COMPANY NUMBER : 05656604

# Syntopix Group plc

Annual Report and Accounts 2009

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# Contents

# Group Profile

Syntopix Group plc is focused on topical antimicrobial innovations for products in the medicine and consumer healthcare markets. It was founded in 2003 as a spinout 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 compound research and development by discovering novel uses for known actives. The Group focuses on actives and combinations of actives that have both a history of use in man and can be rapidly commercialised with our key customers and potential partners.

# Board of Directors

**Dr Rod Adams** (64)
Non-Executive 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 Gwyn Humphreys** (63)
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** (48)
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.

**Dr Helen Shaw** (47)
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 Stephen Jones** (52)
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.

**Darren Bamforth** (40)
Chief Financial Officer

Darren has been the Chief Financial Officer 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 a director of Tracsis Plc.

**Dr Jon Cove** (59)
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.

**Dr Anne Eady** (56)
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 three and a half days a week for the Group. Anne is also an Honorary Research Fellow in Dermatology at Harrogate District Hospital.

# Chairman's and Chief Executive Officer's Report

**Introduction**
The Group's strategy is to deliver clinically proven formulations to the cosmetic and consumer markets which will enable Syntopix to gain early revenue streams whilst providing 'ownable technologies' to our partners. During the year, the Board is pleased to report that the Group has achieved increased revenues of £190,000 from £141,000 in 2008 following entry into further commercial agreements. The Group continues to strengthen its relationships with potential partners and its key customers. Following close control of overheads, operating costs have been reduced, resulting in a lower operating loss this year of £1,292,000 (2008: £1,567,000).

In April 2009, the Group signed its second 12 month exclusive evaluation agreement with a major consumer healthcare company in the field of oral healthcare. The Group received an initial upfront payment at the commencement of this agreement and will receive further payments for any compounds chosen for additional evaluation.

In July 2008, Syntopix entered into a joint development agreement with Procter & Gamble, the world's largest consumer products company. Under this agreement, the Group will jointly investigate the use of its novel antimicrobial technology with the objective of improving the efficacy of one of Procter & Gamble's major brands.

**Markets and opportunities**
The Group's opportunities are principally in the areas of acne, oral hygiene and hair care targeting both the medicine and consumer healthcare markets.

The prescription market for dermatological disease treatments is currently 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 an additional $10 billion with sales for acne treatments in excess of another $1 billion. 51% of those who suffer from acne do not seek medical help and the Group is therefore developing compounds suitable for exploitation within the cosmetic, over-the-counter and prescription medicine markets.

Additionally, the Group believes there is a major global demand for antimicrobial compounds in the consumer healthcare market. The oral hygiene market is worth over $24 billion per annum. Statistics show that in the USA alone, around 74% of the population have an episode of gingivitis each year and the three leading brands of oral healthcare products each have annual sales in excess of $1 billion. Similarly the hair care market has global sales of $20 billion and statistics show that, for this market, 50% of the world's population have dandruff at some point each year.

The Group is discovering and developing antimicrobial compounds for the treatment of these types of widespread conditions to take advantage of these large market opportunities.

**Strategy**
The global markets the Group has identified are significant but, due to the restrictive cost of discovering safe compounds, there has historically been a lack of innovation. In addition, many of the antimicrobial compounds presently in use are increasingly linked to concerns about environmental toxicity and/or bacterial resistance.

Syntopix's approach is to identify and develop cost effective alternative compounds and methodologies which overcome these problems and which reduce the high risks and costs of early compound discovery. At the same time, the Group aims to reduce the lead-time to market normally associated with conventional product development.

The Group is discovering antimicrobial compounds and synergistic combinations of compounds that already have a history of use in man. This reduces much of the risk associated with developing new compounds and speeds up the process of getting the compounds to market. Therefore these types of compounds are an attractive commercial proposition for the Group's key customers and potential partners.

The strategy therefore continues to focus upon leveraging the Group's antimicrobial compound library and intellectual property portfolio and expanding its opportunities into broader areas within dermatological and consumer healthcare markets.

In order for the Group to fully progress the above strategy, the Directors of Syntopix believe that it is appropriate for the Group to seek further funding through an equity share issue and are confident that this can be successfully achieved in the near future.

**Product development**
During the year Syntopix has added selectively to its library of potential development candidates, which is now in excess of 2,200 compounds. The Group has continued to use its screening process and has shown that approximately 30% of these compounds exhibit antimicrobial activity against the key organism which causes acne, *Propionibacterium acnes*. Additionally, the Group has expanded its screening programmes to include the identification of antimicrobial compounds for use in consumer healthcare applications including oral care, other wound care, body odour and fungal infections. The Group is also using more sophisticated screening processes to assess the fitness-for-purpose of candidate compounds for different applications.

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

The Group now offers bespoke compound assessments for customers with specific requirements.

Syntopix has made tremendous progress in moving its lead compounds from research into clinical development and has completed its second Phase II proof-of-concept human-use study in 70 subjects with acneic skin. Two Syntopix preparations were investigated: SYN0126 in combination with (a) SYN0040, and (b) SYN0040 with SYN0854. These compounds can be used in cosmetic or medicinal products.

The study had positive (an existing marketed product) and negative (vehicle) controls and the products were used once a day for 8 weeks. SYN0126 in the presence of SYN0040 had a significant effect on both non-inflamed and total lesions after 2 weeks of treatment, which became highly significant after 8 weeks. For both Syntopix treatments, almost 50% of the subjects had their spot count reduced by at least 33% after 8 weeks. This level of efficacy, from compounds suitable for incorporation into cosmetic or over-the-counter medicines, compares very favourably to prescription medicines used to treat acne.

Additionally, the Group's proprietary laboratory screening techniques have identified a highly potent compound (SYN1113) that has great potential for the treatment of acne and because it is coloured green, and is a 'natural' compound, it offers huge consumer appeal. Plans are being prepared to test this compound in a human-use study in 2010.

