

Circassia Holdings Limited
Annual Report and Financial Statements
for the year ended 31 December 2011



Circassia Holdings Limited

Year ended 31 December 2011

**Annual report and financial statements
for the year ended 31 December 2011**

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Circassia Holdings Limited

Year ended 31 December 2011

Directors and advisors

Executive Directors

Steven Harris

Chief Executive Officer

Charles Swingland

Deputy Chairman and Company Secretary

Rod Hafner

Vice President R&D

Non-executive Directors

Sir Richard Sykes (Chairman)

Dr Timothy Corn

Russ Cummings

Cathrin Petty

Independent auditors

PricewaterhouseCoopers LLP

Chartered Accountants and Statutory Auditors

1 Embankment Place

London

WC2N 6RH

Registered office

The Magdalen Centre

Robert Robinson Avenue

The Oxford Science Park

Oxford

OX4 4GA

Bankers

Lloyds TSB Bank plc

PO Box 1000

BX1 1LT

Solicitors

Morrison & Foerster (UK) LLP

CityPoint

One Ropemaker Street

London

EC2Y 9AW

Circassia Holdings Limited

Year ended 31 December 2011

Directors' report for the year ended 31 December 2011

The directors present their annual report and the audited consolidated financial statements of the group for the year ended 31 December 2011. The directors' report has been prepared taking advantage of the small companies exemption in section 415A of the Companies Act 2006.

Principal activity

Circassia Holdings Limited and its subsidiaries are clinical-stage specialty biopharmaceutical companies focused on developing medicines designed to control immune system responses.

The group's initial focus is on the development and commercialisation of a range of allergy therapeutics, based on its proprietary technology, which have the potential to transform current treatment. With its portfolio of allergy products progressing through development, the group is broadening its pipeline into other areas where immune system control is essential. These include auto-immune diseases.

At 31 December 2011 the group had 13 (2010: 9) employees at its facilities in Oxford.

Circassia Holdings Limited is a limited company incorporated in England and Wales. The company is resident in England and the registered office is Magdalen Centre, The Oxford Science Park, Oxford, OX4 4GA.

Review of business and future developments

The statement of comprehensive income for the year is set out on page 7. The level of research and development expenditure has grown throughout the year as more and larger clinical trials have been conducted. The net loss for the year was £14,494k (2010: £8,808k). The directors expect that the level of activity will increase for the coming year, with rising expenditure reflecting the more advanced stage of product development.

On 18th April 2011, the company completed a major fundraising totalling £60 million. The investment was received in two tranches. The initial £25 million was received on completion. The second tranche of £35 million was received on 23 April 2012 following the achievement of a number of milestones. A further £12 million of new funding was received on 23 April 2012. The funds will allow the group to move one of its products into phase III as well as completing phase II programmes on a number of other products.

The group is engaged in innovative and unique research and development programmes, and there are significant risks and uncertainties that could have a dramatic impact on the group in the future. Although trial results to date have been encouraging, there can be no certainty that similar results will be achieved in later clinical trials, and that the group's products will be approved for use. The directors expect to make significant financial returns from the commercialisation of products, but there can be no certainty that the products will deliver the anticipated returns. The group's financial risk management policies are detailed in Note 2 to the financial statements.

Research and development activities

During the year the group incurred expenditure of £11,953k (2010: £7,407k) on research and development, all of which was written off in the statement of comprehensive income.

Dividend

The directors do not recommend payment of a dividend (2010: £nil).

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Directors

The directors of the company during the year and up to the date of signing the financial statement were as follows

Sir Richard Sykes	Non-executive	Dr Timothy Corn	Non-executive
Charles Swingland	Executive	Russ Cummings	Non-executive
Steven Harris	Executive	Cathrin Petty	Non-executive
Rod Hafner	Executive		
Dr James Shannon	Non-Executive (Appointed 1 January 2011, resigned 24 May 2012)		

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 parent company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. In preparing these financial statements, the directors have also elected to comply with IFRSs, issued by the International Accounting Standards Board (IASB). 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 the company and of the profit or loss of the group for that period. In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and accounting estimates that are reasonable and prudent,
- 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 the group and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

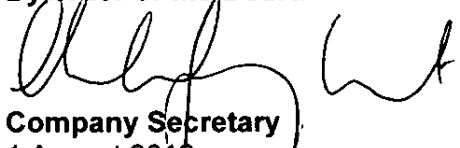
Statement as to disclosure of information to auditors

So far as the Directors are aware, there is no relevant audit information (that is, information needed by the Group's auditors in connection with preparing their report) of which the Group's auditors are unaware. Furthermore, they have taken all the steps that they ought to have taken as Directors in order to make themselves aware of any relevant audit information and to establish that the Group's auditors are aware of that information.

Directors' indemnities

As permitted by the Articles of Association, the Directors have the benefit of an indemnity which is a qualifying third party indemnity provision as defined by Section 234 of the Companies Act 2006. The indemnity was in force throughout the last financial year and is currently in force. The Company also purchased and maintained throughout the financial year Directors' and Officers' liability insurance in respect of itself and its Directors.

By order of the Board



Company Secretary
1 August 2012

Circassia Holdings Limited

Year ended 31 December 2011

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF CIRCASSIA HOLDINGS LIMITED

We have audited the group and parent company financial statements (the "financial statements") of Circassia Holdings Limited for the year ended 31 December 2011 which comprise the Consolidated Statement of Comprehensive Income, the Consolidated Balance Sheet, the Group and Parent Company Statement of Cash Flows, the Group and Parent Company Statement of Changes in Equity, the Company Balance Sheet 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.

