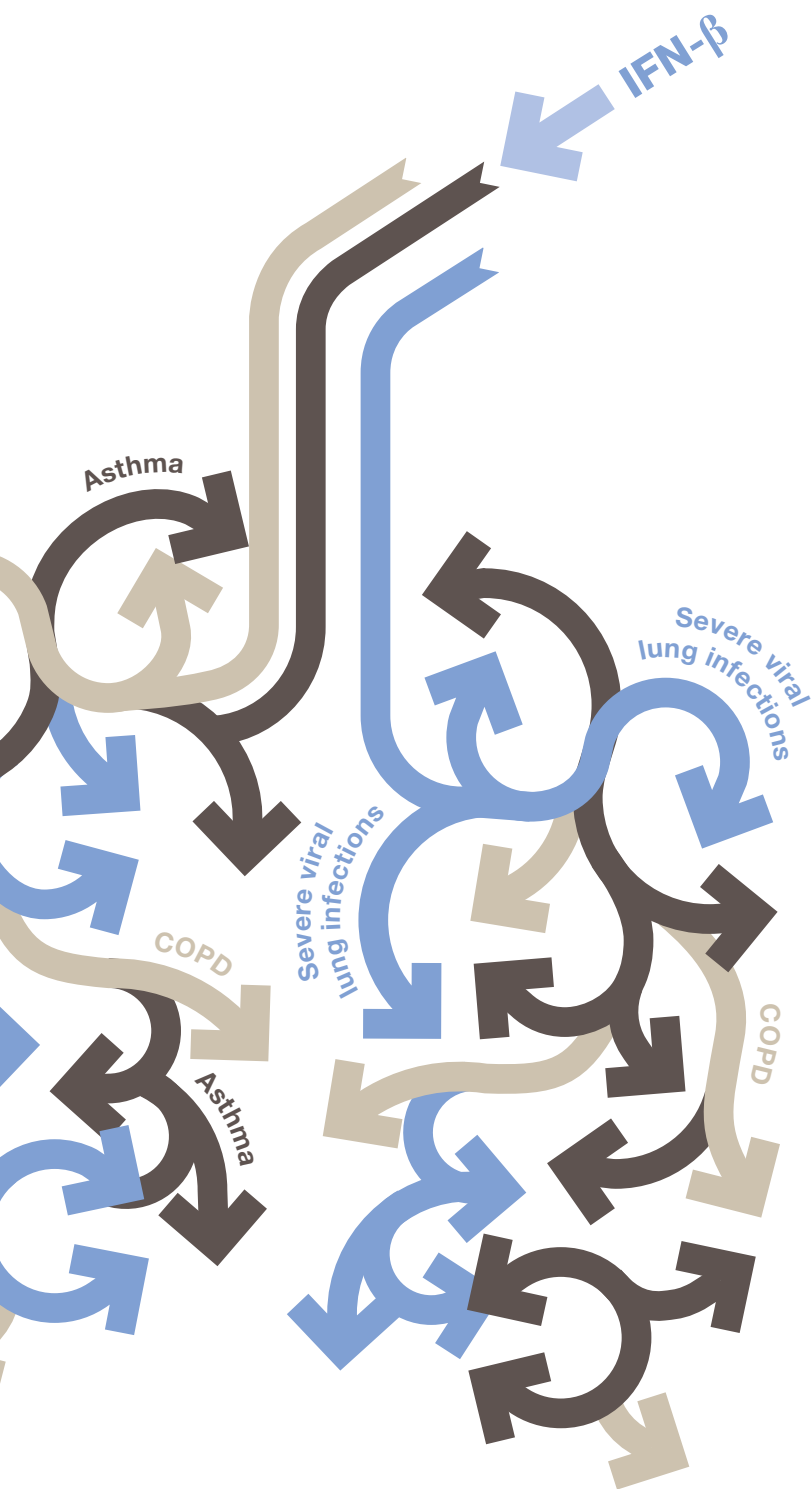


Combating viral lung infections



Overview of Synairgen's interferon beta ('IFN- β ') programmes

Scientific background to Synairgen's inhaled IFN- β

Viruses are parasites, which take over the host's cells and use the cells' machinery to replicate. The normal host response to viral infection is to trigger IFN- β production, which in turn orchestrates the host's antiviral responses. Deficiencies in IFN- β production following infection explain why some patient groups (such as those with asthma and COPD) are more susceptible to infection. Many pathogenic respiratory viruses, such as influenza and SARS, can suppress IFN- β production, allowing infections to spread to the lungs and cause severe illness.

In its two development programmes Synairgen is delivering IFN- β to the lungs to:

- overcome the IFN- β deficiency in asthma and COPD patients; and
- boost lung antiviral defences in vulnerable patients to prevent the virus from 'winning' its battle with the host cell.

Asthma and COPD programme

One in seven people suffers from a chronic respiratory disease, most commonly asthma and COPD. COPD covers two conditions: chronic bronchitis and emphysema and is primarily caused by smoking. The economic cost of these prevalent diseases is significant (asthma \$21 billion and COPD \$50 billion in the USA each year¹). Exacerbations (acute deteriorations in symptoms) represent the greatest unmet clinical need in asthma and COPD and are a significant healthcare burden. Most exacerbations are caused by colds and flu infections that spread from the nose and throat to the lungs in these vulnerable patient groups.

In its most advanced programme, Synairgen is evaluating the potential of inhaled IFN- β to prevent virus-induced exacerbations of asthma and COPD. Results from a Phase IIa proof of concept study in exacerbation-prone asthmatics, involving approximately 150 dosed subjects, are anticipated in March 2012.

Severe viral lung infection programme

In experiments conducted in human lung cells, Synairgen has demonstrated that, as well as protecting cells from infection with respiratory viruses, IFN- β can also limit virus replication once an infection has taken hold. Building on these findings, Synairgen announced in November 2011 positive data from a pre-clinical study in which it evaluated the effectiveness of aerosolised IFN- β , given both before and after infection, in a model of viral pneumonia caused by swine flu. These results support the continued development of inhaled IFN- β as a potential treatment of patients hospitalised with a suspected severe viral lung infection and as an early treatment to protect people who may have been exposed to a serious respiratory virus threat (so called 'post-exposure prophylaxis').

Patents granted

Patents for the use of inhaled IFN- β to treat exacerbations of asthma and COPD induced by rhinovirus (the common cold) have been granted in the US, EU and Japan.

Business model

Synairgen's strategy is to progress its IFN- β programme up to Phase II (proof of concept) and then to seek a licensing partner for onward commercialisation. Positive data from the Phase II asthma trial in March 2012 are a pivotal requirement for Synairgen to pursue the further development of inhaled IFN- β in the respiratory indications with a licensing partner.

Sources

1. National Heart, Lung and Blood Institute. Morbidity and Mortality 2009 Chart Book on Cardiovascular, Lung and Blood Diseases.

Synairgen is a respiratory drug development company with a particular focus on lung antiviral defence in asthma, COPD and severe viral infections

Highlights for the six months ended 31 December 2011

Operational highlights

Significant progress on core development programmes:

- Phase II trial of inhaled IFN- β in asthma on schedule: last subjects were dosed in December 2011, with results anticipated in March 2012
- Positive results from pre-clinical study completed in November 2011 showing that aerosolised IFN- β reduced virus-induced pneumonia, suggesting that inhaled IFN- β may have potential in two further areas:
 - as a broad spectrum antiviral for use in patients admitted to hospital with suspected viral lung infections; and
 - as a post-exposure prophylactic defence against a lethal virus threat to the lungs
- Business development activity for out-licensing of IFN- β programme being coordinated to coincide with the availability of key clinical trial data

Financial highlights

- Research and development expenditure for the period: £1.8 million (year ended 30 June 2011: £2.9 million)
- Post-tax loss for the period: £2.0 million (year ended 30 June 2011: £3.2 million)
- Cash at 31 December 2011: £3.4 million (30 June 2011: £4.9 million)

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Chairman's and Chief Executive Officer's Report

Following the change of year-end, this report covers the six month period to December 2011, during which time the Company has made significant progress with its Phase II study in asthma and its pre-clinical study of viral pneumonia.

In December 2011, Synairgen completed recruitment for its Phase II proof of concept trial of inhaled interferon beta ('IFN- β ') for the prevention of virus-induced asthma exacerbations (acute and prolonged worsening of asthma symptoms).

During January and February 2012, the data will be audited and entered into the database. The results are expected in March 2012.

We announced in November 2011 that, independent of the asthma development programme, the Company had generated strong pre-clinical data, which opens up the potential for two additional indications related to viral infection in the overall population.

These are:

1. Hospitalised patients with a suspected severe viral lung infection; and
2. Post-exposure prophylaxis for:
 - a. Highly pathogenic viruses (for example SARS-like viruses)
 - b. Common respiratory viruses (for example swine flu) in vulnerable populations

These are attractive potential markets, for which there is today little or no effective therapy. Indeed the area of defence against highly pathogenic viruses has become a focus for a number of governments around the world, which are prepared to commit resource to appropriate programmes. We will be investigating this area during 2012.

