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This document, which comprises an admission document, has been drawn up in accordance with the Public Offers of Securities Regulations 1995 (the “POS Regulations”) and the AiM Rules of the London Stock Exchange plc (the “AiM Rules”).

The Directors of Synairgen plc, whose names appear on page 7 of this document, accept responsibility for the information contained in this document including individual and collective responsibility for compliance with the AiM Rules. To the best of the knowledge and belief of the Directors (who have taken all reasonable care to ensure that such is the case), the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information.

Application has been made for the issued Ordinary Shares of Synairgen plc, including those to be issued pursuant to the Placing, to be admitted to trading on AiM, a market operated by the London Stock Exchange plc (“AiM”). AiM is a market designed primarily for emerging or smaller companies to which a higher investment risk tends to be attached than to larger or more established companies. AiM securities are not admitted to the Official List of the UK Listing Authority (the “Official List”). A prospective investor should be aware of the risks of investing in such companies and should make the decision to invest only after careful consideration and, if appropriate, consultation with an independent financial adviser.

The rules of AiM are less demanding than those of the Official List. It is emphasised that no application is being made for admission of the Ordinary Shares to the Official List. Further, neither the UK Listing Authority nor the London Stock Exchange plc has examined or approved the contents of this document. It is expected that Admission will become effective and that trading in the Ordinary Shares will commence on AiM on 26 October 2004. No application has been made, or is contemplated, for the Ordinary Shares to be listed on any other recognised investment exchange.

The Placing is conditional, *inter alia*, on Admission taking place on or before 26 October 2004 (or such later date as the Company and Robert W. Baird Limited may agree, but in any event not later than 23 November 2004). The New Ordinary Shares will rank in full for all dividends or other distributions hereafter declared, made or paid on the ordinary share capital of the Company and will rank *pari passu* in all other respects with all other Ordinary Shares in issue after Admission.



Synairgen plc

(Incorporated under the Companies Act 1985 and registered in England and Wales – number 5233429)

Placing by Robert W. Baird Limited of 8,092,308 Ordinary Shares at 130p per share and Admission to trading on the AiM Market

This document does not constitute an offer to sell, or the solicitation of an offer to buy, the Ordinary Shares in any jurisdiction in which such offer or solicitation is unlawful and, in particular, is not for distribution in the United States, Canada, Australia, Japan or the Republic of Ireland. The Ordinary Shares have not been, and will not be, registered under the United States Securities Act of 1933, as amended, or under the securities legislation of any state of the United States of America. The relevant clearances have not been, and will not be, obtained from the Securities Commission of any province or territory of Canada, no document in relation to the Placing has been, or will be, lodged with, or registered by, the Australian Securities and Investments Commission, and no registration statement has been, or will be filed with the Japanese Ministry of Finance in relation to the Placing or the Ordinary Shares. Accordingly, subject to certain exceptions, the Ordinary Shares may not, directly or indirectly, be offered or sold within the United States, Canada, Australia, Japan or the Republic of Ireland or offered or sold to a person within the United States or a resident of Canada, Australia, Japan or the Republic of Ireland.

Robert W. Baird Limited (“Baird”), which is regulated by The Financial Services Authority, is acting as the Company’s nominated adviser and broker in connection with the proposed admission of the Company’s Ordinary Shares to trading on AiM. Baird’s responsibilities as the Company’s nominated adviser under the AiM Rules are owed solely to the London Stock Exchange plc and are not owed to the Company or to any Director or to any other person in respect of his decision to acquire shares in the Company in reliance on any part of this document. Baird is acting exclusively for the Company in relation to the Placing. Baird will not be offering advice and will not be responsible for providing the protections afforded to customers of Baird to recipients of this document in respect of the Placing or any acquisition of shares in the Company. Baird has not authorised the contents of any part of this document for the purposes of Regulation 13(1)(g) of the POS Regulations and (without limiting the statutory rights of any person to whom this document is issued) no liability whatsoever is accepted by Baird for the accuracy of any information or opinions contained in this document or for the omission of any material information from the document for which the Company and the Directors are solely responsible.

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DEFINITIONS

The following definitions apply throughout this document, unless the context otherwise requires:

“Act”	the Companies Act 1985, as amended
“Admission”	the admission of the ordinary share capital of the Company to trading on AiM becoming effective in accordance with the AiM Rules
“AiM”	AiM, a market operated by the London Stock Exchange
“AiM Rules”	the rules of the London Stock Exchange and those other of its rules which govern the admission to trading on, and the operation of companies on, AiM
“Articles”	the articles of association of the Company
“Baird”	Robert W. Baird Limited
“Biobank”	a collection of blood, induced sputum, bronchial biopsies and epithelial cells from selected and clinically characterised volunteers
“Board” or “Directors”	the directors of the Company whose names are set out on page 7 of this document
“City Code”	The City Code on Takeovers and Mergers
“Combined Code”	the code of best practice including the Principles of Good Governance entitled the “Combined Code on Corporate Governance” published by the Financial Reporting Council in July 2003 and appended to, but not forming part of, the Listing Rules
“Company”	Synairgen plc
“CREST”	the relevant system (as defined in the CREST Regulations) in respect of which CRESTCo Limited is the Operator (as defined in the CREST Regulations) in accordance with which securities may be held in uncertificated form
“CREST Regulations”	the Uncertificated Securities Regulations 2001 (SI 2001/3755)
“Directors’ Options”	the options over Ordinary Shares held by Simon Shaw, Richard Marsden and John Ward as at the date of Admission, as described in paragraph 2(d) of Part VI of this document
“EU”	European Union
“Facilities Agreement”	a facilities agreement between the University and Synairgen Research Limited as described in paragraph 6(f) of Part VI of this document
“Founders”	the academic founding shareholders of Synairgen Research Limited (namely Professor Stephen Holgate, Dr Donna Davies and Dr Ratko Djukanovic)
“GB”	Great Britain
“IP”	intellectual property
“IP2IPO”	IP2IPO Group plc or, where the context requires it, its subsidiary companies
“IP2IPO Connected Parties”	John Davies and Bruce Smith
“Licence Agreement”	a licence agreement dated 11 October 2004 between the University and Synairgen Research Limited as described in Part II of this document (which replaced an earlier agreement)
“Listing Rules”	the rules of the UK Listing Authority made under section 74 of the Financial Services and Markets Act 2000, as amended from time to time

“London Stock Exchange”	London Stock Exchange plc
“New Ordinary Shares”	the 7,692,308 new Ordinary Shares to be issued by the Company pursuant to the Placing
“Non-executive Directors”	the non-executive directors of the Company, whose names are set out on page 7 of this document
“Official List”	the Official List of the UK Listing Authority
“Ordinary Shares”	ordinary shares of 1p each in the capital of the Company
“Placing”	the placing, by Baird, of the Placing Shares on the terms and conditions set out in the Placing Agreement and the Sale Agreement
“Placing Agreement”	the conditional agreement, dated 20 October 2004 between Baird, the Company and the Directors relating, <i>inter alia</i> , to the placing of the New Ordinary Shares and Admission, further details of which are set out in paragraph 6(a) of Part VI of this document
“Placing Price”	130p per Placing Share
“Placing Shares”	the New Ordinary Shares and the Sale Shares
“POS Regulations”	the Public Offers of Securities Regulations 1995, as amended
“Sale Agreement”	the conditional agreement, dated 20 October 2004, between Baird and Southampton Asset Management relating to, <i>inter alia</i> , the placing of the Sale Shares
“Sale Shares”	the 400,000 Ordinary Shares to be sold by Southampton Asset Management pursuant to the Sale Agreement
“Shareholders”	holders of Ordinary Shares at the date of this document
“Southampton Asset Management”	Southampton Asset Management Limited
“Synairgen” or “Group”	the Company and/or its subsidiary, Synairgen Research Limited (formerly known as Synairgen Limited prior to its change of name), as the context requires
“UK Listing Authority”	the Financial Services Authority acting in its capacity as the competent authority for the purposes of Part VI of the Financial Services and Markets Act 2000
“Staff Share Scheme”	the Synairgen plc Staff Share Option Scheme
“United Kingdom” or “UK”	the United Kingdom of Great Britain and Northern Ireland
“United States” or “US”	the United States of America, its territories and possessors, any state of the United States of America and the district of Columbia and any other area subject to its jurisdiction
“University”	the University of Southampton

GLOSSARY

Apoptosis	“programmed cell death” – a process of cellular self-destruction which does not cause an inflammatory response
Bronchial biopsy	a sample of bronchial tube (airway) tissue obtained using a flexible telescopic camera called a bronchoscope
Bronchodilators	medicines that help open the bronchial tubes (airways) of the lungs, allowing more airflow through them
COPD	Chronic Obstructive Pulmonary Disease – an umbrella term for varying combinations of chronic bronchitis and emphysema, caused mainly by cigarette smoke, which results in airflow obstruction which, unlike asthma, does not reverse with bronchodilators or other drugs
Chronic bronchitis	an inflammation of the airways accompanied by coughing and production of phlegm. The symptoms are present for at least three months in each of two consecutive years
Corticosteroids	a group of steroid drugs widely used for their anti-inflammatory properties, which share some properties of the naturally occurring hormone, cortisol, produced by the adrenal glands
Emphysema	a destructive process involving the air spaces (alveoli) of the lungs, which leads to over-inflation of the lung and, when sufficiently advanced, causes breathlessness and lack of oxygenation of blood
Epithelium	a thin layer of cells which covers a free surface or lines a tube such as the bronchus in order to protect and regulate the function of the tissue underneath
Epithelial Repair	a process which leads to regeneration of the structure and normal function of a damaged epithelium – also an area of research focus for Synairgen
Exacerbation	a rapid deterioration of a chronic disease that makes the symptoms worse
FDA	the Food and Drug Administration (the US drug evaluation agency)
Growth Factor	a protein that signals for cells to grow and divide
Interferon beta (IFN β)	a protein produced by the body to fight off viruses
IgE	a class of antibodies which plays a major role in allergic diseases
Induced sputum	sputum coughed up following inhalation of a salty solution of water. Sputum contains cells and soluble substances secreted into the bronchi, some of which can mediate disease if present in amounts different to normal
<i>In vitro</i>	carried out in the laboratory, e.g. in a test tube or culture plate
<i>In vitro</i> model	a laboratory experimental model that uses exclusively <i>in vitro</i> methods

<i>In vitro</i> model (complex)	a research model which contains more than one cell type and allows the study of interactions between different cell types
<i>In vitro</i> model (human)	an <i>in vitro</i> model that mimics human disease and is based on human tissue or cells
Mucus Overproduction	increased production of mucus, a gelatinous substance normally produced by the epithelium to protect underlying tissues – also an area of research focus for Synairgen
Pre-clinical trials	trials carried out prior to testing on humans
Phase I	the first safety tests of a new drug in humans, usually conducted in healthy volunteers
Phase II	early clinical pharmacology, efficacy and safety trials conducted in limited numbers of patients. They include dose-ranging studies
Phase III	major efficacy and safety trials in large numbers of patients in multiple centres
Proteomics	systematic and comprehensive identification and characterisation of proteins expressed from cells, tissues or organisms in terms of quality, structural modification, location within cells, activity and function
Rhinovirus or RV	a group of viruses which cause the common cold
Well-characterised	described and categorised according to disease severity using detailed history and comprehensive functional assessment such as lung function testing
Virus Defence	a complex response by the body to fight off viruses – also an area of research focus for Synairgen

DIRECTORS, SECRETARY AND ADVISERS

Directors	Simon James Blouet Shaw (<i>Non-executive Chairman</i>) Richard James Marsden (<i>Managing Director</i>) John Christopher William Ward (<i>Finance Director</i>) David Robert Norwood (<i>Non-executive Director</i>) Professor Stephen Townley Holgate (<i>Non-executive Director</i>) Susan Margaret Sundstrom (<i>Non-executive Director</i>)
Company Secretary	John Christopher William Ward All of whose business address is at: 2 Venture Road Chilworth Science Park Southampton SO16 7NP
Advisers	
Nominated Adviser, Broker, Financial Adviser and Underwriter	Robert W. Baird Limited Mint House 77 Mansell Street London E1 8AF
Auditors and reporting accountants	BDO Stoy Hayward LLP Park House 102-108 Above Bar Southampton SO14 7NH
Solicitors to the Placing	Dechert LLP 2 Serjeants' Inn London EC4Y 1LT
Solicitors to the Company	Stringer Saul 17 Hanover Square London W1S 1HU
Principal bankers	HSBC Bank plc 165 High Street Southampton SO14 2NZ
Registrars	Capita IRG Plc The Registry 34 Beckenham Road Kent BR3 4TU

PLACING STATISTICS

Placing Price	130p
Number of Ordinary Shares in issue immediately following the Placing	21,692,308
Market capitalisation at the Placing Price	£28.2 million
Number of Ordinary Shares being placed on behalf of:	
– the Company	7,692,308
– Southampton Asset Management	400,000
Percentage of the Company's enlarged issued ordinary share capital being placed	37%
Value of the Placing at the Placing Price	£10.5 million
Estimated proceeds of the Placing to be received by the Company, net of expenses	£8.9 million

EXPECTED TIMETABLE OF EVENTS

Admission and dealing in the Ordinary Shares on AiM to commence	26 October 2004
CREST stock accounts credited	26 October 2004
Despatch of definitive share certificates (if appropriate)	2 November 2004

KEY INFORMATION

The following summary information is derived from, and should be read in conjunction with, the full text of this document. Prospective investors should read the whole of this document, and not rely solely on the key information set out below.