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 4, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

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 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.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2011 and of the group's loss and group's and parent company's cash flows for the year then ended,
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union,

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- 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

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements

Matters on which we are required to report by exception

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

- adequate accounting records have not been kept 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



Bowker Andrews (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London

1 August 2012

Circassia Holdings Limited

Year ended 31 December 2011

Consolidated statement of comprehensive income for the year ended 31 December 2011

	Notes	2011 £'000	2010 £'000
Research and development costs		(11,953)	(7,407)
Administrative expenses		(3,399)	(2,060)
Operating loss	6	(15,352)	(9,467)
Finance costs	5	(11)	(29)
Finance income	5	132	73
Finance income - net		121	44
Share of profit of associate	10	128	181
Loss before tax		(15,103)	(9,242)
Taxation	7	590	434
Loss for the financial year		(14,513)	(8,808)
Other comprehensive income			
Share of other comprehensive income of associate		(3)	7
Total comprehensive expense for the year		(14,516)	(8,801)

The results for the financial years above are derived entirely from continuing operations

There is no difference between the loss before tax and the loss for the financial years stated above, and their historical cost equivalents

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Consolidated balance sheet
as at 31 December 2011

	Notes	2011 £'000	2010 £'000
Assets			
Non-current assets			
Intangible assets	8	2,134	2,094
Investment in associate	10	331	206
		2,465	2,300
Current assets			
Trade and other receivables	11	439	116
Current tax assets		1,024	435
Cash and cash equivalents	12	20,221	9,605
		21,684	10,156
Current liabilities			
Trade and other payables	13	(2,982)	(1,429)
Net current assets		18,702	8,727
Non-current liabilities			
Financial liabilities	14	(1,990)	(1,977)
Net assets		19,177	9,050

Equity attributable to the owners of the parent company

Ordinary shares	17	11	11
Preference shares	17	33	22
Share premium account	19	57,111	32,480
Share option reserve	20	1	-
Accumulated losses	20	(37,979)	(23,463)
Total equity		19,177	9,050

The financial statements on pages 7 to 29 were approved by the Board of Directors on 1 August 2012 and were signed on its behalf by



Steven Harris
Chief Executive Officer

Circassia Holdings Limited
Registered number 05822706

Circassia Holdings Limited

Year ended 31 December 2011

Group and parent company statement of cash flow for the year ended 31 December 2011

	Note	Group		Company	
		2011	2010	2011	2010
		£'000	£'000	£'000	£'000
Cash flows from operating activities					
Cash used in operations	21	(14,120)	(9,061)	(21,557)	(9,719)
Interest received		134	73	109	68
Interest paid		-	(18)	-	-
Tax credit received		-	416	-	-
Net cash from operating activities		(13,986)	(8,590)	(21,448)	(9,651)
Cash flows from investing activities					
Purchases of intangible assets		(40)	(107)	-	-
Net cash used in investing activities		(40)	(107)	-	-
Cash flows from financing activities					
Proceeds from issue of preference shares		24,642	252	24,642	252
Net cash from financing activities		24,642	252	24,642	252
Net increase/(decrease) in cash and cash equivalents		10,616	(8,445)	3,194	(9,399)
Cash and cash equivalents 1 January	12	9,605	18,050	8,474	17,873
Cash and cash equivalents at 31 December	12	20,221	9,605	11,668	8,474

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Group and parent company statement of changes in equity for the year ended 31 December 2011

Group	Note	Share Capital £'000	Share Premium £'000	Share option reserve £'000	Accumulated losses £'000	Total £'000
At 1 January 2010		33	32,228	-	(14,662)	17,599
Total comprehensive expense		-	-	-	(8,801)	(8,801)
Transactions with owners						
Issue of preference shares		-	252	-	-	252
At 1 January 2011	17, 19, 20	33	32,480	-	(23,463)	9,050
Total comprehensive expense		-	-	1	(14,516)	(14,515)
Transactions with owners						
Issue of preference shares	17	11	24,631	-	-	24,642
At 31 December 2011	17, 19, 20	44	57,111	1	(37,979)	19,177

Company	Note	Share Capital £'000	Share Premium £'000	Share option reserve £'000	Retained Earnings £'000	Total £'000
At 1 January 2010		33	32,228	-	514	32,775
Total comprehensive income		-	-	-	27	27
Transactions with owners						
Issue of preference shares		-	252	-	-	252
At 1 January 2011	17, 19, 20	33	32,480	-	541	33,054
Total comprehensive income		-	-	1	79	80
Transactions with owners						
Issue of preference shares	17	11	24,631	-	-	24,642
At 31 December 2011	17, 19, 20	44	57,111	1	620	57,776

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Company balance sheet
as at 31 December 2011

	Notes	2011 £'000	2010 £'000
Assets			
Non-current assets			
Investments in subsidiaries	9	1,725	1,725
		1,725	1,725
Current assets			
Trade and other receivables	11	46,378	24,835
Cash and cash equivalents	12	11,668	8,474
		58,046	33,309
Current liabilities			
Trade and other payables	13	(5)	(3)
Net current assets		58,041	33,306
Non-current liabilities			
Financial liabilities	14	(1,990)	(1,977)
Net assets		57,776	33,054

Equity attributable to the owners of the company

Ordinary shares	17	11	11
Preference shares	17	33	22
Share premium account	19	57,111	32,480
Share option reserve		1	-
Retained earnings	20	620	541
Total equity		57,776	33,054

The financial statements on pages 7 to 29 were approved by the Board of Directors on 1 August 2012 and were signed on its behalf by


Steven Harris
Chief Executive Officer

Circassia Holdings Limited
Registered number 05822706

Circassia Holdings Limited

Year ended 31 December 2011

Notes to the financial statements for the year ended 31 December 2011

1. Accounting policies

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all the financial years presented, unless otherwise stated.

