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Registered Number: 05656604

**Syntopix Group plc**  
Annual Report and Accounts 2008

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Syntopix Group plc is a group focused on the discovery and development of drugs for the topical treatment of dermatological diseases. It was founded in 2003 as a spin out from the University of Leeds by Dr Jon Cove and Dr Anne Eady, two of the leading experts in skin microbiology.

The Group seeks to reduce the risks and costs of drug research and development by discovering novel uses for known actives. The Group focuses on actives and combinations of actives that have a history of use in man and that have properties that are well characterised.

9

## Contents

1	Operational highlights	14	Statement of Directors' Responsibilities	20	Company balance sheet
2	Chairman's and Chief Executive Officer's Report	15	Independent Auditors' Report	21	Company statement of changes in equity
5	Board of Directors	16	Consolidated income statement	22	Company cash flow statement
7	Directors' Report	17	Consolidated balance sheet	23	Notes to the Accounts
10	Directors' Remuneration Report	18	Consolidated statement of changes in equity	38	Notice of Annual General Meeting
12	Corporate Governance	19	Consolidated cash flow statement	40	Company information

## Operational highlights

- **Positive results from Phase II cosmetic study which show significant promise as a new cosmetic treatment for acne.**
- **First commercial exclusive evaluation agreement in oral healthcare signed with major consumer healthcare company.**
- **Joint development agreement, to investigate uses for Syntopix's novel antimicrobial technology, signed with Procter and Gamble, the world's largest consumer goods product company.**
- **Revenue increased to £141,000 (2007: £31,000).**
- **Further £1.5 million of funding raised in August 2008 through a placing of new shares to support further clinical studies.**

## Chairman's and Chief Executive Officer's Report

"We believe that our antimicrobial technology has the potential to improve the effectiveness of consumer healthcare brands."

Dr Rod Adams Chairman

### Introduction

The third year of operations, following our AIM flotation in March 2006, has allowed Syntopix to make good progress in positioning itself as a speciality pharmaceutical research and development company. We seek to identify antimicrobial compounds and develop products for healthcare and dermatological pharmaceutical applications, principally acne and staphylococcal infections including those due to methicillin resistant *Staphylococcus aureus* (MRSA). Syntopix searches for antimicrobial compounds and synergistic combinations of compounds that already have a history of use in man. We aim to reduce the high risks and costs of early drug discovery and reduce the lead-time to market normally associated with conventional drug development. We are committed to improving the health and appearance of our consumers by offering safe and effective treatments of the highest quality, thereby creating value for our shareholders and employees.

The prescription market for dermatologicals is in excess of \$11 billion, with the market for acne representing over \$2.5 billion of these sales. The medicated skin care market is worth another \$10 billion, with sales for acne treatments in excess of another \$1 billion. Only 10% of all patients with acne are referred to a doctor; therefore we are developing both over the counter and prescription medicines.

Additionally, the consumer healthcare market is an alternative sector for use of antimicrobial compounds. For example, the oral hygiene market is worth over \$24 billion per annum, with the 3 leading brands each having sales in excess of \$1 billion (74% of Americans have an episode of gingivitis each year), and the hair care market has global sales of \$20 billion (50% of the world's population have dandruff four times a year). Both of these are examples of the types of conditions that can be treated with the antimicrobial compounds being discovered and developed at Syntopix.

The global markets for the compounds we are identifying and developing are large. However, they lack innovation, principally due to the large cost of discovering safe compounds with the required efficacy. In addition, many of the antimicrobial compounds presently being used are increasingly being linked to concerns about environmental toxicity and/or bacterial resistance. Syntopix is making considerable progress in providing cost-effective alternative compounds which overcome these problems. Additionally, we continue to seek alternative uses for our antimicrobial expertise, thereby expanding the commercial potential of our compounds.

### Research and Development

During the year we have added selectively to our library of potential drug candidates, which is now in excess of 1,400 compounds. We have continued to use the Syntopix screening process and have shown that approximately 30% of these compounds exhibit antimicrobial activity against two of the key organisms, i.e. *Staphylococcus aureus* and *Propionibacterium acnes*. Additionally, we have expanded our screening programmes to include the identification of antimicrobial compounds for use in oral care and other consumer healthcare applications in areas such as wound care, body odour and fungal infections. We are also using more sophisticated screens to help us assess the fitness for purpose of candidate compounds for different applications. We can now offer bespoke compound assessments for customers with specific requirements.

## Chairman's and Chief Executive Officer's Report continued

"We are broadening the number of potential markets available to the antimicrobial expertise of Syntopix and are optimistic that further commercial opportunities will arise during the next 12 months."

Dr Stephen Jones Chief Executive Officer

We have made good progress in moving our lead compounds from research into clinical development. Earlier this year we reported the completion of our Phase II proof-of-concept clinical study in 130 subjects with acneic skin. Two Syntopix preparations were investigated: SYN 0126, a compound used in cosmetic preparations; and a combination of SYN 0126 with SYN 0091, a bacteriostatic agent used in soaps and cosmetics.

The study had positive (an existing marketed product) and negative (vehicle) controls, and the products were used once a day for 8 weeks. The combination preparation containing SYN 0126 and SYN 0091 ranked as more effective than the marketed product and as most effective overall. By week 8, this preparation had reduced the total number of lesions by 27% and the acne severity grade by 38%; reductions for the marketed product were 12% and 24% respectively. From week 4 onwards the Syntopix product reduced the total number of acne spots to a significantly greater extent than the currently marketed acne treatment.

Following these positive study results, several major dermatological companies have approached us. It is the Group's intention to investigate the possibility of a licensing agreement with a suitable partner in the cosmetics or consumer healthcare industries. Additionally, and building on the success of this study, SYN 0126 in combination with (a) SYN 0040 and (b) SYN 0040 and SYN 0854, will be the subject of another Phase II proof-of-concept clinical study, starting in January 2009.

We have also reported on a study, in Canada, using a model system to determine the effectiveness of SYN 0017, SYN 0854, SYN 0564 and SYN 0017 in combination with SYN 0710 against the carriage of MRSA. Although none of the treatments reduced the numbers of MRSA to a significantly greater extent than the vehicle, SYN 0017 was more effective than the positive control (Bactroban Nasal) and was the only treatment that produced a greater reduction than the vehicle. The commercial significance of this result, and next steps, are being evaluated.

All of these data will form the basis of commercial partnerships with third parties, and will build upon the relationships that we are developing with our key customers. Licensing discussions will be initiated as soon as the clinical programme confirms the activity of our lead compounds. We continue to build and foster good relationships with potential partners in the pharmaceutical and consumer healthcare industries, and routinely update them on our progress.

### Commercial agreements

In December 2007 we announced that we had signed a 12-month exclusive evaluation agreement with a major consumer healthcare company in the field of oral healthcare. During the year Syntopix has received an upfront payment at the start of the exclusivity period and further payments for compounds subject to additional evaluation. Commercialisation of a compound would be subject to a licence agreement to be negotiated separately.

In July 2008 we announced that we had entered into a joint development agreement with Procter & Gamble, the world's largest consumer goods product company. Under the terms of the agreement, Syntopix and Procter & Gamble will investigate the use of Syntopix's novel antimicrobial technology with the objective of improving the efficacy of one of Procter & Gamble's major brands. Procter & Gamble will have the opportunity to commercialise the Syntopix technology developed under the joint development agreement.

These agreements emphasise Syntopix's strategy of leveraging its antimicrobial compound library and intellectual assets into markets outside dermatological disease and into broader consumer healthcare markets. We will continue to look for antimicrobial opportunities in the field of healthcare where we believe we can make an innovative contribution that leads to a product.

## Chairman's and Chief Executive Officer's Report continued

### Intellectual Property

Our intellectual property portfolio is critical for our success in licensing compounds, and continues to focus and to grow. We adopt an ongoing filing process that has resulted in five granted UK patents and seven published patents, all of which are strengthened by sixteen unpublished applications in key international territories. Furthermore, we also have a further five unpublished UK applications at an early stage. Each case in our portfolio is continually re-evaluated for commercial value, which has resulted in several applications being abandoned at an early stage over the last six months.

### Financials

The Group has continued to invest in its research and development programme. Total expenditure on research and development activity amounted to £1,050,000 (2007: £1,398,000). The reduction in expenditure is due to completion of ongoing projects which had already commenced in the prior year. Included within these costs are the costs of maintaining and supporting our patent portfolio which is strengthening each year.

During the year the Group entered into its first revenue-generating commercial agreement and this has increased revenue from £31,000 in 2007 to £141,000 in 2008. In addition, the Group has deferred income of £56,000 which will be recognised within the income statement during the year ending 31 July 2009.

Operational administrative expenses have increased by £42,000 to £671,000 (2007: £629,000). However, this increase is mainly due to the apportionment of staff costs between administrative expenses and research and development. Consequently, there has been no additional cash expenditure on overheads.

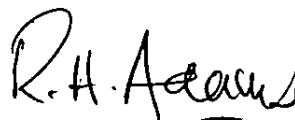
As a result of increased revenue and lower overall operating costs, the loss for the year has reduced to £1,403,000 (2007: £1,741,000).

The continuation of our research and development programme during the year has reduced cash balances to £437,000 at 31 July 2008 (2007: £1,494,000). In previous financial statements, we indicated that further funding would be required to allow our programme to continue. Consequently, during the latter half of the financial year the directors held fundraising discussions with shareholders and potential new investors.

The result of these discussions was that an additional £1,489,000 of new investment was secured immediately after the year end in August 2008 through a new share issue. This funding will be utilised for further studies during 2009 and to provide additional working capital for the Group.

### Outlook

We continue to invest in our discovery pipeline to fuel our development programmes and take the most promising candidates into human use studies. We are very confident that these studies will deliver data that will convince potential partners that our compounds have a commercial future in treating the dermatological conditions we are targeting. Additionally, the agreements that we have signed with two of the world's largest consumer healthcare companies validates our belief that the antimicrobial compounds we are identifying and developing have a broad range of applications in these very large commercial markets. We enter the current year optimistic that commercial opportunities will result from the Syntopix programmes over the next 12 months.



Dr RH Adams, Chairman



Dr SP Jones, Chief Executive Officer

## Board of Directors

### **Dr Rod Adams (63)** Chairman

Rod was a founder and Managing Director of Adams Healthcare Limited, a business focused on prescription and hospital dermatology products and infection control. Rod led the management buyout of Adams Healthcare Limited from DePuy International Limited in 1997. Adams Healthcare Limited was acquired by Medical Solutions plc in 2000 with Rod becoming Chief Operating Officer of that company and also maintaining his position as Managing Director of Adams Healthcare Limited. In 2002, he sold the Adams Healthcare division of Medical Solutions to Ecolab Inc., becoming European Projects Director for Ecolab, based in Germany, until 2004. Rod became a shareholder of Syntopix and was then appointed to the Syntopix Board in October 2004.

