

Synairgen Research Limited

Report and Financial Statements

Year ended

31 December 2013

Company Number 04793696

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Synairgen Research Limited

Report and financial statements for the year ended 31 December 2013

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Directors

Richard Marsden
Dr Phillip Monk
John Ward
Professor Stephen Holgate CBE

Company number

04793696

Secretary and registered office

John Ward

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

Auditor

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

Bankers

HSBC Bank plc, 165 High Street, Southampton SO14 2NZ

Patent agents

Harrison Goddard Foote, 40-43 Chancery Lane, London WC2A 1JA

Solicitors

Fasken Martineau LLP, 17 Hanover Square, London W1S 1HU

Synairgen Research Limited

Strategic Report for the year ended 31 December 2013

The directors present their Strategic report for Synairgen Research Limited (the 'Company' or 'Synairgen') for the year ended 31 December 2013.

Principal activities

Synairgen Research Limited is a respiratory drug discovery and development company.

Operating Review

The Company has made significant progress during the year on its lead programme; the development of inhaled SNG001. This included further positive scientific data from the analysis of samples from the Phase II clinical trial; the formulation of clear options for the delivery and the development of the product; and substantial interaction with a number of potential licensing partners.

SNG001 for asthma and COPD

For asthma and COPD patients, Synairgen's inhaled SNG001 is being developed as a broad spectrum anti-viral therapy to be taken at the onset of cold (or influenza) symptoms to boost the lungs' anti-viral defences. The objective is to treat and/or attenuate a deterioration of asthma or COPD symptoms, by limiting the spread of viral infections to the lung and prevent life-threatening severe exacerbations that require intensive treatment. As a measure of how severe respiratory viruses can be for these patients, it has been reported that up to 80% of asthma exacerbations are linked to common cold infections. In a Phase II clinical trial, in the more severe patients, SNG001 has significantly reduced asthma symptoms, improved lung function and produced an encouraging reduction in the number of severe exacerbations.

During the year we have conducted further analysis of samples of sputum (phlegm) from patients who were dosed with SNG001 in the Phase II trial. This work showed a significant reduction in markers of inflammation and a significant increase in measurable anti-viral activity in the lung during a cold infection. This is important because it clearly demonstrates that the effects observed in the clinical trial can be explained through the expected mechanism of action.

During the same period we have also evaluated regulatory options, assessed the market potential and health economic factors, considered aerosol delivery device options and conducted device development work. In addition, we have considered different clinical trial options for both of the asthma and COPD indications and discussed these with contract research organisations. We have done this both in consultation with and independently of potential partners.

Severe Viral Lung Infections

The clinical and non-clinical data we have generated in the last few years provides a rationale for considering the use of inhaled SNG001 in patients hospitalised with a severe viral lung infection. We are discussing the potential for inhaled SNG001 in this area with various stakeholders including sections of the US government.

Licensing Strategy

We are pleased with the progress to date of licensing discussions. Whilst there can be no guarantee that an agreement will be completed, we anticipate that the terms of a final agreement will be in line with the Board's expectations.

Future Opportunities

We use human tissue models of disease to conduct our research. It was the use of these models by the academic founders of Synairgen and their collaborators that led to the initial IFN-beta deficiency discovery in asthma and COPD that the Company has subsequently progressed into Phase II. During the last few years, we have extensively and exclusively used this translational research platform, including our Biobank of human tissue, to support the development of SNG001: increasing the rationale; addressing questions about dose and different viruses; and supporting biomarker testing.

Synairgen Research Limited

Strategic Report for the year ended 31 December 2013 (*continued*)

Future Opportunities (*continued*)

This technology and Synairgen's unique background/experience can add value to other development opportunities for asthma and COPD. To that end, we have identified a number of external discovery/development programmes which will be reviewed in detail and considered for in-licensing in coming periods.

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 preceding section of this report.

The most important financial KPI is the operating loss of the Company. The operating loss of £2.04 million (2012: £2.24 million) was favourable to the budgeted loss for the year.

Financial Review

The Financial Review should be read in conjunction with the financial statements of the Company and the notes thereto on pages 10 to 20. The financial statements of the Company continue to be prepared in accordance with UK Generally Accepted Accounting Practice.

Profit and Loss Account

The operating loss for the year ended 31 December 2013 was £2.04 million (2012: £2.24 million). Research and development expenditure for the year amounted to £1.29 million (2012: £1.51 million). The proportionate reduction in research and development expenditure was due to the completion during 2012 of the asthma Phase II study (SG005). The most significant items of continuing research and development expenditure during the year have been the analysis of data from SG005 and the planning/evaluation of next stage of the interferon beta programme in asthma and COPD.