Both of these opportunities are attracting considerable attention from major healthcare and skincare companies.

**Intellectual property**

The Group's intellectual property portfolio is critical for its success in licensing compounds and continues to grow and become more focused. The Group adopts an ongoing filing process that has resulted in 22 core patents/applications. Of these, nine are granted in the UK, three are published applications and ten are awaiting publication. Overall the Group's portfolio has a total of 41 patents/applications across key international territories. Each case in the portfolio is continually evaluated for commercial opportunity.

**Outlook**

The Group is committed to developing safe and effective products for use in both medicinal and consumer healthcare markets by continuing to seek new uses for its antimicrobial expertise and through expansion of the commercial potential of its compounds. Syntopix's strategy and approach to identifying new antimicrobial compounds has creating innovative opportunities for its commercial partners in the global consumer healthcare market.

The Group continues to invest in its discovery pipeline to fuel its development programmes and take the most promising candidates into human use studies. To maximise the value of the Group's portfolio, it now needs to develop the most promising compounds into product candidates. The Board is very confident that these studies will deliver data that will convince potential partners that Syntopix's compounds have a commercial future in the treatment of dermatological and consumer healthcare conditions. The funds raised from the planned issue of equity during the current period will be used to enable the Group to fulfil and deliver the strategy.

Additionally, the agreements that have been signed with two of the world's largest consumer healthcare companies and the discussions we are having with other potential licensees, validates the Group's belief that the antimicrobial compounds within its portfolio have a broad range of applications in these very large commercial markets. The Group enters the current year with a cash balance of £894,000 and is extremely optimistic that further beneficial commercial opportunities will result from the Syntopix programmes over the next 12 months.

**Rod Adams, Chairman**

R.H. Adams

**Stephen Jones, Chief Executive Officer**

7 January 2010

# Chief Financial Officer's Report

**Results for the year**

Revenue has increased this year to £190,000 from £141,000 in 2008 following further commercial agreements entered into during the year with our key customers

Operating expenditure has been carefully controlled again throughout the year and this has enabled us to reduce the operating loss before share-based payment charges from £1,473,000 in 2008 to £1,171,000 this year. The statutory operating loss was £1,292,000 (2008: £1,567,000).

**Cash flow**

Cash balances increased during the year to £894,000 at 31 July 2009 (31 July 2008: £437,000). The Company made a placing of new ordinary shares on 12 August 2008 which raised £1,477,000 after expenses. The cash outflow from operations has reduced from £1,220,000 in 2008 to £1,178,000 this year.

**Treasury management**

The Group continues to manage its cash resources to maximise interest income whilst at the same time minimising any risk to those funds. Surplus cash balances are deposited for periods of between one month and three months with commercial banks which meet credit criteria approved by the board. At 31 July 2009 the Group had £841,000 on short term deposits (2008: £45,000).

**Dividends**

The payment of dividends will be subject to the availability of distributable reserves and having regard to retaining sufficient funds to finance the Group's activities. Due to cumulative trading losses the Group does not have distributable reserves and consequently the Directors do not recommend the payment of a dividend. The Group did not pay a dividend in the prior year.

**Loss per share**

The loss per share has reduced to 14.5p (2008: 24.5p).

**Financial and non-financial key performance indicators (KPIs)**

The Group's main KPIs are:

- Monthly review of commercial deals under negotiation and review of progress of ongoing deals;
- Monthly review of actual results against the annual budget and review of significant variances;
- Monitoring of cash balances and working capital requirements against forecast cash requirements for its development programme; and
- Monitoring the number of compounds taken through to clinical studies, assessing the quality of results arising from those studies and assessing the extent to which data and results can be progressed to commercial opportunities.

**Business risks**

The board carefully considers the risks facing the Group and endeavours to minimise the impact of those risks. The key business risks are as follows:

- **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.

# Chief Financial Officer's Report continued

- **Loss of key personnel:** Loss of key management could have adverse consequences for the Group. Whilst the Group has entered into service contracts with each of its executive directors, the retention of their services or those of other key staff cannot be guaranteed.

- **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 non-patented proprietary knowledge or disclose such knowledge or that the Group can ultimately protect meaningful rights to such non-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.

- **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.

**Darren Bamforth**
**Chief Financial Officer**

7 January 2010

# Directors' Report

The Directors present their report and the audited financial statements for the year ended 31 July 2009.

### Principal activity

The principal activity of the Group is the research, discovery and development of compounds for use in both medicinal and consumer healthcare markets principally in the areas of acne, oral hygiene and hair care.

### Business review and future developments

A review of the Group's operations and future developments is covered in the Chairman's and Chief Executive Officer's Report and the Chief Financial Officer's Report. This includes a summary of the Group's strategy and the markets in which it operates. The Chief Financial Officer's Report considers the key risks facing the Group and the key performance indicators which are used to monitor the business.

### 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 Consolidated Financial Statements on pages 23 to 37.

### Dividends

The payment of dividends will be subject to the availability of distributable reserves and having regard to retaining sufficient funds to finance the Group's activities. Due to cumulative trading losses the Group does not have distributable reserves and consequently the Directors do not recommend the payment of a dividend.

### Directors

The directors who served on the Board and on Board Committees during the year are set out on pages 2 and 3.

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 RH Adams, Dr GO Humphreys and AJ Aubrey retire by rotation and, 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:

| | Number of shares | % of issued share capital |
|---|---|---|
| Rod Adams | **196,818** | 2.55% |
| Alan Aubrey | **40,621** | 0.53% |
| Darren Bamforth | **6,825** | 0.09% |
| Jon Cove | **266,180** | 3.45% |
| Anne Eady | **266,180** | 3.45% |
| Gwyn Humphreys | **176,978** | 2.29% |
| Stephen Jones | **18,833** | 0.24% |
| Helen Shaw | **4,000** | 0.05% |

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 2009 and the date of this report, no directors' share transactions took place.

