

SYNAIRGEN RESEARCH LIMITED
ANNUAL REPORT AND ACCOUNTS
YEAR ENDED 30 JUNE 2010
Registered Number 04793696

TUESDAY



A0DM2S9C

A37

08/03/2011

148

COMPANIES HOUSE

Synairgen Research Limited

Contents and Corporate Directory

Contents	Page
Directors' Report	2
Independent Auditor's Report	7
Profit and Loss Account	8
Balance Sheet	9
Notes to the Financial Statements	10

Corporate Directory

Company number

04793696

Directors

Richard Marsden
Phillip Monk
John Ward
Prof Stephen Holgate

Secretary

John Ward

Registered office

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

Website

www.synairgen.com

Independent auditors

BDO LLP
Arcadia House
Ocean Village
Southampton SO14 3TL

Bankers

HSBC Bank plc
165 High Street
Southampton SO14 2NZ

Patent agents

Marks & Clerk LLP
4220 Nash Court
Oxford Business Park South
Oxford OX4 2RU

Solicitors

Fasken Martineau LLP
17 Hanover Square
London W1S 1HU

Synairgen Research Limited

Directors' Report

The directors present their report and the audited financial statements for Synairgen Research Limited (the 'Company') for the year ended 30 June 2010

Principal activities

Synairgen Research Limited is a respiratory drug discovery and development company with a particular focus on viral defence

Review of the business and future developments

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

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

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

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

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

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

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

Synairgen Research Limited

Directors' Report (continued)

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

Asthma

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

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

Following the completion of SG004 in the autumn of 2009, we ran a study (SG009) of the asthmatic population during the cold and flu season. SG009 enabled us to test the design, practicalities and feasibility of studying these patients as they suffer virus-induced exacerbations. These findings have all been factored into the protocol for our Phase II study (SG005), which commenced in March 2010.

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

COPD

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

Our intention, as set out in last year's annual report, had been to conduct a controlled infection study, using a recently developed virus challenge model on some 80 long-term, otherwise healthy, smokers (as a surrogate for COPD patients). In this study, volunteers would be infected with the common cold virus having been pre-treated with either IFN-beta or placebo. During the year, we conducted a pilot study (SG010)

Synairgen Research Limited

Directors' Report (continued)

to assess the feasibility of our planned proof of concept study for COPD. The pilot study showed that, in order to avoid testing a very large number of volunteers and the associated expenses of conducting such a trial, the virus challenge study would need to be conducted in at least "moderate" COPD patients (GOLD Stage 2 rather than Stage 1). However patients with more severe disease are less willing to be deliberately infected with virus (as the controlled infection trial required). We therefore concluded that the trial, as originally conceived, represented a greater technical and logistical challenge than we could justify, particularly in the face of the new influenza opportunity and its competing claim on Synairgen's capital resources. In the second half of the year our continuing research programme showed, through *in vitro* experiments, that the window for treating patients with viral infection may be longer than had previously been considered possible. This enabled us to reconsider the use of a 'wild type' COPD study, similar in structure to SG005, where patients are treated upon onset of naturally-acquired virus infections. Such a study will involve dosing more subjects than the original SG006 proposal, but suits better the expectations of potential partners, who have more recently expressed a preference for a study of naturally-infected volunteers.

Following consultation with our panel of experts, we are drawing up a protocol to facilitate commencement of the revised SG006 during the winter season.