Other administrative costs for the year amounted to £0.75 million and remained in line with the previous year (2012: £0.73 million). The research and development tax credit for the year was £0.22 million (2012: £0.21 million). The loss after tax for the year was £1.82 million (2012: £2.03 million).

Balance Sheet, Capital structure and funding

At 31 December 2013, net liabilities amounted to £17.92 million (2012: £16.31 million). The Company is funded by an intercompany loan from its parent company Synairgen plc, which amounted to £18.30 million at 31 December 2013 (2012: £16.71 million). Synairgen plc has confirmed to the Company, the directors consider that the Company has adequate financial resources to that it will continue to provide such financial support as the Company requires for its continued operations for a period of not less than one year from the date of this report.

The Company did not have any bank borrowings as at 31 December 2013 (2012: £nil).

Principal risks and uncertainties

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

- *Reliance on the interferon beta programmes*

All of the Company'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 Company will successfully develop new pharmaceutical products.

Synairgen Research Limited

Strategic Report for the year ended 31 December 2013 (*continued*)

Principal risks and uncertainties (*continued*)

- **Loss of the Biobank**

The Company's Biobank of well-characterised human tissue, which has been built up over several years, is a key element of its technology platform and is very important in relation to the development of future opportunities.

The Company follows a defined policy to minimise the chances of loss of the Biobank, including storing it in a number of different locations at Southampton General Hospital and monitoring the storage temperature 24 hours a day.

- **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 Company's therapies will be able to obtain or maintain the necessary regulatory approvals.

The Company 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 Company 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 Company's intellectual property rights and exclude competitors with similar pharmaceutical products. The success of the Company 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 Company 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 Company's intellectual property which may result in substantial costs.

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

Synairgen Research Limited

Strategic Report for the year ended 31 December 2013 (*continued*)

Principal risks and uncertainties (*continued*)

- *Funding risk*

The Company continues to consume cash resources. Until the Company generates positive net cash inflows from successful out-licensing transactions and commercialisation of its products, it remains dependent upon securing additional funding from its parent company Synairgen plc. The Company 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 Company's discovery and development programmes may be delayed or cancelled and the business operations curtailed.

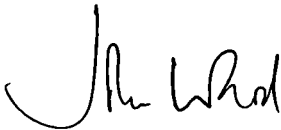
The Company seeks to reduce this risk through tight financial control and prioritising programmes which will generate the best returns.

- *Dependence on Founders, senior management and key staff*

The Founders and certain members of staff are highly skilled scientists and clinicians. The Company 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 Company seeks to reduce this risk by appropriate incentivisation of staff through participation in long term equity incentive schemes over the shares of Synairgen plc.

By order of the Board



John Ward
Company Secretary

19 March 2014

Synairgen Research Limited

Report of the directors for the year ended 31 December 2013

The directors present their report together with the audited financial statements for Synairgen Research Limited (the 'Company') for the year ended 31 December 2013.

There are a number of items required to be included in the Directors' Report, which are covered in the Strategic Report:

- Principal activities
- Review of the business and future developments
- Key performance indicators
- Principal risks and uncertainties

Research and development

During the year, the Company has invested £1,295,000 (2012: £1,510,000) in research and development activities and a review of this expenditure is included in the Strategic Report.

Results and dividends

The Company's loss for the year after taxation amounted to £1,817,000 (2012: loss of £2,027,000). The directors do not propose the payment of a dividend.

Directors

The directors who served during the year were:

Richard Marsden	Dr Phillip Monk
John Ward	Professor Stephen Holgate CBE

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 Company during the course of their service with the Company. This insurance has been in place during the year and on the date of this report.

Political donations

During the year, the Company made no political donations (2012: None).

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 Synairgen 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.

Directors' responsibilities

The directors are responsible for preparing the strategic report, the directors' 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 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 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 judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK 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.

Synairgen Research Limited

Report of the directors for the year ended 31 December 2013 (*continued*)

Directors' responsibilities (*continued*)

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 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.

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.

This report has been prepared in accordance with the small companies regime of the Companies Act 2006.

By order of the Board



John Ward
Company Secretary

19 March 2014

Synaigen Research Limited

Independent auditor's report

INDEPENDENT AUDITOR'S REPORT TO THE MEMBER OF SYNAIGEN RESEARCH LIMITED

We have audited the financial statements of Synaigen Research Limited for the year ended 31 December 2013, 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 member 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 member 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 member, 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 FRC's website at www.frc.org.uk/auditscopeukprivate.