### Substantial shareholdings

At 27 October 2009, 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 | % of issued shares |
|---|---|---|
| IP2IPO Limited (together with Techtran Group Limited) | 1,446,832 | 18.75% |
| Pershing Nominees Limited | 933,197 | 12.09% |
| Bank of New York Nominees Limited | 847,656 | 10.98% |
| The Wellcome Trust Limited | 519,168 | 6.73% |
| IP Venture Fund Limited | 425,977 | 5.52% |
| The University of Leeds | 390,000 | 5.05% |
| Ridings Early Growth Investment Company Limited | 322,109 | 4.17% |
| Dr Jon Cove | 266,180 | 3.45% |
| Dr Anne Eady | 266,180 | 3.45% |
| PH Nominees Limited | 233,271 | 3.02% |

# Directors' Report continued

**Research and development**

The Group is undertaking research and development work to support the compound discovery activities. During the year the Group has incurred expenditure amounting to £861,000 (2008: £1,050,000) in respect of research and development. This expenditure has been charged to the Income Statement during the year.

**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 2009 were 30 days (2008: 30 days). Trade creditor days for the Company at 31 July 2009 were 20 days (2008: 20 days).

**Financial instruments**

Details of the Group's exposure to financial risks are set out in Note 18 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 LLP, Chartered Accountants, as auditors will be put to members at the Annual General Meeting.

By order of the Board

**Darren Bamforth**
**Company Secretary**

7 January 2010

# Directors' Remuneration Report

### Remuneration Committee

The Remuneration Committee is described in the Report on Corporate Governance. The remuneration for each Executive Director is determined by the Remuneration Committee, which is composed solely of Non-Executive Directors. 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 Group'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 |
|---|---|---|---|---|
| **Executive Directors** | | | | |
| 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 |
| **Non-Executive Directors** | | | | |
| 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: 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

During the year certain directors agreed to waive their entitlement to fees for the year in return for the granting of share options. Directors' remuneration for the year ended 31 July 2009 is set out below:

| | Basic salary £000 | Bonus £000 | Benefits in kind and pensions £000 | Total 2009 £000 | Total 2008 £000 |
|---|---|---|---|---|---|
| **Executive Directors** | | | | | |
| Dr Stephen Jones | 125 | - | 12 | **137** | 151 |
| Dr Jon Cove | 24 | - | - | **24** | 26 |
| Dr Anne Eady | 38 | - | - | **38** | 39 |
| Darren Bamforth | - | - | - | - | 14 |
| | 187 | - | 12 | **199** | 230 |
| **Non-Executive Directors** | | | | | |
| Dr Rod Adams | - | - | - | - | 23 |
| Alan Aubrey | - | - | - | - | 14 |
| Dr Gwyn Humphreys | - | - | - | - | 18 |
| Dr Helen Shaw | - | - | - | - | 14 |
| | - | - | - | - | 69 |

# Directors' Remuneration Report continued

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

| | At 1 August 2008 | Granted | Cancelled | At 31 July 2009 | Exercise price pence | Date from which exercisable | Expiry date |
|---|---|---|---|---|---|---|---|
| **Executive Directors** | | | | | | | |
| Dr Stephen Jones | 284,198 | 330,300 | (284,198) | 330,300 | 86.5 | 6 August 2010 | 6 August 2018 |
| Dr Jon Cove | - | 41,990 | - | 41,990 | 86.5 | 6 August 2009 | 6 August 2018 |
| Dr Anne Eady | - | 41,990 | - | 41,990 | 86.5 | 6 August 2009 | 6 August 2018 |
| Darren Bamforth | 42,630 | 76,532 | (42,630) | 76,532 | 86.5 | 6 August 2009 | 6 August 2018 |
| | | | | | | | |
| **Non-Executive Directors** | | | | | | | |
| Dr Rod Adams | 56,840 | - | - | 56,840 | 177.0 | 8 January 2008 | 8 January 2017 |
| Dr Rod Adams | - | 33,333 | - | 33,333 | 86.5 | 6 August 2009 | 6 August 2018 |
| Dr Gwyn Humphreys | - | 26,667 | - | 26,667 | 86.5 | 6 August 2009 | 6 August 2018 |
| Alan Aubrey | - | 26,667 | - | 26,667 | 86.5 | 6 August 2009 | 6 August 2018 |
| Dr Helen Shaw | 42,630 | - | - | 42,630 | 177.0 | 8 January 2008 | 8 January 2017 |
| Dr Helen Shaw | - | 26,667 | - | 26,667 | 86.5 | 6 August 2009 | 6 August 2018 |

**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.

**Amounts paid to companies for directors' services**

Details of amounts paid to companies for directors' services are set out in Note 20 of the financial statements.

On behalf of the Board

**Dr Helen Shaw**
Chair of the Remuneration Committee
7 January 2010

# 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 2 and 3. 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 or a letter of appointment. Each of the Non-Executive Directors is subject to a letter of appointment. Details of the current service contracts are set out on page 10. 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 RH Adams, Dr GO Humphreys and AJ Aubrey 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 1) | Audit Committee Meetings (total 2) |
|---|---|---|---|
| Rod Adams | 11 | 1 | 2 |
| Stephen Jones | 11 | - | - |
| Darren Bamforth | 10 | - | 2 |
| Jon Cove | 11 | - | - |
| Anne Eady | 11 | - | - |
| Gwyn Humphreys | 10 | 1 | 2 |
| Alan Aubrey | 4 | 1 | 2 |
| Helen Shaw | 10 | 1 | 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.

# Corporate Governance continued

***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 Chief Financial Officer attend each meeting at the request of the Committee.

**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 allows shareholders access to Company information, including contact details and the current share price (www.syntopix.com).