The accounting policies are extensive and take account of the planned future growth of the group.

Basis of preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRS') as adopted by the European Union and International Financial Reporting Interpretations Committee ('IFRIC') interpretations endorsed by the European Union and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS. The financial statements are prepared on the going concern basis and in accordance with the historical cost convention as modified by revaluation of available for sale investments. Though the group continues to make losses, the directors believe it is appropriate to prepare the financial statements on the going concern basis. This is because the group's research into new products continues to progress according to plan and the additional funding secured in 2011 and 2012 will allow the group to meet its liabilities as they fall due for the foreseeable future.

Under s408 of the Companies Act 2006, the parent company is exempt from disclosing its income statement.

- a) The following standards are effective for the financial year beginning 1 January 2011, but do not currently have a significant impact on the group:
 - Amendment to IAS 32 "Financial instruments: Presentation – Classification of rights issues"
 - IFRIC 19, "Extinguishing financial liabilities with equity instruments"
 - Amendment to IFRS 1 "First time adoption of IFRS"
 - IAS 24 "Related party disclosures (revised)"
 - Amendment to IFRIC 14 "IAS 19 – The limit on defined benefit assets, minimum funding requirements and their interaction"
- b) New standards, amendments and interpretations not effective for the financial year beginning 1 January 2011 but which could have an impact on the group in the future:
 - Amendment to IAS 1 "Financial statement presentation" (effective 1 July 2012) Amendment to requirement for how items of other comprehensive income are grouped
 - IFRS 9 "Consolidated financial statements" (effective 1 January 2013) Sets out principles for presentation and preparation of consolidated financial statements
 - IFRS 11 "Joint arrangements" (effective 1 January 2013) Clarifies treatment of joint arrangements versus joint ventures
 - IAS 28 (revised) "Associates and joint ventures" (effective 1 January 2013) Requirement for joint ventures and associates to be equity accounted

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Use of estimates and assumptions

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Estimates and judgements are continually made and are based on historic experience and other factors, including expectations of future events that are believed to be reasonable in the circumstances.

Critical accounting estimates and assumptions

Where the group makes estimates and assumptions concerning the future, the resulting accounting estimates will seldom exactly match actual results. Due to the amounts involved, the estimates and assumptions regarding revenue recognition and the amounts accrued for clinical trial costs have a greater risk of causing a material adjustment to the carrying amounts of assets and liabilities.

Consolidation

Subsidiaries are all entities over which the group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one half of the voting rights. Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are de-consolidated from the date that control ceases.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Accounting policies of subsidiaries are consistent with the policies adopted by the group.

Associates are all entities over which the group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost.

The group's share of its associates' post-acquisition profits or losses is recognised in the statement of comprehensive income, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. Accounting policies of associates are consistent with the policies adopted by the group.

Revenue

The group generates revenue as a result of product and technology licence transactions. Product licence transactions typically have an initial upfront non-refundable payment on execution of the licence, and the potential for further payments conditional on achieving specific milestones, plus royalties on product sales. Technology licence transactions typically have an initial upfront non-refundable payment on execution of the licence and the potential for further annual maintenance payments for the term specified in the licence. Where the initial fee paid is non-refundable and there are no ongoing commitments from the group and the licence has no fixed end date, the group recognises the element received up front as a payment in consideration of the granting of the licence on execution of the contract. Amounts receivable in respect of milestone payments are recognised as revenue when specific conditions stipulated in the license agreement have been met. Maintenance fees within the contracts are spread over the period to which they relate, usually a year. Otherwise, amounts receivable are recognised in the period in which related costs are incurred, or over the estimated period to completion of the relevant phase of development. Amounts recognised exclude value added tax. Differences between cash received and amounts recognised are included as deferred

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revenue, where cash received exceeds revenue recognised, and as accrued revenue, where revenue has yet to be billed to the customer

Cost of sales

The group's products and technologies include technology elements that are licensed from third parties. Cost of sales is the royalty arising on such third party licenses. Where royalty due on revenue has not been paid it is included in accruals. Where revenue is spread over a number of accounting periods, the royalty attributable to the deferred revenue is included in prepayments.

Segmental reporting

The group has one single business segment, based upon its proprietary technology, operated out of a single geographical location. The directors do not consider further segmental analysis to be required.

Clinical trial expenses

Where advances are made to clinical trial sites, or stocks of materials for use of clinical trials are purchased and stored, the relevant costs are included in trade and other receivables as prepaid clinical trial expenses. Expenses are charged to the income statement as clinical trial services are carried out, or clinical trial materials are used.