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 31 December 2013 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 matters prescribed by the Companies Act 2006

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

Synairgen Research Limited

Independent auditor's report (*continued*)

INDEPENDENT AUDITOR'S REPORT TO THE MEMBER OF SYNAIRGEN RESEARCH LIMITED (*continued*)

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 CP

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

Date 19 March 2014

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 31 December 2013

	Note	Year ended 31 December 2013 £'000	Year ended 31 December 2012 £'000
Research and development expenditure		(1,295)	(1,510)
Other administrative expenses		(746)	(730)
Total administrative expenses		(2,041)	(2,240)
Operating loss and loss on ordinary activities before taxation	2	(2,041)	(2,240)
Taxation on loss from ordinary activities	5	224	213
Loss on ordinary activities after taxation and retained loss for the period	13	(1,817)	(2,027)

The Company has no recognised gains or losses other than those reported above and therefore no separate statement of total recognised gains and losses has been prepared.

All amounts relate to continuing activities.

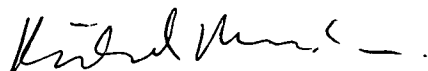
The notes on pages 12 to 20 form part of these financial statements.

Synairgen Research Limited

Balance sheet at 31 December 2013

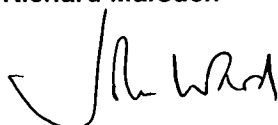
<i>Company number 04793696</i>	Note	31 December 2013 £'000	31 December 2013 £'000	31 December 2012 £'000	31 December 2012 £'000
Fixed assets					
Intangible assets	6	297		332	
Tangible assets	7	15		27	
			312		359
Current assets					
Stocks	8	199		72	
Debtors	9	229		280	
Cash at bank and in hand		45		24	
		473		376	
Creditors: amounts falling due within one year	10	(18,709)		(17,048)	
Net current liabilities			(18,236)		(16,672)
Net liabilities			(17,924)		(16,313)
Capital and reserves					
Called up share capital	12		1		1
Share premium account	13		622		622
Share-based payment reserve	13		1,121		915
Profit and loss account	13		(19,668)		(17,851)
Shareholder's deficit	13		(17,924)		(16,313)

The financial statements were approved by the Board of Directors and authorised for issue on 19 March 2014 and signed on behalf of the board by:



Richard Marsden

Director



John Ward

Director

The notes on pages 12 to 20 form part of these financial statements.

Synaigen Research Limited

Notes forming part of the financial statements for the year ended 31 December 2013

1 Accounting policies

The financial statements have been prepared under the historical cost convention and in accordance with applicable United Kingdom accounting standards and the Companies Act 2006. The principal accounting policies which the directors have adopted are set out below.

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 period is set out below.

Research and development

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

Development costs are charged to the profit and loss account in the period 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.

Synairgen Research Limited

Notes forming part of the financial statements for the year ended 31 December 2013 (*continued*)

1 Accounting policies (*continued*)

Stocks

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

Operating leases

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

The credit for taxation is based on the loss for the period and takes into account taxation deferred. Deferred tax is recognised on all timing differences, on a non-discounted basis, where the transaction or events that give rise to an obligation to pay more tax in the future, or a right to pay less tax in the future, have occurred by the balance sheet date.

A net deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits in the foreseeable future from which the reversal of the underlying timing differences can be deducted.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantially enacted by the balance sheet date.

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 period.

Share-based payments

In accordance with FRS 20 "Share-based Payment", option awards and awards made under the Synairgen 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.

Synaergen Research Limited

Notes forming part of the financial statements
for the year ended 31 December 2013 (*continued*)

2 Operating loss

	2013 £'000	2012 £'000
The operating loss is stated after charging:		
Depreciation	15	30
Amortisation	47	46
Loss on derecognised intangible asset	4	5
Auditor's remuneration:		
- Statutory audit of the Company's financial statements	10	10
- Tax services	11	4
Operating leases:		
- Land and buildings	81	79
- Other	93	93
	<u> </u>	<u> </u>

3 Directors' emoluments

No directors' emoluments were paid during the years ended 31 December 2013 and 2012.

4 Employee information

The average monthly number of persons employed by the Company including executive directors during the year was:

	2013 Number	2012 Number
Research	13	15
Administration	3	3
	<u> </u>	<u> </u>
	16	18
	<u> </u>	<u> </u>

Their aggregate remuneration comprised:	2013 £'000	2012 £'000
Wages and salaries	727	874
Social security costs	83	104
Other pension costs – defined contribution plans	51	72
Share-based payment	204	182
	<u> </u>	<u> </u>
	1,065	1,232
	<u> </u>	<u> </u>

Within the aggregate remuneration of £1,065,000 (2012: £1,232,000) above, £581,000 (2012: £694,000) was recharged from Synaergen plc.