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

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the group and company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of the profit or loss of the Group and Company for that period.

The Directors are also required to prepare financial statements in accordance with the rules of the London Stock Exchange for companies trading securities on the Alternative Investment Market.

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

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

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

**Website publication**

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

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

We have audited the financial statements of Syntopix Group plc for the year ended 31 July 2009 which comprise the Consolidated Income Statement, the Consolidated Balance Sheet, the Consolidated Cash Flow Statement, the Consolidated Statement of Changes in Equity, the Company Balance Sheet, the Company Cash Flow Statement, the Company Statement of Changes in Equity and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the Company's members, as a body, in accordance with sections 495 and 496 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

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

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

*Opinion on financial statements*
In our opinion:

- the financial statements give a true and fair view of the state of the Group's and the Parent Company's affairs as at 31 July 2009 and of the Group's loss for the year then ended;

- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;

- the Parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and

- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

*Emphasis of matter – going concern*
In forming our opinion on the financial statements, which is not qualified, we have considered the adequacy of disclosures made in Note 1 under the Basis of preparation concerning the Group's ability to continue as a going concern. Financial forecasts anticipate the need for further funding, which is not yet certain, to progress the planned development programme. This uncertainty along with other matters referred to in Note 1 to the financial statements indicate the existence of a material uncertainty which may cast significant doubt over the Group's ability to continue as a going concern. The financial statements do not include any adjustments that would result should the Group be unable to continue as a going concern.

*Opinion on other matters prescribed by the Companies Act 2006*

In our opinion:

- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

*Matters on which we are required to report by exception*
We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

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

- the parent company financial statements are not in agreement with the accounting records and returns; or

- certain disclosures of directors' remuneration specified by law are not made; or

- we have not received all the information and explanations we require for our audit.

BDO LLP.

**Nicholas Giles Wharton (senior statutory auditor)**
**For and on behalf of BDO LLP, statutory auditor**
Leeds, United Kingdom
7 January 2010

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

COMPANY NO: 05656604

# Consolidated Income Statement for the year ended 31 July 2009

| | Note | 2009 £000 | 2008 £000 |
|---|---|---|---|
| **Revenue** | 4 | **190** | 141 |
| Other operating income | 5 | **-** | 13 |
| Administrative expenses: | 5-7 | | |
| Research and development costs | | **(861)** | (1,050) |
| Other administrative expenses | | **(621)** | (671) |
| Total administrative expenses | | **(1,482)** | (1,721) |
| **Operating loss before share-based payment charges** | | **(1,171)** | (1,473) |
| Share-based payment charges | 19 | **(121)** | (94) |
| **Operating loss** | | **(1,292)** | (1,567) |
| Finance income | 8 | **36** | 33 |
| **Loss before tax** | | **(1,256)** | (1,534) |
| Tax credit | 9 | **141** | 131 |
| **Loss for the year attributable to equity shareholders** | | **(1,115)** | (1,403) |
| **Loss per ordinary share** | | | |
| Basic and diluted (pence) | 10 | **(14.5p)** | (24.5p) |

All of the above activities are continuing.

COMPANY NUMBER : 05656604

# Consolidated Balance Sheet as at 31 July 2009

| | Note | 2009 £000 | 2008 £000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | 11 | 56 | 79 |
| | | 56 | 79 |
| **Current assets** | | | |
| Trade and other receivables | 13 | 58 | 58 |
| Income tax receivable | | 141 | 131 |
| Cash and cash equivalents | | 894 | 437 |
| | | 1,093 | 626 |
| **Total assets** | | 1,149 | 705 |
| **Current liabilities** | | | |
| Trade and other payables | 14 | (333) | (372) |
| | | (333) | (372) |
| **Total liabilities** | | (333) | (372) |
| **TOTAL NET ASSETS** | | 816 | 333 |
| **Equity attributable to equity holders of the company** | | | |
| Called up share capital | 16 | 772 | 573 |
| Share premium reserve | 17 | 4,657 | 3,379 |
| Share based payments reserve | 17 | 178 | 226 |
| Merger reserve | 17 | 338 | 338 |
| Retained earnings | 17 | (5,129) | (4,183) |
| **TOTAL EQUITY** | | 816 | 333 |

The financial statements were approved and authorised for issue by the Board of Directors on 7 January 2010 and were signed on its behalf by:

**Stephen P Jones** - Chief Executive Officer

**Darren Bamforth** - Chief Financial Officer

# Consolidated Statement of Changes in Equity

| | Share Capital £000 | Share Premium Reserve £000 | Share-based Payments Reserve £000 | Merger Reserve £000 | Retained Earnings £000 | Total £000 |
|---|---|---|---|---|---|---|
| At 1 August 2007 | 573 | 3,379 | 132 | 338 | (2,780) | 1,642 |
| Loss and total recognised income and expense for the year | - | - | - | - | (1,403) | (1,403) |
| Share option charge | - | - | 94 | - | - | 94 |
| At 31 July 2008 | 573 | 3,379 | 226 | 338 | (4,183) | 333 |
| Loss and total recognised income and expense for the year | - | - | - | - | (1,115) | (1,115) |
| Share option charge | - | - | 121 | - | - | 121 |
| Share options lapsed | - | - | (169) | - | 169 | - |
| Issue of shares | 199 | 1,290 | - | - | - | 1,489 |
| Expenses of share issue | - | (12) | - | - | - | (12) |
| At 31 July 2009 | 772 | 4,657 | 178 | 338 | (5,129) | 816 |

Details of the nature of each component of equity are set out in Notes 16 and 17.

