

Synairgen plc Interim Report 2004

Synairgen is a drug discovery company focused on identifying the underlying causes of, and discovering new treatments for, asthma and chronic obstructive pulmonary disease ('COPD')

Interim Results for the six months ended 31 December 2004

Financial highlights

- Successful flotation in October 2004 on the Alternative Investment Market which raised £10.0 million for the Company (£9.0 million net of expenses)
- Turnover was £58k (29 weeks ended 31 December 2003: £nil)
- Operating loss for the period was £390k (29 weeks ended 31 December 2003: loss of £67k), in line with management expectations
- Net funds at 31 December 2004 of £9.1 million (31 December 2003: £0.6 million)

Operational highlights

- Collaboration signed with an undisclosed North American biotechnology company in July 2004
- Patent application for growth factor filed by University of Southampton in September 2004 and exclusively licensed to Synairgen
- Executive management appointments and recruitment of scientific staff to meet partnership and proprietary programme demands
- Post period-end, collaboration agreement signed with Centocor, a subsidiary of Johnson & Johnson

CHAIRMAN'S STATEMENT

INTRODUCTION

This is Synairgen's first set of Interim Results following its initial public offering ('IPO') on the Alternative Investment Market ('AIM') on 26 October 2004. As part of the IPO, Synairgen raised £9.0 million net of expenses which we intend to use on enhancing the Company's research capabilities, investing in our current proprietary programmes and developing our Biobank of disease specific samples.

Our focus is on identifying and out-licensing new pharmaceutical products for asthma and chronic obstructive pulmonary disease ('COPD'). Over the first six months of the financial year, we have focused on progressing our proprietary and collaborative programmes.

Proprietary Programmes

Interferon Beta ('IFNβ')

Following the patent filing in March 2004 describing a novel use of IFNβ in protecting severe asthmatics from exacerbations induced by the common cold virus, we have built on our research work. We have mapped out a clinical trial programme, culminating in a proof of concept clinical trial. A UK Clinical Trial Authorisation application for inhaled IFNβ will be made during the summer of 2005.

Growth Factor

In September 2004, we completed initial research and managed the filing of a patent describing a novel growth factor with potential utility in asthma. We continue to research the product with a view to establishing an appropriate development path during 2005.

Collaborations

Synairgen started the period under review with collaboration agreements in place with Merck Frosst Canada & Co and Cambridge Antibody Technology Limited. In July 2004, the Company entered into a third agreement with a major unnamed US biotechnology company. Post period-end, in March 2005, Synairgen announced a new collaboration with Centocor, Inc. (a subsidiary of Johnson & Johnson). Synairgen continues to discuss possible collaborations with both existing collaborators and new potential partners.

Biobank

In order to recreate the asthmatic and COPD lung in the laboratory, we are building a Biobank comprising samples of tissue from volunteers who are screened and characterised prior to donating samples. The extent of work on the Biobank - collecting and storing samples and developing further our *in vitro* models using disease-derived cells - has increased significantly as a result of the funds raised at flotation.

To underpin our projects, collaborations and Biobank, and to aid future growth, we have recruited additional personnel – both at the executive and the scientific levels, whilst retaining our “lean” operating philosophy.

FINANCIAL REVIEW

Flotation on AIM

The IPO raised £10.0 million (£9.0 million after expenses) through the issue of 7,692,308 shares at a placing price of 130p. 400,000 shares were also placed on behalf of Southampton Asset Management Ltd to meet institutional demand for the shares. The market capitalisation of the Company at the placing price amounted to £28.2 million.

Profit and loss account

Revenue for the six months to 31 December 2004 was £58k (29 weeks ended 31 December 2003: £nil) and was generated from three contracts, two of which will generate further revenue in the second half of the financial year. The operating loss for the period was £390k (2003: loss of £67k), in line with our expectations. Research and development expenditure increased from £38k to £194k as the Company built its scientific team up to eight staff and progressed a wider portfolio of research projects. The increase in other administrative costs from £29k to £204k reflects the recruitment of additional senior management personnel and the scaling up of the Company's activities. Interest receivable increased from £4k to £83k on account of the flotation funds raised. The retained loss was £307k (2003: loss of £63k) and the loss per share was 1.9p (2003: loss of 0.7p).

Balance Sheet

At 31 December 2004, net assets amounted to £9.1 million (31 December 2003: £0.6 million) including cash and deposit balances of £9.1 million (2003: £0.6 million).

OUTLOOK

Synairgen has made good early progress in the two months after its flotation and has continued to develop the business through the first quarter of 2005. We are particularly pleased to announce our fourth collaboration with a new partner, Centocor, since commencing operations in summer 2003. We look forward to making further planned progress on our collaborations and proprietary programmes through the rest of this year.

