 June 2006	25 October 2014
26 October 2004	42,000	130p	26 October 2007	25 October 2014
26 October 2004	28,000	130p	26 October 2007	3 June 2009
12 May 2005	28,000	136.5p	12 May 2008	11 May 2015
15 November 2005	19,574	117.5p	4 June 2008	3 June 2009
2 October 2006	9,259	85.5p	4 June 2008	3 June 2009
2 October 2006	13,411	85.5p	9 June 2008	8 June 2009
2 October 2006	133,681	85.5p	2 October 2009	1 October 2016
29 October 2007	65,443	61.5p	29 October 2010	28 October 2017
<b>Unapproved schemes</b>				
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
30 October 2007 (LTIP)	358,466	1p	30 October 2010	29 October 2011
	<b>2,805,944</b>			

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

# Notes to the Consolidated Financial Statements

for the year ended 30 June 2008 (continued)

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

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:

	Number	2008 Weighted average exercise price	Number	2007 Weighted average exercise price
Outstanding at 1 July	2,404,939	48.0p	1,946,594	47.8p
Granted during the year	449,482	10.2p	464,777	49.3p
Lapsed during the year	(48,477)	45.0p	(6,432)	85.5p
Exercised during the year	–	n/a	–	n/a
Number of outstanding options at 30 June	2,805,944	42.0p	2,404,939	48.0p

At 30 June 2008, 1,820,244 share options were capable of being exercised (2007: 1,680,000) and had an average exercise price of 52.1p (2007: 46.3p). The options outstanding at 30 June 2008 had a weighted average remaining contractual life of 5.5 years (2007: 6.9 years).

The Group uses a number of share-based incentive schemes as detailed above. The fair value per award granted and the assumptions used in the calculations for the 1,265,944 options which had not vested at 30 June 2006 are as follows:

Date of grant	Type of award	Number of shares	Exercise price (p)	Share price at date of grant (p)	Fair value per option (p)	Award life per option (years)	Risk free rate	Performance conditions
26 October 2004	Unapproved	140,000	130p	155p	57.7p	5	4.59%	None
26 October 2004	EMI	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	9,259	85.5p	85.5p	24.4p	5	4.75%	Non-market
2 October 2006	EMI	147,092	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
29 October 2007	EMI	65,443	61.5p	61.5p	17.8p	5	4.95%	None
30 October 2007	Unapproved LTIP	358,466	1p	61.5p	28.9p	3	5.02%	Market
		<b>1,265,944</b>						

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

- (i) Stochastic valuation methodology was used for the LTIP awards and Black-Scholes methodology for the other awards.
- (ii) A figure of 20% has been used for expected volatility. This reflects historical data from the time of the company's initial public offering, with allowance made for days where no share trading has taken place.
- (iii) Expected dividend yield is nil, consistent with the Directors' view that the Group's model is to generate value through capital growth rather than payment of dividends.
- (iv) The risk free rate is equal to the prevailing UK Gilts rate at grant date that most closely matches the expected term of the grant.
- (v) The fair value charge is spread evenly over the expected vesting period.
- (vi) The unapproved options granted on 2 October 2006 were granted to a consultant to the Group for his exclusive services with regards to one of the Group's projects. As the Group cannot estimate reliably the value of the exclusive nature of this arrangement, these options have been valued using Black-Scholes methodology.
- (vii) The charge for the year ended 30 June 2008 for Share-based payment, as disclosed in note 6, amounted to £85,000 (2007: £83,000).
- (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.

# Notes to the Consolidated Financial Statements

for the year ended 30 June 2008 (continued)

## 20. Capital and reserves

### 20a Share capital

Share capital represents the nominal value of shares issued.

### 20b Share premium

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

### 20c Merger reserve

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

### 20d Retained deficit

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

## 21. Related party transactions and balances

During the year ended 30 June 2008, the Group incurred fees and expenses of £15,000 (2007: £15,000) with IP2IPO Limited for the provision of business consultancy services. Included within these amounts are fees for the provision of Dr Bruce Campbell as a director, as detailed on page 19. IP2IPO Limited has an interest in the Company. At the balance sheet date the amount unpaid in respect of these charges was £4,000 (2007: £4,000).