Key priorities

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

IFN-beta intellectual property

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

IFN-beta partnering strategy

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

Core technology platform and biobank

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

Outlook

During the forthcoming year, our focus will be on progressing the asthma, influenza and COPD programmes. These activities, together with the process being conducted

Synaigen Research Limited

Directors' Report (continued)

on our behalf by Deloitte LLP's licensing team, will support the effective execution of our partnering strategy

A full review of the business and future developments is included in the Chairman's and Chief Executive's Report and the Financial Review of the Synaigen plc annual report

Research and development

During the year, the Company has invested £2,100,000 (2009 £2,107,000) in research and development activities

Results and dividends

The Company's loss for the year after taxation amounted to £2,391,000 (2009 loss of £2,398,000) The directors do not propose the payment of a dividend

Directors

The directors of the Company during the year were

Richard Marsden

John Ward

Prof Stephen Holgate

Phillip Monk (appointed 3 September 2009)

Charitable and political donations

During the year, the Company made charitable donations of £34,000 (2009 £nil) and no political donations (2009 £nil)

Information needed for the audit

All of the 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

Statement of directors' responsibilities

The directors are responsible for preparing the financial statements in accordance with the Companies Act 2006 and for being satisfied that the financial statements give a true and fair view The directors are also responsible for preparing the financial statements in accordance with United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice)

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

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

Synaergen Research Limited

Directors' Report (continued)

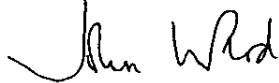
The directors are responsible for keeping adequate accounting records that show and explain the Company's transactions, disclose with reasonable accuracy at any time the financial position of the Company, and enable them to ensure that the financial statements comply with the Companies Act 2006

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

Going concern

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

By order of the Board



John Ward
Company Secretary

28 July 2010

Independent Auditor's Report to the member of Synairgen Research Limited

We have audited the financial statements of Synairgen Research Limited for the year ended 30 June 2010 which comprise the profit and loss account, the balance sheet and the related notes. The financial reporting framework that has been applied in their preparation 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 the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 30 June 2010 and of its loss for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

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

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the 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.

BDO CCP

Paul Anthony (senior statutory auditor)
For and on behalf of BDO LLP, statutory auditor
Southampton
United Kingdom

Date 2 August 2010

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

Synairgen Research Limited

Profit and Loss Account for the year ended 30 June 2010

	Notes	2010 £000	2009 £000
Administrative expenses			
Research and development expenditure		(2,100)	(2,107)
Other administrative expenses		(659)	(639)
Total administrative expenses		(2,759)	(2,746)
Operating loss	3	(2,759)	(2,746)
Bank interest receivable		-	1
Finance lease interest payable		-	(1)
Loss on ordinary activities before taxation		(2,759)	(2,746)
Tax on loss on ordinary activities	6	368	348
Loss on ordinary activities after taxation and retained loss for the year	16	(2,391)	(2,398)

There are no recognised gains and losses other than the above

All amounts relate to continuing activities

Synairgen Research Limited

Balance Sheet as at 30 June 2010

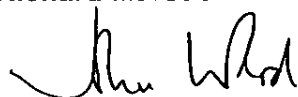
Company number: 04793696

	Notes	2010 £000	2009 £000
Fixed assets			
Intangible assets	7	252	127
Tangible assets	8	81	81
		<u>333</u>	<u>208</u>
Current assets			
Stocks	9	293	123
Debtors	10	493	433
Cash at bank and in hand		32	89
		<u>818</u>	<u>645</u>
Creditors: amounts falling due within one year			
	11	(11,003)	(8,427)
Net current liabilities		<u>(10,185)</u>	<u>(7,782)</u>
Total assets less current liabilities		<u>(9,852)</u>	<u>(7,574)</u>
Creditors: amounts falling due after more than one year			
	12	-	(2)
Net liabilities		<u>(9,852)</u>	<u>(7,576)</u>
Capital and reserves			
Called up share capital	15	1	1
Share premium account	16	622	622
Share-based payment reserve	16	467	352
Profit and loss account	16	(10,942)	(8,551)
Shareholder's funds	16	<u>(9,852)</u>	<u>(7,576)</u>

The financial statements on pages 8 to 17 were approved and authorised for issue by the Board of directors on 28 July 2010 and signed on its behalf by



Richard Marsden Director



John Ward Director

Synaigen Research Limited

Notes to the Financial Statements for the year ended 30 June 2010

1. Accounting policies

Accounting convention and basis of preparation

The financial statements have been prepared under the historical cost convention, in accordance with the Companies Act 2006 and applicable UK accounting standards