### **Dr Anne Eady (55)** Scientific Director

Anne is a founder shareholder of Syntopix and is an internationally recognised skin microbiologist, with particular expertise in acne, acne clinical trial methodology and the dermatological use of antibiotics. She has worked extensively with clinicians and pharmaceutical companies on a variety of basic and applied research projects and has advised on microbiological aspects of a number of regulatory submissions.

Anne works two days a week for the Group and one day a week as a Principal Research Fellow at the University of Leeds. Anne is also an Honorary Research Fellow in Dermatology at Harrogate District Hospital.

### **Dr Stephen Jones (51)** Chief Executive Officer

Stephen is a highly experienced pharmaceutical industry executive with a track record in both branded medicines and consumer healthcare and a successful history of new product development. At Syntopix he co-ordinates operational activities and commercial relationships. Stephen was most recently at GlaxoSmithKline (GSK) where he held the position of Vice President and Director of Consumer Healthcare Research and Development. Prior to joining GSK Stephen worked for companies including Scherer Drug Delivery Systems, Sterling Winthrop, Beecham Pharmaceutical's Research Division, Merck Sharp & Dohme and Amersham International.

### **Dr Jon Cove (58)** Research Director

Jon is a founder shareholder of Syntopix and is currently seconded to the Group from the University of Leeds, where he is a senior lecturer at the Institute of Molecular and Cellular Biology. Jon's areas of expertise are in the evolution and mechanisms of antibiotic resistance in skin bacteria and he has previous experience of working in the pharmaceutical industry. In collaboration with Anne Eady, Jon has established research and/or consultancy with commercial sponsors, including Galderma, Roche, Sanofi-Aventis, Unilever, Stiefel, Smith and Nephew and ProStrakan.

## Board of Directors continued

**Darren Bamforth (39)**

Finance Director

Darren has been the Finance Director of the Group, on a part-time basis, since the formation of Syntopix. He is a fellow of the Institute of Chartered Accountants in England and Wales and a Director of Atraxa Consulting Limited, his own business advisory practice which specialises in supporting early stage and growing companies. Prior to establishing his own practice in 2002, Darren was a Senior Manager with KPMG where he was responsible for a portfolio of clients in the SME sector. Darren is also an executive director of Tracsis Plc.

**Dr Helen Shaw (46)**

Non-Executive Director

Helen qualified with a degree in medicine and worked as a medical practitioner for a number of years before entering the pharmaceutical industry. She worked for Boots Healthcare International from 1995 until January 2006, becoming Medical Director in May 2003. Helen was responsible for clinical and medical aspects of global product development, including idea generation, regulatory submission and in-market support. Helen's portfolio included Clearasil and E45. Reckitt Benckiser acquired Boots Healthcare International for £1.9 billion in February 2006. Helen joined the Board of Syntopix in January 2006. Helen is Chairman of the Nomination Committee, Remuneration Committee and Audit Committee.

**Dr Gwyn Humphreys (62)**

Non-Executive Director

Gwyn was a founder and Managing Director of Bradford Particle Design Limited, a successful UK university spin-out company, which developed supercritical fluid technology used to control particle size in drug formulation. Bradford Particle Design Limited was sold in January 2001 to Inhale Therapeutics Inc. (since re-named Nektar Therapeutics Inc.) for \$200 million. Gwyn became a shareholder of Syntopix and was then appointed Chairman of Syntopix in October 2004. In January 2007, he took over the position of Senior Non-Executive Director. Gwyn is a member of the Nomination Committee, Remuneration Committee and Audit Committee.

**Alan Aubrey (47)**

Non-Executive Director

Alan is the Chief Executive Officer of IP Group plc, a company that specialises in commercialising intellectual property originating from research intensive institutions. He is non-executive chairman of PROACTIS Holdings PLC and Energetix Group plc, and is a non-executive director of Avacta Group plc. Previously, Alan was the founder and CEO of Techtran Group Limited, a business that was sold to IP Group in 2005 and which is a significant shareholder in Syntopix. He was also a partner at KPMG where he specialised in providing corporate finance advice to fast growing technology businesses. He is a fellow of the Institute of Chartered Accountants.



## Directors' Report

The directors present their report and the audited financial statements for the year ended 31 July 2008.

### Principal activity

The principal activity of the Group is the research, discovery and development of drugs for the topical treatment of common dermatological diseases, currently focusing on acne and superficial *Staphylococcus aureus* infections.

### Business review and future developments

A business review of the Group's operations and future developments is covered in the Chairman's and Chief Executive Officer's Report on pages 2 to 4.

### Business risks

#### Early stage of operations

The Group is at an early stage of development. As a result, the commencement of the Group's material revenues is difficult to predict and there is uncertainty that the Group will generate material revenues in the foreseeable future.

#### Research and development risk

The Group is engaged in the discovery and development of drugs in complex scientific areas. Industry experience indicates a very high incidence of delay or failure to produce results. The Group may not be able to initiate new drug discovery and development opportunities beyond its current product development plan. A key element supporting the Group's strategy is the screening of compounds with appropriate activities for further development. There can be no assurance that the Group will continue to identify such compounds and this could have an adverse effect on the ability of the Group to identify lead candidates for further pre-clinical development and clinical trials. In addition, results in pre-clinical development and clinical trials may be different from those obtained in long-term testing or inconclusive results may delay or halt the further development of lead candidates. The projected timetable for continued development of the technologies and the lead candidates by the Group and/or its partners or licensees may otherwise be subject to delay and suspension.

#### Reliance on the Group's founding scientists

The Group is dependent upon the involvement and contribution of the founding scientists, Dr Jon Cove and Dr Anne Eady. Whilst the Group will endeavour to ensure that these individuals remain suitably incentivised, the loss of the services of one or both of them could adversely affect the ability of the Group to achieve its objectives.

#### Intellectual property protection

The commercial success of the Group will depend in part on its ability to protect its intellectual property and to preserve the confidentiality of its own and its collaborators' know-how. The Group may not be able to protect and preserve its intellectual property rights or to exclude competitors with similar products.

The Group may seek to rely on patents to protect its assets. These rights act to prevent a competitor from copying and from independently developing products that fall within the scope of the patent claims. No assurance can be given that others will not gain access to the Group's un-patented proprietary knowledge or disclose such knowledge or that the Group can ultimately protect meaningful rights to such un-patented proprietary knowledge.

No assurance can be given that any pending or future patent or trade mark applications will result in granted patents or trade mark registrations, that the scope of any copyright, trade mark or patent protection will exclude competitors or provide advantages to the Group, that in the future any patent granted in favour of the Group will be held valid on being challenged or that third parties will not in the future claim rights in or ownership of the copyright, patents and other proprietary rights from time to time held by the Group.

Further, there can be no assurance that others have not developed or will not develop similar products, duplicate any of the Group's products or design around any pending patent applications or patents (if any) subsequently granted in favour of the Group. Other persons may hold or receive patents which contain claims having a scope that covers products developed by the Group (whether or not patents are issued to the Group).

The commercial success of the Group may also depend in part on non-infringement by the Group of intellectual property owned by third parties, including compliance by the Group with the terms of any licences granted to it. If this is the case, the Group may have to obtain appropriate intellectual property licences or cease or alter certain activities or processes or develop or obtain alternative products or challenge the validity of such intellectual property in the courts.

Any claims made against the Group's intellectual property rights, even if without merit, could be time-consuming and expensive to defend and could have a materially detrimental effect on the Group given its limited cash resources. A third party asserting infringement claims against the Group and its customers could require the Group to cease the infringing activity and/or require the Group to enter into licensing and royalty arrangements. The third party could also take legal action which could be costly. In addition, the Group may be required to develop alternative non-infringing solutions that may require significant time and substantial unanticipated resources. There can be no assurance that such claims will not have a material adverse effect on the Group's business, financial condition or results.

## Directors' Report continued

### **Risks that the Group will not achieve commercial success**

There can be no assurance that any of the Group's products and data currently being developed will be successfully developed in any commercially viable way. The Group intends to enter arrangements with third parties in respect of such commercial development where appropriate, and an inability to enter into such arrangements could lead to delays in the Group's commercial strategy.

### **Key performance indicators (KPIs)**

The Group's main financial KPI is the management of working capital and the monitoring of cash balances against forecast cash requirements for its development programme. The Group's main non financial KPI's are the number of compounds taken through to clinical studies, the quality of results arising from those studies and the quality of commercial alliances.

### **Financial results**

Details of the Group's financial results are set out in the consolidated income statement, other primary statements and in the Notes to the Accounts on pages 23 to 37.

### **Dividends**

The directors do not recommend the payment of a dividend.

### **Research and development**

The Group is undertaking research and development work to support the drug discovery activities. During the year the Group has incurred expenditure amounting to £1,050,000 (2007: £1,398,000) in respect of research and development. This expenditure has been charged to the Income Statement during the year.

### **Directors**

The directors who served on the Board and on Board Committees during the year are set out on pages 5 and 6.

Under the Articles of Association of the Company, three directors are subject to retirement by rotation at the forthcoming Annual General Meeting, notice of which accompanies this Report and Accounts. Accordingly Dr Stephen Jones, Dr Anne Eady and Dr Helen Shaw, being eligible, offer themselves for re-election. In relation to the re-elections of each of the directors, the Board is satisfied that each of these directors continues to be effective and to demonstrate commitment to the Company. Information in respect of directors' remuneration is given in the Directors' Remuneration Report on pages 10 to 11.

### **Directors' interests in shares and options**

Directors' beneficial interests in the shares of the Company, including family interests, were as follows:

	Ordinary shares of 10p each at 31 July 2008	Ordinary shares of 10p each at 31 July 2007
Dr Rod Adams	183,485	183,485
Mr Alan Aubrey	63,726	63,726
Mr Darren Bamforth	2,825	2,825
Dr Jon Cove	263,846	263,846
Dr Anne Eady	263,846	263,846
Dr Gwyn Humphreys	163,645	163,645
Dr Stephen Jones	5,500	5,500
Dr Helen Shaw	-	-

None of the directors had any interest in the share capital of any subsidiary company. Further details of share options held by the directors are set out in the Directors' Remuneration Report on pages 10 to 11. Between 1 August 2008 and the date of this report, the following directors' share transactions took place:

	Purchases of ordinary shares	Holding at date of this report
Dr Rod Adams	13,333	196,818
Mr Alan Aubrey	13,333	77,059
Mr Darren Bamforth	4,000	6,825
Dr Jon Cove	2,334	266,180
Dr Anne Eady	2,334	266,180
Dr Gwyn Humphreys	13,333	176,978
Dr Stephen Jones	13,333	18,833
Dr Helen Shaw	4,000	4,000

The above transactions all took place on 12 August 2008 as a result of the directors' participation in the placing of new ordinary shares.