# Consolidated Cash Flow Statement for the year ended 31 July 2009

| | 2009<br>£000 | 2008<br>£000 |
|---|---|---|
| **Cash flow from operating activities** | | |
| Loss before tax | **(1,256)** | (1,534) |
| Finance income | **(36)** | (33) |
| Depreciation | **32** | 37 |
| Share based payments | **121** | 94 |
| **Operating cash outflow before changes in working capital** | **(1,139)** | (1,436) |
| Movement in trade and other receivables | **-** | 150 |
| Movement in trade and other payables | **(39)** | 66 |
| **Cash flow from operations** | **(1,178)** | (1,220) |
| | | |
| Tax received | **131** | 134 |
| **Net cash flow from operating activities** | **(1,047)** | (1,086) |
| | | |
| **Investing activities** | | |
| Purchase of property, plant and equipment | **(9)** | (4) |
| Finance income | **36** | 33 |
| **Net cash flow from investing activities** | **27** | 29 |
| | | |
| **Financing activities** | | |
| Issue of share capital (net of expenses) | **1,477** | - |
| **Net cash flow from financing activities** | **1,477** | - |
| | | |
| Net increase/(decrease) in cash and cash equivalents | **457** | (1,057) |
| Cash and cash equivalents at the beginning of the year | **437** | 1,494 |
| **Cash and cash equivalents at the end of the year** | **894** | 437 |

COMPANY NO: 05656604

# Company Balance Sheet as at 31 July 2009

| | Note | 2009 £000 | 2008 £000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Investments | 12 | - | 339 |
| | | - | 339 |
| **Current assets** | | | |
| Trade and other receivables | 13 | **28** | 37 |
| Income tax receivable | | **61** | 37 |
| Cash and cash equivalents | | **887** | 426 |
| | | **976** | 500 |
| **Total assets** | | **976** | 839 |
| **Current liabilities** | | | |
| Trade and other payables | 14 | **(219)** | (248) |
| | | **(219)** | (248) |
| **Total liabilities** | | **(219)** | (248) |
| **NET ASSETS** | | **757** | 591 |
| **Equity attributable to equity holders of the company** | | | |
| Called up share capital | 16 | **772** | 573 |
| Share premium reserve | 17 | **4,657** | 3,379 |
| Share based payments reserve | 17 | **178** | 226 |
| Retained earnings | 17 | **(4,850)** | (3,587) |
| **TOTAL EQUITY** | | **757** | 591 |

The financial statements were approved and authorised for issue by the Board of Directors on 7 January 2010 and were signed on its behalf by:

**Stephen P Jones** Chief Executive Officer

**Darren Bamforth** - Chief Financial Officer

# Company Statement of Changes in Equity

| | Share Capital £000 | Share Premium Reserve £000 | Share-based Payments Reserve £000 | Retained Earnings £000 | Total £000 |
|---|---|---|---|---|---|
| At 1 August 2007 | 573 | 3,379 | 132 | (276) | 3,808 |
| Loss and total recognised income and expense for the year | - | - | - | (3,311) | (3,311) |
| Share option charge | - | - | 94 | - | 94 |
| At 31 July 2008 | 573 | 3,379 | 226 | (3,587) | 591 |
| Loss and total recognised income and expense for the year | - | - | - | (1,432) | (1,432) |
| Share based payment charge | - | - | 121 | - | 121 |
| Share options lapsed | - | - | (169) | 169 | - |
| Issue of shares | 199 | 1,290 | - | - | 1,489 |
| Expenses of share issue | - | (12) | - | - | (12) |
| At 31 July 2009 | 772 | 4,657 | 178 | (4,850) | 757 |

# Company Cash Flow Statement for the year ended 31 July 2009

| | 2009 £000 | 2008 £000 |
|---|---|---|
| **Cash flows from operating activities** | | |
| Loss before tax | **(1,492)** | (3,348) |
| Finance income | **(36)** | (31) |
| Impairment of investment in subsidiary undertaking | **339** | - |
| Share based payments | **121** | 94 |
| **Operating cash outflow before changes in working capital** | **(1,068)** | (3,285) |
| Movement in trade and other receivables | **9** | 1,983 |
| Movement in trade and other payables | **(30)** | 197 |
| **Cash flow from operations** | **(1,089)** | (1,105) |
| | | |
| Tax received | **37** | 22 |
| Finance income | **36** | 31 |
| **Net cash flow from operating activities** | **(1,016)** | (1,052) |
| | | |
| **Financing activities** | | |
| Issue of share capital (net of expenses) | **1,477** | - |
| **Net cash flow from financing activities** | **1,477** | - |
| | | |
| Net increase/(decrease) in cash and cash equivalents | **461** | (1,052) |
| Cash and cash equivalents at the beginning of the year | **426** | 1,478 |
| **Cash and cash equivalents at the end of the year** | **887** | 426 |

# Notes to the Consolidated and Company Financial Statements

## 1 Accounting Policies

**Significant accounting policies**
Syntopix Group plc (the 'Company') is a company incorporated in the United Kingdom. The consolidated financial statements of the Company for the year ended 31 July 2009 comprise the Company and its subsidiaries (together referred to as the 'Group').

The following paragraphs summarise the significant accounting policies of the Group, which have been consistently applied in dealing with items which are considered material in relation to the Group's financial statements.

**Basis of preparation**
The financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the EU and applicable law.

The financial statements have been prepared on the going concern basis which assumes that the Group will have sufficient funds available to enable it to continue to trade for the foreseeable future. The Group's principal activity is the research, discovery and development of compounds for use in both medicinal and consumer healthcare markets in order to achieve licensing deals with companies in these markets. Future sales revenues are expected to be derived from milestone payments on entering new commercial agreements, followed by royalty income from successful product launches by the Group's customers. There is a time lag between the conclusion of each study or trial which the Group undertakes and the establishment of commercial deals from the data and results from those studies. During the next 12 months the Directors believe that new commercial deals will be agreed which will generate milestone revenues, however, there is significant uncertainty over both the timing and magnitude of those anticipated revenues. The Directors have considered the implications of this uncertainty on the Group's cash flows for the next 12 months.