Financial instruments

The group's financial instruments comprise cash and cash equivalents, debtors and creditors arising directly from operations. Cash and cash equivalents comprise cash in hand and short term deposits which have an original maturity of three months or less and are readily convertible into known amounts of cash. Bank deposits with maturity of more than three months at the date of inception are included in the classification 'financial assets available for sale investments', and are carried at their historic purchase price unless there is objective evidence of impairment. Such assets are classified as current, where management intend to dispose of the asset within twelve months of the balance sheet date. Financial instruments are valued at fair value, subject to review for impairment annually. Charges or credits for impairment are passed through the income statement.

Other than short term currency options, the group does not enter into derivative transactions, and it is the group's policy not to undertake any trading in financial instruments. The group does not have any committed borrowing facilities, as its cash, cash equivalents and available for sale investments are sufficient to finance its current operations. Cash balances are mainly held on short and medium term deposits with quality financial institutions, in line with the group's policy to minimise the risk of loss. The main risks associated with the group's financial instruments relate to interest rate risk and foreign currency risk. The group's policy in relation to interest rate risk is to monitor short and medium term interest rates and to place cash on deposit for periods that optimise the amount of interest earned while maintaining access to sufficient funds to meet day to day cash requirements. In relation to foreign currency risk, the group's policy is to hold the majority of its funds in sterling, and to use short term currency purchase options and interest-bearing foreign currency deposits to manage short term fluctuations in exchange rates. No other hedging of foreign currency cash outflows is undertaken.

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Leases

Assets acquired under leases are reviewed to see if they are finance leases or operating leases, based on the following assumptions

- If the leases transfer ownership of the assets at the end of the lease,
- If they have a bargain purchase option,
- If the lease term is for the major part of the economic life of the asset, and
- If the leased assets are specialised for the lease only

The group currently has no operating or finance leases

Property, plant and equipment

Property, plant and equipment is carried at its historical purchase cost, together with any incidental expenses of acquisition, less depreciation

Depreciation is calculated so as to write off the cost of property, plant and equipment less their estimated residual values on a straight line basis over the expected useful economic lives of the assets concerned. The principal annual rates used for this purpose are

	%
Short leasehold improvements	20 or the remaining lease term if shorter
Computer equipment	33
Office and laboratory equipment, fixtures and fittings	20

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date

Intangible assets

Intangible fixed assets, relating to goodwill and intellectual property rights acquired through licensing or assigning patents and know-how are carried at historic cost, less accumulated amortisation, where the useful economic life of the asset is finite and the asset will probably generate economic benefits exceeding costs. Where a finite useful life of the acquired intangible asset cannot be determined, the asset is tested annually for impairment by allocating the assets to the cash generating units to which they relate. Amortisation would commence when products underpinned by the intellectual property rights became available for commercial use. Amortisation would be calculated on a straight line basis over the shorter of the remaining useful life of the intellectual property or the estimated sales life of the products. No amortisation has been charged to date, as the products underpinned by the intellectual property rights are not yet available for commercial use.

Expenditure on product development is capitalised as an intangible asset and amortised over the expected useful economic life of the product concerned. Capitalisation commences from the point at which technical feasibility and commercial viability of the product can be demonstrated and the group is satisfied that it is probable that future economic benefits will result from the product once completed. Capitalisation ceases when the product receives regulatory approval for launch. No such costs have been capitalised to date.

Expenditure on research and development activities that do not meet the above criteria, including ongoing costs associated with acquired intellectual property rights and intellectual property rights generated internally by the company, is charged to income statement as incurred. Intellectual property and in-process research and development from acquisitions are recognised as intangible assets at fair value. Any residual excess of

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consideration over the fair value of net assets in an acquisition is recognised as goodwill in the financial statements

Impairment of non-financial assets

The carrying value of non-financial assets is reviewed annually for impairment and provision made where appropriate. Charges or credits for impairment are passed through the income statement.

Financial assets, investments

Financial assets (investments) are carried at cost less any provision made for impairment.

Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost, using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the group will not be able to collect all amounts due according to the original terms of the receivables.

Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held on call with banks, and other short term highly liquid investments with original maturities of three months or less. Bank deposits with original maturities between three months and twelve months are included in current assets and are classified as available for sale financial assets.

Provisions

Provisions are measured at the present value of the expenditure expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligations. The increase in the provision due to the passage of time is recognised as interest expense.

The group recognises dilapidations provisions when property leases have a legal or constructive obligation to reinstate any alterations or to make good dilapidations at the end of the lease; it is probable that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated. Dilapidations provisions are discounted using the UK government zero-coupon bond yield applicable to the remaining term of the relevant leases.

Share capital

Ordinary shares and preference shares are classified as equity. Mandatorily redeemable preference shares would be classified as liabilities. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Government and other grants

Income from government and other grants is recognised over the period necessary to match them with the related costs which they are intended to compensate, on a systematic basis. Grant income is included as revenue within the income statement, and the related costs are included within research and development costs and administrative expenses. Where the purchase of property, plant and equipment is supported by a grant, the relevant asset is included in the balance sheet at its full purchase price, and grant income is recognised over the useful life of the asset. The difference between grant income receivable and income recognised is included in accruals and deferred income.

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Employee benefit costs

The group makes contributions to defined contribution personal pension schemes for its directors and employees. The pension cost charge recognised in the year represents amounts payable by the group to the funds.