Synairgen's business

Synairgen is a drug discovery company focused on identifying and out-licensing new pharmaceutical products which address the underlying causes rather than the symptoms of asthma and chronic obstructive pulmonary disease ("COPD"). The Directors believe that, due to their size and existing unmet needs, the asthma and COPD markets represent significant opportunities.

The Group's business model comprises the following elements:

Focus on asthma and COPD markets: Sales of existing pharmaceutical products used to treat asthma and COPD in major pharmaceutical markets in 2002 were estimated to be US\$7.0 billion and US\$2.7 billion respectively. There are limited therapies available for severe asthma and the potential for treatments satisfying this largely unmet need is significant. COPD is also underserved by efficacious treatments.

Researching underlying causes rather than symptoms: Current symptom-relieving and anti-inflammatory therapies do not satisfactorily control the symptoms of severe asthma. Synairgen focuses on developing drugs to treat the underlying causes of asthma and COPD, rather than the symptoms. Based on the research of Professor Stephen Holgate, Dr Donna Davies and Ratko Djukanovic (the "Founders"), and their research team, the Group has identified three areas as promising fields for the discovery of new pharmaceutical products to treat asthma and COPD: Epithelial Repair; Virus Defence and Mucus Overproduction.

Collaborative business model and early out-licensing: Synairgen pursues the discovery and exploitation of new pharmaceutical products by conducting its own proprietary research programmes and through collaboration agreements with pharmaceutical companies. By conducting a limited number of proprietary programmes, the Directors believe the Group will be able to enhance its future revenue prospects, whilst ensuring a balanced risk reward portfolio having regard to the Group's future capital requirements. The Directors intend to out-license Synairgen's intellectual property at an early stage of the drug discovery and development process, which they believe offers significant revenue opportunities.

Strong scientific team and relationship with the University of Southampton: Professor Stephen Holgate, Dr Donna Davies and Dr Ratko Djukanovic, who are internationally acknowledged in the respiratory field, lead the Group's scientific team. Professor Holgate, at the University of Southampton, has conducted research in the respiratory field for over 20 years and this has led to a number of scientific achievements.

Biobank and complex human in vitro models: Pharmaceutical companies frequently use animal models for drug discovery. Synairgen's access to clinically-characterised human samples and human *in vitro* models is the basis for Synairgen's research and development programmes for asthma and COPD, both of which have underlying genetic susceptibilities which can not be adequately replicated using animal models.

Flexible and low cost operating model: The Directors intend to minimise fixed costs within the business, outsourcing those activities in the drug discovery and development process not within Synairgen's core skill set.

Proprietary programmes and collaboration agreements

Synairgen was founded in June 2003 and has already established two proprietary programmes for asthma.

In addition to these proprietary programmes, the Group has entered into two agreements with North American companies (Merck Frosst Canada & Co and a major US biotechnology company) and one in the UK (Cambridge Antibody Technology). Synairgen is currently in discussions regarding further collaborations.

Reasons for the Placing

The Directors intend to use the net proceeds of the Placing to enhance the Group's research capabilities and to invest in its current proprietary programmes. In addition, the Directors intend to invest in the development of the Biobank.

Details of the Placing

The 8,092,308 Placing Shares represent approximately 37 per cent. of the Company's enlarged share capital following Admission and will raise approximately £8.9 million (net of expenses) for the Company and £0.5 million for Southampton Asset Management. The Placing Shares are being placed by Baird with institutional and other investors. The Placing has been fully underwritten by Baird.

Save for Southampton Asset Management, none of the existing Shareholders in Synairgen are selling Ordinary Shares in the Placing.

PART I

Information on Synairgen

1. Introduction

Synairgen is a drug discovery company focused on identifying and out-licensing new pharmaceutical products which address the underlying causes rather than the symptoms of asthma and chronic obstructive pulmonary disease (“COPD”). The Directors believe that, due to their size and existing unmet needs, the asthma and COPD markets represent significant opportunities, with successful pharmaceutical products having the potential to achieve annual sales in excess of US\$1 billion.

Professor Stephen Holgate, Dr Donna Davies and Dr Ratko Djukanovic (together the “Founders”), and their research teams have spent many years seeking to understand, and identify treatments for, the causes of asthma and COPD. Professor Holgate, MRC Clinical Professor of Immunopharmacology and a world-acknowledged expert, has been at the forefront of respiratory research at the University for at least 20 years and was instrumental in the development of one marketed pharmaceutical product and two products currently in late stage development in collaboration with the pharmaceutical industry. Over this period, the research has evolved to focus on the protection and repair of lung tissue as a key target for the discovery of novel treatments for asthma. This approach is based on the understanding that currently-marketed treatments, which are designed to suppress inflammation and symptoms, cannot fully prevent or reverse the tissue pathology that characterises both asthma and COPD. To date, this approach has led to the discovery of two new potential treatments for asthma by the Founders and their University colleagues which have been licensed to Synairgen.

The Directors believe that Synairgen is well positioned to discover novel treatment candidates. Synairgen’s scientific team, led by the Founders, currently comprises eight full-time researchers. Through its Licence Agreement with the University, Synairgen’s researchers have access to a range of research tools, including complex *in vitro* models of human disease. Synairgen is also creating a Biobank of disease-relevant human biological samples and has powerful analytical tools, such as proteomics, at its disposal. The Group intends to capitalise on these by pursuing its proprietary research programmes and establishing collaborations with other pharmaceutical companies.

Synairgen seeks to commercialise a number of opportunities through its own internal research programmes and those that have been carefully selected from the wider range of research projects led by the Founders in their academic roles. The Group’s aim is to develop a manageable, risk-weighted portfolio of projects, which the Directors believe will generate intellectual property (“IP”) and offer out-licensing opportunities. Synairgen runs a low fixed-cost operating model, entering into IP-sharing collaborations where appropriate. It intends to out-license its IP at an early stage (pre Phase II) rather than committing significant capital resources to late-stage clinical trials. The Founders and the Board have extensive experience and established relationships across the pharmaceutical and biotechnology industries.

In the past year, Synairgen has made significant progress in implementing its business model both by commencing two proprietary programmes in the field of asthma and by signing three agreements with pharmaceutical and biotechnology companies such as Merck Frosst (an affiliate of Merck & Co, Inc.) and Cambridge Antibody Technology. Synairgen is currently discussing further collaboration agreements and the Directors believe that Synairgen is well-positioned to capitalise on its pipeline of additional opportunities.

2. Business model

The Group’s business model comprises the following elements:

Focus on asthma and COPD markets

Sales of existing pharmaceutical products used to treat asthma and COPD in major pharmaceutical markets in 2002 were estimated to be US\$7.0 billion and US\$2.7 billion respectively, and are forecast to reach US\$12.8 billion and US\$5.8 billion in 2012. However, despite the success of

currently-marketed therapies, many patients continue to die from asthma and COPD. There are limited therapies available for severe asthma and the potential for treatments satisfying this largely unmet need is significant, as demonstrated by the projected sales of US\$3.3 billion in 2012 for Xolair®, a recently-introduced novel treatment. COPD is also underserved by efficacious treatments.

In the UK, acute respiratory diseases account for 25 per cent. of all emergency medical admissions to hospital, and the majority are due to COPD and bronchial asthma. These diseases are widespread, may be fatal, or have severe health consequences and represent a high-cost burden to healthcare systems worldwide.

Asthma

Asthma is estimated to affect between 6 and 12 per cent. of the adult population in the industrialised world and the number of asthmatics is increasing. In the US there are approximately 17 to 20 million sufferers with the cost of the disease estimated to be about US\$13 billion per annum.

The number of asthma attacks in the UK is now three to four times higher in adults and six times higher in children than it was 25 years ago. According to recent asthma audits, every year asthma causes 74,000 hospital admissions and 1,400 deaths in the UK. Asthma costs the NHS alone some £850 million per annum.

It has been estimated that in the US approximately 20 per cent. of asthma patients with more severe asthma account for more than 80 per cent. of the total costs of treating this disease. Simple everyday events have an adverse impact on severe asthmatics; 80 per cent. of paediatric and 60 per cent. of adult asthma exacerbations are associated with the common cold. Synairgen's first proprietary programme as outlined below is focused on minimising the effect of the common cold on asthmatics.

The Directors believe that the market for products for the treatment of severe asthma is underserved and that this unmet need will support further premium-priced products.

COPD

COPD encompasses a number of diseases including the smoking-related lung diseases, Emphysema and Chronic Bronchitis. The prevalence of COPD in the US and Europe is estimated at 16-17 per cent. The annual cost of COPD in the US is estimated to be in excess of US\$30 billion. Globally it is killing 2.7 million people annually and is forecast to become the third largest cause of death in the world by 2020.

Spiriva®, which was approved by the FDA in January 2004 for the treatment of bronchospasm associated with COPD, is forecast to generate sales of US\$2.7 billion in 2012.

Due to the size of these markets and the requirement for new pharmaceutical products to satisfy unmet needs, the Directors believe there are opportunities for a number of new pharmaceutical products, each capable of generating annual sales in excess of US\$1 billion.

Researching underlying causes rather than symptoms

Mild and moderate asthmatics represent some 90 per cent. of all asthma sufferers in the US and can be adequately controlled with bronchodilators and/or inhaled corticosteroids. However, these symptom-relieving and anti-inflammatory therapies do not satisfactorily control the symptoms of the remaining 10 per cent. of asthma sufferers, who are classified as suffering from severe asthma ("Severe Asthmatics").

This failure of existing anti-inflammatory therapies to treat severe asthma led Professor Holgate and his team to commence research in the 1990s into alternative explanations for the causes of the disease. The ensuing research has resulted in an increased understanding of the pathological

processes within the lung that lead to respiratory disease. Consequently, Synairgen has identified three areas as promising fields for the discovery of new pharmaceutical products to treat asthma and COPD. These are:

- Epithelial Repair
- Virus Defence
- Mucus Overproduction

The Directors believe that it is this approach and its focus on the understanding of causes, together with its potential to identify novel drug targets, which has attracted interest from pharmaceutical companies.

Strong scientific team and relationship with the University

Professor Stephen Holgate, Dr Donna Davies and Dr Ratko Djukanovic, who are internationally acknowledged in the respiratory field, have entered into consultancy agreements with Synairgen, as described in paragraph 6(g) of Part VI of this document. The Directors believe that the Group also benefits from the Founders' continued involvement in academia and their ongoing relationships with pharmaceutical companies as academics.

Synairgen currently retains six scientists, one research clinician and one research nurse on a full-time basis.

Professor Holgate, at the University, has conducted research in the respiratory field for over 20 years and this has led to a number of scientific achievements, including the discovery of the *ADAM33* gene's link to asthma and recognition that airway remodelling is a key factor in asthma. Respiratory research at the University, led by Professor Holgate and the other Founders, currently involves approximately 35 researchers.

Synairgen has entered into the Licence Agreement under which it has the ability to use, develop and commercialise a range of respiratory-related technologies developed at the University, including complex *in vitro* human cell models and analytical tools. Under this agreement, in certain circumstances, the University may benefit from income received by Synairgen from exploitation of some of the University's technology.

Synairgen has also entered into the Facilities Agreement, which enables it to use certain facilities of the University. The Directors believe that this close proximity offers a number of advantages, including opportunities for collaboration and joint development of knowledge. In addition, subject to the University's approval, Synairgen may contract some work to the University for which it pays fees.

Further details of the Licence Agreement and Facilities Agreement are described in Part II and paragraph 6(f) of Part VI of this document, respectively.

Biobank and complex human in vitro models

Synairgen collects samples from carefully selected and clinically-characterised volunteers and is developing a Biobank of blood, induced sputum, bronchial biopsies and epithelial cells. These samples are used to develop complex *in vitro* human disease models.

These models facilitate discovery of novel drug targets and enable experiments to be undertaken to test concepts that cannot be evaluated in human beings for ethical or safety reasons. Such experiments are amenable to the use of proteomic and genomic analytical techniques. The Directors believe that current observations and future discoveries of differences in function between cells from healthy and diseased individuals will lead to the identification of potential novel drug targets.

Pharmaceutical companies frequently use animal models for drug discovery. However, prediction of potential drug candidates is restricted by the inherent limitations of this approach in modelling the behaviour of asthma and COPD. The availability of Biobank samples and human *in vitro* models is particularly important for Synairgen's research and development of pharmaceutical products for these diseases, both of which have underlying genetic susceptibilities which cannot be adequately replicated using animal models.

One of Synairgen's principal strengths is its proven ability to interpret scientific findings in their clinical context because of the clinical trials experience of Professor Holgate and Dr Djukanovic.

The collaborative business model

Synairgen pursues the discovery and exploitation of new pharmaceutical products by conducting its own proprietary research programmes and through collaboration agreements with pharmaceutical companies.

The Group adopts a collaborative business model whereby it works in partnership with established pharmaceutical and biotechnology companies on promising research programmes within its areas of interest. Within this model, collaborations can occur in two ways:

- (i) pharmaceutical or biotechnology companies seek Synairgen's research expertise in programmes that they have under development; or
- (ii) Synairgen seeks partners for its research programmes either from the outset, or once Synairgen has developed early proof of concept data ("proprietary programmes").