## Directors' Report continued

### Substantial shareholdings

At 27 October 2008, being the latest practicable date prior to the publication of this document, the Company has been advised of the following shareholdings of 3% or more in the issued share capital of Syntopix Group plc:

	Number of shares	Percentage of issued shares
IP2IPO Limited (together with Techtran Group Limited)	1,446,832	18.75%
The Wellcome Trust Limited	519,168	6.73%
Invesco Perpetual	492,656	6.38%
Pershing Keen Nominees Limited	470,371	6.09%
IP Venture Fund Limited	425,977	5.52%
The University of Leeds	390,000	5.05%
Credit Suisse Client Nominees (UK) Limited	380,000	4.92%
Ridings Early Growth Investment Company Limited	322,109	4.17%
Peter Ariowitsch	266,667	3.46%
Dr Jon Cove	266,180	3.45%
Dr Anne Eady	266,180	3.45%

### Payment of suppliers

It is the Group's policy to pay suppliers in accordance with the terms and conditions agreed in advance, providing all trading terms and conditions have been met. All payments are made in the ordinary course of business and the Group expects to pay all supplier debts as they become due.

Trade creditor days for the Group, based largely on the creditors of the main trading subsidiary, Syntopix Limited, at 31 July 2008 were 30 days (2007: 30 days). Trade creditor days for the Company at 31 July 2008 were 20 days (2007: 20 days).

### Financial instruments

Details of the Group's exposure to financial risks are set out in Note 19 to the financial statements.

### Employment policy

It is the policy of the Group to operate a fair employment policy. No employee or job applicant is less favourably treated than another on the grounds of their sex, sexual orientation, age, marital status, religion, race, nationality, ethnic or national origin, colour or disability and all appointments and promotions are determined solely on merit. The Directors encourage employees to be aware of all issues affecting the Group and place considerable emphasis on employees sharing in its success through its employee share option scheme.

### Environment

The Group adheres to all environmental regulations and has, where possible, utilised environmental-sustaining policies such as recycling and waste reduction.

### Provision of information to auditors

All of the current Directors have taken all 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.

### Auditors

A resolution to re-appoint BDO Stoy Hayward LLP, Chartered Accountants, as auditors will be put to members at the Annual General Meeting.

By order of the Board



**Darren Bamforth**  
Company Secretary  
31 October 2008

# Directors' Remuneration Report

## Remuneration committee

The Remuneration Committee is described in the Report on Corporate Governance on pages 12 to 13. The remuneration for each Executive Director is determined by the Remuneration Committee, which is composed solely of Non-Executive Directors: Dr Helen Shaw, Dr Rod Adams, Alan Aubrey and Dr Gwyn Humphreys. None of the committee members has any personal financial interest, other than as shareholders, in the matters to be decided.

## Service contracts

It is the Company's policy to enter into service contracts or letters of appointment with all Directors. Specific terms are:

	Date of contract	Commencement date	Unexpired term	Notice period
<b>Executive Directors</b>				
Dr Stephen Jones	1.7.06	1.7.06	Indefinite	6 months
Dr Jon Cove	23.3.06	1.3.04	Indefinite	6 months
Dr Anne Eady	23.3.06	1.3.04	Indefinite	6 months
Darren Bamforth	23.3.06	1.12.05	Indefinite	3 months
<b>Non-Executive Directors</b>				
Dr Rod Adams	23.3.06	1.11.05	Indefinite	6 months
Alan Aubrey	23.3.06	1.12.05	Indefinite	3 months
Dr Gwyn Humphreys	23.3.06	1.11.05	Indefinite	6 months
Dr Helen Shaw	23.3.06	1.12.05	Indefinite	3 months

None of the service contracts or letters of appointment provide for any termination payments.

## Remuneration policy

The remuneration packages for Directors and senior management have been structured so as to fairly compensate them for their contribution to the Group and to encourage them to remain within the Group. The basic components of these packages include:

### Basic salary and bonus arrangements

Each Director receives an annual salary or Directors' fee for his/her services. These salaries are reviewed annually by the Remuneration Committee. The Group operates a discretionary bonus scheme. The Remuneration Committee is entitled to decide whether any bonuses are payable, and if so, what amount bonuses should be granted to Executive Directors.

## Directors' remuneration

Directors' remuneration for the year ended 31 July 2008 is set out below

	Basic salary £000	Bonus £000	Benefits in kind and pensions £000	Total 2008 £000	Total 2007 £000
<b>Executive Directors</b>					
Dr Stephen Jones	129	10	12	151	131
Dr Jon Cove	25	-	1	26	44
Dr Anne Eady	37	1	1	39	51
Darren Bamforth	14	-	-	14	15
	205	11	14	230	241
<b>Non-Executive Directors</b>					
Dr Rod Adams <sup>1</sup>	23	-	-	23	40
Alan Aubrey	14	-	-	14	15
Dr Gwyn Humphreys	18	-	-	18	22
Dr Helen Shaw	14	-	-	14	15
	69	-	-	69	92

1 - In the previous financial year, Dr Rod Adams was Chief Executive Officer until 1 January 2007 when he became Chairman of the Group.

## Directors' Remuneration Report continued

### Directors' remuneration (continued)

Subsequent to the year end, the non-executive directors have all agreed to waive in full their directors' fees from 1 August 2008 and the executive directors have also taken reductions in their salaries.

### Directors' interests in shares options in the Executive Share Option Schemes

	At 1 August 2007	Granted	Exercised	Lapsed	At 31 July 2008	Exercise price pence	Date from which exercisable	Expiry date
<b>Executive Directors</b>								
Dr Stephen Jones	284,198	-	-	-	284,198	177	4 July 2009	4 July 2016
Dr Jon Cove	-	-	-	-	-	-	-	-
Dr Anne Eady	-	-	-	-	-	-	-	-
Darren Bamforth	42,630	-	-	-	42,630	177	8 January 2008	8 January 2017
<b>Non-Executive Directors</b>								
Dr Rod Adams	56,840	-	-	-	56,840	177	8 January 2008	8 January 2017
Dr Gwyn Humphreys	-	-	-	-	-	-	-	-
Alan Aubrey	-	-	-	-	-	-	-	-
Dr Helen Shaw	42,630	-	-	-	42,630	177	8 January 2008	8 January 2017

### External appointments

The committee recognises that its directors may be invited to become executive or non-executive directors of other companies or to become involved in charitable or public service organisations. As the Committee believes that this can broaden the knowledge and experience of the Company's directors to the benefit of the Group, it is the Company's policy to approve such appointments provided that there is no conflict of interest and the commitment is not excessive. The director concerned can retain the fees relating to any such appointment.

### Pensions and benefits in kind

All staff, Executive Directors and senior management are entitled to participate in the stakeholder pension plan established by the Group. Benefits are provided to certain Executive Directors, including life assurance, private health cover and relocation allowances. The Group does not provide any company cars to any of its Directors or employees.

This report was approved by the Board of Directors and authorised for issue on 31 October 2008 and was signed on its behalf by

**Dr Helen Shaw**

Chair of the Remuneration Committee

31 October 2008

## Corporate Governance

Syntopix Group plc was listed on AIM on 23 March 2006. The Group recognises the importance of, and is committed to, high standards of corporate governance. Syntopix Group plc, as an AIM Company, is not required to comply with the 2006 Combined Code on Corporate Governance (the Combined Code), although it has adopted the Combined Code principles as set out below.

### The Board

There are currently eight Board members, comprising four Executive Directors and four Non-Executive Directors. The role of the Non-Executive Directors is to bring independent judgement to Board deliberations and decisions. The Chairman of the Board is Dr Rod Adams who oversees Board meetings and fields all concerns regarding the executive management of the Group and the performance of the Executive Directors. A biography of each Director appears on pages 5 and 6. The Directors each have diverse backgrounds and a wide range of experience is available to the Group. The Board meets on a monthly basis to review the Group's performance and to review and determine strategies for future growth. The Board has delegated specific responsibilities to its committees as set out below.

Each of the Executive Directors is subject to either an executive services agreement with a twelve month notice period or a letter of appointment with between three and twelve month notice periods. Each of the Non-Executive Directors is subject to a letter of appointment with between three and six month notice periods. Syntopix Group plc's Articles of Association require directors to retire from office and submit themselves for re-election on a one third rotation at each Annual General Meeting. Dr Stephen Jones, Dr Anne Eady and Dr Helen Shaw will be retiring at the Annual General Meeting and submitting themselves for re-election.

### Board meetings and attendance

Board meetings were held on 11 occasions during the year. The table below shows attendance at the meetings whether in person or by telephone. The Company Secretary records attendance at all board meetings including where attendance is by telephone conference.

	Board Meetings (total 11)	Remuneration Committee Meetings (total 2)	Audit Committee Meetings (total 2)
Dr Rod Adams	11	2	2
Dr Steve Jones	11	-	-
Mr Darren Bamforth	11	-	2
Dr Jon Cove	11	-	-
Dr Anne Eady	10	-	-
Dr Gwyn Humphreys	11	2	2
Mr Alan Aubrey	9	2	2
Dr Helen Shaw	11	2	2

### Board committees

#### Nomination Committee

The Nomination Committee is comprised entirely of Non-Executive Directors, being Dr Helen Shaw as Chairman, Dr Rod Adams, Alan Aubrey and Dr Gwyn Humphreys. The committee oversees the structure and balance of the Board generally and is responsible for screening and proposing candidates for appointment to the Board.

#### Remuneration Committee

The Group's Remuneration Committee also comprises the Non-Executive Directors, being Dr Helen Shaw as Chairman, Dr Rod Adams, Alan Aubrey and Dr Gwyn Humphreys. The committee is responsible for reviewing the salary and benefits offered to Executive Directors as well as the Group's non-Director senior management. Specifically, the committee is responsible for determining contract terms, compensatory share options and pension rights. The Board as a whole determines the compensation for all Non-Executive Directors. Further details regarding the Directors' individual remuneration are set out in the Report of the Directors on Remuneration on pages 10 to 11.

#### Audit Committee

The Audit Committee similarly is comprised of Non-Executive Directors, being Dr Helen Shaw as Chairman, Dr Rod Adams, Alan Aubrey and Dr Gwyn Humphreys. The Audit Committee supervises the Group's external auditors, including appointment and compensation. The committee reviews the level of non-audit engagements carried out by the external auditors and performs an assessment of their independence. The Audit Committee is also responsible for ensuring the accuracy of the interim and annual reports, as well as compliance with all applicable standards and regulations. The external auditors and the Group Finance Director attend each meeting at the request of the committee.