Share based payment

The group's employees participate in Circassia Holdings Limited's share option schemes, and options over Circassia Holdings Limited 10p ordinary shares have been granted to the group's employees. Equity settled share-based payments are measured at fair value at the date of grant and expensed on a straight-line basis over the vesting period of the award. At each balance sheet date the group revises its estimate of the number of options that are expected to become exercisable. The financial consequences of revisions to the original estimates, if any, are recognised in the income statement, with a corresponding adjustment to equity.

The fair value of share options is measured using a Black-Scholes option pricing model.

Other employee benefits

The expected cost of compensated short term absence (e.g. holidays) is recognised when employees render services that increased their entitlement. An accrual is made for holidays earned but not taken, and prepayments recognised for holidays taken in excess of days earned.

Foreign currency translation

Monetary assets and liabilities in foreign currencies are translated into Sterling at the rates of exchange ruling at the end of the financial year. Transactions in foreign currencies are translated into Sterling at the rates of exchange ruling at the date of the transaction. Foreign exchange differences are taken to the income statement in the year in which they arise.

Taxation including deferred tax

The charge for current tax is based on the results for the year, adjusted for items which are non-assessable or disallowed. It is calculated using tax rates that have been enacted or substantially enacted at the balance sheet date.

Deferred tax is accounted for using the liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. In principle, deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax is calculated at the average tax rates that are expected to apply to the period when the asset is realised or the liability is settled. Deferred tax is charged or credited in the income statement, except when it relates to items credited or charged directly to equity, in which case the deferred tax is also dealt with in equity.

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2. Financial and capital risk management

Capital risk management

The group's objectives when managing capital are to safeguard the ability to continue as a going concern and ensure that sufficient capital is in place to fund the group's research activities. The group's principal method of adjusting the capital available is through issuing new shares. The group monitors the availability of capital with regard to its forecast future expenditure on an ongoing basis.

Financial risk factors

The group's simple structure, operating from a single location in the United Kingdom, and the lack of external debt financing reduces the range of financial risks to which it is exposed. Monitoring of financial risk is part of the Board's ongoing risk management, the effectiveness of which is reviewed annually. The group's agreed policies are implemented by the Chief Executive Officer, who submits periodic reports to the Board. Other than short term currency options, the group does not use financial derivatives, and it is the group's policy not to undertake any trading in financial instruments.

a) Foreign exchange risk

The group currently has no revenue. Certain expenditures are payable in Euros, Swiss Francs, Canadian Dollars and United States Dollars. The majority of operating costs are denominated in Sterling, Canadian Dollars or Swiss Francs. The group uses short term currency purchase options and interest-bearing deposits of Canadian Dollars, Swiss Francs and Euros to manage short term fluctuations in exchange rates.

At 31 December 2011, if the Euro had weakened/strengthened by 5% against Sterling with all other variables held constant, the post-tax loss for the year would have been £15k (2010 £2.4k) lower/higher, as a result of net foreign exchange gains/losses on translation of Euro-denominated payables. The sensitivity to Euro-Sterling exchange rate changes is higher than in 2010 due to the higher level of net Euro-denominated liabilities in 2011. The impact on post-tax loss at 31 December 2011 of a 5% (2010 5%) weakening/strengthening of the US Dollar against Sterling with all other variables held constant would have been a decrease/increase of £11k (2010 £1.5k). The impact on post tax loss at 31 December 2011 of a weakening/ strengthening of the Canadian Dollar against Sterling with all other variables held constant would have been a decrease/increase of £59k (2010 £6.4k). The impact on post tax loss at 31 December 2011 of a weakening/strengthening of the Swiss Franc against Sterling with all other variables held constant would have been a decrease /increase of £25k (2010 £29.8k).

b) Interest rate risk

The group does not have any committed external borrowing facilities, as its cash balances are sufficient to finance its current operations. Consequently, there is no material exposure to interest rate risk.

If interest rates had been 10 basis points higher/lower the impact on net loss in 2011 would have been decrease/increase of £22.2k (2010 £13.4k) due to changes in the amount of interest receivable.

c) Credit risks

The group's policy is to place funds with financial institutions rated at least A. During 2011 the group placed funds on deposit with nine banks (2010 four banks). The group does not allocate a quota to individual institutions but seeks to diversify its investments,

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where this is consistent with achieving competitive rates of return. The group has no significant credit risk.

d) Cash flow and liquidity risk

Funds are generally placed on deposit, and day to day spending commitments are met out of invested funds. The maturity profile of investments is structured to ensure that sufficient liquid funds are available to meet operating requirements. The Directors do not consider that there is presently a material cash flow or liquidity risk.

e) Pricing risk

Currently the group has no revenue and there is no pricing risk.

Derivative financial instruments and hedging

There were no derivatives at 31 December 2011 or 31 December 2010, and hedge accounting has not been used.

Fair value estimates

The fair value of short term deposits with a maturity of one year or less is assumed to be the book value.

3. Principal activity analysis

The group's loss on ordinary activities before taxation is derived entirely from its one business segment, pharmaceutical research and development, which is carried out at a single site. All costs of acquisition of property, plant and equipment and intangible assets, as well as depreciation expense borne by the group, relate to this one segment. In addition, all other non-cash expenses incurred by the group relate to this one segment. The directors do not consider that further segmental reporting is required.