The Directors believe that it is appropriate for the Group to seek additional funding within this period in order for it to fully progress the planned development programme and to progress all the ongoing commercial discussions with key partners and customers. The Directors are therefore currently seeking to raise new funding through an equity share issue and, although there are no signed agreements yet in place, they are confident that a funding round can be successfully achieved.

The Directors have also considered the action which the Group would need to take should it be unable to raise further funding at this stage. The Directors believe that, by scaling down the full planned development programme and the Group's current cost base, they will be able to use existing cash resources to ensure that the Group can continue to trade through to the point at which new milestone revenues are achieved and the Group becomes cash generative.

However, should the additional funding or milestone payments not be achieved by October 2010, the Group will need to seek alternative sources of finance. This condition indicates the existence of a material uncertainty which may cast significant doubt over the Group's ability to continue as a going concern. The financial statements do not contain any adjustments that may be required should the Group be unable to continue as a going concern.

Whilst there are inherent uncertainties regarding the timing and magnitude of future revenue streams, the Directors believe that the actions proposed above enable them to continue to prepare the financial statements on a going concern basis.

The accounting policies set out below have been applied consistently throughout the Group and to all accounting periods presented for the purposes of the consolidated financial statements.

The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision only affects that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of IFRSs that have a significant effect on the Group financial statements and estimates with a significant risk of material adjustment in future years are disclosed in Note 2.

# Notes to the Consolidated and Company Financial Statements
continued

There are a number of new standards and interpretations issued and endorsed by the EU but not yet effective which may be applicable to the Group but which have not been applied in these Accounts, including IFRS 8 Operating Segments, revision to IAS 23 Borrowing Costs, revisions to IAS 1, revision to IFRS 2 Share Based Payments, revisions to IFRS 3 Business Combinations and revisions to IFRS 1 and IAS 27 Cost of Investment in a subsidiary. No endorsed standard is expected to have a material impact on the financial statements. All other endorsed standards and IFRICs have been reviewed by management and are not considered applicable for the Group's financial statements.

**Basis of consolidation**
Subsidiaries are entities controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date control ceases.

All intra-group balance and transactions, including unrealised profits arising from intra-group transactions, are eliminated fully on consolidation.

**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.

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.

**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.

**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.

**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 a follows:

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

# Notes to the Consolidated and Company Financial Statements
continued

*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 classes 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 Consolidated and Company Financial Statements
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 |
| Plant & machinery and Fixtures & fittings | – | 5 years |

# Notes to the Consolidated and Company Financial Statements
continued

## 2 Critical Accounting Estimates and Judgements

The Group's accounting policies are set out in Note 1. The Directors consider that the key judgements and estimates made in the preparation of the consolidated financial statements are:

*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.

*Investment in subsidiaries*
The Directors have made a judgement relating to the carrying value of the investments in subsidiary undertakings and related inter-company balances within the financial statements of the parent company. Further information is set out in Notes 12 and 13.

## 3 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.

## 4 Revenue

| Revenue arises from: | **2009** | 2008 |
|---|---|---|
| | **£000** | £000 |
| Milestone and upfront payments | **190** | 141 |

## 5 Loss from operations

| Loss from operations has been arrived at after charging/(crediting) | **2009** | 2008 |
|---|---|---|
| | **£000** | £000 |
| Staff costs (see note 6) | **610** | 728 |
| Depreciation of property, plant and equipment | **32** | 37 |
| Research and development expenditure | **861** | 1,050 |
| Audit services: | | |
| - Fees payable to the company auditor for the audit of the parent company and the consolidated accounts | **21** | 20 |
| Non-audit services - Fees payable to the company auditor for other services: | | |
| - Other services relating to taxation | **2** | 2 |
| - Share option review | **2** | - |
| Non government grants received | **-** | (13) |

# Notes to the Consolidated and Company Financial Statements
continued

## 6 Employees

| Staff costs (including directors) comprise: | **2009** | 2008 |
|---|---|---|
| | **£000** | £000 |
| Wages and salaries | **420** | 550 |
| Employers national insurance contributions and similar taxes | **46** | 58 |
| Defined contribution pension cost | **23** | 26 |
| Share based payment remuneration | **121** | 94 |
| | **610** | 728 |

| Average staff numbers (including directors) were: | **2009** | 2008 |
|---|---|---|
| | **£000** | £000 |
| Management and administration | **9** | 9 |
| Research scientists and staff | **8** | 9 |
| | **17** | 18 |

## 7 Directors' emoluments

| Directors | **2009** | 2008 |
|---|---|---|
| | **£000** | £000 |
| Aggregate emoluments | **187** | 287 |
| Company contributions to money purchase pension schemes | **12** | 12 |
| | **199** | 299 |

| Emoluments of the highest paid director | **2009** | 2008 |
|---|---|---|
| | **£000** | £000 |
| Aggregate emoluments | **125** | 139 |
| Company contributions to money purchase pension schemes | **12** | 12 |
| | **137** | 151 |

## 8 Finance income

| | **2009** | 2008 |
|---|---|---|
| | **£000** | £000 |
| *Finance income* | | |
| Interest received on bank deposits | **36** | 33 |

# Notes to the Consolidated and Company Financial Statements
continued

## 9 Taxation

| | 2009 £000 | 2008 £000 |
|---|---|---|
| *Current tax credit* | | |
| UK Corporation tax | **141** | 131 |
| Total income tax credit | **141** | 131 |

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:

| | 2009 £000 | 2008 £000 |
|---|---|---|
| Loss for the year | **(1,256)** | (1,534) |
| Expected tax credit based on the standard rate of corporation tax in the UK of 28% (2008: 30%) | **(352)** | (460) |
| Expenses not deductible for tax purposes | **35** | 28 |
| Research and development enhancement | **(135)** | (117) |
| Losses utilised against research and development tax credits received | **144** | 115 |
| Depreciation in excess of capital allowances | **6** | 10 |
| Losses carried forward | **161** | 293 |
| Total income tax credit | **(141)** | (131) |