## Corporate Governance continued

### Non audit services

In accordance with its policy on non audit services provided by the company's auditors, the Audit Committee reviews and approves the award of any such work. The Audit Committee refers to the Board for approval of any work comprising non audit services where the fees for such work represent more than 25% of the annual audit fee.

### Auditor independence and conflicts of interest

The Audit Committee continues to evaluate the independence and objectivity of the external auditors and takes into consideration all United Kingdom professional and regulatory requirements. Consideration is given to all relationships between the Company, the Group and the audit firm (including in respect of the provision of non audit services). The Audit Committee considers whether, taken as a whole, and having regard to the views, as appropriate, of the external auditors and management, those relationships appear to impair the auditors' judgement or independence. The Audit Committee feels they do not.

### Internal audit

The Audit Committee agrees that there should be no internal audit function of the Group at this time considering the size of the Group and the close involvement of senior management over the Group's accounting systems. However, the Committee will keep this matter under review in the event that circumstances warrant an internal function for the Group in the future.

### Control procedures

The Board approves the annual budget each year. This process allows the Board to identify key performance targets and risks expected during the upcoming year. The Board also considers the agreed budget when reviewing trading updates and considering expenditures throughout the year. Progress against budget is monitored at Group level via monthly reporting of actual financial performance against budget and prior year actual results.

The Group has clear authority limits deriving from the list of matters reserved for decision by the Board including capital expenditure approval procedures.

### Relations with shareholders

The Board recognises and understands that it has a fiduciary responsibility to the Group's shareholders. The Chairman's Statement and Chief Executive's Statement include detailed analysis of the Group's performance and future expectations. The Group's website ([www.syntopix.com](http://www.syntopix.com)) allows shareholders access to Company information, including contact details and the current share price.

The Annual General Meeting will be a platform for the Board to communicate with shareholders and the Board welcomes the attendance and participation of all shareholders.

### Going concern

The directors have a reasonable expectation that the Group and the parent company have adequate resources to continue for the foreseeable future in operational existence and have therefore adopted the going concern basis in preparing the accounts.

## Statement of Directors' Responsibilities

### Directors' responsibilities

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company, for safeguarding the assets of the company, for taking reasonable steps for the prevention and detection of fraud and other irregularities and for the preparation of a Directors' Report which complies with the requirements of the Companies Act 1985.

The directors are responsible for preparing the annual report and the financial statements in accordance with the Companies Act 1985. The directors are also required to prepare financial statements for the group in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs) and the rules of the London Stock Exchange for companies trading securities on the Alternative Investment Market. The directors have chosen to prepare financial statements for the company in accordance with IFRSs.

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

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

Financial statements are published on the Group's website in accordance with 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.



# Independent Auditors' Report to the Members of Syntopix Group plc

We have audited the group and parent company financial statements (the "financial statements") of Syntopix Group plc for the year ended 31 July 2008 which comprise the consolidated income statement, the consolidated and company balance sheets, the consolidated and company cash flow statement, the consolidated and company statement of changes in equity and the related notes. These financial statements have been prepared under the accounting policies set out therein.

## Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the statement of directors' responsibilities.

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

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

We read other information contained in the annual report, and consider whether it is consistent with the audited financial statements. This other information comprises only the joint statement of the Chairman and the Chief Executive Officer, the Directors' Report, the Corporate Governance Report and the Report of the Directors on Remuneration. We consider the implications for our report if we become aware of any apparent misstatement or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information. Our report has been prepared pursuant to the requirements of the Companies Act 1985 and for no other purpose. No person is entitled to rely on this report unless such a person is a person entitled to rely upon this report by virtue of and for the purpose of the Companies Act 1985 or has been expressly authorised to do so by our prior written consent. Save as above, we do not accept responsibility for this report to any other person or for any other purpose and we hereby expressly disclaim any and all such liability.

## Basis of audit opinion

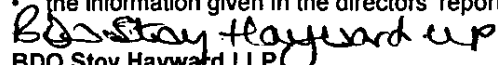
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the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

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

## Opinion

In our opinion:

- the group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the group's affairs as at 31 July 2008 and of its loss for the year then ended;
- the parent company financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Act 1985, of the state of the parent company's affairs as at 31 July 2008;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the directors' report is consistent with the financial statements.

  
BDO Stoy Hayward LLP  
Chartered Accountants and Registered Auditors  
1 Bridgewater Place, Water Lane  
Leeds LS11 5RU  
31 October 2008

## Consolidated income statement

for the year ended 31 July 2008

	Note	2008 £000	2007 £000
Revenue	5	141	31
Other operating income	6	13	22
Administrative expenses:	6-8		
Research and development costs		(1,050)	(1,398)
Other administrative expenses		(671)	(629)
		(1,721)	(2,027)
Loss from operations		(1,567)	(1,974)
Finance income	9	33	101
Finance expense	9	-	(1)
Loss before tax		(1,534)	(1,874)
Tax credit	10	131	133
Loss for the year attributable to equity shareholders		(1,403)	(1,741)
Loss per share			
Basic and diluted (pence)	11	(24.5p)	(30.6p)

All of the above activities are continuing.

The notes on pages 23 to 37 form part of the financial statements.

## Consolidated balance sheet

at 31 July 2008

	Note	2008 £000	2008 £000	2007 £000	2007 £000
<b>Assets</b>					
<b>Non-current assets</b>					
Property, plant and equipment	12	79		112	
<b>Total non-current assets</b>			<b>79</b>		<b>112</b>
<b>Current assets</b>					
Trade and other receivables	14	58		208	
Current tax receivable		131		134	
Cash and cash equivalents		437		1,494	
<b>Total current assets</b>			<b>626</b>		<b>1,836</b>
<b>Total assets</b>			<b>705</b>		<b>1,948</b>
<b>Liabilities</b>					
<b>Current liabilities</b>					
Trade and other payables	15	372		306	
<b>Total current liabilities</b>			<b>(372)</b>		<b>(306)</b>
<b>Total liabilities</b>			<b>(372)</b>		<b>(306)</b>
<b>TOTAL NET ASSETS</b>			<b>333</b>		<b>1,642</b>
<b>Capital and reserves attributable to equity holders of the company</b>					
Share capital	17		573		573
Share premium reserve	18		3,379		3,379
Share based payments reserve	18		226		132
Merger reserve	18		338		338
Retained earnings	18		(4,183)		(2,780)
<b>TOTAL EQUITY</b>			<b>333</b>		<b>1,642</b>

The financial statements were approved and authorised for issue by the Board of Directors on 31 October 2008 and were signed on its behalf by:



Dr Stephen P Jones  
Director



Darren Bamforth  
Director

The notes on pages 23 to 37 form part of these financial statements.

## Consolidated statement of changes in equity

for the year ended 31 July 2008

	Share Capital £000	Share Premium Reserve £000	Share-based Payments Reserve £000	Merger Reserve £000	Retained Earnings £000	Total £000
<b>Balance at 31 July 2006</b>	568	3,379	17	338	(1,040)	3,262
<b>Changes in equity for 2007</b>						
Loss for the year	-	-	-	-	(1,741)	(1,741)
<b>Total recognised income and expense for the year</b>	-	-	-	-	(1,741)	(1,741)
Share option charge	-	-	116	-	-	116
Adjustment for options subsequently exercised	-	-	(1)	-	1	-
Issue of share capital	5	-	-	-	-	5
<b>Balance at 31 July 2007</b>	573	3,379	132	338	(2,780)	1,642
<b>Changes in equity for 2008</b>						
Loss for the year	-	-	-	-	(1,403)	(1,403)
<b>Total recognised income and expense for the year</b>	-	-	-	-	(1,403)	(1,403)
Share option charge	-	-	94	-	-	94
<b>Balance at 31 July 2008</b>	573	3,379	226	338	(4,183)	333

The notes on pages 23 to 37 form part of the financial statements.

## Consolidated cash flow statement

for the year ended 31 July 2008

	2008 £000	2007 £000
<b>Cash flows from operating activities</b>		
Loss before tax	(1,534)	(1,874)
Finance costs	-	1
Finance income	(33)	(101)
Depreciation	37	33
Share based payments	94	116
	<b>(1,436)</b>	<b>(1,825)</b>
Decrease/(increase) in trade and other receivables	150	(170)
Increase in trade and other payables	66	76
Finance costs paid	-	(1)
Tax received	134	86
<b>Net cash used in operating activities</b>	<b>(1,086)</b>	<b>(1,834)</b>
<b>Cash flows from investing activities</b>		
Purchases of property, plant and equipment	(4)	(25)
Finance income received	33	101
<b>Net cash generated from investing activities</b>	<b>29</b>	<b>76</b>
<b>Cash flows from financing activities</b>		
Issue of share capital (net of expenses)	-	5
<b>Net cash generated from financing activities</b>	<b>-</b>	<b>5</b>
<b>Net decrease in cash and cash equivalents</b>	<b>(1,057)</b>	<b>(1,753)</b>
Cash and cash equivalents at start of year	1,494	3,247
<b>Cash and cash equivalents at end of year</b>	<b>437</b>	<b>1,494</b>

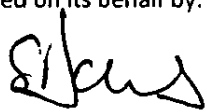
The notes on pages 23 to 37 form part of the financial statements.

# Company balance sheet

at 31 July 2008

	Note	2008 £000	2008 £000	2007 £000	2007 £000
<b>Assets</b>					
<b>Non-current assets</b>					
Investments	13	339		339	
<b>Total non-current assets</b>			<b>339</b>		<b>339</b>
<b>Current assets</b>					
Trade and other receivables	14	37		2,020	
Income tax receivable		37		22	
Cash and cash equivalents		426		1,478	
<b>Total current assets</b>			<b>500</b>		<b>3,520</b>
<b>Total assets</b>			<b>839</b>		<b>3,859</b>
<b>Liabilities</b>					
<b>Current liabilities</b>					
Trade and other payables	15	248		51	
<b>Total current liabilities</b>			<b>(248)</b>		<b>(51)</b>
<b>Total liabilities</b>			<b>(248)</b>		<b>(51)</b>
<b>TOTAL NET ASSETS</b>			<b>591</b>		<b>3,808</b>
<b>Capital and reserves attributable to equity holders of the company</b>					
Share capital	17		573		573
Share premium reserve	18		3,379		3,379
Share based payments reserve	18		226		132
Retained earnings	18		(3,587)		(276)
<b>TOTAL EQUITY</b>			<b>591</b>		<b>3,808</b>

The financial statements were approved and authorised for issue by the Board of Directors on 31 October 2008 and were signed on its behalf by:



Dr Stephen P Jones  
Director



Darren Bamforth  
Director

The notes on pages 23 to 37 form part of these financial statements.