Asthma and COPD

Phase II clinical trial – Proof of concept in asthma

Common respiratory viruses are the major cause of asthma exacerbations. Many different viruses, including RSV, parainfluenza virus, coronavirus, over 200 different types of rhinovirus, and many others, are loosely termed 'common cold' or 'flu' viruses. Influenza infections tend to be more severe and yet not all suspected influenza infections turn out to be influenza at all; many of the suspected influenza infections will be caused by one of the common cold viruses, and vice versa.

In asthmatic patients, and those with other respiratory diseases such as COPD (chronic obstructive pulmonary disease) or cystic fibrosis, the lungs are unable to defend themselves adequately against these common viruses and an exacerbation can ensue. The poor defence appears to be due to compromised IFN- β -driven immunity. This can be corrected by introducing a small amount of IFN- β to help cells defend themselves against viruses. This has been demonstrated in Synairgen's *in vitro* models, using cells from volunteers with asthma (Synairgen's Biobank). It is very important to note that these vulnerable patients do not become severely ill on account of cold symptoms such as a really bad sore

throat or very blocked nose. These patients become ill because of the viral infection in their lungs and the way this interacts with their pre-existing lung disease. Synairgen is developing inhaled IFN- β for delivery directly to the lungs in the form of an aerosol and is not trying to modulate the incidence or severity of symptoms in the nose and throat.

Many therapeutic approaches to tackling viral respiratory infections have failed due to the great diversity and adaptability of these very contagious viruses. Tamiflu® and Relenza® are successful examples of the 'one drug one bug' approach, the bug being influenza. However influenza only accounts for approximately 5 - 10% of all respiratory infections and there remains a concern about progressive resistance; Synairgen's inhaled IFN- β has the advantage of boosting the body's powerful 'virus agnostic' defences in the lung. It has demonstrated activity against all of the common respiratory viruses and some highly pathogenic viruses such as H5N1 'Bird Flu' and the coronavirus SARS. Thus Synairgen's inhaled IFN- β is increasingly proving itself as an inhaled broad spectrum antiviral defence. Furthermore it is considered that resistance to the activity of IFN- β is highly unlikely to emerge.

Synairgen has been fortunate in that the development of inhaled IFN- β is a re-profiling exercise. IFN- β has been administered by injection to thousands of patients with multiple sclerosis over the years, since its first approval in 1993. This significantly de-risks the inhaled programme as any drug which passes through the lungs to the blood system is unlikely to cause any unexpected adverse events. Furthermore, through its exclusive supply and licence arrangement with the Rentschler Group (a manufacturer of IFN- β), Synairgen has access to a pH neutral formulation suitable for inhalation.

In the Phase I safety and pharmacodynamic clinical trial, conducted in 2008/09, inhaled IFN- β was well tolerated in moderate asthmatics. There was also convincing biomarker evidence that even in the absence of a virus inhaled IFN- β 'switched on' the antiviral defences. This provided the Company with 'proof of mechanism', i.e. that the drug could switch on antiviral defences in the lungs of patients with an IFN- β deficiency.

The Phase II study reporting results in March 2012 will hopefully confirm that there is benefit in boosting/restoring the IFN- β -driven antiviral defences in asthmatics. In this blinded clinical trial approximately 150 exacerbation-prone asthmatics have been treated with inhaled IFN- β or placebo at the onset of cold or flu symptoms. The objective is to boost the lungs' immunity so that, as the virus infection builds in the nose and throat, the lungs are able to defend themselves adequately. The primary endpoint is the sACQ

(shortened Asthma Control Questionnaire), which is a measure of asthma symptoms. There are a number of secondary endpoints which may also be very informative for signalling the future development strategy for the drug. These are the AI (the Asthma Index - an alternative measure of asthma symptoms), lung function, virus load, markers of pulmonary inflammation and drug safety.

Phase II clinical trial – Proof of concept in COPD

Synaigen has developed a Phase II clinical trial protocol for the COPD population. This study has been approved by the relevant authorities, although it will not commence until a partner has been found through the business development licensing activity.

Business development for the asthma and COPD programmes

Synaigen has regularly discussed its IFN- β programme with major pharmaceutical companies and input from these companies has contributed to the design of the overall development programme. Synaigen has, over the years, generated a package of material necessary for the out-licensing of these programmes for asthma and COPD. This package includes safety data, *in vitro* efficacy data, granted patents in the US, EU and Japan and biomarker data demonstrating proof of mechanism. The most important pieces of information yet to come will be the analysed outcomes of the Phase II trial in asthma, which are anticipated in March 2012. It is Synaigen's intention to out-license the asthma and COPD programmes on the back of the Phase II results and our continuous interactions with potential business development partners have been designed to expedite this process.

Use of inhaled IFN- β outside of asthma and COPD

During 2011, Synaigen has completed a series of experiments that have demonstrated reduced lung viral load and reduced cell damage in an advanced viral pneumonia pre-clinical model. The drug was given either prior to infection or post infection. These data open up two new significant applications:

1. **Hospitalised patients with suspected severe viral lung infections**
Inhaled IFN- β could be used to treat patients as a therapy (prior to the identification of the virus) upon admission to hospital with breathing difficulties caused by a viral lung infection. The broad spectrum antiviral properties of the drug would be advantageous as it takes some time to identify the causative pathogen. As this is an area of great unmet clinical need, Synaigen believes that, subject to an acceptable safety profile from the Phase II asthma trial, it could be in the interest of a government to support this work either through a grant or an award.

2. Post-exposure prophylaxis

• against highly pathogenic respiratory viruses

The threat posed by emerging respiratory viruses such as SARS or terrorist-manufactured virus threats such as aerosolised Ebola or a variant of H5N1 'bird flu' remains one of significant concern to governments. We understand that governments may be interested in funding the development of a broad spectrum inhaled antiviral that can be stockpiled in sufficient quantities to be issued to people in the event of exposure to lethal viruses, such as key workers or people placed in quarantine following contact with an infected person (for example on a flight). Synaigen will engage with governmental organisations over the coming months to gauge interest and map out a potential development programme.

• against common respiratory viruses in vulnerable populations

Vulnerable patients, for example transplant patients, pregnant women, the elderly, and the very young, can suffer lung complications due to common viruses migrating from the nose and throat to the lungs. Inhaled IFN- β could be given to these patients as and when they believe they have been exposed to a viral infection. Such exposure could be from a work colleague or somebody they live with. Synaigen will consider the future development of inhaled IFN- β for this indication following the results of the Phase II asthma trial.

Summary

Positive data from the Phase II asthma trial in March 2012 will be a pivotal requirement for us to pursue the further development of inhaled IFN- β with a licensing partner. Such a partnership would be a significant commercial milestone for the Company and we have an ongoing dialogue with several potential development and commercialisation partners.

Independent of an asthma and COPD licensing transaction, we have a programme to investigate the potential development of inhaled IFN- β as a broad spectrum antiviral for use in patients admitted to hospital with suspected viral lung infections, and also as a post-exposure prophylactic defence against a lethal virus threat to the lungs.

Simon Shaw
Chairman

Richard Marsden
Chief Executive Officer

31 January 2012

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 18 to 32. The consolidated financial statements are presented under International Financial Reporting Standards as adopted by the European Union. The financial statements of the Company continue to be prepared in accordance with UK Generally Accepted Accounting Practice and are set out on pages 33 to 36.

Change of Accounting Reference Date

The Group has brought forward its financial year-end from 30 June to 31 December for administrative reasons to expedite the production of its annual report and accounts. As a result these audited financial statements cover the six months ended 31 December 2011 with comparative financial information being given for the year ended 30 June 2011.

Statement of Comprehensive Income

The loss from operations for the six months ended 31 December 2011 was £2.24 million (year ended 30 June 2011: £3.70 million). Research and development expenditure for the period amounted to £1.82 million (year ended 30 June 2011: £2.91 million). The main areas of expenditure have been on the asthma Phase II study (SG005) and the pre-clinical study in viral pneumonia. The last subject was recruited into SG005 in December 2011 and the results are anticipated in March 2012. The significant majority of costs on the pre-clinical study were also incurred prior to 31 December 2011 and therefore expenditure on both these projects will reduce significantly during the first half of 2012.

Other administrative costs for the period amounted to £0.42 million (year ended 30 June 2011: £0.90 million). The research and development tax credit for the period was £0.25 million (year ended 30 June 2011: £0.43 million). The loss after tax for the period was £1.97 million (year ended 30 June 2011: £3.23 million) and the loss per share was 2.83p (year ended 30 June 2011: loss of 5.37p).

Statement of Financial Position and cash flows

At 31 December 2011, net assets amounted to £3.12 million (30 June 2011: £4.99 million), including net funds, as detailed below in Capital structure and funding, of £3.35 million (30 June 2011: £4.89 million).