The accounting policies used in preparing the financial statements have been applied consistently throughout all periods presented

The financial statements have been prepared on a going concern basis as the Company's parent undertaking has expressed a willingness to provide financial support to allow the Company to meet its liabilities as they fall due for a period of at least 12 months

The Company has taken advantage of the exemption conferred under Financial Reporting Standard 1 (Revised) "Cash flow statements" from the requirement to produce a cash flow statement on the grounds that it is a wholly-owned subsidiary of Synaigen plc, whose consolidated financial statements, that include a cash flow statement, are publicly available

The Company has taken advantage of the exemption conferred under Financial Reporting Standard 8 "Related Party Transactions" and has not disclosed transactions with other group companies

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

Research and development

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

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

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

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

Intangible fixed assets

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

Tangible fixed assets

Tangible fixed assets are stated at cost less depreciation. Depreciation is provided on a straight-line basis at rates calculated to write off the cost of fixed assets less their estimated residual value over their expected useful lives, which are as follows

Computer equipment	3 years
Laboratory and clinical equipment	5 years

The carrying values of tangible fixed assets are reviewed for impairment if events or changes in circumstances indicate that the carrying value may not be recoverable

Stocks

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

Synaergen Research Limited

Notes to the Financial Statements for the year ended 30 June 2010

1. Accounting policies (continued)

Finance and operating leases

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

Taxation

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

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

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

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

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

Foreign currencies

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

Pensions

The Company operates a defined contribution stakeholder pension scheme. The pension charge to the profit and loss account represents the amount payable by the Company in respect of the year.

Share-based payments

In accordance with FRS 20 "Share-based Payment", option awards and awards made under the Synaergen Long Term Incentive Plan ('LTIP') granted after 7 November 2002 which had not vested by 1 July 2006 are fair valued and charged to the profit and loss account over the period from grant to vesting. Option awards have been valued using the Black-Scholes model and awards under the LTIP using the Stochastic model. At each balance sheet date, the estimate of the number of options that are expected to become exercisable is revised. The credit for any charge is taken to the Share-based payment reserve.

Synairgen Research Limited

Notes to the Financial Statements for the year ended 30 June 2010

2. Areas of activity and geographical segments

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

3. Operating loss

This is arrived at after charging	2010 £000	2009 £000
Depreciation	34	64
Amortisation	23	43
Fees of the Company's auditor, BDO LLP, for services provided		
Audit services – fees payable to the Company's auditor for the audit of the Company's financial statements	10	9
Tax services	3	3
Operating leases		
Land and buildings	55	55
Other	102	102

4. Directors' emoluments

No directors' emoluments were paid during the years ended 30 June 2009 and 30 June 2010.

5. Staff costs

The average monthly number of employees (including executive directors) was	2010	2009
Research	19	19
Administration	4	4
	23	23

Their aggregate remuneration comprised

	2010 £000	2009 £000
Wages and salaries	986	923
Social security costs	110	103
Other pension costs – defined contribution plans	52	51
Share-based payment	115	104
	1,263	1,181

Within the aggregate remuneration of £1,263,000 (2009: £1,181,000) above, £604,000 (2009: £452,000) was recharged from Synairgen plc.

6. Tax on loss on ordinary activities

Analysis of tax credit in the period

	2010 £000	2009 £000
Current tax		
UK corporation tax on losses for the period	(345)	(320)
Adjustment in respect of previous periods	(23)	(28)
Tax on loss on ordinary activities	(368)	(348)

Synaigen Research Limited

Notes to the Financial Statements for the year ended 30 June 2010

6 Tax on loss on ordinary activities (continued)

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

	2010 £000	2009 £000
Loss on ordinary activities before tax	(2,759)	(2,746)
Loss on ordinary activities before tax multiplied by the standard rate of corporation tax in the UK of 28% (2009: 28%)	(773)	(769)
Effects of		
Expenses not deductible for tax purposes	35	30
Fixed asset and other timing differences	-	12
Research and development enhanced tax relief	(316)	(298)
Movement on unutilised tax losses	364	392
Variable rates on tax losses surrendered for research and development tax credits	345	313
Over provision in respect of previous periods	(23)	(28)
Tax credit for the current year	(368)	(348)