4. Employees and directors

The average monthly number of persons (including executive directors) employed by the group during the year was

<i>By activity</i>	2011 Number	2010 Number
Office and management	3	3
Research and development	8	6
Total	11	9

Employee benefit costs	2011 £'000	2010 £'000
Wages and salaries	1,270	996
Social security costs	161	117
Other pension costs	289	197
Total employee benefit costs	1,720	1,310

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The emoluments of the directors are set out below

	2011 £'000	2010 £'000
Aggregate emoluments	713	601
Pension contributions to money purchase schemes	267	178
	980	779

No directors exercised share options during the year (2010 nil) No shares were received by directors under long-term incentive schemes (2010 nil) Retirement benefits are paid into directors personal pension schemes and are accruing to 3 directors (2010 3 directors)

The emoluments of the highest paid director are set out below

	2011 £'000	2010 £'000
Emoluments	221	191
Pension contributions to money purchase schemes	155	119
	376	310

5. Finance income and costs

	2011 £'000	2010 £'000
Finance costs:		
Bank interest payable	-	(18)
Interest payable on loan notes	(11)	(11)
Total finance costs	(11)	(29)
Finance income:		
Bank interest receivable	132	73
Total finance income	132	73
Net finance income	121	44

6. Operating loss

	2011 £'000	2010 £'000
Employee benefit costs (note 4)	1,720	1,310
Consultants and subcontracted research	376	78
Externally contracted clinical and preclinical development	8,288	5,165
Externally contracted manufacturing	2,270	1,808
Externally contracted formulation and analytical	1,859	390
Legal and professional fees including patent costs	456	421
Net loss/(gain) on foreign exchange	28	(314)
Other expenses	355	609
Total research and development and administrative expenses	15,352	9,467

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Services provided by the company's auditor

During the year the company and group obtained services from the auditor as detailed below

	2011 £'000	2010 £'000
Audit services		
Statutory audit	14	13
Non-audit services		
Taxation	7	6
Total	21	19

7. Taxation

The group is entitled to claim tax credits in the United Kingdom for certain research and development expenditure. The amount included in the financial statements for the year ended 31 December 2011 represents the credit receivable by the group for the year and adjustments to prior years. These amounts have not yet been agreed with the relevant tax authorities.

	2011 £'000	2010 £'000
Continuing operations		
United Kingdom corporation tax research and development credit	(595)	(434)
Adjustments in respect of prior year	5	-
Total current tax credit	(590)	(434)

The tax credit for the year is lower (2010: lower) than the standard rate of corporation tax in the UK of 26.5% (2010: 28%). The differences are explained below.

	2011 £'000	2010 £'000
Loss on ordinary activities before tax	(15,103)	(9,242)
Loss on ordinary activities before tax multiplied by the standard rate of corporation tax in the UK of 26.5% (2010: 28%)	(4,001)	(2,588)
Expenses not deductible for tax purposes (permanent differences)	(34)	(54)
Short term timing differences	25	(20)
Research & development relief 50% mark-up on expenses	(2,158)	(1,137)
Surrender of losses for research & development tax credit refund	630	434
Adjustments in respect of prior periods	5	2
Tax losses carried forward to future periods	4,943	2,929
Current tax credit for the year	(590)	(434)

At 31 December 2011, the Group had tax losses to be carried forward of approximately £40,866,390 (2010: £24,878,220).

There is no deferred tax recognised.

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8. Intangible assets

	Goodwill £'000	Intellectual Property Rights £'000	Total £'000
Cost			
At 1 January 2011	1,835	397	2,232
Additions	-	40	40
At 31 December 2011	1,835	437	2,272
Accumulated amortisation and impairment at 1 January and 31 December	-	(138)	(138)
Net book amount 31 December 2011	1,835	299	2,134
Net book amount 31 December 2010	1,835	259	2,094

Impairment charges are included within research and development costs in the income statement. An impairment test is performed annually based on the value in use of the intangible assets.

9. Investments in subsidiaries

	2011 £'000	2010 £'000
Investments in subsidiaries at 1 January and 31 December	1,725	1,725

Details of the company's subsidiaries are provided below. All subsidiaries are included in the consolidation and the directors believe that the value in use of all subsidiaries exceeds their carrying values.

Name	Country of Incorporation	Nature of business	Percentage held
Circassia Limited	UK	Pharmaceutical research	100%
Circassia Pharma Limited	UK	Pharmaceutical research	100%

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10. Investment in associates

	2011 £'000	2010 £'000
At 1 January	206	18
Share of profit	128	181
Foreign exchange difference in consolidation	(3)	7
At 31 December	331	206

The group's share of the results of its unlisted associate and its aggregated assets and liabilities are as follows

Name	Country of Incorporation	Assets £'000	Liabilities £'000	Revenues £'000	Profit £'000	% Held
Adiga Life Sciences	Canada	1,013	681	3,349	128	50

11. Trade and other receivables - current

	Group		Company	
	2011 £'000	2010 £'000	2011 £'000	2010 £'000
Other receivables	404	99	-	2
Prepayments	35	17	-	-
Receivables from subsidiary undertakings	-	-	46,378	24,833
Total trade and other receivables – current	439	116	46,378	24,835

The fair value of other receivables are the current book values. Receivables from subsidiary undertakings are amounts provided by the company to its subsidiaries in order to undertake trials. Recoverability of the amount is dependent on the success of those trials.

At 31 December 2011 and 31 December 2010 none of the other receivables were aged over three months. No receivables were impaired.