Under a collaboration agreement, the Directors expect that Synairgen will typically receive fee income and be entitled to a share of the IP created (typically 50 per cent.), which Synairgen anticipates would ultimately be licensed under a royalty-bearing deal.

The Group conducts its own proprietary research programmes where the Directors believe that value will be added to the IP at an early stage in the programme. By conducting a limited number of proprietary programmes, the Directors believe the Group will be able to enhance its future revenue prospects due to higher milestones and/or upfront payments and royalties, whilst ensuring a balanced risk portfolio having regard to the Group's future capital requirements.

The Group's strategy is to undertake a portfolio of proprietary and collaborative programmes in its core areas of focus.

Early out-licensing

The Directors intend to out-license Synairgen's intellectual property at an early stage of the drug discovery and development process, which they believe offers significant revenue opportunities.

In the period 2000 to 2002, licensing deals made prior to the commencement of pre-clinical trials ("Early Stage") accounted for approximately 68 per cent. of the licensing deals undertaken by the largest twenty pharmaceutical companies worldwide and amounted to approximately US\$5.9 billion. The average upfront payment alone for each of these transactions was approximately US\$5.1 million.

Flexible and low cost operating model

The Directors intend to minimise fixed costs within the business, outsourcing those activities in the drug discovery and development process not within the Group's core skill set.

Synairgen will continue to offer services on a 'fees for services' basis to pharmaceutical companies in order to increase the Group's profile and initiate commercial relationships which may lead to collaboration agreements. Whilst these activities are not intended to generate substantial revenues, they offer an opportunity for the Group to reduce its net cash outflows.

3. Competition

Synairgen competes in the respiratory drug discovery market place with academic units, biotechnology and pharmaceutical companies around the world. Some academic institutions are capable of performing facets of research similar to the Group.

Although many pharmaceutical companies are engaged in the development of new pharmaceutical products, they are increasingly dependent on in-licensed products to fill their pipelines. It is forecast that by 2007, 40 per cent. of the revenues of the largest twenty pharmaceutical companies will be generated by in-licensed products. Although these companies are therefore competitors, they also represent potential collaborators with Synairgen.

Other biotechnology and pharmaceutical companies are involved in respiratory drug development. However, the Directors are not aware of any company, with the exception of Aerovance, Inc., a recent spin-out from Bayer, which is solely focused on respiratory drug discovery for asthma and COPD.

4. Proprietary programmes and collaboration agreements

Key milestones

Synairgen was founded in June 2003 and has already:

- established two proprietary programmes for asthma, IFN β for inhalation and Growth Factor;
- entered into two agreements with North American companies (Merck Frosst Canada & Co and a major US biotechnology company) and one in the UK (Cambridge Antibody Technology Limited), two of which are IP-sharing collaborations and one of which is a ‘fees for services’ agreement; and
- entered into discussions regarding further collaborations.

Current proprietary development programmes

IFN β for inhalation

Background

Approximately 80 per cent. of asthma exacerbations in children and 60 per cent. of asthma exacerbations in adults are thought to be associated with the common cold viruses (the most frequent are rhinoviruses or “RV”).

Utilising *in vitro* models of asthma, Professor Holgate’s team discovered that asthmatic epithelial cells fail to respond normally to RV infection. Normal respiratory epithelial cells rapidly self-destruct (enter into apoptosis, which is a programmed ‘suicide’ response) when infected by RV, limiting the ability of the virus to replicate itself within the host cell. This apoptosis, controlled by interferons, is thought to limit the spread of the cold. However, asthmatic cells infected by RV are less able to self-destruct and consequently the virus replicates. A subsequent, related discovery highlighted a deficiency in interferon beta (IFN β) levels in the response of asthmatic epithelial cells to RV infection. Adding IFN β to the cells normalised their response to RV infection *in vitro* and induced them to enter into apoptosis.

The proposed therapy is IFN β for inhalation to be taken by asthmatic patients at times when they need protection from the common RV infection.

Injectable IFN β for multiple sclerosis sufferers is currently marketed by Biogen IDEC Inc., Schering-Plough Corp., Pfizer Inc., and Serono S.A. The Directors believe that the well-described side effect profile of injectable IFN β suggests that much of the risk has been removed from the drug development process, albeit that the successful change of route of administration from injection to inhalation, is not guaranteed.

Intellectual property

In March 2004, the University filed a GB patent application for IFN β covering inhalation by asthmatics to protect them from RV infection, which has been exclusively licensed to Synairgen under a patent licence agreement.

Further information on the patent licence agreement is included in Part II of this document.

Potential market

The Directors estimate that the market for a premium-priced treatment used to limit rhinovirus-induced exacerbations for severe asthmatics (who represent approximately 10 per cent. of all asthmatics) could be in excess of US\$1 billion.

Competition

The Directors are not aware of any products in development which will normalise the apoptotic response to RV infection to protect severe asthmatics from the effects of the common cold.

Future developments

As a result of the successful demonstration *in vitro* of the potential of IFN β to normalise asthmatic epithelial response to RV infection, the Directors believe that a demonstration of efficacy from a proof of concept clinical trial should enhance the revenue potential from a licensing deal. The proof of concept clinical trial programme has a duration of two and a half years and is anticipated to commence within six months of Admission. The Directors intend that discussions with potential licensees will ensue before completion of the clinical trial programme.

Growth Factor

Background

Based on their research, the Founders believe that severe chronic asthma can be regarded as a chronic “wound” of the conducting airways in which there is an increased susceptibility of the asthmatic airway epithelium to injury and a delayed/impaired epithelial repair. The Founders propose that the persistently-damaged epithelium initiates responses that lead to chronic inflammation and structural changes that affect the functioning of the lung.

The Founders are currently researching why the asthmatic epithelium is susceptible to damage and are seeking interventions which can improve the repair of the lung. It is known that application of Growth Factors to wound-like conditions promotes repair and healing. A Growth Factor, tailored for use in asthma to promote repair of the “wound”, has been created.

Intellectual property

In September 2004, the University filed a patent application for this Growth Factor, which has been exclusively licensed to Synairgen under the patent licence agreement referred to on page 15 of this document.

Further information on the patent licence agreement is included in Part II of this document.

Potential market

The Directors believe that a successful Growth Factor product which has a ‘repairing’ effect in asthma would be prescribed by chest consultants for use by severe asthmatics. The Directors expect that the product could be priced at a level similar to Xolair[®] (which yields annual revenues of some US\$10,000 per patient) and could generate third party sales in excess of US\$1 billion per annum.

Competition

Whilst the Directors are aware that other research groups have tried to develop similar Growth Factors, they are not aware of any that have successfully modified a Growth Factor for use in asthma.

Future developments

The Directors intend that Synairgen will commence a pre-clinical trial programme by commissioning the manufacture of a small batch of Growth Factor using a manufacturing process suitable for later scale up by a future licensee. The pre-clinical trial programme has a duration of approximately three years and is anticipated to start within twelve months of Admission. The Directors intend that discussions with potential licensees will ensue before completion of the pre-clinical programme.

5. Use of proceeds

The Directors intend to use the net proceeds of the Placing as follows:

➤ **Enhancement of research capabilities**

The Group currently has six staff engaged in the three research areas of Virus Defence, Epithelial Repair and Mucus Overproduction and two staff developing the Biobank. The Directors intend to strengthen these teams by employing a small number of additional staff to support collaborations and to enhance the Group’s in-house research capabilities.

➤ **Existing proprietary programmes**

The Directors intend to invest in the following proprietary programmes to enhance the value of existing IP:

- IFNβ for inhalation – a proof of concept clinical trial programme to demonstrate the potential efficacy of inhaled IFNβ; and
- Growth Factor – manufacturing a batch of Growth Factor and commencing a pre-clinical programme.

➤ **Development of the Biobank**

The Directors intend to invest in the development of the Biobank through the recruitment of further volunteers in order to provide readily accessible disease relevant samples for the Group's discovery programmes.

6. The Directors and consultants

Directors

The Board comprises two executive directors and four non-executive directors. Simon Shaw serves as Non-executive Chairman. David Norwood, Professor Stephen Holgate and Sue Sundstrom serve on the Board as Non-executive Directors. It is expected that an independent Non-executive Director will be appointed within twelve months of Admission.

Simon Shaw (aged 39), Non-executive Chairman

Mr Shaw joined Synairgen as Non-executive Chairman in July 2003 and is currently Chief Financial Officer of Gyrus Group PLC, having previously been Chief Operating Officer of Profile Therapeutics plc between 1998 and 2003. Between 1991 and 1997, Mr Shaw was a corporate financier at West Merchant Bank Limited (WestLB Panmure) and latterly Hambros Bank Limited. He is a chartered accountant, having qualified in 1990 with Arthur Andersen & Co.

Richard Marsden (aged 37), Managing Director

Mr Marsden joined Synairgen in a consulting role as General Manager in November 2003 and was appointed to the board as Managing Director in June 2004. Between 1998 and 2003 Mr Marsden worked as Projects Manager and Cystic Fibrosis Business Development Manager at Profile Therapeutics plc, where he managed the Cystic Fibrosis business and played a major role in the development of its proprietary pharmaceutical unit, Profile Pharma Ltd. Prior to this, Mr Marsden gained sales and marketing experience within the pharmaceutical and healthcare industries working for Zimmer Ltd, Genentech (UK) Ltd and Roche Products Ltd.

John Ward (aged 43), Finance Director

Mr Ward joined Synairgen in October 2004 as Finance Director. From December 1999 to July 2004 he was Chief Financial Officer and Company Secretary of Profile Therapeutics plc and was appointed to the Profile Therapeutics board in March 2003. From 1996 to 1999 Mr Ward was Finance Director of Rapid Deployment Group Ltd and prior to this he was a director of corporate finance at Price Waterhouse. Mr Ward is a chartered accountant.

David Norwood (aged 36), Non-executive Director

Mr Norwood joined Synairgen as Non-executive Director in August 2003. David is currently Chief Executive Officer of IP2IPO, which began trading on AiM in October 2003. Until March 2004 he was a director of The Evolution Group plc following its merger with Beeson Gregory Group plc in July 2002 (prior to which he served on the board of Beeson Gregory Group plc). Mr Norwood was key to the origination of Beeson Gregory Group's £20 million partnership with the chemistry

department of the University of Oxford, having been closely associated with the Oxford academic and technology communities for some years, and also to the subsequent formation of IP2IPO. In July 1999, Mr Norwood founded IndexIT Partnership Limited, a technology advisory boutique, which, in March 2000, was acquired by Beeson Gregory Group for £34 million.

Professor Stephen Holgate (aged 57), Co-founder of Synairgen and Non-executive Director

Professor Holgate is a co-founder of Synairgen and was appointed a Non-executive director in June 2003. He is MRC Professor of Immunopharmacology in the Division of Infection, Inflammation and Repair at the University's School of Medicine. He has a worldwide reputation in the respiratory field, frequently lecturing on the subject of asthma and allergy. Professor Holgate is the author of over 700 papers in peer-reviewed journals, makes scientific contributions to well-known journals such as "Nature" and "The Lancet" and is editor to a number of textbooks.

He has established industry collaborations with many pharmaceutical companies and is currently a scientific board member or advisor to six companies.

Professor Holgate established his clinical and research base on respiratory medicine and allergy in 1980 following a two year post-doctoral fellowship in the USA. He received a personal chair in 1984 and was awarded a Medical Research Council (MRC) Clinical Research Chair in 1987, a position he still holds.

Professor Holgate has been Censor to the Royal College of Physicians of England and Member of Council and was president of the British Society for Allergy and Clinical Immunology between 1990 and 1993.

Professor Holgate was one of the Founder Fellows of the Academy of Medical Sciences and has received Fellowships of the Royal College of Pathology and the Institute of Biology.

In 1994 Professor Holgate delivered the Jack Pepys Lecture at the British Society for Allergy and Clinical Immunology and received a Scientific Achievement Award at the International Association of Allergy and Clinical Immunology (IAACI). In 1995 he was awarded the RPR Foundation World Health Award. He has been Visiting Professor at Vanderbilt, Wake Forest, Harvard, Yale, Chicago, Rochester, McMaster and Edmonton Universities in the USA and Canada.

In 1997 he co-presented at the King's Fund Centenary Lecture, introduced by HRH The Prince of Wales. In 1998 he gave the Brian Sproule Lectureship of the University of Alberta, was jointly awarded the King Faisal International Prize in Medicine in 1999, and delivered the Royal College of Physicians Lumleian Lecture in 2000. He delivered the 2000 Robert Cook Memorial Award at the American Academy of Allergy, Asthma & Immunology (AAAAI) meeting in San Diego and, in 2001, was its Honorary Fellow. He has been an AAAAI member since 1986 and Fellow since 1993. He gave the Sir William Osler Lecture at the Association of Physicians of Great Britain and Ireland in 2003 and was made an Honorary member in 2004. In 2003 he received the Ellison-Cliffe Medal from the Royal Society of Medicine and in 2004 received the University of Ghent Health and Life Sciences Gold Medal and the prize for Immunopharmacology at the British Pharmacology Society.

Professor Holgate has been Board Member of the Physiological Medicine and Infections Board of the Medical Research Council and a Cross Board Member dealing with Co-operative Group Grants, Deputy Chairman of the MRC Advisory Board and is currently a member of the Council's Subcommittee on Corporate Policy and Evaluation (SCoPE) as well as a member of its Clinical Research Advisory Group (CRAG). In 2002 Professor Holgate became a member of the Royal Commission on Environmental Pollution.