Synaigen Research Limited

Notes forming part of the financial statements
for the year ended 31 December 2013 (*continued*)

5 Taxation on loss from ordinary activities

Analysis of tax credit in the period:

	2013 £'000	2012 £'000
Current tax		
UK corporation tax on losses for the period	(190)	(210)
Adjustment in respect of previous periods	(34)	(3)
	<u>(224)</u>	<u>(213)</u>
Tax on loss on ordinary activities		
	<u>(224)</u>	<u>(213)</u>

The tax assessed on the loss on ordinary activities for the period is different than the standard rate of corporation tax in the UK. The differences are explained below:

	2013 £'000	2012 £'000
Loss on ordinary activities before tax	<u>(2,041)</u>	<u>(2,240)</u>
Loss on ordinary activities before tax multiplied by the standard rate of corporation tax in the UK of 23.25% (2012 – 24.5%)	(475)	(548)
Effects of:		
Expenses not deductible for tax purposes	48	48
Fixed asset and other timing differences	-	5
Research and development enhanced tax relief	(235)	(231)
Movement on unutilised tax losses	260	278
Variable rates on tax losses surrendered for research and development tax credits	212	238
Over provision in respect of previous periods	(34)	(3)
	<u>(224)</u>	<u>(213)</u>
Tax credit for the current period		
	<u>(224)</u>	<u>(213)</u>

Synairgen Research Limited

Notes forming part of the financial statements
for the year ended 31 December 2013 (*continued*)

6	Intangible assets			Patent and licence costs £'000
	<i>Cost</i>			
	At 1 January 2013			484
	Additions			16
	Derecognised assets			(23)
				<hr/>
	At 31 December 2013			477
				<hr/>
	<i>Amortisation</i>			
	At 1 January 2013			152
	Provided for the year			47
	Derecognised assets			(19)
				<hr/>
	At 31 December 2013			180
				<hr/>
	<i>Net book amount</i>			
	At 31 December 2013			297
				<hr/>
	At 31 December 2012			332
				<hr/>
7	Tangible fixed assets			
		Computer equipment £'000	Laboratory and clinical Equipment £'000	Total £'000
	<i>Cost</i>			
	At 1 January 2013	42	132	174
	Additions	2	1	3
		<hr/>	<hr/>	<hr/>
	At 31 December 2013	44	133	177
		<hr/>	<hr/>	<hr/>
	<i>Depreciation</i>			
	At 1 January 2013	30	117	147
	Provided for the year	6	9	15
		<hr/>	<hr/>	<hr/>
	At 31 December 2013	36	126	162
		<hr/>	<hr/>	<hr/>
	<i>Net book value</i>			
	At 31 December 2013	8	7	15
		<hr/>	<hr/>	<hr/>
	At 31 December 2012	12	15	27
		<hr/>	<hr/>	<hr/>

At 31 December 2013 the Company had no capital commitments (31 December 2012: £nil).

Synairgen Research Limited

Notes forming part of the financial statements
for the year ended 31 December 2013 (*continued*)

8 Stocks

	2013 £'000	2012 £'000
Raw materials	199	72
Raw materials comprises the Company's Biobank and stock of interferon beta.		

9 Debtors

	2013 £'000	2012 £'000
Corporation tax recoverable	190	210
Other tax and social security	4	20
Prepayments and accrued income	35	50
	<u>229</u>	<u>280</u>

All amounts fall due for payment within one year.

10 Creditors: amounts falling due within one year

	2013 £'000	2012 £'000
Trade creditors	15	92
Amounts due to parent undertakings	18,296	16,705
Other taxes and social security	25	30
Accruals and deferred income	373	221
	<u>18,709</u>	<u>17,048</u>

11 Deferred taxation

	2013 £'000	2012 £'000
<i>Recognised deferred taxation</i>		
Accelerated capital allowances	1	4
Other timing differences	(1)	(4)
	<u>-</u>	<u>-</u>

Synairgen Research Limited

Notes forming part of the financial statements
for the year ended 31 December 2013 (continued)

11 Deferred taxation (continued)

Unrecognised deferred taxation

At 31 December 2013 the Company has trading losses carried forward which are available for offset against future profits of the Company amounting to £10,676,000 (31 December 2012: £9,624,000) and an unrecognised deferred tax asset in respect of these losses of £2,135,000 (31 December 2012: £2,213,000). The full utilisation of these losses in the foreseeable future is uncertain and no deferred tax asset has therefore been recognised.