Simon Shaw Chairman

Unaudited Consolidated Profit and Loss Account

for the six months ended 31 December 2004

	Notes	Proforma Six months ended 31 December 2004 £000	Proforma 29 weeks ended 31 December 2003 £000	Proforma 55 weeks ended 30 June 2004 £000
Turnover		58	–	82
Cost of sales		(50)	–	(18)
Gross profit		8	–	64
Administrative expenses				
Research and development expenditure		(194)	(38)	(123)
Other		(204)	(29)	(107)
Total		(398)	(67)	(230)
Operating loss		(390)	(67)	(166)
Interest receivable		83	4	13
Loss on ordinary activities before taxation		(307)	(63)	(153)
Tax on loss on ordinary activities		–	–	–
Loss on ordinary activities after taxation and and retained loss for the period		(307)	(63)	(153)
Loss per ordinary share				
Basic and diluted loss per share (pence)	2	(1.94)p	(0.70)p	(1.52)p

Unaudited Consolidated Balance Sheet

as at 31 December 2004

Notes	31 December 2004 £000	Proforma 31 December 2003 £000	Proforma 30 June 2004 £000
Fixed assets			
Intangible assets	7	–	4
Tangible assets	135	–	145
	142	–	149
Current assets			
Debtors	162	5	77
Investments: short-term deposits	9,046	553	350
Cash at bank and in hand	48	36	57
	9,256	594	484
Creditors: amounts falling due within one year	(265)	(34)	(163)
Net current assets	8,991	560	321
Total assets less current liabilities	9,133	560	470
Capital and reserves			
Called up share capital	217	113	113
Share premium account	8,893	–	–
Merger reserve	483	510	510
Profit and loss account	(460)	(63)	(153)
Equity shareholders' funds	3 9,133	560	470

Unaudited Consolidated Cash Flow Statement

for the six months ended 31 December 2004

	Notes	Proforma Six months ended 31 December 2004 £000	Proforma 29 weeks ended 31 December 2003 £000	Proforma 55 weeks ended 30 June 2004 £000
Net cash outflow from operating activities	4	(290)	(38)	(78)
Returns on investments and servicing of finance				
Interest received		16	4	13
Capital expenditure and financial investment				
Purchase of intangible fixed assets		(4)	–	(4)
Purchase of tangible fixed assets		(5)	–	(147)
Net cash outflow from capital expenditure		(9)	–	(151)
Net cash outflow before management of liquid resources and financing		(283)	(34)	(216)
Management of liquid resources				
Increase in short-term deposits		(8,696)	(553)	(350)
Financing				
Issues of ordinary share capital		77	1	1
Share premium received on share issues		9,923	649	649
Share issue costs		(1,030)	(27)	(27)
Cash inflow from financing		8,970	623	623
(Decrease)/Increase in cash in period	5	(9)	36	57

Notes to the Financial Statements

for the six months ended 31 December 2004

1. Basis of preparation

Synairgen plc was incorporated on 16 September 2004. On 11 October 2004 Synairgen plc acquired the entire issued share capital of Synairgen Research Limited by issuing 14,000,000 ordinary shares of 1p each on the basis of issuing 100 shares for each ordinary share of 1p each held in Synairgen Research Limited. The Directors have accounted for this group reconstruction using the merger accounting principles as set out in Financial Reporting Standard 6. Accordingly proforma financial information has been prepared to show the position as if Synairgen plc had been in existence and the parent of Synairgen Research Limited throughout the current and prior periods. The proforma information has been compiled by taking the results of the group before the group reconstruction and adjusting for the capital structure of the new group.

The Interim Report was approved by the Board of Directors on 8 March 2005. The financial information for the six months ended 31 December 2004 is unaudited, but has been reviewed in accordance with Auditing Practices Board guidance by BDO Stoy Hayward LLP, whose report is included on page 9.

The financial information for the period to 30 June 2004 contained in this Interim Report does not constitute statutory accounts of either Synairgen plc or Synairgen Research Limited within the meaning of Section 240(5) of the Companies Act 1985. The financial information for the 55 weeks ended 30 June 2004 is derived, on the basis described in detail above, from the financial statements of Synairgen Research Limited for the period 10 June 2003 (date of incorporation) to 30 June 2004 which will be filed with the Registrar of Companies. The auditors have reported on the financial statements of Synairgen Research Limited for the period to 30 June 2004; their report was unqualified and did not contain statements under the Companies Act 1985, s 237(2) or (3).