Susan Sundstrom (aged 47), Non-executive Director

Ms Sundstrom joined Synairgen as Non-executive Director in June 2003. Ms Sundstrom is Director, Life Science Enterprise of the University of Southampton's Centre for Enterprise and Innovation. Previously, Ms Sundstrom gained substantial experience in general management and technology transfer and licensing at AstraZeneca. Ms Sundstrom graduated from the London Business School & Wharton MBA programme with distinction.

Consultants

Dr Donna Davies (aged 51), Co-founder of Synairgen

Dr Donna Davies is a co-founder of Synairgen and works on a consultancy basis for the Group. Dr Davies is Reader within the Division of Infection, Inflammation and Repair (IIR) of the School of Medicine at the University and directs research in the Brooke Laboratories. Since joining the respiratory group in 1998, she has been responsible for the development of the *in vitro* culture models, using cells from healthy subjects and those with asthma or COPD, and has used these models for studies of disease mechanisms, working closely with Professor Holgate and Dr Djukanovic. She has established relationships within the pharmaceutical sector and has worked with a number of companies including AstraZeneca PLC, Celltech R&D Ltd, Immunex Limited, Yamanouchi UK Ltd and Cambridge Antibody Technology. Prior to this Dr Davies was awarded a R.D. Lawrence Fellowship from the British Diabetic Association between 1982 and 1984 while at the University of Oxford, and a University Senior Fellowship at the University of Southampton between 1998 and 2002. Most recently, Dr Davies has been invited to be a member of the Medical Research Council's College of Experts and to join the Special Review Panel of the MRC's Physiological System and Clinical Sciences Board.

Dr Ratko Djukanovic (aged 49), Co-founder of Synairgen

Dr Djukanovic is a co-founder of Synairgen and works on a consultancy basis for the Group. Dr Djukanovic has been working at the University since 1988 and is currently Head of the Inflammatory Cell Biology Group within Allergy and Inflammation Research (of which he is the Deputy Director), one of two sub-divisions of the Division of Infection, Inflammation and Repair at the School of Medicine at the University. Dr Djukanovic has been responsible for developing the COPD research programme at the University, working closely with Professor Holgate and Dr Davies. He has established relationships with the pharmaceutical sector and has collaborated/consulted with a number of pharmaceutical companies, including AstraZeneca PLC, GlaxoSmithKline plc, Immunex Limited, Aventis SA, Novartis AG, Genentech Inc. and SR Pharma plc. Dr Djukanovic has been responsible for a number of clinical trials conducted by pharmaceutical companies. He is a Fellow of the Royal College of Physicians and an Honorary Consultant Physician at the Southampton University Hospital NHS Trust. He has served on executive and scientific committees of a number of national and international scientific societies and is one of the Associate Editors of the European Respiratory Journal.

7. Current trading and prospects

Between the Group's formation and June 2004, Synairgen has commenced two proprietary programmes in the field of asthma and entered into two agreements with pharmaceutical companies. Since 30 June 2004, the Group has made further progress by entering into an additional collaboration agreement with a major US biotechnology company and managing the filing of a patent application for a Growth Factor by the University.

The Directors believe that the Group will be able to exploit its business model successfully and are therefore confident in the Group's future prospects.

8. Dividend policy

The Directors intend that the Group will commence the payment of dividends when they consider it commercially prudent for the Group to do so, subject to the availability of distributable reserves.

9. Corporate governance

It is the Board's intention that, in so far as it is practicable, it will comply with the Combined Code. Where full compliance is not appropriate due to the size of the Group, the Directors will follow guidance issued by the Quoted Companies Alliance.

The Board has established an audit committee and a remuneration and nomination committee to each of which duties and responsibilities have been formally delegated.

The audit committee, which comprises Simon Shaw and David Norwood, will review any reports from the management and the auditors regarding the accounts and the internal control systems implemented throughout the Group and will consider draft interim and annual accounts. It will also make recommendations to the Board on the appointment of the auditors and the audit fee. The audit committee will have unrestricted access to the Group's auditors.

The remuneration and nomination committee, which comprises Simon Shaw and Sue Sundstrom, will be responsible for making recommendations to the Board on remuneration policy for the Company's Executive Directors and the terms of their service contracts, with the aim of ensuring that their remuneration, including any share options and other awards, is based both on their own performance and that of the Group generally. The remuneration and nomination committee will also administer the Staff Share Scheme and approve further grants or awards under it. In addition, it will advise on the remuneration policy for the Group's employees. In exercising this role, the terms of reference of the remuneration and nomination committee will require it to comply with the Code of Best Practice published in the Combined Code. In addition, this committee will be responsible for all senior appointments which are made within the Group.

10. The Placing

The 8,092,308 Placing Shares represent approximately 37 per cent. of the Company's enlarged issued share capital. The Placing comprises the issue of 7,692,308 New Ordinary Shares to raise approximately £8.9 million (net of expenses) for the Company and the placing of 400,000 Sale Shares to raise approximately £0.5 million for Southampton Asset Management. The Sale Shares represent approximately 10 per cent. of Southampton Asset Management's Ordinary Shares as at the date of this document.

The Placing Shares have been placed at the Placing Price by Baird with institutional and other investors. The Placing has been fully underwritten by Baird.

Save for Southampton Asset Management, none of the Company's current Shareholders are selling Ordinary Shares in the Placing.

11. Relationship with IP2IPO

Following Admission, IP2IPO will be beneficially interested in approximately 30.6 per cent. of the Company's issued share capital. IP2IPO and the Company have entered into a relationship agreement, conditional upon Admission, to ensure that Synairgen will be able to carry on its business independently of IP2IPO and that all transactions and relationships between them will be at arm's length and on a normal commercial basis. The relationship agreement is described in more detail in paragraph 6(d) of Part VI of this document.

12. Orderly market arrangements

The Directors, Donna Davies and Ratko Djukanovic have agreed that they will not, subject to limited exceptions, following Admission and without Baird's prior consent, dispose of any Ordinary Shares (or any interest therein) representing 11.5 per cent. of the issued share capital on Admission, until the later of the date on which the Company announces its results or publishes its accounts for the year ended 30 June 2006.

IP2IPO, the IP2IPO Connected Parties, Southampton Asset Management and a further beneficial holder of Ordinary Shares have agreed that they will not, subject to limited exceptions, following Admission and without Baird's prior consent, dispose of any Ordinary Shares (or any interest therein), representing 50.5 per cent. of the issued share capital on Admission, until the later of the date on which the Company announces its results or publishes its accounts for the year ended 30 June 2005. Thereafter, IP2IPO and Southampton Asset Management have agreed, subject to limited exceptions, that they will not without Baird's prior consent dispose of Ordinary Shares (or any interest therein) representing more than 50 per cent. of their respective interests in Ordinary Shares on Admission, until the later of the date on which the Company announces its results or publishes its accounts for the year ended 30 June 2006.

The Directors, IP2IPO, the IP2IPO Connected Parties, Southampton Asset Management, Donna Davies and Ratko Djukanovic have also agreed that any sale of Ordinary Shares made prior to the later of the date on which the Company announces its results or publishes its annual audited accounts for the year ended 30 June 2007 shall only be made through the Company's stockbroker.

13. Placing arrangements

The Company, the Directors, and Baird have entered into the Placing Agreement pursuant to which Baird has agreed, subject to the fulfilment of certain conditions, to use its reasonable endeavours to procure subscribers for (or failing which, itself to subscribe for, as the case may be) the New Ordinary Shares.

The Placing Agreement contains provisions entitling Baird to terminate the Placing Agreement in certain circumstances prior to Admission. If this right is exercised, the Placing Agreement will lapse and any monies received in respect of the Placing will be returned to placees without interest.

Further details of the terms of the Placing Agreement are set out in paragraph 6(a) of Part VI of this document.

14. Takeover Code

The Company is subject to the provisions of the City Code. Under rule 9 of the City Code, when any person, or persons acting in concert, holds not less than 30 per cent., but no more than 50 per cent., of the voting rights exercisable at general meetings of a company which is subject to the provisions of the City Code and that person, or any person acting in concert with him, acquires any additional shares which increases his percentage of the voting rights, then such person would normally be obliged to extend a general offer to all shareholders of that company to purchase their shares for cash.

At the date of this document, IP2IPO and the IP2IPO Connected Parties are regarded as acting in concert for the purposes of the City Code. Immediately following Admission, IP2IPO and the IP2IPO Connected Parties will hold approximately 31.6 per cent. of the voting rights exercisable at general meetings of the Company. Accordingly, following Admission, IP2IPO and persons acting in concert (as defined in the City Code) with IP2IPO will be restricted in their ability to acquire additional shares carrying voting rights exercisable at general meetings of the Company without being required to make a general offer under rule 9 of the City Code.

Further details of the IP2IPO Connected Parties' interests in the issued share capital of the Company are set out in paragraph 2(h) of Part VI of this document.

15. Admission

It is expected that Admission will take place and dealings on AiM will commence on 26 October 2004 and that definitive share certificates in respect of the Placing Shares will be despatched on or as soon as practicable after 2 November 2004.

16. CREST

All the Ordinary Shares will be in registered form and no temporary documents of title will be issued. The Company has applied for the Ordinary Shares to be admitted to CREST. CREST is a paperless settlement system which allows for the transfer of shares electronically in uncertificated form. The Articles of Association of the Company allow the holding and transfer of Ordinary Shares under the CREST system and it is expected that the Ordinary Shares will be so admitted, and accordingly enable for settlement in CREST, on the date of Admission. However, CREST is a voluntary system and holders of Ordinary Shares who wish to receive and retain share certificates will be able to do so.

17. Directors' Options and Staff Share Scheme

On Admission, fully vested options over 980,000 Ordinary Shares held by two of the Directors of the Company, representing approximately 4.5 per cent. of the enlarged issued share capital of the Company on Admission, will be in existence. In addition, options have been or are proposed to be granted over 700,000 Ordinary Shares held by two of the Directors, representing approximately 3.2 per cent. of the enlarged issued share capital of the Company on Admission. 560,000 of these options will be granted conditional upon all of the Placing Shares being entered into the Company's register of members. Further details of these options are included in paragraph 2(d) of Part VI of this document.

Excluding the options referred to above, options are proposed to be granted over 98,000 Ordinary Shares under the Staff Share Scheme to certain employees of the Group, representing 0.5 per cent. of the Company's issued share capital immediately following the Placing. These options will be granted conditional upon all of the Placing Shares being entered into the Company's register of members.

The Directors intend that the issue of options by the Company following Admission, where appropriate, will comply with the guidelines set out by the Association of British Insurers.

Further details of the Directors' Options and Staff Share Scheme are set out in paragraphs 2(d) and 9 of Part VI of this document.

PART II

Licence Agreement

The Licence Agreement comprises the grant of two different licences to Synairgen, each taking effect from 1 August 2003 (the date of the original licence agreement between the parties):

- (i) A worldwide, royalty-free, exclusive licence under the Licensed Technology (as described below) for a period of ten years, to use, adapt, develop, manufacture and commercially exploit products based on that technology in the field of screening for and the diagnosis and treatment of allergies, asthma and COPD. After the ten year exclusivity period, the licence will either become non-exclusive or (subject to the University's agreement) the period of exclusivity may be extended; and
- (ii) A non-exclusive, perpetual, royalty-free, worldwide licence of generic know-how to the extent necessary to enable Synairgen to exercise its rights under (i) above.

The Licensed Technology relates to the field of the screening for and diagnosis and treatment of allergies (respiratory), asthma and COPD, and comprises:

- (i) Licensor Know-how (i.e. all information, data and methodology relevant to the field of screening for and diagnosis and treatment of allergies, asthma and COPD, created or developed by the Founders in the course of their employment by the University and owned by the University and not subject to third party obligations under research or collaboration arrangements entered into by the University) and includes all intellectual property and other rights;
- (ii) Licensor Improvements (i.e. improvements to the Licensor Know-how made by the Founders in the course of their employment by the University from 1 August 2003 to 31 January 2007); and
- (iii) the Novel Inventions (i.e. all improvements, developments, discoveries, inventions or know-how made by the Founders in the course of their employment by the University from 1 August 2003 to 31 January 2007, including any patents in the technical field of screening for and diagnosis and treatment of allergies, asthma and COPD).

While any Licensor Improvements and Novel Inventions arising or created in the period from 1 February 2006 to 31 January 2007 are automatically licensed to Synairgen, any such improvements or inventions in that period are royalty-bearing.

The University may not grant a licence in respect of the Licensed Technology to third parties and may only use the technology itself for academic and research purposes.

Synairgen owns any improvements to the Licensed Technology made by or on behalf of Synairgen.

The Licence Agreement also provides for some additional rights to those listed above: with respect to improvements to the Licensor Know-How made by the Founders in the course of their employment by the University after 31 January 2007, and any inventions made by the Founders in the course of their employment by the University after 31 January 2007, the University may (but is not obliged to) offer Synairgen an option to acquire an exclusive licence of such technology, the terms of which licences are to be agreed. Also, with regard to improvements made to the Licensed Technology by the Founders in the course of their employment by the University in conjunction with academics whose services are not devoted to Synairgen ("Licensor/Non-Academic Improvements"), the University may (but is not obliged to) offer Synairgen an option to acquire an exclusive licence of such improvements.