## Company statement of changes in equity

for the year ended 31 July 2008

	Share Capital £000	Share Premium Reserve £000	Share-based Payments Reserve £000	Retained Earnings £000	Total £000
<b>Balance at 31 July 2006</b>	568	3,379	17	(137)	3,827
<b>Changes in equity for 2007</b>					
Loss for the year	-	-	-	(140)	(140)
<b>Total recognised income and expense for the year</b>	-	-	-	(140)	(140)
Share option charge	-	-	116	-	116
Adjustment for options subsequently exercised	-	-	(1)	1	-
Issue of share capital	5	-	-	-	5
<b>Balance at 31 July 2007</b>	573	3,379	132	(276)	3,808
<b>Changes in equity for 2008</b>					
Loss for the year	-	-	-	(3,311)	(3,311)
<b>Total recognised income and expense for the year</b>	-	-	-	(3,311)	(3,311)
Share option charge	-	-	94	-	94
<b>Balance at 31 July 2008</b>	573	3,379	226	(3,587)	591

The notes on pages 23 to 37 form part of the financial statements.

## Company cash flow statement

for the year ended 31 July 2008

	2008 £000	2007 £000
<b>Cash flows from operating activities</b>		
Loss before tax	(3,348)	(163)
Finance income	(31)	(99)
Share based payments	94	116
	(3,285)	(146)
Decrease/(increase) in trade and other receivables	1,983	(1,681)
Increase in trade and other payables	197	30
Tax received	22	-
<b>Net cash used in operating activities</b>	<b>(1,083)</b>	<b>(1,797)</b>
<b>Cash flows from investing activities</b>		
Finance income received	31	100
<b>Net cash generated from investing activities</b>	<b>31</b>	<b>100</b>
<b>Cash flows from financing activities</b>		
Issue of shares (net of expenses)	-	5
<b>Net cash generated from financing activities</b>	<b>-</b>	<b>5</b>
<b>Net decrease in cash and cash equivalents</b>	<b>(1,052)</b>	<b>(1,692)</b>
Cash and cash equivalents at start of year	1,478	3,170
<b>Cash and cash equivalents at end of year</b>	<b>426</b>	<b>1,478</b>

The notes on pages 23 to 37 form part of the financial statements.



# Notes to the accounts

## for the year ended 31 July 2008

### 1 Accounting Policies

The principal accounting policies adopted in the preparation of the financial statements are set out below. The policies have been consistently applied to all the years presented, unless otherwise stated. These financial statements have been prepared in accordance with International Financial Reporting Standards, International Accounting Standards and Interpretations (collectively IFRS) issued by the International Accounting Standards Board (IASB) as adopted by European Union ("adopted IFRSs"), and are in accordance with IFRS as issued by the IASB.

#### Basis of preparation

This is the first time the company has prepared its financial statements in accordance with IFRSs, having previously prepared its financial statements in accordance with UK GAAP accounting standards. Details of how the transition from UK accounting standards to EU adopted IFRS has affected the group and company's reported financial position, financial performance and cash flows are given in note 2.

#### Changes in Accounting Policies – First time adoption

In preparing these financial statements, the Group has elected to apply the following transitional arrangements permitted by IFRS 1 'First-time Adoption of International Financial Reporting Standards':

- Business combinations effected before 1 January 2006, including those that were accounted for using the merger method of accounting under UK Accounting Standards, have not been restated.
- IFRS 2 'Share-based payments' has been applied to employee options granted after 7 November 2002 that had not vested by 1 January 2006.

The Group has made estimates under IFRSs at the date of transition, which are consistent with those estimates made for the same date under UK GAAP unless there is objective evidence that those estimates were in error, i.e. the Group has not reflected any new information in its opening IFRS balance sheet, but reflected that new information in its income statement for subsequent periods.

#### Standards, interpretations and amendments to published standards effective in the current year

(a) *New standards, amendments and interpretations to published standards effective in the current year and adopted by the Group*

The following standards, amendments and interpretations to published standards are effective from 1 August 2007 and have been adopted by the Group:

- (i) IFRS 7, Financial Instruments; disclosures and a complementary amendment to IAS 1, Presentation of Financial Statements – Capital Disclosures (effective for accounting periods beginning on or after 1 January 2007). IFRS 7 introduces new disclosures to improve the information about financial instruments. It requires the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk, including sensitivity analysis to market risk. It replaces IAS 30, Disclosures in the Financial Statements of Banks and Similar Financial Institutions, and disclosure requirements in IAS 32.
- (ii) IFRIC 10, Interim Financial Reporting and Impairment (effective for accounting periods beginning on or after 1 November 2006). IFRIC 10 prohibits impairment losses recognised in an interim period on goodwill and investments in equity instruments and on financial assets carried at cost to be reversed at a subsequent balance sheet date.
- (iii) IFRIC 8, Scope of IFRS 2 (effective for accounting periods beginning on or after 1 May 2006). IFRIC 8 requires consideration of transactions involving issuance of equity instruments to establish whether or not they fall within the scope of IFRS 2. It applies to situations where the identifiable consideration received is or appears to be less than the fair value of the equity instruments issued.

(b) *Standards, amendments and interpretations to published standards effective from 1 August 2007 but which are not relevant to the Group*

- (i) IFRIC 7, Applying the restatement approach under IAS 29, Financial Reporting in Hyperinflationary Economies (effective for accounting periods beginning on or after 1 March 2006).
- (ii) IFRIC 9, Reassessment of embedded derivatives (effective for accounting periods beginning on or after 1 June 2006).

# Notes to the accounts continued

## 1 Accounting Policies (continued)

### Standards, interpretations and amendments to published standards effective in the current year (continued)

(c) *Certain new standards, amendments and interpretations to published standards applicable to the Group have been published that are mandatory for the Group's accounting period beginning on or after 1 January 2008 or later periods but which the Company has not adopted early. These are as follows:*

(i) IFRS 8 Operating Segments (effective for accounting periods beginning on or after 1 January 2009). The standard introduces new disclosures to improve the information about operating segments. It requires the disclosure of information about an entity's operating segments and also about the entity's products and services, the geographical areas in which it operates, and its major customers. It replaces IAS 14, Segment Reporting.

(ii) IFRS 3, Business Combinations, and complimentary amendments to IAS 27 'Consolidated and Separate Financial Statements' (both effective for accounting periods beginning on or after 1 July 2009). This revised standard and amendments is still to be endorsed by the European Union. The revised IFRS 3 and amendments to IAS 27 arise from a joint project with the Financial Accounting Standards Board ("FASB"), the US standard setter, and result in the IFRS being largely converged with the related, recently issued US requirements. The standard provides for significant changes to the requirements of IFRS, and options available if accounting for business combinations.

(iii) IAS 1 Presentation of Financial Statements (effective for accounting periods beginning on or after 1 January 2009). This amendment has yet to be endorsed by the European Union and is intended to replace IAS 1 Presentation of Financial Statements (revised in 2003) as amended in 2005. IAS 1 amends some of the terminology used in regard to the primary statements. Furthermore, it introduces a requirement to include a complete set of financial statements and a statement of the financial position as at the beginning of the earliest comparative period whenever the entity retrospectively applies an accounting policy or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements. The standard also alters the requirements with regard to the presentation of changes in equity and income and expenses.

(iv) Amendments to IFRS 2, Share-based payments: vesting conditions and cancellations (effective for accounting periods beginning on or after 1 January 2009). This amendment is still to be endorsed by the EU. The Amendment to IFRS 2 is of particular relevance to companies that operate employee shares save schemes. This is because it results in an immediate acceleration of the IFRS 2 expense that would otherwise have been recognised in future periods should an employee decide to stop contributing to the savings plan, as well as a potential revision to the fair value of the awards granted to factor in the probability of employees withdrawing from such a plan. Management is currently assessing the impact of the Amendment on the accounts.

(v) Amendments to IFRS 1 and IAS 27 Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate (effective for accounting periods beginning on or after 1 January 2009). These amendments are still to be endorsed by the EU. The amendments permits the entity at its date of transition to IFRSs in its separate financial statements to use a deemed cost to account for its investment in subsidiary, jointly controlled entity or associate. The deemed cost of such investment could be either the fair value of the investment at the date of transition, which would be determined in accordance with IAS 39 Financial instruments: Recognition and Measurement or; the carrying amount of the investment under previous GAAP at the date of transition.

(vi) - Improvements to IFRS (effective for accounting periods beginning on or after 1 July 2009). This improvements project is still to be endorsed by the EU. The amendments take various forms, including the clarification of the requirements of IFRS and the elimination of inconsistencies between Standards.

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

(d) *Certain new standards, amendments and interpretations to existing standards applicable to the Group have been published that are mandatory for the Group's accounting periods beginning on or after 1 January 2008 or later periods but which are not relevant to the Group, as follows:*

(i) IAS 23 Borrowing Costs (revised) (effective for accounting periods beginning on or after 1 January 2009).

(ii) IFRIC 12 Service Concession Arrangements (effective for accounting periods beginning on or after 1 January 2008).

(iii) IFRIC 13 Customer Loyalty Programmes (effective for accounting periods beginning on or after 1 July 2008).

(iv) IFRIC 14, IAS 19, The Limit on a Defined Benefit Asset, Minimum funding Requirement and their Interaction (effective for accounting periods beginning on or after 1 January 2008).

# Notes to the accounts continued

## 1 Accounting Policies (continued)

### Standards, interpretations and amendments to published standards effective in the current year (continued)

- (v) IFRIC 15, Agreements for the Construction of Real Estate (effective for accounting periods beginning on or after 1 January 2009)
- (vi) IFRIC 16, Hedges of a Net Investment in a Foreign Operation (effective for accounting periods beginning on or after 1 October 2008).
- (vii) Amendments to IAS 32 Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation (effective for accounting periods beginning on or after 1 January 2009).

### Revenue

Revenue is recognised when persuasive evidence of an arrangement exists, delivery has occurred or services have been rendered, prices are fixed or determinable and there is a probability that economic benefits will flow to the Group. Certain revenues are generated from licensing and exclusivity agreements under which we grant third parties rights to certain of our products or technologies. Upfront payments and other similar non-refundable payments received under these agreements are recorded as deferred revenue and are recognised in the income statement over the performance period stipulated in the agreement. Non-refundable milestone payments which represent the achievement of a significant technical/regulatory hurdle in the research and development process, pursuant to collaborative agreements, are recognised as revenue upon the achievement of the specified milestone. The Group may also generate revenues from collaborative research and development as well as co-promotion arrangements. Such agreements may consist of multiple elements and provide for varying consideration terms, such as upfront, milestone and similar payments, which are complex and require significant analysis by management in order to determine the most appropriate method of revenue recognition.

Royalty income is recognised on an accruals basis in accordance with the economic substance of the agreement and is reported as part of revenue.

Other revenues are recorded as earned or as the services are performed.