7. Intangible fixed assets

	Patent and licence costs £000
Cost	
At 1 July 2009	161
Additions	148
At 30 June 2010	309
Amortisation	
At 1 July 2009	34
Provided for the year	23
At 30 June 2010	57
Net book amount at 30 June 2010	252
Net book amount at 30 June 2009	127

8. Tangible fixed assets

	Computer equipment £000	Laboratory and clinical equipment £000	Total £000
Cost			
At 1 July 2009	65	143	208
Additions	9	25	34
At 30 June 2010	74	168	242
Depreciation			
At 1 July 2009	60	67	127
Charge for the year	6	28	34
At 30 June 2010	66	95	161
Net book value at 30 June 2010	8	73	81
Net book value at 30 June 2009	5	76	81

Synaigen Research Limited

Notes to the Financial Statements for the year ended 30 June 2010

8 Tangible fixed assets (continued)

Included within laboratory and clinical equipment at 30 June 2010 are assets under hire purchase contracts at a cost of £14,000 (30 June 2009 £14,000) and net book value of £2,000 (30 June 2009 £5,000) Depreciation in the year on these assets was £3,000 (2009 £3,000)

At 30 June 2010 the Company had no capital commitments (2009 £nil)

9. Stocks

	2010 £000	2009 £000
Raw materials	141	115
Finished goods	152	8
	<u>293</u>	<u>123</u>

Raw materials comprises the Company's biobank and finished goods nebulisers

10 Debtors

	2010 £000	2009 £000
Corporation tax recoverable	345	320
Other tax and social security	48	21
Amount due from parent undertaking	64	63
Prepayments and accrued income	36	29
	<u>493</u>	<u>433</u>

All amounts fall due for payment within one year

11. Creditors: amounts falling due within one year

	2010 £000	2009 £000
Obligations under finance leases and hire purchase contracts (Note 13)	2	3
Trade creditors	180	121
Amounts due to parent undertaking	10,549	7,842
Other tax and social security	36	28
Accruals and deferred income	236	433
	<u>11,003</u>	<u>8,427</u>

12. Creditors. amounts falling due after more than one year

	2010 £000	2009 £000
Obligations under finance leases and hire purchase contracts (Note 13)	-	2

Synaigen Research Limited

Notes to the Financial Statements for the year ended 30 June 2010

13. Obligations under finance leases and hire purchase contracts

	2010 £000	2009 £000
Amounts payable		
Within one year	2	3
In one to two years	-	2
	-	5
Less finance charges allocated to future periods	-	-
	2	5

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

14. Deferred taxation

Recognised deferred taxation

	2010 £000	2009 £000
Accelerated capital allowances	18	17
Other timing differences	(7)	(7)
Trading losses	(11)	(10)
	-	-

Unrecognised deferred taxation

At 30 June 2010 the Company has trading losses carried forward which are available for offset against future profits of the Company amounting to £5,317,000 (2009 £4,393,000) and an unrecognised deferred tax asset in respect of these losses of £1,489,000 (2009 £1,170,000). The full utilisation of these losses in the foreseeable future is uncertain and no deferred tax asset has therefore been recognised.