The agreement sets out various terms and royalty rates which are to apply to the licences under those options in the absence of other terms being agreed. The main provisions are as follows:

- The licence is to be an exclusive, worldwide licence, with the right to sub-license, of such technology for the life of any patent, or for the 10 years after the first commercial launch of any product (whichever is longer);

- Royalty rates range from 50 per cent. (where Synairgen does not add value to the intellectual property rights but merely sub-licenses the intellectual property) of income received from any product based on the technology (whether by way of royalty, one-off lump sum, or otherwise) or from the technology, and if value is added the range is 7.5 per cent. (if Synairgen sub-licenses the IP right in a product based on the technology at the pre-clinical development stage) to 1 per cent. (if Synairgen sub-licenses the intellectual property rights in a product based on the technology at some stage after Phase III clinical trials), depending on the stage of development reached by Synairgen.
- The minimum annual royalty becomes payable 5 years after the relevant effective date and increases each year thereafter. The minimum annual royalty ranges from £10,000 for one product in year 5 to £50,000 for one product in year 10. However, if more than one (no matter how many more) invention or improvement, licensed to Synairgen, is used in one product, the minimum annual royalties for that product will double.
- The provisions in the Licence Agreement will apply in default of any other terms being agreed.

Synairgen may grant sub-licences and sub-sub-licences of any technology granted to it as long as it obtains consent from the University to each sub-licence (such consent not to be unreasonably withheld or delayed) and ensures that the terms of the sub-licences and sub-sub-licences adequately protect the University's technology.

In addition, if in the period to August 2005 the University develops additional intellectual property which is materially relevant to Synairgen's business (not otherwise licensed to Synairgen as an invention or improvement under this Licence Agreement), it shall approach Synairgen and offer to negotiate with Synairgen the terms on which the technology or intellectual property may be licensed to Synairgen. If within 3 months no agreement as to those terms has been reached, the University may deal with the technology or intellectual property rights as it sees fit.

While the University is under an obligation to inform Synairgen if it becomes aware of any infringement of the Licensed Technology by a third party, it is not under an obligation to inform Synairgen if it becomes aware of any claim that the Licensed Technology infringes a third party's rights, and it is not under any obligation to indemnify Synairgen against any loss or damage Synairgen may suffer as a result of such a claim. However, the University is under an obligation to use best endeavours to ensure that the Licensed Technology is free from any such third party rights and/or that it is entitled to license the Licensed Technology. Synairgen must indemnify the University against any claims, actions, costs and expenses arising out of Synairgen's use of the Licensed Technology or use, sale or disposal of any product based on the technology.

The University has a publication right relating to the technology, but any intended publication must be submitted to Synairgen for approval at least 60 days in advance of the intended publication date.

Synairgen must use all reasonable endeavours to develop and exploit the technology and on the University's request must submit a report detailing the progress made and steps taken to develop the technology. If the University reasonably believes that Synairgen has failed to use its reasonable endeavours to so develop the technology, the University may issue a warning notice to Synairgen. However, if Synairgen is using reasonable endeavours to develop at least part of the Licensed Technology, the University may not serve a warning notice. If the parties then cannot reach agreement as to the steps to be taken to improve the position, the matter is to be escalated internally, after which, if no agreement is reached, it will be referred to arbitration. Once the steps to be taken are determined (whether via escalation, arbitration or otherwise) and Synairgen fails to implement, or adhere to, those steps within 6 months of the determination, the University may terminate the technology licence.

Synairgen has the right to terminate the agreement at any time on six months' notice. The University may terminate the agreement with immediate effect on giving notice if Synairgen suffers any insolvency-type event.

Patent licence

On 11 October 2004, pursuant to the Licence Agreement, the University granted a worldwide exclusive licence to exploit the technology and inventions under two patent applications (one, dated 12 March 2004 for IFN β for inhalation by asthmatics to protect them from RV infection and another, dated 13 September 2004, relating to a growth factor).

The patent licence is for the life of the patent or for 10 years after the first commercial launch of any product based on the technology (whichever is longer), and Synairgen is to pay the University royalties as previously set out in Part II above regarding the Licence Agreement.

PART III

Risk Factors

An investment in New Ordinary Shares is subject to a number of risks. Accordingly, prospective investors should consider carefully all of the information set out in this document and the risks attaching to an investment in the Company, including, in particular, the risks described below, prior to making any investment decision. The information below does not purport to be an exhaustive list or summary of the risks which the Group may encounter. Investors and prospective investors should consider carefully whether an investment in the Company is suitable for them in light of the information in this document and the financial resources available to them.

The Group's business, financial condition or results of operations could be materially and adversely affected by any of the risks described below. In such case, the market price of Ordinary Shares may decline due to any of these risks and investors may lose all or part of their investment. Additional risks and uncertainties not presently known to the Directors, or that the Directors currently deem immaterial, may also have an adverse effect on the Group.

1. Risks relating to the Group's business

Dependence on Founders, senior management and key personnel

The Group's future success will depend in part upon attracting and retaining highly skilled professionals and other technical personnel. Certain members of staff are highly skilled scientists (in particular, the Founders) or highly trained clinical staff, and Synairgen's failure to continue to attract and retain such individuals could adversely affect operational results. Synairgen may confront significant and potentially adverse competition for key personnel.

In addition, Synairgen's success will depend to a significant extent upon the abilities and efforts of the Founders, the loss of whom could adversely affect the business. This dependence is particularly important to Synairgen's business because its management's expertise is a critical element in obtaining and maintaining collaborative agreements, and maintaining an effective research and development strategy.

The Group provides certain key personnel with a scheme to incentivise them to continue to improve the Group's performance and to encourage them to remain with the Group.

Intellectual property rights

The commercial success of the Group depends to a great extent upon the ability to obtain patent protection for its pharmaceutical discoveries in Europe, the US and other countries and to preserve the confidentiality of its know-how. The successful commercialisation of its discoveries by third parties, as collaborators, is largely dependent on the extent of the intellectual property protection obtained. No assurance is given that the Group will discover pharmaceutical products that are patentable, or that present patent applications made by the University and licensed to Synairgen will succeed or, if successful will not be challenged or found invalid. The patent applications upon which the Company is relying have been filed fairly recently. No assurance is given that any patents obtained will be sufficiently broad in their scope to provide protection for Synairgen's intellectual property rights and exclude competitors with similar pharmaceutical products.

It is in the nature of research work at a university that many individuals could participate on a particular research project. Whilst Synairgen has been assured by the University and believes that all individuals involved in the research leading to the two patent applications have assigned any relevant rights to the University, there is a possibility that an individual not presently identified may claim rights over the technology licensed to Synairgen.

The commercial success of the Group is dependent, in part, on non-infringement of patents granted to, or other IP rights held by, third parties. Competitors or potential competitors may have filed applications, or may have been granted or may obtain patents, or hold IP rights, that relate to products, and/or research processes, competitive with those of Synairgen. If this is the case then

Synairgen may have to obtain appropriate licences under these patents, or other IP rights, or cease and/or alter certain activities or processes, or develop or obtain alternative pharmaceutical products. There can be no assurance that, if any licences are required, the Group will be able to obtain any such licences on commercially favourable terms, if at all.

The Group relies and will rely on intellectual property laws and third party non-disclosure agreements to protect its intellectual rights. Despite any precautions which may be taken by the Group to protect its products, unauthorised parties may attempt to copy, or obtain and use its products and other technology incorporated in its pharmaceutical products. Alternative technological solutions to the development of products similar to the Group's products may be available to competitors or prospective competitors of the Group. To the extent that the Group's products are protected by intellectual property rights, litigation may be necessary to protect such rights and could result in substantial costs to, and diversion of effort by, the Group with no guarantee of success. The failure of the Group to protect its proprietary information, and the expense of doing so, could have a material adverse effect on its operating results and financial condition.

Early stage of development and limited operating history

The Group is at an early stage of development and did not generate any revenues prior to January 2004. Since then, the Group has generated modest revenues from 'fees for services' work and fees of this nature are likely to represent a substantially less significant source of revenue for the Group than the upfront payments, future milestone and/or royalty payments relating to collaborative and proprietary programmes. The commencement of the Group's material revenues is difficult to predict and there is no guarantee that the Group will generate any material revenues in the foreseeable future.

The Group has limited operating history upon which its performance and prospects can be evaluated and faces the risks frequently encountered by developing companies.

Biobank

The success of the Group's strategy is largely reliant upon the development of the Biobank of blood, sputum, biopsies and epithelial cells from carefully selected and well-characterised volunteers. There is no guarantee that the Group will be able to collect enough samples from volunteers to support its research activities.

Licensing partnerships

Part of the Group's strategy is to leverage its relationships with licensing partners. There can be no guarantee that the Group will be able to secure licensing agreements for its products, or that potential and existing licensing partners will not enter into exclusive relationships with the Group's competitors. The Group's failure to secure licensing agreements for its products or the loss of existing licensing partners could have a material adverse effect on its business, financial condition or results of operations.

Facilities

The Group shares some of the facilities used by the University under the Facilities Agreement. This arrangement offers Synairgen not only the ability to perform the necessary experiments but also opportunities for collaboration and joint development of knowledge due to the Group's proximity to the University. If the University were to terminate the Facilities Agreement in accordance with its terms, there is no guarantee that suitable alternative facilities could be found at an appropriate cost.

Dependence on a limited number of pharmaceutical companies

The Group has been, and for the foreseeable future will continue to be, dependent on contracts with a number of pharmaceutical companies. This places considerable dependence on each programme in meeting operating performance levels. If a major pharmaceutical company or a number of pharmaceutical companies terminate their contracts or significantly reduce or modify their business relationships with the Group, Synairgen may not be able to replace the shortfall in revenues.

Manufacturing, marketing and sales

There can be no assurance that the Group's pharmaceutical discoveries will be capable of being produced in commercial quantities at an acceptable cost so that, if introduced, they will achieve market acceptance. The Group's two early stage pharmaceutical discoveries, inhaled IFN β and growth factor for asthma, may be covered by the intellectual property of third parties that could prevent their production. The Group's revenues will depend upon third parties for the exploitation and manufacturing of products derived from the Group's IP. The ability of third parties to procure manufacturing in a manner which complies with regulatory requirements may be constrained, and their ability to develop and deliver such products on a timely and competitive basis may be adversely affected. The Group cannot guarantee that the Group's revenues will not be adversely affected by the future manufacturing or exploitation by third parties of products derived from the exploitation of the Group's IP.

The Group will be dependent upon third parties for the marketing and sales of its products in certain territories of the world. Synairgen cannot guarantee that these third parties will be successful in either their marketing or sales procedures, or that they will meet their contractual obligations under licensing arrangements.

Unexpected adverse events or problems with products can emerge after launch or after significant periods of sales, which can lead *inter alia* to loss of market share and/or withdrawal from the market.

Pricing environment

The ability of the Group's collaborative partners to commercialise its pharmaceutical products depends on the extent to which reimbursement for the cost of such products and related treatments will be available from government health administration authorities, private health providers and organisations. There may be uncertainty as to the reimbursement status of newly approved pharmaceutical products, and there is no assurance that adequate, or indeed any, health administration or third party coverage will be available to the Group's collaborative partners to obtain satisfactory price levels.

No guarantee that the Group will discover and profit from new pharmaceutical products

There can be no assurance that the Group will successfully discover new pharmaceutical products or that, if it does, the Group will be able to enter into agreements with other pharmaceutical companies for these pharmaceutical products. There can also be no assurance that, if any pharmaceutical products are discovered: they will complete the regulatory approval process; they will be marketed; they will be profitable; or that the Group will produce a reasonable return, if any, on its investment.

Revenue fluctuation

Operating results may vary in material respects between financial reporting periods. Factors that might cause future variations may include, but will not necessarily be limited to, the timing of any upfront licence fees, the receipt and commencement of proprietary or collaborative agreements which may be significant and which may not be made in a linear or consistent pattern, partners' budgetary cycles and seasonal factors. All such factors may be beyond Synairgen's control. Consequential revenue fluctuations could produce an unexpected adverse impact on the Group's operating performance in any financial period.

Relationship with University

The relationship of the Group and the University is presently good, but there is no assurance that this will continue to be the case.

The benefits which the Group enjoys under this relationship are, to some extent, dependent on its continuation. If the relationship were to deteriorate, this could have a highly material adverse effect on the Group's prospects. The University will, on Admission, have a 16.6 per cent. shareholding in the Company which, the Directors believe, aligns the interests of the University with the Company.

University Research funding

If, over the long term, the University experiences a pronounced reduction in its research funding, this may have an adverse effect on the quantity and quality of its research output, which could diminish the value of the relationship to the Group.

The need for additional capital in the future

The Group's capital requirements depend on numerous factors, including the rate of market acceptance of any pharmaceutical discoveries and its ability to maintain and expand its relationship with its pharmaceutical collaborators. It is difficult for the Directors to predict the timing and amount of the Group's capital requirements with accuracy. If its capital requirements vary materially from its plans, the Group may require further financing in addition to amounts raised in the Placing. Any additional equity financing may be dilutive to shareholders, and debt financing, if available, may involve restrictions on financing and operating activities. If the Group is unable to obtain additional financing as needed, it may be required to reduce the scope of its operations or anticipated expansion.