### Basis of consolidation

Where the company has the power, either directly or indirectly, to govern the financial and operating policies of another entity or business so as to obtain benefits from its activities, it is classified as a subsidiary. The consolidated financial statements present the result of the Company and its subsidiaries ("the group") as if they formed a single entity. Intercompany transactions and balances between group companies are therefore eliminated in full.

### Business combinations

The consolidated financial statements incorporate the results of business combinations using the purchase method. In the consolidated balance sheet, the acquiree's identifiable assets, liabilities and contingent liabilities are initially recognised at their fair values at the acquisition date. The results of acquired operations are included in the consolidated income statement from the date on which control is obtained.

Business combinations that took place prior to 1 August 2006 have not been restated. The Group previously used merger accounting under UK GAAP to consolidate the results and assets of its subsidiary company, Syntopix Limited as the combination met the criteria of a group reconstruction. The Group has applied the exemptions of IFRS1 to not restate prior period acquisitions on transition to IFRS.

### Segment reporting

A business segment is a distinguishable component of an enterprise that is engaged in providing an individual product or service or a group of related products or services and that is subject to risks and returns that are different from those of other business segments.

# Notes to the accounts continued

## 1 Accounting Policies (continued)

### Financial assets

The Group classifies its financial assets into one of the categories discussed below, depending on the purpose for which the asset was acquired. The group has not classified any of its financial assets as held to maturity. The Group's accounting policy for each category is as follows:

*Fair value through profit or loss:* The group does not currently have any derivative financial instruments.

*Loans and receivables:* These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of services to customers (e.g. trade receivables), but also incorporate other types of contractual monetary asset. They are stated at their initial value less appropriate provisions 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. For trade receivables, which are reported net, such provisions are recorded in a separate allowance account with the loss being recognised within administrative expenses in the income statement. On confirmation that the trade receivable will not be collectible, the gross carrying value of the asset is written off against the associated provision.

The group's loans and receivables comprise trade and other receivables and cash and cash equivalents in the balance sheet.

Cash and cash equivalents includes cash in hand and deposits held at call with banks.

### Financial liabilities

The group classifies its financial liabilities into different categories, depending on the purpose for which the asset was acquired. The group's accounting policies for each relevant category is as follows:

*Fair value through profit or loss:* The group does not currently have any derivative financial instruments.

*Other financial liabilities:* Other financial liabilities include the following items:

Trade payables and other short term monetary liabilities, which are carried at initial value and do not carry interest.

### Investments

Investments are held at cost less any provisions for impairment.

### Share capital

Financial instruments issued by the group are treated as equity only to the extent that they do not meet the definition of a financial liability. The group's ordinary shares are classified as equity instruments.

### Retirement benefits: Defined Contribution Schemes

Contributions to defined contribution pension schemes are charged to the consolidated income statement in the year to which they relate.

### Share-based payments

The group has applied the requirements of IFRS 2 Share-based payments. In accordance with the transitional provisions, IFRS 2 has been applied to all grants of equity instruments that were unvested as of 1 August 2006.

Where equity settled share options are awarded to employees, the fair value of the options at the date of grant is charged to the consolidated income statement over the vesting period. Non-market vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at each balance sheet date so that, ultimately, the cumulative amount recognised over the vesting period is based on the number of options that eventually vest. Market vesting conditions are factored into the fair value of the options granted. As long as all other vesting conditions are satisfied, a charge is made irrespective of whether the market vesting conditions are satisfied. The cumulative expense is not adjusted for failure to achieve a market vesting condition.

Where the terms and conditions of options are modified before they vest, the increase in the fair value of the options, measured immediately before and after the modification, is also charged to the consolidated income statement over the remaining vesting period.

Where equity instruments are granted to persons other than employees, the consolidated income statement is charged with the fair value of goods and services received.

## Notes to the accounts continued

### 1 Accounting Policies (continued)

#### Internally Generated Intangible Assets (Research and Development Costs)

Expenditure on internally developed products is capitalised if it can be demonstrated that:

- it is technically feasible to develop the product for it to be sold;
- adequate resources are available to complete the development;
- there is an intention to complete and sell the product;
- the group is able to sell the product;
- sale of the product will generate future economic benefits; and
- expenditure on the project can be measured reliably.

Capitalised development costs are amortised over the periods the group expects to benefit from selling the products developed. The amortisation expense is included within the administrative expenses line in the consolidated income statement.

Development expenditure not satisfying the above criteria and expenditure on the research phase of internal projects are recognised in the consolidated income statement as incurred.

#### Deferred taxation

Deferred tax assets and liabilities are recognised where the carrying amount of an asset or liability in the balance sheet differs from its tax base, except for differences arising from:

- the initial recognition of goodwill;
- 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 profits; and
- investments in subsidiaries and jointly controlled entities where the group is able to control the timing of the reversal of the difference and it is probable that the difference will not reverse in the foreseeable future.

Recognition of deferred tax assets is restricted to those instances where it is probable that taxable profit will be available against which the difference can be utilised. The amount of the asset or liability is determined using tax rates that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the deferred tax liabilities/(assets) are settled/(recovered).

Deferred tax assets and liabilities are offset when the group has a legally enforceable right to offset current tax assets and liabilities and the deferred tax assets and liabilities relate to taxes levied by the same tax authority on either:

- the same taxable group company; or
- different group entities which intend either to settle current tax assets and liabilities on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax assets or liabilities are expected to be settled or recovered.

#### Property, plant and equipment

Items of property, plant and equipment are initially recognised at cost. As well as the purchase price, cost includes directly attributable costs. Items of property, plant and equipment are carried at depreciated cost.

Depreciation is provided on all items of property, plant and equipment so as to write off the carrying value of items over their expected useful economic lives. It is applied at the following rates:

Computer equipment	–	3 years
Laboratory equipment	–	5 years

## Notes to the accounts continued

### 2 Explanation of transition to IFRS

The Group and Parent company's financial statements for the year ended 31 July 2008 are the first financial statements that comply with International Financial Reporting Standards (IFRS). The financial statements prior to and including 31 July 2007 had been prepared in accordance with Generally Accepted Accounting Principles in the United Kingdom (UK GAAP).

As required by IFRS 1, the impact of the transition from UK GAAP to IFRS is explained below. The accounting policies set out above have been applied consistently to all periods presented in this financial information and in preparing an opening IFRS balance sheet at 1 August 2006 for the purposes of transition to IFRS.

#### *Presentational adjustments:*

IAS 1 – Presentation of Financial Statements. The form and presentation in the UK GAAP financial statements has been changed to be in compliance with IAS 1. There is no impact on the balance sheet at date of transition or at 31 July 2008 nor on the loss for the year ended 31 July 2007.

#### *Adjustments to reported loss and net assets:*

There are no adjustments arising from the transition to IFRS and therefore there is no impact on the reported Income Statement for both the Company and the Group for the year ended 31 July 2007, nor on the Balance Sheet for the Company and Group at 31 July 2007 and 31 July 2006. Consequently, no reconciliation between IFRS and UK GAAP has been provided.

IAS 7 – Cash Flow Statements. The IFRS Cash Flow Statement, prepared under IAS 7, presents cash flows in three categories: cash flows from operating activities, cash flows from investing activities and cash flows from financing activities. Other than the reclassification of cash flow into the new disclosure categories, there are no significant differences between the Group and parent company's Cash Flow Statement under UK GAAP and IFRS. Consequently, no cash flow reconciliations are provided. Purchases of tangible fixed assets under UK GAAP have been reclassified to purchases of property, plant and equipment under IFRS.

The Group has elected not to apply IFRS 3 to business combinations that occurred prior to the date of transition.

### 3 Critical Accounting Estimates and Judgements

The group makes certain estimates and assumptions regarding the future. Estimates and judgements are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may differ from these estimates and assumptions. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

#### *Impairment of non-current assets*

Property, plant and equipment is depreciated over the useful lives of the assets. Useful lives are based on the management's estimates of the period that the assets will generate revenue, which are periodically reviewed for continued appropriateness.

#### *Share-based payments*

The group has equity settled share-based remuneration schemes for employees. The fair value of share options is estimated by using the Black-Scholes valuation model, on the date of grant based on certain assumptions. These assumptions include, among others, expected volatility, expected life of the options and number of options expected to vest.

#### *Income taxes*

The group is recognising research & development tax credits receivable in the consolidated income statement in respect of the significant expenditure on research and development activity during the period. The amount recognised is an estimate of the amount which the group believes it is entitled to claim. Until the claim is submitted to the tax authorities and the amounts are actually received there is a risk that the tax credit claim could be challenged by the tax authorities. The group believes that the receivable for income tax repayments is appropriate based on its assessment of several factors including past experience and interpretations of tax law. To the extent that the final tax outcome is different from the amounts recorded, such differences will impact on the income tax expense in the period in which such determination is made.

### 4 Segment information

The Group has one business segment – the research and development of pharmaceutical products, with all activities taking place in the UK. Consequently, there are no reportable segments in accordance with IAS 14.

## Notes to the accounts continued

### 5 Revenue

Revenue arises from:	2008 £000	2007 £000
Contract research consultancy	-	31
Milestone and upfront payments	141	-
	<b>141</b>	<b>31</b>

### 6 Loss from operations

Loss from operations has been arrived at after charging/(crediting)	2008 £000	2007 £000
Staff costs (see note 7)	<b>728</b>	801
Depreciation of property, plant and equipment	<b>37</b>	33
Research and development expenditure	<b>996</b>	1,398
Audit services:		
- Fees payable to the company auditor for the audit of the parent company and the consolidated accounts	<b>20</b>	19
Non-audit services - Fees payable to the company auditor for other services:		
- Other services relating to taxation	<b>2</b>	2
- VAT consultancy	-	2
Non government grants received	<b>(13)</b>	(22)

### 7 Employees

Staff costs (including directors) comprise:	Group		Company	
	2008 £000	2007 £000	2008 £000	2007 £000
Wages and salaries	<b>550</b>	598	<b>287</b>	320
Employers national insurance contributions and similar taxes	<b>58</b>	64	<b>31</b>	35
Defined contribution pension cost	<b>26</b>	23	<b>11</b>	-
Share based payment remuneration	<b>94</b>	116	<b>94</b>	116
	<b>728</b>	801	<b>423</b>	471

Average staff numbers (including directors) were:	Group		Company	
	2008 £000	2007 £000	2008 £000	2007 £000
Management and administration	<b>9</b>	9	<b>8</b>	8
Research scientists and staff	<b>9</b>	9	-	-
	<b>18</b>	18	<b>8</b>	8

## Notes to the accounts continued

### 8 Directors' emoluments

Directors	2008 £000	2007 £000
Aggregate emoluments	287	322
Company contributions to money purchase pension schemes	11	11
	298	333

Emoluments of the highest paid director	2008 £000	2007 £000
Aggregate emoluments	140	120
Company contributions to money purchase pension schemes	11	11
	151	131

### 9 Finance income and expense

	2008 £000	2007 £000
<i>Finance income</i>		
Interest received on bank deposits	33	101
<i>Finance expense</i>		
Bank interest payable	-	(1)
Net finance income	33	100

### 10 Taxation

	2008 £000	2007 £000
<i>Current tax credit</i>		
UK Corporation tax	131	133
Total income tax credit	131	133

The reasons for the difference between the actual tax credit for the year and the standard rate of corporation tax in the UK applied to losses are as follows:

	2008 £000	2007 £000
Loss for the year	(1,534)	(1,874)
Expected tax credit based on the standard rate of corporation tax in the UK of 30% (2007: 30%)	(460)	(562)
Expenses not deductible for tax purposes	28	36
Research and development enhancement	(117)	(186)
Losses utilised against research and development tax credits received	115	117
Depreciation in excess of capital allowances	10	4
Losses carried forward	293	458
Total income tax credit	(131)	(133)



## Notes to the accounts continued

### 11 Earnings per share

Basic earnings per share is calculated by dividing the loss attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the year. Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares in issue to assume the conversion of all dilutive potential ordinary shares.