The principal elements of the £1.54 million decrease over the six months ended 31 December 2011 (year ended 30 June 2011: £0.12 million decrease) in net funds were:

- Cash used in operations of £1.93 million (year ended 30 June 2011: £3.02 million outflow);
- Research and development tax credits received of £0.40 million (year ended 30 June 2011: £0.38 million); and
- Share issue proceeds (net of costs) £nil (year ended 30 June 2011: £2.50 million).

Treasury policy and financial risk management

Credit risk

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

Interest rate risk

The Group's cash held in current bank accounts is subject to the risk of fluctuating base rates. The majority of the Group's financial assets are placed on fixed-term interest deposits. The interest rate profile of financial assets is illustrated in note 16 to the financial statements.

Currency risk

The Group is exposed to Euro and Australian dollar exposure as a small element of its research and development expenditure is denominated in these currencies. The Group does not routinely hedge against this exposure.

Capital structure and funding

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

The Group considers its capital to be its total equity, which at 31 December 2011 amounted to £3.12 million (30 June 2011: £4.99 million). The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns to equity holders of the Company and benefits to other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. The Group manages this objective through tight control of its cash resources and, upon reaching significant drug development programme milestones (to decrease investment risk), by raising additional equity from shareholders to meet its forecast future cash requirements.

Net funds held by the Group at 31 December 2011 amounted to £3.35 million and comprised cash and cash equivalents, short-term deposits (with original maturities of greater than three months and less than one year) as shown below:

	31 Dec 2011 £m	30 June 2011 £m	30 June 2010 £m	30 June 2009 £m
Short-term deposits	2.45	3.40	3.68	1.98
Cash and cash equivalents	0.90	1.49	1.33	5.96
Net funds	3.35	4.89	5.01	7.94

The Group did not have any bank borrowings as at 31 December 2011 (30 June 2011: £nil).

There have been four significant issues of shares: in August 2003 £0.62 million (net of costs) was raised; in October 2004, when the Company completed its IPO on AIM, £8.98 million (net of costs) was raised; in June 2009 the Company raised £6.20 million (net of costs); and finally in June 2011 when £2.50 million (net of costs) was raised. The other major sources of funding received by the Group from the formation of the business until 31 December 2011 have been: research and development tax credits of £1.97 million, bank interest of £1.57 million, and revenues from collaborative work of £0.60 million.

John Ward

Finance Director

31 January 2012

Directors

Simon Shaw

Non-executive Chairman

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



Dr Phillip Monk

Chief Scientific Officer

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

Richard Marsden

Chief Executive Officer

Richard Marsden joined Synairgen in a consulting role as General Manager in November 2003, was appointed to the Board as Managing Director in June 2004 and appointed Chief Executive Officer in September 2009. Richard is a non-executive director of Southampton Asset Management Limited. 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.

Directors (continued)

Iain Buchanan

Non-executive Director

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



Paul Clegg

Non-executive Director

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

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 a scientific advisor to IP Group plc and acts as a consultant to various companies including Proximagen Limited. 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 CBE

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 900 papers in peer-reviewed literature. He is currently: Chairman of the MRC's Population and Systems Medicine Board and Member of the MRC Strategy Board; Chairman of Defra's Advisory Committee on Hazardous Substances; a member of the Food Standards Agency Advisory Committee on Novel Foods and Processes; a member of the Department of Health Committee on the Medical Effects of Air Pollution; and a scientific board member or advisor to eleven companies, including Amgen, Roche, Merck, and Novartis. In 2010, he was appointed by the Higher Education Funding Council for England to be the Chair of the Research Excellence Framework (REF) Main Panel A covering Medicine, Health and Life Sciences.

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 six months ended 31 December 2011.

Principal activities

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

Review of the business and future developments

A review of the business and anticipated future developments is included in the Chairman's and Chief Executive Officer's Report and the Financial Review set out on pages 3 to 5.

Research and development

During the six months ended 31 December 2011, the Group has invested £1,815,000 (year ended 30 June 2011: £2,907,000) in research and development activities and a review of this expenditure is included in the Financial Review.

Principal risks and uncertainties

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

• Reliance on the interferon beta programmes

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

• Failure to generate innovative discoveries

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

• Clinical development and regulatory risk

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

• Intellectual property risk

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

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

• Commercial risk

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

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

• Competition risk

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

• Funding risk

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

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

• Dependence on Founders, senior management and key staff

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

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

Key performance indicators ('KPIs')

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

The most important financial KPIs are the cash position and the operating loss of the Group. At 31 December 2011 cash and deposit balances amounted to £3.35 million and were above budgeted levels. The operating loss for the six months of £2.24 million was also favourable to the budgeted loss for the period.

Directors' Report (continued)

Results and dividends

The Group's loss after taxation for the six months ended 31 December 2011 amounted to £1,967,000 (year ended 30 June 2011: loss of £3,231,000). A Financial Review is set out on page 5. The directors do not propose the payment of a dividend.

Financial instruments

The Group's use of financial instruments is discussed in the Financial Review on page 5 and in note 16 to the financial statements.

Substantial shareholdings

As at 31 January 2012, the Company had been advised of the following shareholders with interests of 3% or more in its ordinary share capital:

Name of shareholder	Number of ordinary shares	% of share capital
Lansdowne Partners Limited	13,912,000	20.0%
IP Group plc	7,534,188	10.8%
F&C Asset Management plc	6,480,512	9.3%
IP Venture Fund LP	5,152,505	7.4%
Mr MR Underwood	3,970,588	5.7%
Southampton Asset Management Limited	3,600,000	5.2%

Directors

The directors of the Company during the six months ended 31 December 2011 were:

<i>Executive directors:</i>	<i>Non-executive directors:</i>
Richard Marsden	Simon Shaw
Dr Phillip Monk	Iain Buchanan
John Ward	Dr Bruce Campbell
	Paul Clegg
	Prof. Stephen Holgate

Directors' interests in ordinary shares

The directors, who held office at 31 December 2011, had the following interests in the ordinary shares of the Company:

	31 December 2011 Number of shares	1 July 2011 Number of shares
Richard Marsden	95,860	95,860
Dr Phillip Monk	18,518	18,518
John Ward	228,788	228,788
Simon Shaw	1,368,580	1,368,580
Iain Buchanan	92,592	92,592
Dr Bruce Campbell	253,960	253,960
Paul Clegg (i)	184,095	184,095
Prof. Stephen Holgate (ii)	852,316	852,316

(i) On 9 December 2011 Paul Clegg transferred 80,000 of his shareholding in the Company into his pension plan. His beneficial shareholding remains unchanged at 184,095 shares.

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

Between 31 December 2011 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 report.

Directors' remuneration and share options

Details of directors' remuneration and share options are given in the Directors' Remuneration Report on pages 13 to 15.

Directors' and officers' liability insurance

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

Payment of creditors

It is the policy of the Group and the Company that payments to suppliers are made in accordance with those terms and conditions agreed between the Group and its suppliers, provided that all trading terms and conditions have been complied with. At 31 December 2011 the Group had an average of 22 days' purchases outstanding in trade creditors (30 June 2011: 18 days' purchases).

Post balance sheet events

There are no events occurring post 31 December 2011 requiring disclosure.

Charitable and political donations

During the six months ended 31 December 2011, the Group made no charitable donations (year ended 30 June 2011: £nil) and no political donations (year ended 30 June 2011: £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.

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.

By order of the Board

John Ward

Company Secretary

31 January 2012

Corporate Governance

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

Board of directors

On 31 December 2011 the Board of directors (the 'Board') consisted of a non-executive Chairman (Simon Shaw), three executive directors (Richard Marsden, Dr Phillip Monk and John Ward), and four non-executive directors (Iain Buchanan, Dr Bruce Campbell, Paul Clegg and Prof. Stephen Holgate). Brief details about the directors are given on pages 6 and 7. The responsibilities of the non-executive Chairman and the Chief Executive Officer are clearly divided. The non-executive directors bring relevant experience from different backgrounds and receive a fixed fee for their services and reimbursement of reasonable expenses incurred in attending meetings.

The Board retains full and effective control of the Group. This includes responsibility for determining the Group's strategy and for approving budgets and business plans to fulfil this strategy. The full Board ordinarily meets bi-monthly. It also meets on any other occasions it considers necessary. During the six months ended 31 December 2011, the Board met three times, with each member attending as follows:

Director	Number of meetings held whilst a Board member	Number of meetings attended
Simon Shaw	3	3
Richard Marsden	3	3
Dr Phillip Monk	3	3
John Ward	3	3
Iain Buchanan	3	3
Dr Bruce Campbell	3	1
Paul Clegg	3	2
Prof. Stephen Holgate	3	1

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 six months ended 31 December 2011, the committee met twice and both meetings were attended by Simon Shaw and Dr Bruce Campbell.