## 10 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.

| **Basic and diluted loss per share** | **Loss for the period £** | **Weighted average number of shares** | **Loss per share (pence)** |
|---|---|---|---|
| Year ended 31 July 2009 | (1,115,000) | 7,690,636 | (14.5p) |
| Year ended 31 July 2008 | (1,403,000) | 5,732,601 | (24.5p) |

# Notes to the Consolidated and Company Financial Statements
continued

## 11 Property, plant and equipment

| Group | Fixtures & fittings £000 | Computer equipment £000 | Plant & machinery £000 | Total £000 |
|---|---|---|---|---|
| **Cost** | | | | |
| At 1 August 2007 | 10 | 21 | 135 | 166 |
| Additions | - | 2 | 2 | 4 |
| At 31 July 2008 | 10 | 23 | 137 | 170 |
| Additions | - | 6 | 3 | 9 |
| At 31 July 2009 | 10 | 29 | 140 | 179 |
| **Depreciation and impairment** | | | | |
| At 1 August 2007 | 1 | 12 | 41 | 54 |
| Charge for the year | 2 | 7 | 28 | 37 |
| At 31 July 2008 | 3 | 19 | 69 | 91 |
| Charge for the year | 2 | 3 | 27 | 32 |
| At 31 July 2009 | 5 | 22 | 96 | 123 |
| **Net book value** | | | | |
| At 31 July 2007 | 9 | 9 | 94 | 112 |
| At 31 July 2008 | 7 | 4 | 68 | 79 |
| **At 31 July 2009** | **5** | **7** | **44** | **56** |

## 12 Investments

| Company | **Investments in subsidiary undertakings £000** |
|---|---|
| **Cost** | |
| At 31 July 2008 and 31 July 2009 | 339 |
| **Impairment provision** | |
| At 31 July 2008 | - |
| Impairment charge in the year | 339 |
| At 31 July 2009 | 339 |
| **Carrying value** | |
| **At 31 July 2009** | - |
| At 31 July 2008 | **339** |

The impairment provision of £339,000 was made during the year as a result of continued losses in the subsidiary company, Syntopix Limited. The value in use of this asset is currently estimated as being £nil.

# Notes to the Consolidated and Company Financial Statements
continued

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% |

**13 Trade and other receivables**

| | Group | | Company | |
|---|---|---|---|---|
| | **2009** | 2008 | **2009** | 2008 |
| | **£000** | £000 | **£000** | £000 |
| Trade receivables | **14** | 29 | **14** | 29 |
| Other receivables | **20** | 16 | **3** | - |
| Prepayments | **24** | 13 | **11** | 8 |
| | **58** | 58 | **28** | 37 |

As at 31 July 2009 none of the trade receivables are past due or impaired. The Company's financial statements contain an inter-group receivable with a gross amount of £3,582,000 against which a provision of £3,582,000 has been made, of which the impairment charge made during the year ended 31 July 2009 amounted to £685,000.

**14 Trade and other payables - current**

| | Group | | Company | |
|---|---|---|---|---|
| | **2009** | 2008 | **2009** | 2008 |
| | **£000** | £000 | **£000** | £000 |
| Trade payables | **122** | 93 | **33** | 16 |
| Other tax and social security | **15** | 16 | **9** | 10 |
| Other payables | **4** | 136 | **1** | 134 |
| Accruals and deferred income | **192** | 127 | **176** | 88 |
| | **333** | 372 | **219** | 248 |

**15 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:

| | **2009** | | 2008 | |
|---|---|---|---|---|
| Group | **Amount recognised £000** | **Amount unrecognised £000** | Amount recognised £000 | Amount unrecognised £000 |
| Tax effect of timing differences: | | | | |
| Excess of capital allowances over depreciation | - | **15** | - | 22 |
| Tax effect of losses carried forward (see below) | - | **(1,058)** | - | (958) |
| Share-based payments | - | **(54)** | - | (68) |
| | - | **(1,097)** | - | (1,004) |

The Group has total trading losses carried forward of £3,779,000 on which deferred tax assets have not been recognised.

# Notes to the Consolidated and Company Financial Statements
continued

## 16 Share capital

| | 2009 Number | 2009 £000 | 2008 Number | 2008 £000 |
|---|---|---|---|---|
| **Authorised:** | | | | |
| Ordinary shares of 10p each | **10,000,000** | **1,000** | 10,000,000 | 1,000 |
| | | | | |
| **Issued and fully paid:** | | | | |
| Ordinary shares of 10p each | | | | |
| At beginning of year | **5,732,601** | **573** | 5,732,601 | 573 |
| Issue of ordinary shares | **1,985,230** | **199** | - | - |
| At end of year | **7,717,831** | **772** | 5,732,601 | 573 |

## 17 Equity

**Profit for the financial period**
As permitted by section 408 of the Companies Act 2006, 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 £1,432,000 (2008: loss £3,311,000).

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 |

Details of the movement in equity and reserves are set out in the Consolidated Statement of Changes in Equity on page 18 and the Company Statement of Changes in Equity on page 21.

## 18 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.

# Notes to the Consolidated and Company Financial Statements
continued

**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.

**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** | | **2009** | | | 2008 | |
|---|---|---|---|---|---|---|
| **Financial assets** | **Fixed Rate £000** | **Floating Rate £000** | **Total £000** | Fixed Rate £000 | Floating Rate £000 | Total £000 |
| Trade receivables | - | **14** | **14** | - | 29 | 29 |
| Cash and short term deposits | - | **894** | **894** | - | 437 | 437 |

| **Company** | | **2009** | | | 2008 | |
|---|---|---|---|---|---|---|
| **Financial assets** | **Fixed Rate £000** | **Floating Rate £000** | **Total £000** | Fixed Rate £000 | Floating Rate £000 | Total £000 |
| Trade receivables | - | **14** | **14** | - | 29 | 29 |
| Amounts owed by group companies | - | - | - | - | - | - |
| Cash and short term deposits | - | **887** | **887** | - | 426 | 426 |

Neither the Group nor the parent company had any financial liabilities or derivative contracts in either the current or previous year, other than trade and other payables, all of which are due within three months. It is policy that no trading in financial instruments should be undertaken. The surplus cash balances have been invested in deposit accounts.