During the year ended 30 June 2008, the Group incurred costs, fees and expenses of £368,000 (2007: £366,000) with the University of Southampton in connection with premises, services and research and development activities. Included within these amounts are fees for the provision of Susan Sundstrom as a director, as detailed on page 19. The University of Southampton is the controlling shareholder of Southampton Asset Management Limited which has an interest in the Company. At the balance sheet date the amount unpaid in respect of these charges was £249,000 (2007: £111,000).

During the year ended 30 June 2008, the Group incurred consultancy fees with Prof. Stephen Holgate, a director of the Company, amounting to £20,000 (2007: £20,000) in addition to his director's remuneration disclosed on page 19. At the balance sheet date the amount unpaid in respect of these charges was £5,000 (2007: £5,000).

Details of key management personnel and their compensation are given in note 6 and on page 19 of the Directors' Remuneration Report.

## 22. Operating lease commitments

At 30 June 2008 the Group did not have any commitments under non-cancellable operating leases. The Group's annual commitments at 30 June 2007 under non-cancellable operating leases were as follows:

	Land and buildings 2007 £000	Other 2007 £000
Leases which expire within one year	38	74



# Parent Company Balance Sheet

as at 30 June 2008

	Notes	30 June 2008 £000	30 June 2007 £000
<b>Fixed assets</b>			
Investments	5	<b>5,960</b>	3,790
<b>Current assets</b>			
Debtors	6	<b>71</b>	77
Investments: short-term deposits		<b>3,932</b>	5,903
Cash at bank and in hand		<b>14</b>	16
		<b>4,017</b>	5,996
<b>Creditors: amounts falling due within one year</b>	7	<b>(97)</b>	(80)
<b>Net current assets</b>		<b>3,920</b>	5,916
<b>Total assets less current liabilities</b>		<b>9,880</b>	9,706
<b>Capital and reserves</b>			
Called up share capital	9	<b>217</b>	217
Share premium account	9	<b>8,903</b>	8,903
Profit and loss account	9	<b>760</b>	586
<b>Shareholders' funds</b>	9	<b>9,880</b>	9,706

The financial statements on pages 39 to 41 were approved and authorised for issue by the Board of directors on 30 July 2008 and signed on its behalf by:

**Richard Marsden**

Managing Director

**John Ward**

Finance Director

# Notes to the Parent Company Financial Statements

for the year ended 30 June 2008

## 1. Basis of preparation

Synairgen plc's Parent Company balance sheet has been prepared under the historical cost convention and in accordance with the Companies Act 1985 and United Kingdom Generally Accepted Accounting Practice ('UK GAAP').

As permitted by s230(4) of the Companies Act 1985, the profit and loss account of the Company is not presented in this Annual Report. As permitted by FRS 1 "Cash Flow Statements", no cash flow statement for the Company has been included on the grounds that the Group includes the Company in its own published consolidated financial statements. The Company has taken advantage of the exemption in FRS 8 "Related Party Disclosures" not to disclose related party transactions with other members of the Group.

## 2. Accounting policies

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

### Investment in subsidiary undertakings

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

### Share-based payments

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

### Taxation

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

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

## 3. 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 £89,000 (2007: £135,000).

## 4. Staff numbers and costs

The only employees of the Company are the executive directors. The average monthly number of employees was:

	2008	2007
Administration	2	2

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 19, which are ascribed as forming part of these financial statements.

## 5. Investments

	Investment in subsidiary undertaking £000	Loan to subsidiary undertaking £000	Capital contribution £000	Total £000
At 1 July 2007	140	3,487	163	3,790
Additions	—	2,085	85	2,170
At 30 June 2008	140	5,572	248	5,960

# Notes to the Parent Company Financial Statements

for the year ended 30 June 2008 (continued)

## 5. Investments (continued)

At 30 June 2008 the Company has an investment in the following subsidiary undertaking:

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

## 6. Debtors

	2008 £000	2007 £000
Other tax and social security	10	3
Prepayments and accrued income	61	74
	<b>71</b>	<b>77</b>

All amounts fall due for payment within one year.