Remuneration and Nomination Committee

The Remuneration and Nomination Committee currently comprises Paul Clegg (Chairman), Dr Bruce Campbell and Simon Shaw. The committee is responsible for making recommendations to the Board on remuneration policy for executive directors and the terms of their service contracts, with the aim of ensuring that their remuneration, including any share options and other awards, is based on their own performance and that of the Group generally. The committee administers the Long-Term Incentive Plan, the staff share option scheme and the Qualifying Non-Employee Option Scheme and approves grants under all three schemes. It also advises on the remuneration policy for the Group's employees. The committee is responsible for all senior appointments that are made within the Group. During the six months ended 31 December 2011, the committee met three times, with each member attending as follows:

Director	Number of meetings held whilst a Board member	Number of meetings attended
Paul Clegg	3	3
Dr Bruce Campbell	3	2
Simon Shaw	3	3

Corporate Governance (continued)

Investor relations

The directors seek to build a mutual understanding of objectives between the Company and its shareholders by meetings with major institutional investors and analysts after the Company's preliminary announcement of its year-end results and its interim results.

The Company also maintains investor relations pages on its website (www.synairgen.com) to increase the amount of information available to investors. During the six month period, with the assistance of its retained financial public relations adviser (Threadneedle Communications), the directors have also had meetings with a number of private client stockbrokers around the UK to raise awareness of the Company.

There is an opportunity at the Annual General Meeting for individual shareholders to question the Chairman, the Chairmen of the Audit and Remuneration and Nomination committees, and the executive directors. Notice of the meeting is sent to shareholders at least 21 clear days before the meeting. Shareholders are given the opportunity to vote on each separate issue. The Company counts all proxy votes and will indicate the level of proxies lodged on each resolution, after it has been dealt with by a show of hands. Details of the resolutions and explanations thereto are included with the notice.

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.

By order of the Board

John Ward

Company Secretary

31 January 2012

Directors' Remuneration Report

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

Remuneration Committee

The Company's remuneration policy is the responsibility of the Remuneration and Nomination Committee (the 'Committee'), which was established in October 2004. The terms of reference of the Committee are outlined in the Corporate Governance Statement on page 10. The members of the Committee are Paul Clegg (Chairman), Dr Bruce Campbell and Simon Shaw.

The Committee, which is required to meet at least twice a year, met three times during the six months ended 31 December 2011. The Chief Executive Officer and certain executives may be invited to attend meetings of the Committee to assist it with its deliberations but no executive is present when his or her own remuneration is discussed.

During the period, the Committee has been advised on director remuneration, including the 2011 Long-Term Incentive Plan ('LTIP') awards and the fair valuation of share-based payments by its retained independent remuneration adviser, FIT Remuneration Consultants LLP. No other advice has been provided to the Group by this firm during the period.

Remuneration policy

(i) Executive remuneration

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

Executive remuneration currently comprises a base salary, an annual performance-related bonus, a pension contribution to the executive director's individual money purchase scheme (at 9% of base salary), family private health cover, permanent health and life assurance. Salaries and benefits are reviewed annually in July, taking into account Group and individual performance, external benchmark information and internal relativities. The Company operates a discretionary bonus scheme for executive directors for delivery of exceptional performance against personal and corporate objectives, with the maximum bonus payable remaining at 200% of base salary. No bonuses were payable to executive directors in respect of the six months ended 31 December 2011 and, following the change in financial year-end, the next period for the discretionary bonus scheme will be the year ending 31 December 2012.

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 six months ended 31 December 2011 is set out on page 15 of this document.

(ii) Chairman and non-executive director remuneration

The Chairman, Iain Buchanan and Paul Clegg receive a fixed fee of £25,000 per annum. Dr Bruce Campbell and Professor Stephen Holgate receive a fixed fee of £15,000 per annum. The fixed fee covers preparation for and attendance at meetings of the full Board and committees thereof. A fee of £5,000 per annum is also paid for chairing each of the audit and remuneration committees. The Chairman and the executive directors are responsible for setting the level of non-executive remuneration. The non-executive directors are also reimbursed for all reasonable expenses incurred in attending meetings.

(iii) Equity-based incentive schemes

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

Long-Term Incentive Plan

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

Grants under the LTIP in any financial year are capped at a maximum of 100% of base salary. In September 2011, Richard Marsden, Dr Phillip Monk and John Ward were granted awards over shares worth 96% of base salary. Executive directors are expected to retain no fewer than 50% of shares acquired upon vesting of awards under the LTIP, net of taxes, until such time as, in combination with any other shares the executives may have acquired, they hold shares with a value equivalent to 100% of base salary.

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

Directors' Remuneration Report (continued)

Performance conditions for the 2011 LTIP awards

The performance conditions for the 2011 LTIP awards were the same as the 2009 and 2010 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', being the return earned by a shareholder over the performance period in terms of change in the share price and assuming re-investment of any dividends in more shares at the prevailing price on the relevant ex-dividend date) of the Company over the three year performance period is equal or greater than the percentage increase in the techMARK mediscience™ index over the same period as follows:

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

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

Qualifying Non-Employee Option Scheme ('QNEOS')

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

During the period under review no options were granted under the QNEOS.

(iv) Service contracts and letters of appointment

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

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

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

Directors' interests in share options

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

Synairgen Long-Term Incentive Plan

Date of grant	Notes	At 1 July 2011	Granted during the period	Lapsed	At 31 December 2011	Exercise price	Earliest exercise date	Expiry date
Richard Marsden								
1 August 2008		165,000	-	(165,000)	-	1p	1 Aug 2011	31 Jul 2012
7 September 2009		605,000	-	-	605,000	1p	7 Sept 2012	6 Sept 2019
8 September 2010		498,969	-	-	498,969	1p	8 Sept 2013	7 Sept 2020
21 September 2011	(i)	-	538,063	-	538,063	1p	21 Sept 2014	20 Sept 2021
Dr Phillip Monk								
1 August 2008		50,000	-	(50,000)	-	1p	1 Aug 2011	31 Jul 2012
7 September 2009		414,625	-	-	414,625	1p	7 Sept 2012	6 Sept 2019
8 September 2010		371,134	-	-	371,134	1p	8 Sept 2013	7 Sept 2020
21 September 2011	(i)	-	400,212	-	400,212	1p	21 Sept 2014	20 Sept 2021
John Ward								
1 August 2008		150,000	-	(150,000)	-	1p	1 Aug 2011	31 Jul 2012
7 September 2009		550,000	-	-	550,000	1p	7 Sept 2012	6 Sept 2019
8 September 2010		453,608	-	-	453,608	1p	8 Sept 2013	7 Sept 2020
21 September 2011	(i)	-	489,148	-	489,148	1p	21 Sept 2014	20 Sept 2021

Note (i): The market value of a share on 21 September 2011 was 22.5p.

The options awarded in September 2009, 2010 and 2011 under the LTIP will only vest if the performance conditions outlined above are met.

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

Date of grant	At 1 July 2011 and 31 December 2011	Exercise price	Earliest exercise date	Expiry date
Richard Marsden				
11 October 2004	280,000	10p	11 Oct 2004	10 Oct 2014
11 October 2004	140,000	10p	30 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
Dr Phillip Monk				
2 October 2006	50,000	85.5p	2 Oct 2009	1 Oct 2016
John Ward				
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.

Synairgen Qualifying Non-Employee Option Scheme

Date of grant	At 1 July 2011 and 31 December 2011	Exercise price	Earliest exercise date	Expiry date
Iain Buchanan				
28 June 2010	212,765	23.5p	28 Jun 2013	27 Jun 2020
Paul Clegg				
7 September 2009	250,000	20p	7 Sept 2012	6 Sept 2019

The options awarded in September 2009 and June 2010 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 at least 5% pa (when 25% will vest) increasingly, on a straight-line basis, to 100% of vesting for 10% p.a. growth.

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

The mid-market price of the Company's shares at 31 December 2011 was 31.5p. During the six months then ended, the mid-market price ranged from 17.5p to 33.5p. On 31 January 2012 the closing price was 28.5p.

Audited information

The following section (Directors' remuneration) contains the disclosures required by Schedule 5 to the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008, forms part of the financial statements for the six months ended 31 December 2011 and has been audited by the Company's auditors, BDO LLP.

Directors' Remuneration Report (continued)

Directors' remuneration

The aggregate remuneration received by directors who served during the six months ended 31 December 2011 and the year ended 30 June 2011 was as follows:

£'000	Note	Salary/fee	Benefits	Bonus	6 months ended 31 December 2011		Year ended 30 June 2011			
					Total (excl. pension)	Pension	Total (incl. pension)	Total (excl. pension)	Pension	Total (incl. pension)
Executive directors										
Richard Marsden	(i)	63	-	-	63	6	69	158	11	169
Dr Phillip Monk	(ii)	47	-	-	47	4	51	104	21	125
John Ward		57	1	-	58	5	63	145	10	155
Non-executive directors										
Simon Shaw		15	-	-	15	-	15	30	-	30
Iain Buchanan		13	-	-	13	-	13	25	-	25
Dr Bruce Campbell	(iii)	8	-	-	8	-	8	15	-	15
Paul Clegg		15	-	-	15	-	15	30	-	30
Prof. Stephen Holgate	(iv)	8	-	-	8	-	8	15	-	15
Total		226	1	-	227	15	242	522	42	564

- (i) Richard Marsden was the highest paid director during the six months ended 31 December 2011 and the year ended 30 June 2011.
- (ii) Dr Phillip Monk requested that 50% of his bonus entitlement for the year ended 30 June 2011 (amounting to £13,500) be paid in the form of an additional employer pension contribution.
- (iii) £8,000 was paid to IP2IPO Limited for the services of Dr Bruce Campbell.
- (iv) In addition to this fee for his services as a director, Prof. Holgate received consultancy fees amounting to £5,000 (year ended 30 June 2011: £11,000) as disclosed in note 19 to the financial statements.
- (v) The total amount paid to third parties amounted to £8,000 (year ended 30 June 2011: £15,000).