12. Cash and cash equivalents

	Group		Company	
	2011 £'000	2010 £'000	2011 £'000	2010 £'000
Cash at bank and in hand	20,221	9,605	11,668	8,474

13. Trade and other payables – current

	Group		Company	
	2011 £'000	2010 £'000	2011 £'000	2010 £'000
Trade payables	1,943	488	-	-
Other payables	14	-	-	-
Accruals	1,025	941	5	3
Total trade and other payables – current	2,982	1,429	5	3

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14. Financial liabilities

	Group		Company	
	2011	2010	2011	2010
	£'000	£'000	£'000	£'000
Convertible loan notes	1,990	1,977	1,990	1,977
Financial liabilities	1,990	1,977	1,990	1,977

The group has in issue a number of convertible loan notes which accrue interest at the daily Libor rate. The loan notes are convertible into 50 fully paid ordinary shares at any time. The loan notes will be redeemed, if they have not previously been converted, on 31 March 2016 for £15,000 plus interest each.

15. Financial instruments

The group's financial instruments comprise cash and cash equivalents, available for sale investments, trade and other receivables, trade and other payables and financial liabilities. Additional disclosures are set out in the accounting policies relating to risk management.

The group had the following financial instruments at 31 December each year:

	Assets		Liabilities	
	2011	2010	2011	2010
	£'000	£'000	£'000	£'000
Cash and cash equivalents	20,221	9,605	-	-
Trade and other receivables	1,482	551	-	-
Trade and other payables - current	-	-	2,982	1,429
Financial liabilities	-	-	1,990	1,977
	21,703	10,156	4,972	3,406

Cash balances comprise a mixture of floating rate instant access deposits earning interest at prevailing bank rates and money market deposits bearing interest at fixed rates.

In accordance with IAS 39 'Financial instruments Recognition and Measurement' the group has reviewed all contracts for embedded derivatives that are required to be separately accounted for if they do not meet certain requirements set out in the standard. There were no such derivatives identified at 31 December 2011 or 31 December 2010.

Fair value

The directors consider that the fair values of the group's financial instruments do not differ significantly from their book values.

16. Deferred taxation

The Company has no recognised or deferred tax assets or liabilities at 31 December 2011 (2010: £nil). The Group has an unrecognised deferred tax asset of £10,272,561 (2010: £6,751,850) in respect of losses, accelerated capital allowances and other short term timing differences. In light of the continuing losses, recovery of the deferred tax asset is not sufficiently certain, and therefore no asset has been recognised.

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17. Called-up share capital

	2011 £'000	2010 £'000
Authorised		
1,000,000 (2010 1,000,000) Ordinary shares of 10p each	100	100
326,700 A Preference shares of 10p each (2010 147,932)	33	15
187,112 B Preference shares of 10p each (2010 71,522)	18	7
Issued and fully paid		
109,702 Ordinary shares of 10p (2010 109,702)	11	11
Total ordinary share capital	11	11
147,932 A Preference shares of 10p each (2010 147,932)	15	15
187,112 B Preference shares of 10p each (2010 71,522)	18	7
Total preference share capital	33	22
Total share capital	44	33

The 'A' Preferred Shares have the same voting rights as the Ordinary Shares but carry a liquidation preference of 1 times their subscription price. They accordingly receive repayment of their subscription price upon a 'Sale' (as defined in the Articles), or upon any return of assets to shareholders, in priority to the rights of the Ordinary Shares, and then participate alongside the Ordinary Shares in any balance of consideration on Sale.

The 'B' Preferred Shares have the same rights and rank *pari passu* with the existing 'A' Preferred Shares save that they have a right to a liquidation preference on Sale of 1.25 times their subscription price in priority to the rights of the existing Preferred Shares and the Ordinary Shares. No interest accrues on either class of preference share.

21,250 (2010 21,250) Ordinary Shares are reserved for issuance or have been issued under the group's share option schemes.

During the year, 115,590 (2010 1,177) B Preferred Shares were issued for consideration of £216.78 per share, giving rise to a share premium of £24,631,000 after deduction of issue expenses of £415,000. No (2010 1,609) Ordinary Shares were issued at par.

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18. Share based payments

All employees of the group are eligible for options over 10p ordinary shares in the company. Options have been awarded under the Circassia EMI Share Option Scheme ("the EMI Scheme") and the Circassia Unapproved Share Option Scheme ("the Unapproved Scheme"). It is the group's policy to make annual grants of options to employees.

Options granted under the EMI Scheme have a fixed exercise price based on the market price at the date of grant. The contractual life of the options is 10 years. Options cannot normally be exercised before the third anniversary of the date of grant.

Options granted under the Unapproved Scheme also have a fixed exercise price based on the market price at the time of grant. The contractual life of the options is ten years. Options cannot normally be exercised before the third anniversary of the date of grant.