## 7. Creditors: amounts falling due within one year

	2008 £000	2007 £000
Trade creditors	1	2
Amounts due to subsidiary undertaking	63	40
Other tax and social security	–	2
Accruals and deferred income	33	36
	<b>97</b>	<b>80</b>

## 8. Called up share capital and share options

	2008 Number	2007 Number	2008 £000	2007 £000
<b>Authorised</b>				
Ordinary shares of 1p each	100,000,000	100,000,000	1,000	1,000
<b>Allotted, called up and fully paid</b>				
Ordinary shares of 1p each	21,692,308	21,692,308	217	217

Details of the Company's share option schemes and long term incentive plan can be found in note 19 to the Group accounts on pages 36 and 37.

## 9. Reconciliation of movements in reserves and shareholders' funds

	Share capital £000	Share premium account £000	Profit and loss account £000	Shareholders' funds £000
At 1 July 2006	217	8,903	368	9,488
Profit for the year	–	–	135	135
Share-based payment credit	–	–	83	83
At 30 June 2007	217	8,903	586	9,706
Profit for the year	–	–	89	89
Share-based payment credit	–	–	85	85
At 30 June 2008	<b>217</b>	<b>8,903</b>	<b>760</b>	<b>9,880</b>

## 10. Related party transactions

Details of payments made to related parties for the provision of the services of Dr Bruce Campbell and Susan Sundstrom are given in note 21 to the consolidated financial statements on page 38.

# Notice of 2008 Annual General Meeting

Notice is hereby given that the 2008 Annual General Meeting ('AGM') of Synairgen plc will be held at the offices of Fasken Martineau LLP, Fourth Floor, 17 Hanover Square, London W1S 1HU on Thursday, 13 November 2008 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 2008, together with the Directors' and Auditors' reports in respect of such accounts.
2. To re-appoint as a director Bruce Campbell, 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 Susan Sundstrom, who is retiring by rotation in accordance with Article 102 of the Company's Articles of Association and who, being eligible, offers herself 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 2008.

## 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 resolutions 7 and 8, which will be proposed as special resolutions 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 £104,977. This authority shall expire on the earlier of 31 December 2009 and the conclusion of the 2009 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 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 £32,538 (representing 15% of the nominal value of the issued share capital of the Company at 19 September 2008);

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 2009 and the conclusion of the Annual General Meeting of the Company to be held in 2009 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.

8. That the Articles of Association contained in a document produced to the meeting and signed by the chairman for the purposes of identification be approved and adopted as the new Articles of Association of the Company in substitution for, and to the exclusion of, the existing Articles of Association, with effect from the conclusion of the 2008 Annual General Meeting of the Company.

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

19 September 2008

## 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, on a poll, to vote instead of him. A proxy need not be a member of the Company. A form of proxy is enclosed. To appoint more than one proxy you may photocopy this form. Please indicate the proxy holder's name and the number of shares in relation to which they are authorised to act as your proxy (which, in aggregate, should not exceed the number of shares held by you). Please also indicate if the proxy instruction is one of multiple instructions being given. All forms must be signed and should be returned in the same envelope. To be effective, proxy forms must be deposited at the Company's registrars, Capita Registrars, Proxies, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU, 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.
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 11 November 2008 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 11 November 2008 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 2008.

### 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, Dr Bruce Campbell and Susan Sundstrom shall retire and, being eligible, offer themselves for re-appointment. Resolutions 2 and 3 propose their re-appointment.

Biographical details are given on page 12 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 2008, as set out on pages 17 to 19 of the 2008 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, 7 and 8 are the special business of the AGM.

### Resolution 6: Authority to Allot Shares

By an ordinary resolution of the Company passed on 14 November 2007 at the 2007 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 14 November 2007 until the conclusion of the 2008 Annual General Meeting. Resolution 6 proposes to authorise the directors to allot relevant securities up to a maximum nominal amount of £105,247 (which equates to 10,524,700 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 19 September 2008; and
- £32,939, 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 2009 Annual General Meeting.

Resolution 6 will be proposed as an ordinary resolution.

### Resolution 7: Disapplication of Pre-emption Rights

Also on 14 November 2007, 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 14 November 2007 until the conclusion of the 2008 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
- 3,253,800 shares, which represents approximately 15% of the issued ordinary share capital of the Company as at 19 September 2008.

This authority will expire on the conclusion of the 2009 Annual General Meeting.

Resolution 7 will be proposed as a special resolution.