# Notes to the Consolidated and Company Financial Statements
continued

The Company has made impairment provisions against amounts owed by other group companies as disclosed in Note 20.

**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 2009 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 Chief Financial Officer. 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.

**Credit risk**

Neither the Group nor the Company are exposed to any significant credit risk on sales. Agreements entered into by the Group and the Company to date have been with blue chip companies. The Board considers the risks over bank liquidity when determining where to invest the Group's and the Company's cash available for deposit. The Company has credit risk exposure on inter group receivables. All amounts relating to inter-group receivables have been fully provided at each period end.

**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.

## 19 Share-based payments

The Group has a share option scheme for all employees (including Directors). Options are exercisable at a price agreed at the date of grant. The vesting period is usually between one and five years. The exercise of options is dependent upon eligible employees meeting performance criteria. The options may not be exercised before the occurrence of a takeover, sale or admission. The options are settled in equity once exercised.

If the options remain unexercised after a period of 10 years from the date of grant, the options expire. Options are forfeited if the employee leaves the Group before the options vest.

# Notes to the Consolidated and Company Financial Statements
continued

Details of the schemes are given below:

| Grant date | Employees entitled | Number of options | Performance conditions | Exercise price (p) | Earliest exercise date | Expiry date |
|---|---|---|---|---|---|---|
| 23 March 2006 | 1 | 28,420 | Time served | 177.0p | 23/3/2007 | 23/1/2016 |
| 8 January 2007 | 2 | 71,050 | Time served | 176.5p | 18/7/2007 | 8/1/2017 |
| 6 August 2008 | 5 | 273,846 | Time served | 86.5p | 6/8/2009 | 6/8/2018 |
| 6 August 2008 | 1 | 284,198 | Time served | 86.5p | 6/8/2010 | 6/8/2018 |
| 6 August 2008 | 1 | 46,102 | Share price target | 86.5p | See note | 6/8/2018 |

46,102 options are only exercisable once the Company's share price has reached a target set by the Board and these options will lapse if the share price target has not been reached by the expiry date of the options.

The number and weighted average exercise price of share options are as follows:

| | **2009 Number** | **2009 Weighted Average Exercise Price** | 2008 Number | 2008 Weighted Average Exercise Price |
|---|---|---|---|---|
| Outstanding at 1 August | **443,350** | **176.5p** | 443,350 | 176.5p |
| Granted | **604,146** | **86.5p** | - | - |
| Cancelled | **(326,828)** | **(177.0p)** | - | - |
| Lapsed | **(17,052)** | **(178.0p)** | - | - |
| Outstanding at 31 July | **703,616** | **99.7p** | 443,350 | 176.5p |
| Exercisable at 31 July | **99,470** | **177.0p** | 99,470 | 177.0p |

The exercise price of options outstanding at the end of the year ranged from 86.5p to 177p (2008: 176.5p to 178.0p) and their weighted average contractual life was 8.68 years (2008: 8.04 years).

**Charge to the income statement**

| | **2009 £000** | 2008 £000 |
|---|---|---|
| Share based payment charges | **121** | 94 |

# Notes to the Consolidated and Company Financial Statements
continued

**Fair value assumptions of share based payments**
The estimate of the fair value of share based awards is calculated using the Black-Scholes option pricing model. The following assumptions were used for options granted during the year:

| Grant date | **6 August 2008** |
|---|---|
| Share price at date of grant | 86.5p |
| Exercise price | 86.5p |
| Number of option holders | 8 |
| Number of share options granted | 604,146 |
| 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 | 28.0p |

The expected volatility is based on the historic volatility of the Company's share price.

**20 Related party transactions**

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

| | **Purchase of goods and services** | | **Amounts owed by related parties** | | **Amounts owed to related parties** | |
|---|---|---|---|---|---|---|
| **Group** | **2009** | 2008 | **2009** | 2008 | **2009** | 2008 |
| | **£000** | £000 | **£000** | £000 | **£000** | £000 |
| The University of Leeds[1] | **56** | 50 | - | - | **21** | - |
| Atraxa Consulting Limited[2] | **33** | 41 | - | - | **3** | 5 |
| Four Shaw Consulting Limited[3] | **11** | 7 | - | - | **11** | 1 |

| | **Purchase of goods and services** | | **Amounts owed by related parties** | | **Amounts owed to related parties** | |
|---|---|---|---|---|---|---|
| **Company** | **2009** | 2008 | **2009** | 2008 | **2009** | 2008 |
| | **£000** | £000 | **£000** | £000 | **£000** | £000 |
| Subsidiaries | - | - | - | - | - | - |
| Atraxa Consulting Limited | **33** | 41 | - | - | **3** | 5 |
| Four Shaw Consulting Limited | **11** | 7 | - | - | **11** | 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.

# Notes to the Consolidated and Company Financial Statements
continued

**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. The Company has an outstanding amount of £3,582,000 due from a subsidiary undertaking. During the year ended 31 July 2009, the Company increased its provision against this balance by £685,000 (2008: £2,897,000) taking the total provision to £3,582,000. 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.

**21 Events after the balance sheet date**

On 1 August 2009 the trade and net assets of the subsidiary companies,-Syntopix Limited and Syntopix Services Limited were hived up to the parent company, Syntopix Group plc as part of a group restructuring arrangement. There is no impact on the overall group financial position from this transaction.

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