2. Risks relating to Synairgen's market

Competition

The Directors intend to invest in developing competitive and market leading products. However, the pharmaceutical products market may become increasingly competitive in the UK and elsewhere. The development of new technologies could give rise to significant new competitors which may have a material effect on the Group's business.

The Group may face significant competition, including from competitors who have much greater capital resources and who may be able to provide alternative products. There is no assurance that the Group will be able to compete successfully in such a marketplace.

Foreign currency exchange rate risk

Changes in currency exchange rates may harm the financial condition of the Group through both transaction and translation risks. A large part of the Group's revenues are outside the UK and the Group may be affected by currency fluctuations and, in particular, changes in the US dollar/sterling and Canadian dollar/sterling rate will affect the translation into sterling of the Group's US and Canadian dollar-based earnings.

3. Risks relating to the Placing

AiM

AiM is a market designed primarily for emerging or smaller companies to which a higher investment risk tends to be attached than to larger or more established companies. AiM securities are not admitted to the Official List. A prospective investor should be aware of the risks of investing in such companies and should make the decision to invest only after careful consideration and, if appropriate, consultation with an independent financial adviser.

Volatility of share price

The share price of publicly traded companies can be highly volatile. The price at which the New Ordinary Shares will be issued and the price which investors may realise for their Ordinary Shares will be influenced by a large number of factors, some specific to the Group and its operations and some which may affect the pharmaceutical sector, or quoted companies generally. These factors could include the performance of the Group's development programmes, large purchases or sales of shares, currency fluctuations, legislative changes in the pharmaceutical sector and general economic conditions.

Share price effect of sales of Ordinary Shares

The market price of Ordinary Shares could decline significantly as a result of any sales of Ordinary Shares by certain shareholders following expiry of the lock-up period (or otherwise), as detailed in the paragraph entitled "Orderly market arrangements" in Part I of this document, or the perception that these sales could occur.

PART IV

The following is the text of a report on the Company by BDO Stoy Hayward LLP, Reporting Accountants:

Accountants' Report on the Company



BDO Stoy Hayward
Chartered Accountants

BDO Stoy Hayward LLP
Park House 102-108 Above Bar
Southampton SO14 7NH

The Directors
Synairgen plc
2 Venture Road
Chilworth Science Park
Southampton
SO16 7NP

The Directors
Robert W Baird Limited
Mint House
77 Mansell Street
London
E1 8AF

20 October 2004

Dear Sirs

SYNAIRGEN PLC (the "Company")

Introduction

We report on the financial information set out below. This financial information has been prepared for inclusion in the admission document dated 20 October 2004 of the Company (the "Admission Document").

The Company was incorporated on 16 September 2004 as Synairgen Research plc and changed its name to Synairgen plc on 12 October 2004. Since incorporation, the Company has not traded, nor has it received any income, incurred any expenses or paid any dividends. Consequently no profit and loss account is presented. No financial statements have been drawn up.

Basis of preparation

The financial information set out below is based on the balance sheet of the Company as at 16 September 2004 ("the Balance Sheet") to which no adjustments were considered necessary.

Responsibility

The Balance Sheet is the responsibility of the Directors and has been approved by them.

The Directors are responsible for the contents of the Admission Document in which this report is included.

It is our responsibility to compile the financial information set out in our report from the Balance Sheet, to form an opinion on the financial information and to report our opinion to you.

Basis of opinion

We conducted our work in accordance with the Statements of Investment Circular Reporting Standards issued by the Auditing Practices Board. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. It also included an assessment of significant estimates and judgements made by those responsible for the preparation of the Balance Sheet underlying the financial information and whether the accounting policies are appropriate to the entity's circumstances, consistently applied and adequately disclosed.

We planned and performed our work so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial information is free from material misstatement whether caused by fraud or other irregularity or error.

Opinion

In our opinion, the financial information gives, for the purposes of the Admission Document, a true and fair view of the state of affairs of the Company as at 16 September 2004.

Consent

We consent to the inclusion in the Admission Document of this report and accept responsibility for this report for the purposes of paragraph 45(8)(b) of Schedule 1 to the Public Offers of Securities Regulations 1995.

Balance sheet as at 16 September 2004

	<i>As at 16 September 2004 Pence</i>
Current assets	
Debtors – unpaid share capital	2
Net assets	<u>2</u>
Share capital and reserves	
Called up share capital	2
Shareholders' funds – equity	<u>2</u>

Financial Information

Accounting policies

The financial information has been prepared under the historical cost convention and in accordance with applicable accounting standards.

Share capital

The Company was incorporated with authorised share capital of £10,000,000 divided into 1,000,000,000 ordinary shares of 1 pence each. On incorporation, two ordinary shares of 1 pence each were issued.

On 11 October 2004 the authorised share capital of the Company was reduced to £1,000,000, divided into 100,000,000 shares of 1 pence each.

Post balance sheet events

On 11 October 2004, the Company acquired the entire issued share capital of Synairgen Research Limited in consideration of the issue of 13,999,998 ordinary shares of 1 pence each of the Company.

In addition, on 11 October 2004 the Company issued options to subscribe for a total of 1,120,000 ordinary shares of 1 pence each to S Shaw and R Marsden in lieu of their options to subscribe for 11,200 ordinary shares of 1 pence each in Synairgen Research Limited which were accordingly cancelled on the same day.

Yours faithfully

BDO Stoy Hayward LLP
Chartered Accountants

PART V

The following is the text of a report on Synairgen Research Limited by BDO Stoy Hayward LLP, Reporting Accountants:

Accountants' Report on Synairgen Research Limited



BDO Stoy Hayward
Chartered Accountants

BDO Stoy Hayward LLP
Park House 102 – 108 Above Bar
Southampton SO14 7NH

The Directors
Synairgen plc
2 Venture Road
Chilworth Science Park
Southampton
SO16 7NP

The Directors
Robert W Baird Limited
Mint House
77 Mansell Street
London
E1 8AF

20 October 2004

Dear Sirs

SYNAIRGEN RESEARCH LIMITED

Introduction

We report on the financial information set out below. This financial information has been prepared for inclusion in the admission document dated 20 October 2004 of Synairgen plc (the "Admission Document").

Synairgen Research Limited was incorporated on 10 June 2003 under the name Synairgen Limited and changed its name to Synairgen Research Limited on 12 October 2004.

Basis of preparation

The financial information is based on the audited financial statements of Synairgen Research Limited for the period ended 30 June 2004 ("the Relevant Period") to which no adjustments were considered necessary.

BDO Stoy Hayward LLP, Chartered Accountants and Registered Auditors, Park House, 102-108 Above Bar, Southampton SO14 7NH audited Synairgen Research Limited's financial statements for the period from incorporation to 30 June 2004. Their audit report was unqualified.

Responsibility

Such financial statements are the responsibility of the directors of Synairgen Research Limited who approved their issue.

The directors of Synairgen plc are responsible for the contents of the Admission Document in which this report is included.

It is our responsibility to compile the financial information set out in our report from the financial statements, to form an opinion on the financial information and to report our opinion to you.

Basis of opinion

We conducted our work in accordance with the Statements of Investment Circular Reporting Standards issued by the Auditing Practices Board. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. The evidence included that previously obtained by us relating to the audit of the financial statements underlying the financial information. It also included an assessment of significant estimates and judgements made by those responsible for the preparation of the financial statements underlying the financial information and whether the accounting policies are appropriate to the entity's circumstances, consistently applied and adequately disclosed.

We planned and performed our work so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial information is free from material misstatement whether caused by fraud or other irregularity or error.

Opinion

In our opinion, the financial information gives, for the purposes of the Admission Document, a true and fair view of the state of affairs of Synairgen Research Limited as at the date stated and of its loss for the period then ended.

Consent

We consent to the inclusion in the Admission Document of this report and accept responsibility for this report for the purposes of paragraph 45(1)(b)(iii) of Schedule 1 to the Public Offers of Securities Regulations 1995.

Financial Information

Accounting policies

The financial information has been prepared under the historical cost convention and in accordance with applicable accounting standards. The following principal accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial information:

Turnover

Turnover is stated net of value added tax and represents the sales value of work done in the period, including estimates in respect of amounts not invoiced.

Depreciation

Depreciation is provided to write off the cost, less estimated residual values, of all tangible fixed assets, evenly over their expected useful lives. It is calculated at the following rates:

Plant and machinery	– 5 years straight line
Computers	– 3 years straight line

Foreign currency

Foreign currency transactions are translated at the rates ruling when they occurred. Foreign currency monetary assets and liabilities are translated at the rate of exchange ruling at the balance sheet date. Any differences are taken to the profit and loss account.

Research and development

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

Development costs are also charged to the profit and loss account in the year of expenditure, unless individual projects satisfy all of the following criteria:

- the project is clearly defined and related expenditure is separately identifiable;
- the project is technically feasible and commercially viable;
- current and future costs are expected to be exceeded by future sales; and
- adequate resources exist for the project to be completed.

Deferred taxation

Deferred tax balances are recognised in respect of all timing differences that have originated but not reversed by the balance sheet date except that the recognition of deferred tax assets is limited to the extent that Synairgen Research Limited anticipates making sufficient taxable profits in the future to absorb the reversal of the underlying timing differences.

Deferred tax balances are not discounted.

Financial instruments

Synairgen Research Limited's principal financial instruments comprise trade debtors, trade creditors, cash and short-term deposits used to finance Synairgen Research Limited's operations and future growth. The major financial risks faced by Synairgen Research Limited are interest rates, contract risks and currency risks.

Synairgen Research Limited has taken advantage of the exemption available under FRS13 for short-term debtors and creditors.

Patents and licences

Patent and licence costs are amortised over their useful life, currently estimated by the directors to be a period of 10 years.

Share-based employee remuneration

When shares and share options are awarded to employees, a charge is made to the profit and loss account based on the difference between the market value of the company's shares at the date of grant and the option exercise price in accordance with UITF Abstract 17 (revised 2003) 'Employee Share Schemes'. The credit entry for this charge is taken to the profit and loss reserve and reported in the reconciliation of movements in shareholders' funds.

Profit and loss account

		<i>Period ended</i> <i>30 June</i> <i>2004</i> <i>£000</i>
	<i>Notes</i>	
Turnover	1	82
Cost of sales		<u>(18)</u>
Gross profit		64
Research and development expenses		(123)
Administrative expenses		<u>(107)</u>
Operating loss	2	(166)
Interest receivable		<u>13</u>
Loss on ordinary activities before taxation		(153)
Tax on loss from ordinary activities	5	<u>—</u>
Retained loss	13	<u><u>(153)</u></u>
Loss per share		
Basic	6	<u><u>£(1.53)</u></u>

All amounts relate to continuing activities

Statement of total recognised gains and losses

		<i>Period ended</i> <i>30 June</i> <i>2004</i> <i>£000</i>
	<i>Notes</i>	
Loss for the financial period	13	(153)
Preliminary set up costs	13	<u>(27)</u>
Total recognised gains and losses for the period		<u><u>(180)</u></u>

Balance sheet

	<i>Notes</i>	<i>As at 30 June 2004 £000</i>
Fixed assets		
Intangible fixed assets	7	4
Tangible fixed assets	8	145
		<u>149</u>
Current assets		
Debtors	9	77
Cash at bank and in hand		407
		<u>484</u>
Creditors: amounts falling due within one year	10	<u>(163)</u>
Net current assets		<u>321</u>
Total assets less current liabilities		<u><u>470</u></u>
Capital and reserves		
Called up share capital	12	1
Share premium account	13	622
Profit and loss account	13	<u>(153)</u>
Equity shareholders' funds	14	<u><u>470</u></u>

Cash flow statement

		<i>Period ended</i>
		<i>30 June</i>
	<i>Notes</i>	<i>2004</i>
		<i>£000</i>
Net cash outflow from operating activities	16	(78)
Returns on investments and servicing of finance		
Interest received		13
Net cash inflow from returns on investments and servicing of finance		<u>13</u>
Capital expenditure and financial investment		
Purchase of intangible fixed assets		(4)
Purchase of tangible fixed assets		(147)
Net cash outflow from capital expenditure		<u>(151)</u>
Cash outflow before financing		(216)
Financing		
Issue of ordinary share capital		1
Share premium received on share issues		649
Preliminary set up costs		(27)
Cash inflow from financing		<u>623</u>
Increase in cash for the period	17	<u><u>407</u></u>

Notes to the financial information

1. Turnover, loss and net assets

Turnover, losses and net assets are wholly attributable to the principal activity of Synairgen Research Limited and arose solely in the United Kingdom.

2. Operating loss

This is arrived at after charging:

	<i>Period ended</i> 30 June 2004 £000
Depreciation	2
Auditors' remuneration:	
Audit services	4
Non-audit services	1
	<u>7</u>

3. Employees

Synairgen Research Limited had no employees during the year. However Synairgen Research Limited purchased a range of services from the University of Southampton, including the provision of research and development staff, see note 15.

During the year, a number of consultancy agreements were entered into with key management for the provision of their services.