### Resolution 8: Adoption of new Articles of Association

The proposed new Articles of Association (the 'New Articles') reflect those provisions of the Companies 2006 Act (the '2006 Act') which have now been brought into force. In addition to the modifications following from the 2006 Act, it is also proposed that some amendments to the Articles of Association be adopted to reflect previous changes in legislation or to ensure consistency with the 2006 Act.

Set out overleaf is a summary of the main amendments to be introduced by the proposed new Articles of Association.



# Notice of 2008 Annual General Meeting (continued)

This summary has been prepared in order to assist shareholders in understanding the rationale for and substance of the proposed amendments. Although the new Articles of Association are in many respects largely unchanged from the current Articles of Association, the directors recommend that shareholders pass a resolution to adopt new Articles of Association rather than to pass resolutions detailing each individual amendment in accordance with the Guidance on Electronic Communications with Shareholders 2007 issued by the Institute of Chartered Secretaries and Administrators.

The number used below to identify each article, unless otherwise indicated, corresponds to the numbering used in the Company's current Articles of Association.

## 1. Definitions (Article 1)

Article 1.1 is amended as follows:

New definitions of "CA 1985", "CA 2006" and "the Acts" are inserted to cater for the fact that the 2006 Act is being brought into force and the Act is being repealed in stages between January 2007 and October 2009. Consequential amendments are made throughout the New Articles to reflect the inclusion of these new definitions.

The definition of "Electronic Communication" is deleted, as the previous definition related to provisions in the CA 1985 which have been repealed in January 2007. Instead, the definition of "Electronic Form" is inserted to reflect the new terms under the CA 2006.

A new definition of "address" is inserted. As well as the ordinary meaning of the word, "Address" also means any number or address used for the purposes of sending or receiving notices, documents or information by electronic means. This definition corresponds with the relevant definition of "address" in the CA 2006 and is inserted because the term is used frequently in the new Articles of Association.

Further amendments to Article 1.1 clarify that the documents and information which are sent electronically or placed on a website by the Company are "in writing" for the purposes of the New Articles.

## 2. Notice of General Meetings (Article 59)

The CA 2006 reduces the minimum notice period for all general meetings (with the exception of annual general meetings) to 14 (fourteen) clear days and the amendments to Article 59 allows the Company to take advantage of such provisions.

## 3. Adjournment (Article 65)

The provisions on adjournment have been updated to authorise the chairman to adjourn the meeting, without the consent of the meeting, if such an adjournment is, in the chairman's opinion, necessary to ensure that there is sufficient room for all shareholders and proxies who wish to attend, to preserve orderly conduct of the meeting, to protect the safety of any person attending or to ensure the business of the meeting can be properly carried out.

## 4. Security of general meeting (New Articles 75 and 76)

Articles 75 and 76 are included in the proposed New Articles to allow for appropriate security measures to be taken in order to secure the safety of the people attending a general meeting and enable arrangements to be made to allow simultaneous attendance of the general meeting at satellite meeting places.

## 5. Electronic Proxies (New Articles 83 and 84)

The CA 2006 provides that when a company has given an electronic address in a notice of meeting or form of proxy, it is treated as having accepted that a communication in relation to that notice of meeting or form of proxy can be sent to that electronic address. Articles 83 and 84 in the proposed New Articles enable the Company to receive appointments of proxies in electronic form subject to the conditions or limitations which are specified in the notice of meeting.

## 6. Corporate representatives (Article 78)

Article 78 is amended in line with the provisions of sections 3223(1) to (2) of the CA 2006 on the appointment of a corporate representative by members of the Company that are corporations.

## 7. Disclosure of Interests in Shares (Articles 83 and 84)

The provisions relating to the disclosure of interests in shares contained in the CA 1985 including section 212 on company investigation powers, were repealed in January 2007. Provisions of the CA 2006, which contain the corresponding company investigation powers previously contained in section 212, were brought into force simultaneously. Articles 83 and 84 are amended to reflect the replacement of the old provisions with the new.

The definition of "approved transfer" in Article 84.5.3 is amended to refer to the definition of "takeover offer" set out in section 974 and Part 23 of the CA 2006 to replace the definition in the CA 1985. This is because the definition in the CA 1985 was repealed and replaced by that in the CA 2006 in April 2007.