Options were valued using the Black-Scholes option pricing model. For each relevant option grant, individual valuation assumptions were assessed based upon conditions at the date of grant. The range of assumptions in the calculation of share based payment in 2010 is as follows:

	Share options 15 th August 2011	Share options 22 nd January 2010	Share Options 18 th March 2009	Share Options 3 rd July 2008
Grant dates	15 th August 2011	22 nd January 2010	18 th March 2009	3 rd July 2008
Share price at grant date	10p	10p	10p	10p
Exercise price	10p	10p	10p	10p
Vesting period	3 years	3 years	3 years	3 years
Total number of shares	8,357	4,100	1,700	3,250
Expected volatility (average)	26	26	26	26
Expected life (years, average)	5	5	5	5
Risk free rate (average)	4.5%	4.5%	4.5%	4.5%
Expected dividend	Nil	Nil	Nil	Nil
Expected rate of forfeit before vesting (average)	Nil	Nil	Nil	Nil
Expectation of meeting performance criteria	100%	100%	100%	100%
Fair value per option	14.8p	14.8p	14.8p	14.8p

Expected volatility is based on historical volatility for a period the same length as the expected option life ending on the date of grant. The risk-free rate of return is the yield on zero-coupon UK government bonds of a term consistent with the expected option life.

The weighted average exercise price for options outstanding at year end was 10p. The total charge for the year relating to employee share based payment plans was £620 (2010: £116), all of which related to equity-settled share based payment transactions. A reconciliation of movements in all options held by employees of Circassia Holdings Limited over the year to 31 December 2011, and an analysis of outstanding options are shown below. There were 23,865 options outstanding as at 31 December 2011.

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	2011	
	Number	Weighted average exercise price
Outstanding at 1 January	15,958	10p
Granted	8,357	10p
Expired	-	n/a
Forfeited	(950)	n/a
Exercised	-	n/a
Outstanding at 31 December	23,365	10p
Exercisable at 31 December	6,908	10p
Exercisable and where market price exceeds exercise price at 31 December	Nil	n/a

19. Share premium account

Group and company	2011 £'000	2010 £'000
At 1 January	32,480	32,228
Issue of preference shares	25,046	255
Expenses relating to share issue	(415)	(3)
At 31 December	57,111	32,480

20. Deficit on reserves

Group	Share option reserve		Accumulated losses	
	2011 £'000	2010 £'000	2011 £'000	2010 £'000
At 1 January (deficit)	-	-	(23,463)	(14,662)
Total comprehensive expense	1	-	(14,516)	(8,801)
At 31 December (deficit)	1	-	(37,979)	(23,463)

Company	Share option reserve		Retained earnings	
	2011 £'000	2010 £'000	2011 £'000	2010 £'000
At 1 January	-	-	541	514
Total comprehensive income	1	-	79	27
At 31 December	1	-	620	541

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21. Cash flow from operating activities

Reconciliation of loss before tax to net cash from operations

	2011 £'000	2010 £'000
Continuing operations		
Loss before tax	(15,103)	(9,242)
Adjustment for		
Interest income	(132)	(73)
Interest expense	11	29
Share of associates operating profit	(128)	(181)
Changes in working capital		
Increase in trade and other receivables	(322)	(29)
Increase/(decrease) in trade and other payables	1,554	435
Net cash used in operations	(14,120)	(9,061)

22. Pension commitments

The group contributes to defined contribution pension schemes for its directors and employees. The pension cost charge of £289,366 (2010 £197,000) represents amounts payable by the group to funds. Contributions of £214,903 (included in creditors) were payable to the funds at the year-end (2010 £127k).

23. Contingent liabilities and capital commitments

There were no contingent liabilities at 31 December 2011 or at 31 December 2010.

24. Related party transactions

There is no ultimate controlling party of the group as ownership is split between the company's shareholders. The most significant shareholders are as follows: Charles Swingland (8% of total voting rights), Steven Harris (8% of total voting rights), Imperial Innovations Businesses LLP (19% of total voting rights), Lansdowne UK Equity Fund Limited (13% of total voting rights), Invesco Perpetual Income Fund (33% of total voting rights).

Transactions with related parties during the year and balances with related parties at 31 December are as follows:

Related party	2011 Sales £'000	2011 Purchases £'000	2011 Interest £'000	2011 Receivables £'000	2011 Payables £'000
Adiga Life Sciences (Associate)	-	4,129	-	67	-
Timothy Corn (Director)	-	12	-	-	-
Imperial Innovations Businesses LLP	-	-	8	-	-
Steven Harris (Director)	-	-	-	-	-
Charles Swingland (Director)	-	-	-	-	-

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Related party	2010 Sales £'000	2010 Purchases £'000	2010 Interest £'000	2010 Receivables £'000	2010 Payables £'000
Adiga Life Sciences (Associate)	-	4,357	-	-	128
Tim Corn (Director)	-	7	-	-	2
Imperial Innovations Businesses LLP	-	-	8	-	1,461
Steven Harris (Director)	-	-	1	-	258
Charles Swingland (Director)	-	-	1	-	258

The group has no key management other than the directors. Disclosure of compensation provided to directors is given in note 4.

The company makes no sales or purchases with its subsidiaries, but provides funding to Circassia Limited which carries out the group strategy, employs all the UK staff including the directors, and owns and manages all of the group's intellectual property. The proceeds of the shares issued by Circassia Holdings Limited are passed from Circassia Holdings Limited to Circassia Limited as a payable as funds are required.

Balances with subsidiary companies	2011 £'000	2010 £'000
Payable:		
Circassia Limited	46,378	24,833

The payable is unsecured, interest free and has no fixed date of repayment.

25. Post Balance Sheet Event

On 23rd April 2012, Circassia Holdings Limited received the second tranche of £35 million from its total fundraising of £60m completed in April 2011 after achieving key development milestones. In addition, the Company has raised new funding of £12m from the company's investors.