In addition to the deferred tax asset on losses, the Company has a potential future tax deduction on share options. Under UK GAAP, this is restricted to the cumulative share based payment charge in the financial statements of £1,080,000 (2012: £874,000) and a deferred tax asset of £216,000 (2012: £201,000) thereon. The additional tax deduction will crystallise at the point the options are exercised. As the utilisation of this additional deduction against taxable profits in the Company is uncertain, no deferred tax asset has been recognised in respect of the future tax deduction on share options.

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

	£'000
Unrecognised deferred tax asset at 1 January 2013	(2,414)
Movement in current year	63
	<hr/>
Unrecognised deferred tax asset at 31 December 2013	(2,351)
	<hr/>

12 Called up share capital

	2013 Number	2012 Number	2013 £'000	2012 £'000
Share capital - ordinary shares of 1p each				
Allotted, called up and fully paid	140,000	140,000	1	1
	<hr/>	<hr/>	<hr/>	<hr/>

13 Reconciliation of movements in shareholder's deficit

	Share capital £'000	Share premium account £'000	Share- based payment reserve £'000	Profit and loss account £'000	Shareholder's deficit £'000
At 1 January 2012	1	622	722	(15,824)	(14,479)
Loss for the year	-	-	-	(2,027)	(2,027)
Share-based payment	-	-	193	-	193
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2012	1	622	915	(17,851)	(16,313)
Loss for the year	-	-	-	(1,817)	(1,817)
Share-based payment	-	-	206	-	206
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2013	1	622	1,121	(19,668)	(17,924)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>

Synairgen Research Limited

Notes forming part of the financial statements for the year ended 31 December 2013 (continued)

14 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 31 December 2013, the Company incurred consultancy fees and expenses with Professor Stephen Holgate, a director of the Company, amounting to £4,000 (2012: £11,000). At the balance sheet date the amount unpaid in respect of these fees was £15,000 (2012: £11,000).

15 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.

16 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 6,553,272 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)	14,000	136.5p	135.5p	36.9p	5	4.35%	20%	None
2 Oct 06	(b)	109,023	85.5p	85.5p	24.4p	5	4.75%	20%	None
29 Oct 07	(b)	17,792	61.5p	61.5p	17.8p	5	4.95%	20%	None
7 Sept 09	(c)	1,855,431	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
8 Sept 10	(c)	877,797	1p	24.25p	12.1p	3	0.92%	40%	Market
21 Sept 11	(c)	1,896,384	1p	22.5p	13.4p	3	0.79%	56%	Market
11 Mar 13	(c)	888,080	1p	53p	30.9p	3	0.36%	44%	Market
		<u>6,553,272</u>							

Types of awards: (a) Unapproved; (b) EMI; (c) Unapproved LTIP; (d) Unapproved Qualifying Non-Employee Option Scheme ('QNEOS').

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.

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Notes forming part of the financial statements for the year ended 31 December 2013 (continued)

16 Share options (continued)

- (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) 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.
- (iii) 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.
- (iv) The fair value charge is spread evenly over the expected vesting period.
- (v) The charge for the year ended 31 December 2013 for share-based payment amounted to £206,000 (2012: £193,000).
- (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.

In addition to the above share options, there are a further 840,000 share options over Synairgen plc's ordinary shares, which have not been accounted for under FRS 20 as they vested prior to the date of implementation of 30 June 2006. 420,000 of these options have an exercise price of 10p and 420,000 an exercise price of 130p.

The movement in the total number of share options is set out below:

	Number	2013 Weighted average exercise price	Number	2012 Weighted average exercise price
Outstanding at start of the year	7,511,635	15.6p	7,911,787	15.2p
Granted during the year	906,343	1.0p	-	n/a
Exercised during the year	(11,555)	1.0p	(68,716)	1.0p
Lapsed during the year	(1,013,151)	2.6p	(331,436)	9.6p
Number of outstanding options at year-end	<u>7,393,272</u>	<u>15.6p</u>	<u>7,511,635</u>	<u>15.6p</u>

At 31 December 2013, 4,608,808 share options were capable of being exercised, with exercise prices ranging from 1p to 136.5p (2012: 3,540,438, with exercise prices ranging from 1p to 136.5p). The options outstanding at 31 December 2013 had a weighted average remaining contractual life of 6.0 years (2012: 6.7 years).