In addition to the amounts shown above, the share-based payment charge for the period was:

	6 months ended 31 December 2011 £000	Year ended 30 June 2011 £000
Richard Marsden	25	44
Dr Phillip Monk	18	26
John Ward	23	40
Iain Buchanan	2	4
Paul Clegg	2	3

Total share-based payment in respect of key management personnel amounted to £66,000 for the six months ended 31 December 2011 (year ended 30 June 2011: £110,000).

By order of the Board

Paul Clegg

Chairman of the Remuneration and Nomination Committee

31 January 2012

Statement of Directors' Responsibilities in respect of the Report and Financial Statements

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

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

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

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

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

Website Publication

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

Going concern

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

By order of the Board

John Ward

Company Secretary

31 January 2012

Independent Auditor's Report to the members of Synairgen plc

We have audited the financial statements of Synairgen plc for the period 1 July 2011 to 31 December 2011 which comprise the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Changes in Equity, the Consolidated Statement of Financial Position, the Consolidated Statement of Cash Flows, the Parent Company Balance Sheet and the related notes. The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial reporting framework that has been applied in preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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

Respective responsibilities of directors and auditors

As explained more fully in the statement of directors' responsibilities, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's website at www.frc.org.uk/apb/scope/private.cfm.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the group's and the parent company's affairs as at 31 December 2011 and of the group's loss for the six months then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company's financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the directors' report for the financial period for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

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

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

Paul Anthony (senior statutory auditor)

For and on behalf of

BDO LLP, statutory auditor

Southampton
United Kingdom

31 January 2012

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

Consolidated Statement of Comprehensive Income

for the six months ended 31 December 2011

	Notes	6 months ended 31 December 2011 £000	Year ended 30 June 2011 £000
Revenue	3	-	155
Cost of sales		-	(43)
Gross profit		-	112
Research and development expenditure		(1,815)	(2,907)
Other administrative expenses		(423)	(904)
Total administrative expenses		(2,238)	(3,811)
Loss from operations	4	(2,238)	(3,699)
Finance income	6	20	35
Loss before tax		(2,218)	(3,664)
Tax	7	251	433
Loss and total comprehensive income for the period attributable to equity holders of the parent		(1,967)	(3,231)
Loss per ordinary share			
Basic and diluted loss per share (pence)	8	(2.83)p	(5.37)p

Consolidated Statement of Changes in Equity

for the six months ended 31 December 2011

Note	Share capital £000 18a	Share premium £000 18b	Merger reserve £000 18c	Retained deficit £000 18d	Total £000
At 1 July 2010	597	14,725	483	(10,241)	5,564
Issuance of ordinary shares	99	2,551	-	-	2,650
Transaction costs in respect of share issues	-	(148)	-	-	(148)
Recognition of share-based payments	-	-	-	159	159
Total comprehensive income for the year	-	-	-	(3,231)	(3,231)
At 30 June 2011	696	17,128	483	(13,313)	4,994
Recognition of share-based payments	-	-	-	96	96
Total comprehensive income for the period	-	-	-	(1,967)	(1,967)
At 31 December 2011	696	17,128	483	(15,184)	3,123

Consolidated Statement of Financial Position

as at 31 December 2011

	Notes	31 December 2011 £000	30 June 2011 £000
Assets			
Non-current assets			
Intangible assets	9	239	240
Property, plant and equipment	10	48	60
		287	300
Current assets			
Inventories	11	85	216
Current tax receivable		250	395
Trade and other receivables	12	113	112
Other financial assets – bank deposits	13	2,455	3,401
Cash and cash equivalents	14	896	1,492
		3,799	5,616
Total assets		4,086	5,916
Liabilities			
Current liabilities			
Trade and other payables	15	(963)	(922)
Total liabilities		(963)	(922)
Total net assets		3,123	4,994
Equity			
Capital and reserves attributable to equity holders of the parent			
Share capital	17	696	696
Share premium	17	17,128	17,128
Merger reserve		483	483
Retained deficit		(15,184)	(13,313)
Total equity		3,123	4,994

The financial statements on pages 18 to 32 were approved and authorised for issue by the Board of directors on 31 January 2012 and signed on its behalf by:

Richard Marsden

Chief Executive Officer

John Ward

Finance Director

Consolidated Statement of Cash Flows

for the six months ended 31 December 2011

	6 months ended 31 December 2011 £000	Year ended 30 June 2011 £000
Cash flows from operating activities		
Loss before tax	(2,218)	(3,664)
<i>Adjustments for:</i>		
Finance income	(20)	(35)
Depreciation	15	32
Amortisation	17	32
Share-based payment charge	96	159
Cash flows from operations before changes in working capital	(2,110)	(3,476)
Decrease in inventories	131	77
Decrease/(Increase) in trade and other receivables	4	(19)
Increase in trade and other payables	41	397
Cash used in operations	(1,934)	(3,021)
Tax credit received	396	383
Net cash used in operating activities	(1,538)	(2,638)
Cash flows from investing activities		
Interest received	15	48
Purchase of property, plant and equipment	(3)	(11)
Purchase of intangible assets	(16)	(20)
Decrease in other financial assets	946	279
Net cash generated from investing activities	942	296
Cash flows from financing activities		
Proceeds from issuance of ordinary shares	-	2,650
Transaction costs in respect of share issues	-	(148)
Repayments of obligations under finance leases	-	(2)
Net cash generated from financing activities	-	2,500
(Decrease)/Increase in cash and cash equivalents	(596)	158
Cash and cash equivalents at beginning of the period	1,492	1,334
Cash and cash equivalents at end of the period	896	1,492

Notes to the Consolidated Financial Statements

for the six months ended 31 December 2011

1. Accounting policies

Basis of preparation

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

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

International Accounting and Financial Reporting Standards (IAS/IFRS)		Effective date
IAS 12*	Deferred Tax (Amendment)	1 January 2012
IAS 1*	Presentation of Items of Other Comprehensive Income (Amendment)	1 July 2012
IAS 19*	Employee Benefits	1 January 2013
IAS 27*	Separate Financial Statements	1 January 2013
IAS 28*	Investments in Associates and Joint Ventures (Amendment)	1 January 2013
IFRS 10*	Consolidated Financial Statements	1 January 2013
IFRS 11*	Joint Arrangements	1 January 2013
IFRS 12*	Disclosure of Interests in Other Entities	1 January 2013
IFRS 13*	Fair Value Measurement	1 January 2013
IFRS 9*	Financial Instruments	1 January 2015

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

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

The Group financial statements are presented in Sterling.

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.

Change of Accounting Reference Date

The Group has brought forward its financial year-end from 30 June to 31 December for administrative reasons to expedite the production of its annual report and accounts. As a result these financial statements cover the six months ended 31 December 2011 with comparative financial information being given for the year ended 30 June 2011.

Revenue

Revenue is stated net of value added tax and is recognised when services are supplied.

Research and development

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

Employee benefits

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

Notes to the Consolidated Financial Statements

for the six months ended 31 December 2011 (continued)

1. Accounting policies (continued)

Share-based payments

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 statement of comprehensive income 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 reporting date, the Group revises its estimate of the number of options that are expected to become exercisable. The credit for any charge is taken to equity.

Intangible assets

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

Property, plant and equipment

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

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

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

Inventories

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

Financial instruments

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

Financial assets

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

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

Financial liabilities

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

Leased assets

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

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

Notes to the Consolidated Financial Statements

for the six months ended 31 December 2011 (continued)

1. Accounting policies (continued)

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 reporting date. Research and development tax credits are included as an income tax credit under current assets.

Deferred tax balances are recognised in respect of all temporary differences that have originated but not reversed by the reporting 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 reporting date and are expected to apply when the deferred tax liabilities/(assets) are settled/(recovered).

Recognition of deferred tax assets is restricted to those instances where it is probable that a taxable profit will be available against which the temporary difference can be utilised. 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 reporting date. Exchange differences arising on the retranslation of unsettled monetary assets and liabilities are recognised immediately in the consolidated statement of comprehensive income.

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

2. Critical accounting estimates and judgements

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

Inventory

The Group's raw material inventory shown in note 11 comprises the Group's biobank of human tissue, which is valued net of a provision for items which management consider will be excess to the Group's future research and development requirements. Inventories have been written down by £35,000 during the period.