4. Directors

	<i>Performance</i>				
	<i>Basic salary and fees £000</i>	<i>related bonus £000</i>	<i>Benefits in kind £000</i>	<i>Other £000</i>	<i>Total £000</i>
Period ended 30 June 2004					
S Holgate	—	—	—	—	—
S Sundstrom	—	—	—	—	—
S Shaw	22	—	—	—	22
D Norwood	—	—	—	—	—
R Marsden	4	—	—	—	4
	<u>26</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>26</u>

The share options of the directors at 30 June 2004 are set out below:

	<i>10 June</i>		<i>30 June</i>		<i>Market</i>	<i>Exercise</i>	
	<i>2003</i>	<i>Granted</i>	<i>Exercised</i>	<i>2004</i>	<i>price at</i>	<i>date of</i>	
	<i>Number</i>	<i>Number</i>	<i>Number</i>	<i>Number</i>	<i>Price</i>	<i>exercise</i>	
						<i>period</i>	
S Shaw	—	4,200	—	4,200	£0.01	—	10 years
S Shaw	—	2,800	—	2,800	£0.01	—	10 years*
R Marsden	—	4,200	—	4,200	£10.00	—	10 years**

* The option over 2,800 ordinary shares vests upon Synairgen Research Limited successfully raising a further £1 million of finance, subject to this being achieved by 2 July 2005.

** As at 30 June 2004, 3,500 of these options had vested.

No options lapsed during the year.

These share options were cancelled subsequent to the year end, see note 19.

5. Taxation on loss from ordinary activities

(a) Tax on loss on ordinary activities

There is no taxation charge due to the losses incurred by Synairgen Research Limited during the period.

(b) *Factors affecting current tax charge*

The tax assessed on the loss on ordinary activities for the year is different to the standard rate of corporation tax in the UK of 30 per cent. The differences are reconciled below:

	<i>Period ended 30 June 2004</i>
Loss on ordinary activities before tax	(153)
Loss on ordinary activities before tax multiplied by the standard rate of corporation tax in the UK of 30%	(46)
Effects of:	
Fixed asset timing differences	(17)
Losses carried forward	63
Current tax charge for the period	—

There are tax losses available for carry forward against future trading profits of approximately £210,000. The full utilisation of these losses in the foreseeable future is uncertain and so no deferred tax asset has been recognised.

6. Loss per share

Losses per ordinary share have been calculated using the weighted average number of shares in issue during the period. The weighted average number of equity shares in issue and the earnings, being profit after tax, minority interests and preference dividends are as follows:

	<i>Period ended 30 June 2004 Number</i>
Weighted average number of equity shares	100,898
	<i>£000</i>
Losses, being loss after tax, minority interests and preference dividends	(153)

7. Intangible assets

	<i>Licences £000</i>	<i>Total £000</i>
Cost		
Additions in the period ended 30 June 2004	4	4
As at 30 June 2004	4	4
Depreciation		
Provided for the period ended 30 June 2004	—	—
As at 30 June 2004	—	—
Net book value		
As at 30 June 2004	4	4

8. Tangible assets

	<i>Computers</i> £000	<i>Plant and machinery</i> £000	<i>Total</i> £000
Cost			
Additions in the period ended 30 June 2004	2	145	147
As at 30 June 2004	<u>2</u>	<u>145</u>	<u>147</u>
Depreciation			
Provided for the period ended 30 June 2004	—	2	2
As at 30 June 2004	<u>—</u>	<u>2</u>	<u>2</u>
Net book value			
As at 30 June 2004	<u>2</u>	<u>143</u>	<u>145</u>

9. Debtors

	<i>As at 30 June 2004 £000</i>
Trade debtors	54
Prepayments and accrued income	22
Taxation and social security	1
	<u>77</u>

All amounts fall due for payment within one year.

10. Creditors: amounts falling due within one year

	<i>As at 30 June 2004 £000</i>
Payments on account	16
Accruals and deferred income	147
	<u>163</u>

11. Financial instruments

An explanation of Synairgen Research Limited's objectives, policies and strategies for the role of financial instruments in creating and changing the risks of Synairgen Research Limited in its activities can be found above under "Accounting policies". The disclosures below exclude short-term debtors and creditors.

(a) *Interest rate risk profile of financial liabilities*

Synairgen Research Limited had no material financial liabilities at 30 June 2004.

(b) *Interest rate risk profile of financial assets*

	<i>Floating rate £000</i>
Sterling cash	<u>407</u>

Floating rates for financial assets are based on UK bank base rates.

(c) *Currency exposures*

Synairgen Research Limited had no currency exposures at 30 June 2004.

(d) *Maturity of financial liabilities*

Synairgen Research Limited had no material financial liabilities at 30 June 2004.

(e) *Borrowing facilities*

Synairgen Research Limited had no committed facilities at 30 June 2004.

(f) *Fair value of financial assets and financial liabilities*

Financial instruments held or issued to finance Synairgen Research Limited's operations

	<i>As at</i> <i>30 June</i> <i>2004</i> <i>Book Value</i> <i>£000</i>	<i>As at</i> <i>30 June</i> <i>2004</i> <i>Fair Value</i> <i>£000</i>
Bank and cash balances	<u>407</u>	<u>407</u>

Financial instruments held or issued to finance Synairgen Research Limited's operations

Synairgen Research Limited had no financial instruments held to hedge currency exposures at 30 June 2004.

12. Share capital

	<i>As at</i> <i>30 June</i> <i>2004</i> <i>£000</i>
Authorised 200,000 ordinary shares of 1p each	<u>2</u>
Called up 113,400 ordinary shares of 1p each	<u>1</u>
Allotted, called up and fully paid 100,000 ordinary shares of 1p each	<u>1</u>

Period ended 30 June 2004

On 10 June 2003, 3 ordinary shares of 1 pence each were issued at par for cash consideration.

On 24 June 2003, 24,997 ordinary shares of 1 pence each were issued at par for cash consideration.

On 7 July 2003, 10,000 ordinary shares of 1 pence each were issued at par for cash consideration.

On 1 August 2003, 13,400 ordinary shares of 1 pence each were issued at par for cash consideration. These shares remained unpaid at 30 June 2004.

On 4 August 2003, 65,000 ordinary shares of 1 pence each were issued for £10.00 per share for cash consideration.

Share options

At 30 June 2004 the following share options had vested and were outstanding in respect of the ordinary shares:

<i>Date of grant</i>	<i>Number of</i> <i>shares</i>	<i>Period of option</i>	<i>Price per</i> <i>share</i> <i>£</i>
3 July 2003	4,200	July 2003 – July 2013	0.01
1 August 2003	26,600	August 2003 – July 2013	0.01
1 January 2004	3,500	March 2004 – Dec 2013	10.00

13. Reserves

	<i>Share premium account £000</i>	<i>Profit and loss account £000</i>	<i>Total £000</i>
At incorporation	—	—	—
Premium on shares issued	649	—	649
Preliminary set up costs	(27)	—	(27)
Loss for the period	—	(153)	(153)
As at 30 June 2004	<u>622</u>	<u>(153)</u>	<u>(469)</u>

14. Reconciliation of movements in shareholders' funds

	<i>Period ended 30 June 2004 £000</i>
At the beginning of the period	—
Issue of shares	1
Premium on shares allotted	649
Preliminary set up costs	(27)
Loss for the period	(153)
At the end of the period	<u>470</u>

15. Related party transactions

During the period ended 30 June 2004, Synairgen Research Limited paid fees and expenses of £15,800 to IP2IPO Limited for the provision of business consultancy services. IP2IPO Limited is a shareholder in Synairgen Research Limited and D Norwood is both a director of IP2IPO Limited and a director and shareholder in its parent company, IP2IPO Group plc. At 30 June 2004, the amount unpaid in respect of these charges was £7,900.

During the period 30 June 2004, Synairgen Research Limited incurred fees of £95,215 with the University of Southampton in connection with research and development activities. The University of Southampton is the controlling shareholder of Southampton Asset Management Limited ("SAM") which is a shareholder in Synairgen Research Limited. At 30 June 2004, the amount unpaid in respect of these charges was £95,215.

During the period ended 30 June 2004, Synairgen Research Limited paid consultancy fees in respect of Professor S Holgate, a director of Synairgen Research Limited, amounting to £13,750. At the balance sheet date the amount unpaid in respect of these charges was £1,500.

During the period ended 30 June 2004, Synairgen Research Limited incurred fees of £30,204 with Alamas Limited, of which R Marsden is a director and shareholder. R Marsden was appointed a director on 7 June 2004, from which date no further amounts were charged by Alamas Limited. At the balance sheet date the amount unpaid in respect of these charges was £9,374.

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

	<i>Period ended 30 June 2004 £000</i>
Operating loss	(166)
Depreciation	2
Increase in debtors	(77)
Increase in creditors	163
Net cash outflow from operating activities	<u>(78)</u>

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

	<i>Period ended 30 June 2004 £000</i>
Increase in cash in the period	407
Movement in net funds in the period	<u>407</u>
Net funds at the end of the period (note 18)	<u><u>407</u></u>

18. Analysis of net funds

	<i>At start of the period</i>	<i>Cash flow</i>	<i>At the end of the period</i>
Period ended 30 June 2004			
Cash at bank and in hand	<u>—</u>	<u>407</u>	<u>407</u>

19. Post balance sheet events

On 7 September 2004, Southampton Asset Management Limited exercised its option over 26,600 shares, for a consideration of £266.

On 11 October 2004, Synairgen plc acquired the entire issued share capital of Synairgen Research Limited in consideration of the issue of 13,999,998 ordinary shares of 1 pence each in Synairgen plc on the basis of issuing 100 shares for each ordinary share of 1 pence held in Synairgen Research Limited. Accordingly, on the same day the existing options to subscribe for a total of 11,200 shares in Synairgen Research Limited were cancelled and options to subscribe for 1,120,000 ordinary shares of 1 pence each in Synairgen plc were issued in lieu.

Yours faithfully

BDO Stoy Hayward LLP
Chartered Accountants

PART VI

Additional Information

1. Company and Share Capital

- (a) The Company was incorporated in England as a public company on 16 September 2004 with registered number 5233429 under the Companies Act 1985. The liability of the members of the Company is limited. The Company changed its name on 12 October 2004 from Synairgen Research plc to its current name.
- (b) The registered office of the Company is 2 Venture Road, Chilworth Science Park, Southampton SO16 7NP.
- (c) The Company has an authorised share capital of £1,000,000 comprising 100,000,000 ordinary shares of £0.01 each.
- (d) The Company was incorporated with an authorised share capital of £10,000,000 comprising 1,000,000,000 ordinary shares of £0.01 each. By a written ordinary resolution of the Company passed on 11 October 2004, the Company reduced its authorised share capital by £9,000,000 to £1,000,000 comprising 100,000,000 ordinary shares of £0.01 each.
- (e) By a written ordinary resolution of the Company passed on 19 October 2004, the Company resolved that the Directors be generally and unconditionally authorised pursuant to section 80 of the Act to exercise all the powers of the Company to allot and make offers to allot relevant securities up to an aggregate nominal amount of £84,907.69 during the period commencing on the date of the written resolution and expiring on the conclusion of the 2005 annual general meeting of the Company unless that authority is previously revoked or varied by the Company provided that the Company may before such expiry make an offer or enter into an agreement which would or might require such shares to be allotted after such expiry and the Directors may allot relevant securities in pursuance of any such offer as if the authority conferred by that resolution had not expired.
- (f) By a written special resolution of the Company passed on 19 October 2004, the Company resolved that the Directors be empowered to allot equity securities pursuant to the authority referred to in sub-paragraph (e) above as if section 89(1) of the Act did not apply to any such allotment provided that such authority was limited to: pre-emptive issues; the grant to directors of options to subscribe for equity securities up to an aggregate nominal amount of £5,600; the Placing and the allotment of further equity securities up to an aggregate nominal amount of £21,692.30. Such authority shall expire at the conclusion of the 2005 annual general meeting of the Company although the Company may, before the expiry of such authority, make an offer or agreement which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities in pursuance of such an offer or agreement as if the power had not expired.
- (g) As at the date of this document and upon Admission, the authorised and issued share capital of the Company will be as follows:

<i>Authorised</i>		<i>Issued and fully paid at the date of this document</i>		<i>Issued and fully paid upon Admission</i>	
<i>Number</i>	<i>Amount</i>	<i>Number</i>	<i>Amount</i>	<i>Number</i>	<i>Amount</i>
100,000,000	£1,000,000	14,000,000	£140,000	21,692,308	£216,923.08

- (h) The Company has granted, or proposes to grant, options to subscribe for a total of 1,680,000 Ordinary Shares pursuant to the Directors' Options, details of which are summarised in paragraph 2(d) below.
- (i) The Company proposes to grant, conditional upon all of the Placing Shares being entered into the Company's register of members, options to subscribe for a total of 112,000 Ordinary Shares pursuant to the Staff Share Scheme. Details of the Staff Share Scheme are summarised in paragraph 9 below.

- (j) Save as disclosed in paragraphs (h) and (i) above or pursuant to the share sale agreement described in paragraph 6(h) below, no share or loan capital of the Company has since its incorporation been issued or agreed to be issued or is now proposed to be issued fully or partly paid either for cash or a consideration other than cash and no discounts or other special terms have been granted by the Company during such period in connection with the sale or issue of any share or loan capital of the Company.
- (k) Save for the Directors' and staff options referred to in paragraphs (h) and (i) above, no share capital of the Company is under option and there is no conditional or unconditional agreement to put any such capital under option.
- (l) The Company has one subsidiary company, Synairgen Research Limited, which was incorporated in England with registered number 04793696 and which is wholly owned by the Company.