The Group has one class of potentially dilutive ordinary shares: those share options granted to employees where the exercise price is less than the average market price of the company's ordinary shares during the year. However, due to losses incurred in the year there is no dilutive effect from the potential exercise of these share options.

	Loss for the period £	Weighted average number of shares	Loss per share (pence)
<b>Basic and diluted loss per share</b>			
Year ended 31 July 2008	(1,403,000)	5,732,601	(24.5p)
Year ended 31 July 2007	(1,741,000)	5,697,035	(30.6p)

### 12 Property, plant and equipment

Group	Fixtures & fittings £000	Computer equipment £000	Plant & machinery £000	Total £000
<b>Cost</b>				
At 1 August 2006	1	20	120	141
Additions	9	1	15	25
At 31 July 2007	10	21	135	166
At 1 August 2007	10	21	135	166
Additions	-	2	2	4
At 31 July 2008	10	23	137	170
<b>Depreciation and impairment</b>				
At 1 August 2006	-	5	15	20
Charge for the year	1	7	26	34
At 31 July 2007	1	12	41	54
At 1 August 2007	1	12	41	54
Charge for the year	2	7	28	37
At 31 July 2008	3	19	69	91
<b>Net book value</b>				
At 1 August 2006	1	15	105	121
At 31 July 2007	9	9	94	112
At 31 July 2008	7	4	68	79

## Notes to the accounts continued

### 13 Investments

Company	Investments in subsidiary undertakings £000
<b>Cost and net book value</b>	
At 1 August 2006	339
At 31 July 2007	339
<b>At 31 July 2008</b>	<b>339</b>

The principal subsidiaries of Syntopix Group plc, all of which have been included in these consolidated financial statements, are:

Name	Country of Incorporation	Proportion of Ownership Interest
Syntopix Limited	Great Britain	100%
Syntopix Services Limited	Great Britain	100%

### 14 Trade and other receivables

	Group		Company	
	2008 £000	2007 £000	2008 £000	2007 £000
Trade receivables	29	22	29	-
Amounts receivable from group undertakings	-	-	-	2,006
Other receivables	16	43	-	-
Prepayments	13	143	8	14
	<b>58</b>	<b>208</b>	<b>37</b>	<b>2,020</b>

As at 31 July 2008 none of the trade receivables are past due or impaired.

### 15 Trade and other payables - current

	Group		Company	
	2008 £000	2007 £000	2008 £000	2007 £000
Trade payables	93	146	16	27
Other tax and social security	16	19	10	17
Other payables	136	2	134	-
Accruals and deferred income	127	139	88	7
	<b>372</b>	<b>306</b>	<b>248</b>	<b>51</b>

## Notes to the accounts continued

### 16 Deferred tax

Deferred tax assets have not been recognised as the Directors consider that this would be inappropriate as the Group is not expected to realise sufficient profits in the foreseeable future against which such assets could be utilised. This will be reassessed at such time as the Group makes a profit. The amount unrecognised of the total potential asset is as follows:

Group	2008		2007	
	Amount recognised £000	Amount unrecognised £000	Amount recognised £000	Amount unrecognised £000
Tax effect of timing differences:				
Excess of capital allowances over depreciation	-	22	-	32
Tax effect of losses carried forward	-	(958)	-	(691)
Share-based payments	-	(68)	-	(40)
	-	(1,004)	-	(699)

### 17 Share capital

	2008 Number	2008 £000	2007 Number	2007 £000
<b>Authorised:</b>				
Ordinary shares of 10p each	10,000,000	1,000	10,000,000	1,000
<b>Issued and fully paid:</b>				
Ordinary shares of 10p each				
At beginning of year	5,732,601	573	5,683,981	568
Employee share options exercised	-	-	48,620	5
At end of year	5,732,601	573	5,732,601	573

### 18 Movements in equity

Group	Share Capital £000	Share Premium £000	Merger Reserve £000	Share based Payments Reserve £000	Retained Earnings £000	Total £000
Balance at 1 August 2006	568	3,379	338	17	(1,040)	3,262
Loss for the year	-	-	-	-	(1,741)	(1,741)
Share based payment expense	-	-	-	116	-	116
Share options exercised	5	-	-	(1)	1	5
Balance at 31 July 2007	573	3,379	338	132	(2,780)	1,642
Loss for the year	-	-	-	-	(1,403)	(1,403)
Share based payments expense	-	-	-	94	-	94
Balance at 31 July 2008	573	3,379	338	226	(4,183)	333

## Notes to the accounts continued

### 18 Movements in equity (continued)

Company	Share Capital £000	Share Premium £000	Share based Payments Reserve £000	Retained Earnings £000	Total £000
<b>Balance at 1 August 2006</b>	568	3,379	17	(138)	3,826
Loss for the year	-	-	-	(139)	(139)
Share based payment expense	-	-	116	-	116
Share options exercised	5	-	(1)	1	5
<b>Balance at 31 July 2007</b>	573	3,379	132	(276)	3,808
Loss for the year	-	-	-	(3,311)	(3,311)
Share based payments expense	-	-	94	-	94
<b>Balance at 31 July 2008</b>	<b>573</b>	<b>3,379</b>	<b>226</b>	<b>(3,587)</b>	<b>591</b>

#### Profit for the financial period

As permitted by section 230 of the Companies Act 1985, the parent company's income statement has not been included in these financial statements. The loss after taxation for the financial year dealt with in the accounts of the parent company was £3,311,000 (2007: loss £139,000).

The following describes the nature and purpose of each reserve:

Reserve	Description and purpose
Share capital	Amount subscribed for share capital at nominal value
Share premium	Amount subscribed for share capital in excess of nominal value
Merger reserve	A reserve created on the combination of companies within the group
Share based payments reserve	Amounts arising from the requirement to expense the fair value of share options in accordance with IFRS2 Share-based Payments
Retained earnings	Cumulative net losses recognised in the consolidated income statement

### 19 Financial instruments

The Group is exposed through its operations to the following financial risks:

- Credit risk;
- Fair value or cash flow interest rate risk;
- Liquidity risk.

In common with all other businesses, the Group is exposed to risks that arise from its use of financial instruments. This note describes the Group's objectives, policies and processes for managing those risks and the methods used to measure them. Further quantitative information in respect of these risks is presented throughout these financial statements.

There have been no substantive changes in the Group's exposure to financial instrument risks, its objectives, policies and processes for managing those risks or the methods used to measure them from previous periods unless otherwise stated in this note.

#### General objectives, policies and processes

The Board has overall responsibility for the determination of the Group's risk management objectives and policies and, whilst retaining ultimate responsibility for them, it has delegated authority for designing and operating processes that ensure the effective implementation of the objectives and policies to the Group's finance function. The Board receives monthly reports from the Group Finance Director through which it reviews the effectiveness of the processes put in place and the appropriateness of the objectives and policies it sets.

The overall objective of the Board is to set policies that seek to reduce risk as far as possible without unduly affecting the Group's competitiveness and flexibility.

## Notes to the accounts continued

### 19 Financial instruments (continued)

#### Principal financial instruments

The principal financial instruments used by the Company and the Group, from which financial instrument risk arises, are as follows:

- trade receivables;
- cash at bank;
- trade and other payables.

The main risks arising from the financial instruments are interest rate risk and liquidity risk. The Board reviews and agrees policies for managing each of these risks and they are summarised below.

The main purpose of these financial instruments is to provide finance for the Group's operations. The Group has various other financial instruments, such as trade receivables and payables that arise directly from its operations.

The fair values of the financial instruments are equal to their year end carrying values.

Group	2008			2007		
	Fixed Rate £000	Floating Rate £000	Total £000	Fixed Rate £000	Floating Rate £000	Total £000
Financial assets						
Cash and short term deposits	-	437	437	1,000	494	1,494

Company	2008			2007		
	Fixed Rate £000	Floating Rate £000	Total £000	Fixed Rate £000	Floating Rate £000	Total £000
Financial assets						
Cash and short term deposits	-	426	426	1,000	478	1,478

Neither the Group nor the parent company had any financial liabilities or derivative contracts in either the current or previous year. It is policy that no trading in financial instruments should be undertaken. The surplus cash balances have been invested in deposit accounts.

#### Interest rate risk

The policy on managing its exposure to interest rate change is agreed at Board level and is reviewed on an ongoing basis. Prior to placing fixed-term deposits, the Board reviews interest rates available from the major banks. At 31 July 2008 neither the Group nor the parent company had any fixed-rate deposits in place.

#### Liquidity risk

Liquidity risk arises from the group's management of working capital. It is the risk that the group will encounter difficulty in meeting its financial obligations as they fall due. The group's policy is to ensure that it will always have sufficient cash to allow it to meet its liabilities when they become due. To achieve this aim, it seeks to maintain short term cash balances to meet expected requirements for a period of at least 60 days.

The Board receives rolling 12-month cash flow projections on a monthly basis as well as information regarding cash balances and the value of the cash balances on short term deposits. At the balance sheet date, these projections indicated that the group expected to have sufficient liquid resources to meet its obligations under all reasonably expected circumstances and will not need to establish an overdraft facility. The directors monitor funding requirements on a monthly basis during the periods when revenue streams are low and the board keeps various funding options under review.

The liquidity risk of each group entity is managed centrally by the Group Finance Director. Cash is provided to group entities on a monthly basis as required in order for each group entity to manage its working capital requirements.

#### Borrowing facilities

Neither the Group nor the parent company had arranged any borrowing facilities as at the balance sheet date.

## Notes to the accounts continued

### 19 Financial instruments (continued)

#### Credit risk

The Group is not exposed to any significant credit risk on sales. Agreements entered into by the Group to date have been with blue chip companies. The board considers the risks over bank liquidity when determining where to invest the Group's cash available for deposit.