Share-based payment

The critical accounting estimates, assumptions and judgements underpinning the valuation of the option and LTIP awards are disclosed in note 17.

3. Segmental analysis

The Group operates in one area of activity, namely drug discovery and development. All assets of the Group are located within the United Kingdom and all revenue and losses were generated in that territory. All revenue, which was for research services using the Group's *in vitro* model technology, was destined to one third party located in the United Kingdom.

Notes to the Consolidated Financial Statements

for the six months ended 31 December 2011 (continued)

4. Loss from operations

The loss from operations has been arrived at after charging:

	6 months ended 31 Dec 2011 £000	Year ended 30 June 2011 £000
Depreciation of property, plant and equipment	15	32
Amortisation of intangible assets	17	32
Research and development expenditure	1,815	2,907
Employee benefit expense (see note 5)	656	1,395
Operating lease rentals payable		
Land and buildings	39	69
Other operating lease rentals	47	97

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

	6 months ended 31 Dec 2011 £000	Year ended 30 June 2011 £000
Audit services		
Fees payable to the Company's auditors for the audit of the consolidated financial statements	10	10
Fees payable to the Company's auditors for the audit of the Company's subsidiary's financial statements	10	10
Tax services		
Parent company	2	3
Subsidiary	5	6
Other services pursuant to legislation		
Parent company – interim review	-	5
Total fees	27	34

5. Employee benefit expense

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

	6 months ended 31 Dec 2011 £000	Year ended 30 June 2011 £000
Research	24	21
Administration	3	4
	27	25

Their aggregate remuneration comprised:

	6 months ended 31 Dec 2011 £000	Year ended 30 June 2011 £000
Wages and salaries	493	1,046
Social security costs	58	120
Pension costs – defined contribution plans	29	69
Total cash-settled remuneration	580	1,235
Accrued holiday pay	(20)	1
Share-based payment	96	159
Total remuneration	656	1,395

Notes to the Consolidated Financial Statements

for the six months ended 31 December 2011 (continued)

5. Employee benefit expense (continued)

Key management compensation

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

In respect of directors' remuneration, the disclosures required by Schedule 5 to the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 are included in the detailed disclosures in the audited section of the Remuneration Report on pages 14 and 15, which are ascribed as forming part of these financial statements.

6. Finance income

For the six months ended 31 December 2011 and the year ended 30 June 2011, Finance income represents bank interest receivable.

7. Taxation

Current tax

	6 months ended 31 Dec 2011 £000	Year ended 30 June 2011 £000
UK corporation tax credit on loss for the period	(250)	(395)
Adjustment in respect of prior periods	(1)	(38)
Total income tax credit	(251)	(433)

The tax assessed on the loss on ordinary activities for the period is different to the standard rate of corporation tax in the UK of 26% (year ended 30 June 2011: 27.5%). The differences are reconciled below:

	6 months ended 31 Dec 2011 £000	Year ended 30 June 2011 £000
Loss on ordinary activities before tax	(2,218)	(3,664)
Loss on ordinary activities before tax multiplied by the standard rate of corporation tax in the UK	(577)	(1,008)
<i>Effects of:</i>		
Expenses not deductible for tax purposes	25	46
Enhanced research & development relief	(321)	(465)
Variable rates on tax losses surrendered for research & development tax credit	270	410
Movement in unrecognised losses and temporary differences	353	622
Overprovision in respect of previous periods	(1)	(38)
Total tax credit for the current period	(251)	(433)

Deferred taxation

	6 months ended 31 Dec 2011 £000	Year ended 30 June 2011 £000
<i>Recognised deferred taxation</i>		
Accelerated capital allowances	9	12
Other temporary differences	(6)	(7)
Losses	(3)	(5)
Charge for the period	-	-

Unrecognised deferred taxation

At 31 December 2011 the Group has trading losses carried forward which are available for offset against future profits of the Group amounting to £8,424,000 (30 June 2011: £7,148,000) and non-trading losses of £635,000 (30 June 2011: £522,000). At 31 December 2011 the Group has an unrecognised deferred tax asset in respect of these losses of £2,265,000 (30 June 2011: £1,990,000). The full utilisation of these losses in the foreseeable future is uncertain and no deferred tax asset has therefore been recognised.

Notes to the Consolidated Financial Statements

for the six months ended 31 December 2011 (continued)

7. Taxation (continued)

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

	6 months ended 31 Dec 2011 £000	Year ended 30 June 2011 £000
Unrecognised deferred tax asset at 1 July	(1,990)	(1,574)
Effect of tax rate change	90	-
Movement in period	(365)	(416)
Unrecognised deferred tax asset at period-end	(2,265)	(1,990)

8. Loss per ordinary share

	6 months ended 31 Dec 2011	Year ended 30 June 2011
Loss attributable to equity holders of the Company (£000)	(1,967)	(3,231)
Weighted average number of ordinary shares in issue	69,560,064	60,202,377

The loss attributable to ordinary shareholders and weighted average number of ordinary shares for the purpose of calculating the diluted earnings per ordinary share are identical to those used for basic earnings per share. This is because the exercise of share options would have the effect of reducing the loss per ordinary share and is therefore not dilutive under the terms of IAS 33. At 31 December 2011, there were 7,911,787 options outstanding (30 June 2011: 6,283,487 options outstanding) as detailed in note 17.

9. Intangible assets

	Patent and licence costs £000
Cost	
At 1 July 2010	309
Additions	20
At 30 June 2011	329
Additions	16
At 31 December 2011	345
Amortisation	
At 1 July 2010	57
Charge for the year	32
At 30 June 2011	89
Charge for the period	17
At 31 December 2011	106
Net book amount	
At 31 December 2011	239
At 30 June 2011	240
At 1 July 2010	252

At 31 December 2011 £229,000 (30 June 2011: £231,000) of the net book amount relates to interferon beta and lambda patent and licence costs, which has a remaining amortisation period of 7 years (30 June 2011: 7 years).

Notes to the Consolidated Financial Statements

for the six months ended 31 December 2011 (continued)

10. Property, plant and equipment

	Computer equipment £000	Laboratory and clinical equipment £000	Total £000
Cost			
At 1 July 2010	74	168	242
Additions	7	4	11
At 30 June 2011	81	172	253
Additions	2	1	3
At 31 December 2011	83	173	256
Depreciation			
At 1 July 2010	66	95	161
Charge for the year	5	27	32
At 30 June 2011	71	122	193
Charge for the period	3	12	15
At 31 December 2011	74	134	208
Net book value			
At 31 December 2011	9	39	48
At 30 June 2011	10	50	60
At 1 July 2010	8	73	81

At 31 December 2011 the Group had no capital commitments (30 June 2011: nil).

11. Inventories

	31 Dec 2011 £000	30 Jun 2011 £000
Raw materials	85	107
Finished goods	-	109
	85	216

Raw materials comprises the Group's biobank.

12. Trade and other receivables

	31 Dec 2011 £000	30 Jun 2011 £000
<i>Amounts receivable within one year:</i>		
Other tax and social security	42	60
Prepayments and accrued income	71	52
	113	112

Notes to the Consolidated Financial Statements

for the six months ended 31 December 2011 (continued)

13. Other financial assets – bank deposits

	31 Dec 2011 £000	30 Jun 2011 £000
<i>Amounts receivable within one year:</i>		
Sterling fixed rate deposits of greater than three months' maturity at inception	2,455	3,401

14. Cash and cash equivalents

	31 Dec 2011 £000	30 Jun 2011 £000
Cash available on demand	746	839
Sterling fixed rate deposits of up to three months' maturity at inception	150	653
	896	1,492

15. Trade and other payables

	31 Dec 2011 £000	30 Jun 2011 £000
Trade payables	199	137
Social security and other taxes	35	37
Accrued expenses	729	748
	963	922

Notes to the Consolidated Financial Statements

for the six months ended 31 December 2011 (continued)

16. Financial instruments

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

	Notes	Book value £000	31 Dec 2011 Fair value £000	Book value £000	30 Jun 2011 Fair value £000
Financial assets					
<i>Loans and receivables</i>					
Trade and other receivables	(i)	51	51	64	64
Other financial assets (less than one year)		2,455	2,455	3,401	3,401
Cash and cash equivalents (less than one year)		896	896	1,492	1,492
Total		3,402	3,402	4,957	4,957
Financial liabilities					
<i>Other financial liabilities</i>					
Trade and other payables (less than one year)	(ii)	928	928	885	885

(i) Trade and other receivables shown above excludes prepayments, which are not a contractual obligation to receive cash, amounting to £62,000 (30 June 2011: £48,000).

(ii) Trade and other payables shown above excludes amounts due in respect of social security and other taxes, which are not a contractual obligation to pay cash, amounting to £35,000 (30 June 2011: £37,000).

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

Interest rate risk

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

	31 Dec 2011 Floating-rate financial assets £000	30 Jun 2011 Floating-rate financial assets £000
Australian Dollar	66	10
Sterling	3,285	4,883
Total	3,351	4,893

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

Short-term deposits are placed with banks for periods of up to twelve months and are categorised as floating-rate financial assets. Contracts in place at 31 December 2011 had a weighted average period to maturity of 83 days and a weighted average annualised rate of interest of 1.31% (30 June 2011: 122 days, 1.09%).