## 8. Directors and conflicts of interests (New Article 110)

The CA 2006 sets out directors' general duties which largely codify the existing law but with some changes. Under the CA 2006 from 1 October 2008 a director must avoid a situation where he has, or can have, a direct or indirect interest that conflicts, or possibly may conflict, with the Company's interests. The requirement is very broad and could apply, for example, if a director becomes a director of another company or a trustee of another organisation. The CA 2006 allows directors of public companies to authorise conflicts and potential conflicts where appropriate, where the articles of association contain a provision to this effect. The CA 2006 also allows the articles to contain other provisions for dealing with directors' conflicts of interest to avoid a breach of duty. The New Articles give the directors authority to approve such situations and to include other provisions to allow conflicts of interest to be dealt with in a similar way to the current position.

Safeguards will apply when directors decide whether to authorise a conflict or potential conflict. First, only directors who have no interest in the matter being considered will be able to take the relevant decision, and secondly, in taking the decision the directors must act in a way they consider, in good faith, will be most likely to promote the Company's success. The directors will be able to impose limits or conditions when giving authorisation if they think this is appropriate.

## **9. Notices and Electronic Communication by the Company (Articles 172 to 174)**

Articles 172 and 173 are amended in line with CA 2006 to provide the Company with a general power to send or give any notice, document or information to any shareholder by a variety of methods such as in person, by post or in electronic form (such as by email), or by making it available on the Company's website depending on the individual shareholder's preference. In addition to any notice, document or information which is specifically required to be supplied under the CA 2006 or the Articles of Association, Articles 172 and 173 (New Articles 195 and 196) will also allow the Company to send any other document or information to shareholders by the variety of methods described above.

If the Company gives any notice or sends any document or information to its shareholders by making it available on the Company's website, it must comply with the requirements of the CA 2006 and the new notice provisions in the Articles.

The Company will be able to ask each individual shareholder for his or her consent to receive communications from the Company via its website. If the shareholder does not respond to the request for consent within 28 days, the Company may take that as consent by the shareholder to receive communications in this way. When the Company makes a document available on its website, it must notify each shareholder who has consented (or is deemed to have consented) to receive documents via the website, either by post or by email (if the shareholder has previously provided their email address), that the document has been made available on the website. A shareholder who has received a document electronically can request a hard copy of any document at any time.

Shareholders can also revoke their consent to receive electronic communications at any time.

Article 199 in the proposed New Articles deals with joint holders of shares and provides that the agreement of the first named holder on the register of shareholders to accept notices, documents or information electronically or via a website will be binding on the other joint holders.

Article 200 in the proposed New Articles is to cater for situations where the provision of corporate information in electronic form may amount to a breach of securities laws of another jurisdiction. The effect of this new Article is to permit the Company not to give or send any notice, document or information to a shareholder whose registered address is not within the UK unless that shareholder has given a non-electronic address within the UK.

## **10. Communication to the Company (New Articles 201 to 204)**

New provisions have been added to the Articles in order to clarify the methods by which shareholders can communicate with the Company. This is extended (from hard copy documents or information sent or supplied by hand or by post) pursuant to the new electronic communication provisions in the CA 2006 to include electronic communication to an address specified for the purpose by the Company for the purposes of receiving such communication.

## **11. Indemnity (Article 177)**

The provisions relating to the indemnity of directors and other officers are amended in line with the CA 2006 to extend the scope of potential indemnities which may be granted to directors of pension trustee companies. Under section 235 of the CA 2006, a director of a pension trustee company can be indemnified by the pension trustee company itself or an associated company against liability incurred in connection with the Company's activities as a trustee of the scheme. The indemnity cannot extend to liabilities to pay criminal or regulatory fines or to defending criminal proceedings in which the director is convicted.

# 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

Bow Bells House, 1 Bread Street,  
London EC4M 9BF

### Patent agents

#### Marks & Clerk

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

### Registrars

#### Capita Registrars

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

### Solicitors

#### Fasken Martineau 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

## $\beta_2$ -agonists

Also known as beta agonists – see Bronchodilators

## Barrier Function

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

## Biobank

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

## Biomarker

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

## Bronchodilators

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

## **Chronic**

Persistent

## **Chronic bronchitis**

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

## **Clinical Trial Authorisation or CTA**

An authorisation from the MHRA to conduct a clinical trial

## **COPD**

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

## **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

**synairgen plc**

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