#### Capital disclosures

The Group's objectives when maintaining capital are:

- to safeguard the entity's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- to provide an adequate return to shareholders by pricing products and services commensurately with the level of risk.

The Group sets the amount of capital it requires in proportion to risk. The Group manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

### 20 Share-based payments

The Syntopix Group plc EMI Share Option Plan and the Syntopix Group plc Executive Unapproved Share Option plan were both introduced in March 2006. Under the schemes the Board of Directors of Syntopix Group plc can grant options over shares in the Company to Directors and employees of the Group. Options are typically granted at a fixed price equal to the market price of the shares under option at the date of grant. The contractual life of the option is generally ten years. Awards under the schemes are reserved for employees who are deemed to be critical to the future success of the Group. The vesting period of the options typically ranges from one to three years and exercise of an option is subject to continued employment. The differences between the two schemes are relatively minor, with the main difference being the definition of an eligible employee. In the EMI scheme you have to be a full-time employee, whereas part-time employees can be granted options in the Executive scheme. Options issued under both schemes were valued using the Black-Scholes option-pricing model. The fair value per option granted in the current and previous financial year and the assumptions used in the calculation are as follows:

Grant date	8 January 2007
Share price at date of grant	176.5p
Exercise price	176.5p
Number of option holders	3
Number of share options granted	85,260
Vesting period (years)	1
Expected volatility	25.0%
Option life (years)	10
Expected life (years)	5
Risk-free rate	5.0%
Expected dividends expressed as a dividend yield	0%
Fair value per option	57.0p

A reconciliation of option movements over the year to 31 July 2008 follows:

	2008 Number	2008 Weighted Average Exercise Price	2007 Number	2007 Weighted Average Exercise Price
Outstanding at 1 August	443,350	176.5p	406,710	155.9p
Granted	-	-	85,260	176.5p
Lapsed	-	-	-	-
Exercised	-	-	(48,620)	5.38p
Outstanding at 31 July	443,350	176.5p	443,350	176.5p

## Notes to the accounts continued

### 20 Share-based payments (continued)

The total charge in the income statement is £94,000 (2007: £116,000). The exercise price of options outstanding at the end of the year ranged from 176.5p to 178.0p (2007: 176.5p to 178.0p) and their weighted average contractual life was 8.04 years (2007: 9.04 years)

### 21 Related party transactions

The following transactions took place during the year with other related parties:

Group	Purchase of goods and services		Amounts owed by related parties		Amounts owed to related parties	
	2008	2007	2008	2007	2008	2007
	£000	£000	£000	£000	£000	£000
The University of Leeds <sup>1</sup>	50	50	-	-	-	-
Atraxa Consulting Limited <sup>2</sup>	41	39	-	-	5	2
Four Shaw Consulting Limited <sup>3</sup>	7	23	-	-	1	1

Company	Purchase of goods and services		Amounts owed by related parties		Amounts owed to related parties	
	2008	2007	2008	2007	2008	2007
	£000	£000	£000	£000	£000	£000
Subsidiaries	-	-	-	2,006	-	-
Atraxa Consulting Limited	41	39	-	-	5	2
Four Shaw Consulting Limited	7	23	-	-	1	1

1 – The University of Leeds is a significant shareholder in the Company and supplies the services of Dr Jon Cove to the Group through a secondment agreement.

2 – Atraxa Consulting Limited provides accountancy services to the Group and Company. One of the Company's directors, Darren Bamforth, is a director and shareholder of Atraxa Consulting Limited.

3 – Four Shaw Consulting Limited provides consultancy services to the Group and Company. One of the Company's directors, Dr Helen Shaw, is a director and shareholder of Four Shaw Consulting Limited.

#### Terms and conditions of transactions with related parties

The purchases from related parties are made at normal market prices. Outstanding balances that relate to trading balances are unsecured, interest free and settlement occurs in cash. There have been no guarantees provided or received for any related party receivables or payables. For the year ended 31 July 2008, the Company made provisions for doubtful debts of £2,896,000 relating to the amounts owed by subsidiary companies (2007: nil). This assessment is undertaken each financial year through examining the financial position of the subsidiary company.

#### Compensation of key management personnel of the Group

The Group considers the directors to be its key management personnel.

### 22 Events after the balance sheet date

On 12 August 2008, the Company issued 1,985,230 new ordinary shares of 10p each pursuant to a placing of shares to raise additional working capital for the Group. The shares were issued at a price of 75p per share for total cash consideration of £1,489,000.

On 6 August 2008, the Company cancelled 326,828 unexercised share options in issue to certain executive directors. These options had an exercise price of £1.78 per share and were exercisable during 2009. These options have been replaced with 380,165 new share options with an exercise price of 86.5p and which can be exercised from 6 August 2010. In addition a further 223,981 new share options were granted to the remaining executive and non-executive directors. These share options were issued following the decision by the non-executive directors to waive in full their directors' fees from 1 August 2008 and for the executive directors who also took a reduction in salary.

# Notice of Annual General Meeting

The Annual General Meeting of Syntopix Group plc will be held at the registered office, Institute of Pharmaceutical Innovation, Bradford, BD7 1DP on 8 December 2008 at 1.00pm. The business of the meeting will be as follows:

## ORDINARY BUSINESS

To consider and, if thought fit, pass the following Resolutions which will be proposed as Ordinary Resolutions:

### Resolution 1

That the Directors Report and Accounts for the year ended 31 July 2008 together with the Auditors' Report thereon, be received and adopted.

### Resolution 2

THAT Dr Stephen Philip Jones, who retires in accordance with the Company's Articles of Association and, who being eligible, offers himself for re-election, be reappointed as a director.

### Resolution 3

THAT Dr Elizabeth Anne Eady, who retires in accordance with the Company's Articles of Association and, who being eligible, offers herself for re-election, be reappointed as a director.

### Resolution 4

THAT Dr Helen Margaret Shaw, who retires in accordance with the Company's Articles of Association and, who being eligible, offers herself for re-election, be reappointed as a director.

### Resolution 5

THAT BDO Stoy Hayward LLP be reappointed as auditors of the Company, from the conclusion of this meeting until the conclusion of the next Annual General Meeting, at which accounts are laid before the shareholders in accordance with the provisions of the Companies Act 1985 and their remuneration be fixed by the Board.

## SPECIAL BUSINESS

To consider and, if thought fit (and subject in the case of Resolution 7 to the passing of Resolution 6), pass the following Resolutions which in the case of Resolution 6 will be proposed as an Ordinary Resolution and in the case of Resolution 7 will be proposed as a Special Resolution:

### Resolution 6

THAT the Directors of the Company be, and are hereby generally and unconditionally authorised, in accordance with Section 80 of the Companies Act 1985 ("the Act") (in substitution for all existing authorities under the said Section 80) to exercise all the powers of the Company to allot relevant securities (within the meaning of the said Section 80) up to 2,919,259 ordinary shares of 10p each, provided that this authority shall expire at the conclusion of the next Annual General Meeting of the Company after the passing of the Resolution (or if earlier 15 months after the date of this meeting) and provided further that the Company may before such expiry make any offers or agreements which would or might require relevant securities to be allotted after such expiry.

### Resolution 7

THAT the Directors of the Company be, and are hereby empowered pursuant to Section 95(1) of the Act, to allot equity securities (within the meaning of Section 94(2) of the Act) for cash as if Section 89(1) of the Act did not apply to any such allotment, provided that this power shall not be limited to:

(a) the allotment of equity securities in connection with a rights issue in favour of the holders of ordinary shares (notwithstanding that, by reason of such exclusions or other arrangements as the Directors may deem necessary or desirable to deal with fractional entitlements or legal or practical problems under the laws of, or the requirements of any recognised regulatory body or any stock exchange in any territory, the equity securities to be issued are not offered to all such holders in proportion to the number of ordinary shares held by each of them); and

(b) the allotment (otherwise than pursuant to paragraph (a) above) of equity securities up to an aggregate nominal value of £77,178

and shall expire at the conclusion of the next Annual General Meeting of the Company after the passing of this Resolution (or if earlier 15 months from the date of this meeting), save that the Company may before such expiry make any offers or agreements which would or might require equity securities to be allotted after such expiry.

By order of the Board

Darren Bamforth  
Company Secretary



## Notice of Annual General Meeting - continued

### NOTES

1. A member of the Company entitled to attend and vote at this meeting is entitled to appoint one or more proxies to attend and, on a poll, to vote on his or her behalf. A proxy need not also be a member. Completion and return of a Form of Proxy will not preclude a member from attending and voting at the meeting should the member so decide.
2. To be valid, the Form of Proxy must be completed and returned so as to reach the Company's registered office, Institute of Pharmaceutical Innovation, Bradford, BD7 1DP by 1.00pm on 4 December 2008.
3. To be entitled to attend and vote at the Annual General Meeting (and for the purpose of determining the number of votes a member may cast), members must be entered on the Register of Members of the Company by 5.00pm on 4 December 2008.
4. The following documents will be available for inspection during normal business hours at the Company's registered office, up until the date of the Annual General Meeting and at the place of the meeting from 1.00pm on 8 December 2008 until the end of the meeting:
  - (i) The audited consolidated accounts of the Company for the year ended 31 July 2008;
  - (ii) The Register of Directors' Interests in the capital of the Company; and
  - (iii) A copy of the Memorandum and Articles of Association of the Company.

## Company information

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**Board of Directors**

Dr Rod Adams, Chairman  
Dr Stephen Jones, Chief Executive  
Dr Jon Cove, Research Director  
Dr Anne Eady, Scientific Director  
Darren Bamforth, Finance Director  
Dr Gwyn Humphreys, Non-Executive  
Dr Helen Shaw, Non-Executive  
Alan Aubrey, Non-Executive

**Company Secretary**

Darren Bamforth

**Registered office**

Institute of Pharmaceutical Innovation  
Bradford  
BD7 1DP

Telephone +44 (0) 845 125 9204  
Facsimile +44 (0) 845 125 9205

**Registered number**

05656604 England

**Website**

[www.syntopix.com](http://www.syntopix.com)

**Auditors**

BDO Stoy Hayward LLP  
1 Bridgewater Place  
Water Lane  
Leeds  
LS11 5RU

**Principal bankers**

HSBC Bank plc  
33 Park Row  
Leeds  
LS1 1LD

**Solicitors**

Walker Morris  
Kings Court  
12 King Street  
Leeds  
LS1 2HL

**Nominated Advisor and Broker**

Zeus Capital Limited  
3 Ralli Courts, West Riverside  
Manchester  
M3 5FT

**Registrars**

Capita Registrars  
Northern House  
Woodsome Park  
Fenay Bridge  
Huddersfield  
HD8 0LA