The movement on the unrecognised deferred tax asset comprises the following

	£000
Unrecognised deferred tax asset at 1 July 2009	(1,170)
Movement in current year	(319)
Unrecognised deferred tax asset at 30 June 2010	(1,489)

15. Called up share capital

	2010 Number	2009 Number	2010 £000	2009 £000
Share capital – ordinary shares of 1p each				
Authorised	200,000	200,000	2	2
Allotted, called up and fully paid	140,000	140,000	1	1

16. Reconciliation of movements in reserves and shareholder's funds

	Share capital £000	Share premium account £000	Share- based payment reserve £000	Profit and loss account £000	Shareholder's funds £000
At 1 July 2008	1	622	248	(6,153)	(5,282)
Loss for the year	-	-	-	(2,398)	(2,398)
Share-based payment	-	-	104	-	104
At 30 June 2009	1	622	352	(8,551)	(7,576)
Loss for the year	-	-	-	(2,391)	(2,391)
Share-based payment	-	-	115	-	115
At 30 June 2010	1	622	467	(10,942)	(9,852)

Synairgen Research Limited

Notes to the Financial Statements for the year ended 30 June 2010

17. Related party transactions and balances

The Company has taken advantage of the exemption allowed under FRS 8 to omit disclosure of transactions occurring within the Group, by virtue of the fact that the Company is a wholly-owned subsidiary of Synairgen plc

During the year ended 30 June 2010, the Company incurred costs, fees and expenses of £350,000 (2009 £313,000) 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 Synairgen plc. At the balance sheet date the amount unpaid in respect of these charges was £97,000 (2009 £113,000)

During the year ended 30 June 2010, the Company incurred consultancy fees and expenses with Prof Stephen Holgate, a director of the Company, amounting to £12,000 (2009 £20,000). At the balance sheet date the amount unpaid in respect of these fees was £3,000 (2009 £5,000)

18. Parent company and ultimate parent undertaking

The parent company and ultimate parent undertaking of the Company is Synairgen plc, which is incorporated in England and Wales. The financial statements of the Company are consolidated within Synairgen plc's group accounts. A copy of these accounts may be obtained from The Company Secretary, Synairgen plc, Mailpoint 810, Level F, South Block, Southampton General Hospital, Tremona Road, Southampton SO16 6YD

19. Share options

Synairgen plc grants options to certain of its employees and those of the Company over its ordinary shares. The details of each scheme are included within Synairgen plc's group accounts. The fair value per award granted, and the assumptions used in the calculation for the 3,893,439 options held by the employees/consultants of the Company and the employees of Synairgen plc whose costs are fully recharged to the Company, which had not vested at 30 June 2006 are as follows

Date of grant	Type of award	Number of shares	Exercise price	Share price at date of grant	Fair value per option	Award life per option (years)	Risk free rate	Expected volatility rate	Performance conditions
26 Oct 04	(a)	140,000	130p	155p	57.7p	5	4.59%	20%	None
26 Oct 04	(b)	42,000	130p	155p	57.7p	5	4.59%	20%	None
12 May 05	(b)	28,000	136.5p	135.5p	36.9p	5	4.35%	20%	None
2 Oct 06	(b)	119,159	85.5p	85.5p	24.4p	5	4.75%	20%	None
29 Oct 07	(b)	52,534	61.5p	61.5p	17.8p	5	4.95%	20%	None
30 Oct 07	(c)	355,394	1p	61.5p	28.9p	3	5.02%	20%	Market
1 Aug 08	(c)	456,214	1p	44p	17.3p	3	4.85%	20%	Market
7 Sept 09	(c)	1,987,373	1p	18.5p	7.1p	3	2.09%	30%	Market
7 Sept 09	(d)	250,000	20p	18.5p	4.0p	5	2.67%	30%	Market
16 Oct 09	(d)	250,000	20p	20p	6.3p	5	2.65%	30%	Non-market
28 Jun 10	(d)	212,765	23.5p	23.5p	5.6p	5	2.09%	30%	Market
		<u>3,893,439</u>							

Types of awards: (a) Unapproved, (b) EMI, (c) Unapproved LTIP, (d) Unapproved Qualifying Non-Employee Option Scheme

Synairgen Research Limited

Notes to the Financial Statements for the year ended 30 June 2010

19. Share options (continued)

In accordance with FRS 20, the Company has applied FRS 20 to all share-based payments granted after 7 November 2002 which had not vested by 1 July 2006. The following comments apply to those options which have been fair valued in accordance with FRS 20.

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