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 £21,000 (year ended 30 June 2011: £39,000).

Notes to the Consolidated Financial Statements

for the six months ended 31 December 2011 (continued)

16. Financial instruments (continued)

Liquidity risk

The Group's policy is to maintain adequate cash resources to meet liabilities as they fall due. All Group payable balances as at 31 December 2011 and 30 June 2011 fall due for payment within one year. Cash balances are placed on deposit for varying periods with reputable banking institutions to ensure there is limited risk of capital loss. The Group does not maintain an overdraft facility.

Credit risk

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

17. Share capital and premium

	Note	Number of shares	Ordinary shares of 1p each £000	Share premium £000	Total £000
At 1 July 2010		59,745,249	597	14,725	15,322
Issuance of ordinary shares	(i)	9,814,815	99	2,551	2,650
Costs of issuance of shares		-	-	(148)	(148)
At 30 June and 31 December 2011		69,560,064	696	17,128	17,824

(i) 9,814,815 ordinary shares of 1p were issued on 14 June 2011 at a premium of 26p per share to finance the Company's ongoing interferon beta programme and to provide working capital for the Company. Funds raised net of expenses amounted to £2,502,000.

The total authorised number of ordinary shares is 125 million shares (30 June 2011: 100 million shares) with a par value of 1p per share (30 June 2011: 1p per share). All issued shares are fully paid.

Options

At 31 December 2011 there were options outstanding over 7,911,787 un-issued ordinary shares, equivalent to 11.4% of the issued share capital, as follows:

Date of grant	Number of shares	Exercise price	Earliest exercise date	Latest exercise date
Approved EMI scheme				
26 October 2004	64,515	130p	30 June 2005	25 October 2014
26 October 2004	64,515	130p	30 June 2006	25 October 2014
26 October 2004	42,000	130p	26 October 2007	25 October 2014
12 May 2005	28,000	136.5p	12 May 2008	11 May 2015
2 October 2006	119,159	85.5p	2 October 2009	1 October 2016
29 October 2007	45,417	61.5p	29 October 2010	28 October 2017
Unapproved schemes				
11 October 2004	280,000	10p	11 October 2004	10 October 2014
11 October 2004	140,000	10p	30 June 2005	10 October 2014
26 October 2004	75,485	130p	30 June 2005	25 October 2014
26 October 2004	215,485	130p	30 June 2006	25 October 2014
26 October 2004	140,000	130p	30 June 2007	25 October 2014
7 September 2009 (LTIP)	1,974,819	1p	7 September 2012	6 September 2019
7 September 2009 (QNEOS)	250,000	20p	7 September 2012	6 September 2019
16 October 2009 (QNEOS)	250,000	20p	16 October 2012	15 October 2019
28 June 2010 (QNEOS)	212,765	23.5p	28 June 2013	27 June 2020
8 September 2010 (LTIP)	1,899,753	1p	8 September 2013	7 September 2020
21 September 2011 (LTIP)	2,109,874	1p	21 September 2014	20 September 2021
	7,911,787			

Notes to the Consolidated Financial Statements

for the six months ended 31 December 2011 (continued)

17. Share capital and premium (continued)

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

	Number	6 months ended 31 Dec 2011 Weighted average exercise price	Number	Year ended 30 June 2011 Weighted average exercise price
Outstanding at 1 July	6,283,487	18.9p	4,733,439	24.7p
Granted during the period	2,126,469	1.0p	1,942,741	1.0p
Lapsed during the period	(498,169)	1.0p	(392,693)	2.1p
Number of outstanding options at period-end	7,911,787	15.2p	6,283,487	18.9p

At 31 December 2011, 1,214,576 share options were capable of being exercised (30 June 2011: 1,214,576) and had an average exercise price of 81.7p (30 June 2011: 81.7p). The options outstanding at 31 December 2011 had a weighted average remaining contractual life of 7.8 years (30 June 2011: 3.4 years). On 8 September 2011, the expiry dates of the options granted on 7 September 2009 and 8 September 2010 were amended from 6 September 2013 and 7 September 2014 to 6 September 2019 and 7 September 2020 respectively.

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 7,071,787 options which had not vested at 30 June 2006 (being the date after which IFRS 2 has been applied) are as follows:

Date of grant	Type of award	Number of shares	Exercise price (p)	Share price at date of grant (p)	Fair value per option (p)	Award life (years)	Risk free rate	Expected volatility rate	Performance conditions
26 Oct 2004	Unapproved	140,000	130p	155p	57.7p	5	4.59%	20%	None
26 Oct 2004	EMI	42,000	130p	155p	57.7p	5	4.59%	20%	None
12 May 2005	EMI	28,000	136.5p	135.5p	36.9p	5	4.35%	20%	None
2 Oct 2006	EMI	119,159	85.5p	85.5p	24.4p	5	4.75%	20%	None
29 Oct 2007	EMI	45,417	61.5p	61.5p	17.8p	5	4.95%	20%	None
7 Sept 2009	LTIP	1,974,819	1p	18.5p	7.1p	3	2.09%	30%	Market
7 Sept 2009	QNEOS	250,000	20p	18.5p	4.0p	5	2.67%	30%	Market
16 Oct 2009	QNEOS	250,000	20p	20p	6.3p	5	2.65%	30%	Non-market
28 Jun 2010	QNEOS	212,765	23.5p	23.5p	5.6p	5	2.09%	30%	Market
8 Sept 2010	LTIP	1,899,753	1p	24.25p	12.1p	3	0.92%	40%	Market
21 Sept 2011	LTIP	2,109,874	1p	22.5p	13.4p	3	0.79%	56%	Market
		7,071,787							

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

- (i) Stochastic valuation methodology was used for the LTIP awards and the QNEOS awards with market performance conditions and Black-Scholes methodology for the other awards.
- (ii) The rate used for expected volatility for the grant made on 21 September 2011 reflects historical data over the preceding three years.
- (iii) Expected dividend yield is nil, consistent with the Directors' view that the Group's model is to generate value through capital growth rather than payment of dividends.
- (iv) The risk free rate is equal to the prevailing UK Gilts rate at grant date that most closely matches the expected term of the grant.
- (v) The fair value charge is spread evenly over the expected vesting period.
- (vi) The charge for the six months ended 31 December 2011 for share-based payment, as disclosed in note 5, amounted to £96,000 (year ended 30 June 2011: £159,000).
- (vii) The performance criteria for the options awarded under the LTIP on 21 September 2011 are summarised in the Directors' Remuneration Report.

Notes to the Consolidated Financial Statements

for the six months ended 31 December 2011 (continued)

18. Capital and reserves

18a Share capital

Share capital represents the nominal value of shares issued.

18b Share premium

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

18c 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.

18d Retained deficit

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

19. Related party transactions and balances

During the six months ended 31 December 2011, the Group incurred fees and expenses of £8,000 (year ended 30 June 2011: £15,000) with IP Group plc, for the provision of Dr Bruce Campbell as a director, as detailed on page 15. IP Group plc has an interest in the Company. At the reporting date the amount unpaid in respect of these charges was £4,000 (30 June 2011: £4,000).

During the six months ended 31 December 2011, the Group incurred costs, fees and expenses of £121,000 (year ended 30 June 2011: £239,000) with the University of Southampton in connection with premises, services and research and development activities. The University of Southampton is the controlling shareholder of Southampton Asset Management Limited which has an interest in the Company. At the reporting date the amount unpaid in respect of these charges was £102,000 (30 June 2011: £98,000).

During the six months ended 31 December 2011, the Group incurred consultancy fees with Prof. Stephen Holgate, a director of the Company, amounting to £5,000 (year ended 30 June 2011: £11,000) in addition to his director's remuneration disclosed on page 15. At the reporting date the amount unpaid in respect of these charges was £1,000 (30 June 2011: £2,000).

Details of key management personnel and their compensation are given in note 5 and on page 15 of the Directors' Remuneration Report.

Parent Company Balance Sheet

as at 31 December 2011

Company number: 5233429

	Notes	31 December 2011 £000	30 June 2011 £000
Fixed assets			
Investments	5	15,405	13,726
Current assets			
Debtors	6	20	16
Investments: short-term deposits		2,455	4,055
Cash at bank and in hand		647	760
		3,122	4,831
Creditors: amounts falling due within one year	7	(48)	(61)
Net current assets		3,074	4,770
Total assets less current liabilities		18,479	18,496
Capital and reserves			
Called up share capital	8	696	696
Share premium account	8	17,128	17,128
Profit and loss account	9	655	672
Shareholders' funds	9	18,479	18,496

The financial statements on pages 33 to 36 were approved and authorised for issue by the Board of directors on 31 January 2012 and signed on its behalf by:

Richard Marsden

Chief Executive Officer

John Ward

Finance Director

Notes to the Parent Company Financial Statements

for the six months ended 31 December 2011

1. Basis of preparation

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

As permitted by FRS 1 "Cash Flow Statements", no cash flow statement for the Company has been included on the grounds that the Group includes the Company in its own published consolidated financial statements. The Company has taken advantage of the exemption in FRS 8 "Related Party Disclosures" not to disclose related party transactions with wholly-owned subsidiaries.