2. Loss per ordinary share

	Six months ended 31 December 2004	29 weeks ended 31 December 2003	55 weeks ended 30 June 2004
Loss on ordinary activities after taxation (£000)	(307)	(63)	(153)
Weighted average number of ordinary shares in issue	15,817,960	8,953,777	10,075,980

The loss attributable to ordinary shareholders and weighted average number of ordinary shares for the purpose of calculating the diluted earnings per ordinary share are identical to those used for basic earnings per share. This is because the exercise of share options would have the effect of reducing the loss per ordinary share and is therefore not dilutive under the terms of Financial Reporting Standard 14. The comparative figures are proforma based on the number of shares that would have been in issue had the capital structure of the new parent company always been in place.

Notes to the Financial Statements - continued

for the six months ended 31 December 2004

3. Reconciliation of movements in shareholders' funds

	Share capital £000	Share premium account £000	Merger reserve £000	Profit and loss account £000	Shareholders' funds £000
At 10 June 2003	–	–	–	–	–
Issue of ordinary shares	113	–	510	–	623
Loss for the period	–	–	–	(63)	(63)
At 31 December 2003	113	–	510	(63)	560
Loss for the period	–	–	–	(90)	(90)
At 30 June 2004	113	–	510	(153)	470
Issue of ordinary shares	104	9,923	(27)	–	10,000
Share issue costs	–	(1,030)	–	–	(1,030)
Loss for the period	–	–	–	(307)	(307)
At 31 December 2004	217	8,893	483	(460)	9,133

The issue of 140,000 1p ordinary shares by Synairgen Research Limited prior to its acquisition by Synairgen plc has been restated to reflect the 100 for 1 share for share exchange which was effected in October 2004. In accordance with the principles of merger accounting the difference between the nominal value of the shares issued in the share exchange and sum of the amounts standing to the issued share capital and share premium accounts has been taken to a merger reserve.

4. Reconciliation of operating loss to net cash outflow from operating activities

	Six months ended 31 December 2004 £000	29 weeks ended 31 December 2003 £000	55 weeks ended 30 June 2004 £000
Operating loss	(390)	(67)	(166)
Depreciation & amortisation	16	–	2
Increase in debtors	(18)	(5)	(77)
Increase in creditors	102	34	163
Net cash outflow from operating activities	(290)	(38)	(78)

Notes to the Financial Statements - continued

for the six months ended 31 December 2004

5. Reconciliation of net cash flow to movement in net funds

	Six months ended 31 December 2004 £000	29 weeks ended 31 December 2003 £000	55 weeks ended 30 June 2004 £000
(Decrease)/Increase in cash in period	(9)	36	57
Increase in short-term deposits	8,696	553	350
Change in net funds resulting from cash flows and movement in net funds	8,687	589	407
Net funds at start of period	407	–	–
Net funds at end of period	9,094	589	407

Independent Review Report to Synairgen plc

Introduction

We have been instructed by the company to review the financial information for the six months ended 31 December 2004 on pages 3 to 8. We have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

Our report has been prepared in accordance with the terms of our engagement to assist the company in meeting the requirements of the rules of the London Stock Exchange for companies trading securities on the Alternative Investment Market and for no other purpose. No person is entitled to rely on this report unless such a person is a person entitled to rely upon this report by virtue of and for the purpose of our terms of engagement or has been expressly authorised to do so by our prior written consent. Save as above, we do not accept responsibility for this report to any other person or for any other purpose and we hereby expressly disclaim any and all such liability.

Directors' responsibilities

The interim report, including the financial information contained therein, is the responsibility of, and has been approved by the directors. The directors are responsible for preparing the interim report in accordance with the rules of the London Stock Exchange for companies trading securities on the Alternative Investment Market which require that the half-yearly report be presented and prepared in a form consistent with that which will be adopted in the company's annual accounts having regard to the accounting standards applicable to such annual accounts.

Review work performed

We conducted our review in accordance with guidance contained in Bulletin 1999/4 issued by the Auditing Practices Board for use in the United Kingdom by auditors of fully listed companies. A review consists principally of making enquiries of group management and applying analytical procedures to the financial information and underlying financial data and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit performed in accordance with United Kingdom Auditing Standards and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the financial information.

Review conclusion

On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the six months ended 31 December 2004.

BDO Stoy Hayward LLP

Chartered Accountants
Southampton

8 March 2005



synairgen

Synairgen plc

Mail Point 810,
Southampton General Hospital,
Tremona Road, Southampton,
SO16 6YD United Kingdom

t: + 44 (0) 23 8077 8052

w: www.synairgen.com

e: info@synairgen.com

Registered office:

2 Venture Road, Chilworth Science Park, Southampton SO16 7NP

Company registered number:

5233429