2. Accounting policies

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

Investment in subsidiary undertakings

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

Short-term deposits

Short-term deposits comprise deposits with UK banks for periods of up to twelve months. Short-term deposits are measured initially at cost and subsequently at cost or recoverable amount if lower. Interest is accrued evenly on an accruals basis.

Share-based payments

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

Taxation

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

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

Deferred tax balances are not discounted.

3. Loss attributable to members of the Parent Company

As permitted by Section 408 of the Companies Act 2006, the Company's profit and loss account has not been included in these financial statements. The loss dealt with in the financial statements of the Parent Company for the six months ended 31 December 2011 was £113,000 (year ended 30 June 2011: loss of £222,000).

4. Directors' remuneration

The only employees of the Company are the executive directors and all their costs are borne by its subsidiary undertaking.

In respect of directors' remuneration, the disclosures required by Schedule 5 to the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 are included in the detailed disclosures in the audited section of the Directors' Remuneration Report on pages 14 and 15, which are ascribed as forming part of these financial statements.

Notes to the Parent Company Financial Statements

for the six months ended 31 December 2011 (continued)

5. Investments

	Investment in subsidiary undertaking £000	Loan to subsidiary undertaking £000	Capital contribution £000	Total £000
At 1 July 2011	140	12,960	626	13,726
Additions	-	1,583	96	1,679
At 31 December 2011	140	14,543	722	15,405

At 31 December 2011, 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
Synairgen Research Limited	England	100%	Drug discovery and development

6. Debtors

	31 Dec 2011 £000	30 June 2011 £000
Other tax and social security	3	8
Prepayments and accrued income	17	8
	20	16

All amounts fall due for payment within one year.

7. Creditors: amounts falling due within one year

	31 Dec 2011 £000	30 June 2011 £000
Trade creditors	24	28
Accruals and deferred income	24	33
	48	61

8. Share capital and share premium

	Note	Number of shares	Ordinary shares of 1p each £000	Share premium £000	Total £000
At 1 July 2010		59,745,249	597	14,725	15,322
Issuance of ordinary shares	(i)	9,814,815	99	2,551	2,650
Costs of issuance of shares		-	-	(148)	(148)
At 30 June and 31 December 2011		69,560,064	696	17,128	17,824

(i) 9,814,815 ordinary shares of 1p were issued on 14 June 2011 at a premium of 26p per share to finance the Company's ongoing interferon beta programme and to provide working capital for the Company. Funds raised net of expenses amounted to £2,502,000.

Details of the Company's share option schemes and long term incentive plan can be found in note 17 to the Group accounts on pages 30 and 31.

Notes to the Parent Company Financial Statements

for the six months ended 31 December 2011 (continued)

9. Reconciliation of movements in reserves and shareholders' funds

	Share capital £000	Share premium account £000	Profit and loss account £000	Shareholders' funds £000
At 1 July 2010	597	14,725	735	16,057
Issuance of ordinary shares	99	2,551	-	2,650
Transaction costs in respect of share issues	-	(148)	-	(148)
Loss for the year	-	-	(222)	(222)
Share-based payment credit	-	-	159	159
At 30 June 2011	696	17,128	672	18,496
Loss for the period	-	-	(113)	(113)
Share-based payment credit	-	-	96	96
At 31 December 2011	696	17,128	655	18,479

10. Related party transactions

Details of payments made to related parties for the provision of the services of Dr Bruce Campbell are given in note 19 to the consolidated financial statements on page 32.

Corporate Directory

Company number

5233429

Directors

Executive: Richard Marsden,
Dr Phillip Monk, John Ward

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

Secretary

John Ward

Head office and Registered office

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

Website

www.synairgen.com

E-mail

info@synairgen.com

Advisers

Independent auditor

BDO LLP

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

Bankers

HSBC Bank plc

165 High Street, Southampton SO14 2NZ

Financial public relations

Threadneedle Communications

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

Nominated adviser and broker

FinnCap Limited

60 New Broad Street, London EC2M 1JJ

Registrars

Capita Registrars

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

Solicitors

Fasken Martineau LLP

17 Hanover Square, London W1S 1HU

Glossary

2' - 5' OAS

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

Adenovirus

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

AI

Asthma index is a measure of asthma control for the purpose of defining an asthma exacerbation and for documenting the time course of changes associated with asthma triggers, such as colds

Airways (or bronchial tubes)

The tubes that carry air in and out of the lungs

Antiviral

Any substance that can either destroy viruses or suppress their growth

Assay

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

Asthma

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

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

Bioterrorism

Terrorism involving the intentional release or dissemination of biological agents

Bronchodilators

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

Chronic

Persistent

Chronic bronchitis

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

Clinical Trial Authorisation or CTA

An authorisation from the MHRA to conduct a clinical trial

COPD

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

Coronavirus

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

Cystic fibrosis

One of the UK's most common life-threatening inherited diseases. It alters salt transport which affects the internal organs, especially the lungs and digestive system, causing them to become clogged with thick, sticky mucus

Ebola

Ebola virus is a Category A Bioterrorism Agent. Ebola virus disease is a viral hemorrhagic fever with fatality rates ranging from 50-90%

Emphysema

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

Epithelium

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

Exacerbation

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

H1N1

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

H5N1

Also known as 'bird flu' or 'avian influenza' is a subtype of the influenza A virus which can cause serious illness in humans

IFN-β

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

Influenza-like illness

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

Influenza

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

In vitro

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

In vitro model (complex)

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

IP-10

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

Lower airway

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

MHRA

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

Morbidity

Incidence or prevalence of a disease

Mucus

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

MxA

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

Neuraminidase inhibitor

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

Neopterin

An antiviral biomarker

Pandemic influenza

An influenza pandemic occurs when a new influenza virus appears against which the human population has no immunity, resulting in epidemics worldwide with enormous numbers of deaths and illness (definition on world health organization website)

Parainfluenza

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

Patent Cooperation Treaty or PCT

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

Phase I Clinical Trial

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

Phase II Clinical Trial

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

Phase IIa Clinical Trial

Used to describe a Phase II clinical trial evaluating efficacy, adverse effects and safety risks

Phase IIb Clinical Trial

Used to describe a subsequent Phase II clinical trial that also evaluates dosage tolerance and optimal dosage frequency in a larger number of patients than enrolled in a Phase IIa trial

Phase III Clinical Trial

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

Phlegm

See Sputum

Pneumonia

An inflammatory condition of the lung that affects the microscopic air sacs (alveoli), often occurring as a result of an infection

Post-exposure prophylaxis or PEP

Any treatment started immediately after exposure to a disease (such as a disease-causing virus), in order to prevent the disease from breaking out

Prophylaxis

A measure taken for the prevention of a disease or condition

Protein

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

Pulmonary

Relating to, functioning like, or associated with the lungs

Rhinovirus

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

RSV

Respiratory syncytial virus (RSV) can cause both mild respiratory illness (e.g. the common cold) and serious respiratory tract infections (such as bronchiolitis and pneumonia). More severe infections can occur in the very young, the very old and those with weakened immune systems

sACQ

The shortened asthma control questionnaire is a measure of both the adequacy of asthma control and change in asthma control, which occurs either spontaneously or as a result of treatment

Safety study

See Phase I Clinical Trial

SARS

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

Seasonal Influenza

Seasonal flu is a yearly outbreak of flu infection, caused by a flu virus. The seasonal flu is somewhat different every year, as flu viruses are always changing

SG004

A double-blinded, placebo-controlled, single and multiple dose-escalating Phase I study to assess the safety and tolerability of inhaled IFN-β in controlled asthmatic male and female subjects

SG005

A randomised, double-blinded, placebo-controlled Phase II study, comparing the efficacy and safety of inhaled IFN-β to placebo administered to asthmatic subjects after the onset of a respiratory viral infection for the prevention or attenuation of asthma symptoms caused by respiratory viruses

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

Upper airway

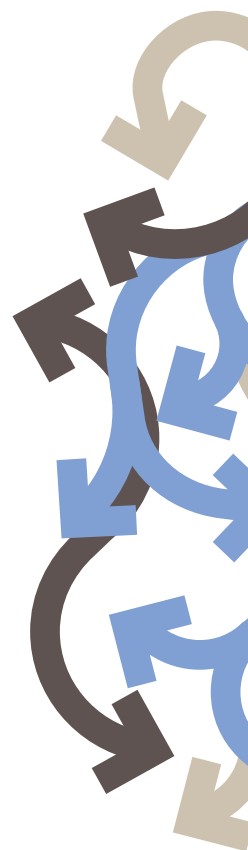
The tubes in the nose and neck which conduct air into the lung

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

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

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