2. Directors and their Interests

- (a) The Directors of the Company are:

Simon James Blouet Shaw (*Non-executive Chairman*)

Richard James Marsden (*Managing Director*)

John Christopher William Ward (*Finance Director*)

Professor Stephen Townley Holgate (*Non-executive*)

Susan Margaret Sundstrom (*Non-executive*)

David Robert Norwood (*Non-executive*)

The business address of each Director is 2 Venture Road, Chilworth, Science Park, Southampton SO16 7NP.

- (b) The Directors currently hold or have held in the five years preceding the date of this document the following directorships and partnerships (other than directorships in the Company and Synairgen Research Limited).

Simon James Blouet Shaw, 39 years old

Current

Gyrus Group PLC

Past

Profile Drug Delivery Limited

Profile Pharma Limited

Profile Respiratory Systems Limited

Profile Therapeutics, Inc.

Profile Therapeutics plc

Richard James Marsden, 37 years old

Current

Alamas Limited

Past

None

John Christopher William Ward, 43 years old

Current

None

Past

Consultancy Practice Limited

Kestrel Healthcare Limited

Medic-Aid Employee Benefit Trust Limited

Middlesign Limited

PB North America Limited

Profile Drug Delivery Limited

Profile Pharma Limited

Profile Respiratory Systems Limited

Profile Therapeutics, Inc.

Profile Therapeutics plc

Rapid Deployment Group Limited

Rapid Deployment Limited

Ventiv Health Limited

Stephen Townley Holgate, 57 years old

Current

Allergy & Inflammation Research Limited
The Prince of Wales's Foundation for
Integrated Health

Past

Aid Cancer (in the process of being
dissolved)
British Lung Foundation

Susan Margaret Sundstrom, 47 years old

Current

HepCgen Limited
Southampton Polypeptides Limited

Past

Mogen Licensing BV

David Robert Norwood, 36 years old

Current

Amaethon Limited
Berkeley Adam Limited
HATT III General Partner Limited
HepCgen Limited
Inhibox Limited
Invesco/Perpetual AIM VCT plc
IP2IPO Group plc
IP2IPO Limited
IP2IPO Management II Limited
IP2IPO Management Limited
Offshore Hydrocarbon Mapping plc
Southampton Asset Management Limited
Techtran Group Limited
Top Technology Ventures Limited
TTV IV G.P. Limited
Vastox Chemical Genomics Limited
Vastox Plc

Past

Beeson Gregory Group Ltd
Beeson Gregory Index Nominees Limited
Beeson Gregory Investment Management
Limited
Beeson Gregory Technology Investments
Limited
Beeson Gregory (US) Limited
Bored of Games Limited
Ceravision Limited
Elixir Studios Limited
Envisional Solutions Limited
Evolution Beeson Gregory Nominees
Limited
Evolution Securities Limited
Evo Nominees Limited
Home House Limited
Indexit Consulting Limited
Indexit Partnership Limited
Mathengine plc
Netvisional Limited
Oxonica Limited
Spectral Fusion Technologies Limited
The Evolution Group plc

(c) Save as disclosed above, none of the Directors has:

- (i) any unspent convictions relating to indictable offences;
- (ii) had a bankruptcy order made against him or entered into any individual voluntary arrangements;
- (iii) been a director of a company which has been placed in receivership, compulsory liquidation, creditors' voluntary liquidation or administration or entered into a company voluntary arrangement or any composition or arrangement with its creditors generally or any class of its creditors whilst he was a director of that company at the time of, or within the twelve months preceding, such events;
- (iv) been a partner of a firm which has been placed in compulsory liquidation or administration or which has entered into a partnership voluntary arrangement whilst he was a partner of that firm at the time of, or within twelve months preceding, such events;
- (v) had any asset belonging to him placed in receivership or been a partner of a partnership whose assets have been placed in receivership whilst he was a partner at the time of, or within twelve months preceding, such receivership; or

- (vi) been publicly criticised by any statutory or regulatory authority (including any recognised professional body) or ever been disqualified by a court from acting as a director of a company or from acting in the management or conduct of the affairs of any company.
- (d) At the date of this document, the interests (all of which are beneficial unless otherwise stated) of the Directors and persons connected with the Directors (within the meaning of section 346 of the Companies Act 1985) in the issued share capital of the Company, as required to be notified to the Company pursuant to section 324 or section 328 of the Act or are required to be disclosed in the Register of Directors' interests pursuant to section 325 of the Act in the issued share capital of the Company, and the existence of which is known to, or could with reasonable due diligence be ascertained by, any Director as at the date of this document and is expected to be, upon Admission, as follows:

<i>Name of Director</i>	<i>Shareholding at the date of this document</i>	<i>Shareholding upon Admission</i>
Simon Shaw ⁽¹⁾	None	15,400
Richard Marsden	None	None
John Ward ⁽²⁾	None	7,692
Stephen Holgate ⁽³⁾	833,400	835,323
David Norwood ⁽⁴⁾	None	None
Susan Sundstrom	None	None

(1) Simon Shaw has applied to subscribe for 15,400 Placing Shares at the Placing Price.

(2) John Ward has applied to subscribe for 7,692 Placing Shares at the Placing Price.

(3) Elizabeth Holgate, Stephen Holgate's wife, has applied to subscribe for 1,923 Placing Shares at the Placing Price.

(4) David Norwood is a director of and, as at the date of this document, holds 1.3 per cent. of the issued share capital of IP2IPO Group plc. David Norwood is also a director of IP2IPO Limited and IP2IPO Management Limited (which are both wholly owned subsidiaries of IP2IPO Group plc). On Admission, IP2IPO Limited will hold 1,000,000 Ordinary Shares and IP2IPO Management Limited will hold 5,640,000 Ordinary Shares. David Norwood is a director of Southampton Asset Management Limited (a company in which IP2IPO Limited owns a 20 per cent. non-participating interest). On Admission, Southampton Asset Management Limited will hold 3,600,000 Ordinary Shares. On Admission, Beeson Gregory Index Nominees Limited will hold 860,000 Ordinary Shares, of which it will hold 210,000 Ordinary Shares as the nominee to directors of IP2IPO Group plc and 40,000 Ordinary Shares as the nominee to a former director of IP2IPO Group plc.

On 11 October 2004 all the existing options granted by Synairgen Research Limited were cancelled and the Company granted options in lieu as follows:

<i>Name of Director</i>	<i>Options over 1 pence ordinary shares in Synairgen Research Limited (that have been cancelled)</i>		<i>Options granted over Ordinary Shares in Synairgen plc</i>	
	<i>Number</i>	<i>Exercise Price Per Share £</i>	<i>Number</i>	<i>Exercise Price Per Share £</i>
Simon Shaw	4,200	0.01	420,000	0.01
	2,800	0.01	280,000	0.01
Richard Marsden	2,800	10.00	280,000	0.10
	1,400	10.00	140,000	0.10

On Admission, the Directors will hold the following options over Ordinary Shares:

<i>Name of Director</i>	<i>Number of Options</i>	<i>Vesting Date</i>	<i>First Exercise Date</i>	<i>Final Exercise Date</i>	<i>Exercise Price Per Share £</i>
Simon Shaw	420,000	11 October 2004	11 October 2004	10 years from grant	0.01
	280,000	On Admission	On Admission	10 years from grant	0.01
Richard Marsden	280,000	11 October 2004	11 October 2004	10 years from grant	0.10
	140,000	30 June 2005	30 June 2005	10 years from grant	0.10
	140,000*	30 June 2006	30 June 2006	10 years from grant	Placing Price
	140,000*	30 June 2007	30 June 2007	10 years from grant	Placing Price
John Ward	140,000*	30 June 2005	30 June 2005	10 years from grant	Placing Price
	140,000*	30 June 2006	30 June 2006	10 years from grant	Placing Price
Stephen Holgate	None	N/a	N/a	N/a	N/a
David Norwood	None	N/a	N/a	N/a	N/a
Susan Sundstrom	None	N/a	N/a	N/a	N/a

* These options will be granted conditional upon all of the Placing Shares being entered into the Company's register of members.

Options are normally exercisable in accordance with the dates shown above. However, in certain circumstances the Company may permit an earlier exercise of options. Options will lapse on leaving employment, unless as a result of death or in the case of a 'good leaver', when they may be exercised up to 12 months later. Options will also lapse ten years from the date of grant and on certain other events occurring.

It is intended that Richard Marsden and John Ward will hold some of their shares under Enterprise Management Incentive ("EMI") options once confirmation has been received from the Inland Revenue that those options qualify for EMI status. To the extent that options are outside of EMI they will be unapproved share options.

In the event of any capitalisation, rights issue, consolidation, subdivision, reduction or variation of share capital of the Company, the number of shares subject to option, may be adjusted in such manner as the Company considers is fair and reasonable.

Amendments may be made to the Directors' Options that the Company considers appropriate and necessary to ensure the option incentives operate as intended.

All shares issued pursuant to the above options will rank *pari passu* with all other Ordinary Shares in issue, other than in relation to rights (including to dividends), which will have a record date prior to the date of issue.

As a condition of exercising the option, option holders shall, at the request of the Company, enter into an election to transfer the employer's National Insurance liability to the option holder. The Company may also require the option holder to enter into an election to ignore the impact of restrictions over shares for income tax purposes. The option terms contain a further requirement that the option holder shall reimburse (and indemnify) the Company for any liability to account for income tax or national insurance in connection with the exercise of any options.

- (e) Save as disclosed in paragraph 6(h) below, no Director has or has had any direct or indirect interest in any asset which has been acquired or disposed of by, or leased to, the Company since the date of its incorporation or which is proposed to be so acquired, disposed of or leased.
- (f) The following are particulars of the Directors' service agreements with the Company:
 - (i) Richard Marsden has entered into a service agreement, which will take effect from and subject to Admission, in which he is appointed as the Managing Director and as an Executive Director to the Company and Synairgen Research Limited. The appointment continues until terminated upon 6 months' written notice by either party. He receives a salary of £80,000 per annum, which will increase to £100,000 per annum with effect from 1 January 2005, and he participates in any Company bonus and share option scheme subject to the rules of such schemes. He receives private medical cover, permanent health cover and life assurance. The Company contributes 9 per cent. of his basic salary (subject to his contributions of 6 per cent.) into the Company Stakeholder Pension Scheme. There is provision for early termination of the agreement by payment in lieu of notice and a garden leave clause. During employment he is restricted from activities which cause a conflict of interest with the Company. He is also subject to provisions which protect the Company's intellectual property and confidential information and to various post-termination restrictions.
 - (ii) John Ward has entered into a service agreement which will take effect from and subject to Admission, in which he is appointed as Finance Director and as an Executive Director of the Company and Synairgen Research Limited. The appointment is for 3 days each week for such hours as are necessary for the proper performance of his duties, and continues until terminated upon 6 months' written notice by either party. He receives a salary of £60,000 per annum and he participates in any Company bonus and share option scheme subject to the rules of such schemes. He receives private medical cover, permanent health cover and life assurance. The Company contributes 9 per cent. of his basic salary (subject to his contributions of 6 per cent.) into his personal pension scheme. There is provision for early termination of the agreement by payment in lieu of notice and a garden leave clause. During employment he is restricted from activities which cause a conflict of interest with the Company. He is subject to provisions which protect the Company's intellectual property and confidential information and to various post-termination restrictions.

Save as disclosed above there are no service agreements existing or proposed between any Director and the Company.

The following are the particulars of the Non-executive Directors' letters of appointment with the Company:

- (iii) Simon Shaw is Non-executive Chairman and, with effect from and subject to Admission, his appointment will be on the following terms as set out in a letter dated 19 October 2004 from the Company to him. His appointment continues for an initial period of 12 months which is terminable by either party on 3 months' written notice or subject to earlier resignation or his removal. He receives an annual fee of £25,000 per annum to be paid monthly in arrears (which will be reviewed annually), travel and other expenses and he is covered by directors and officers' liability insurance. Mr Shaw chairs the Audit Committee and the Remuneration and Nomination Committee.
- (iv) Dr Stephen Holgate is a Non-executive Director and, with effect from and subject to Admission, his appointment will be on the following terms as set out in a letter dated 19 October 2004 from the Company to him. His appointment continues for an initial period of 12 months which is terminable by either party on 3 months' written notice or subject to earlier resignation or his removal. He receives an annual fee of £5,000 per annum (with regard to his appointment with the Company and any company within the Group) to be paid monthly in arrears, travel and other expenses and he is covered by directors and officers' liability insurance.
- (v) Susan Sundstrom is a Non-executive Director and, with effect from and subject to Admission, her appointment will be on the following terms as set out in a letter dated 19 October 2004 from the Company to her. Her appointment continues for an initial

period of 12 months which is terminable by either party on 3 months' written notice or subject to earlier resignation or her removal. She will receive an annual fee of £5,000 per annum to be paid monthly in arrears, travel and other expenses and she is covered by directors and officers' liability insurance. Ms Sundstrom is a member of the Remuneration and Nomination Committee.

- (vi) David Norwood is a Non-executive Director and, with effect from and subject to Admission, his appointment will be on the following terms as set out in a letter dated 19 October 2004 from the Company to him. His appointment continues for an initial period of 12 months which is terminable by either party on 3 months' written notice or subject to earlier resignation or his removal. He receives an annual fee of £5,000 per annum to be paid monthly in arrears, travel and other expenses and he is covered by directors and officers' liability insurance. Mr Norwood is a member of the Audit Committee. Mr Norwood will not be counted in the quorum in relation to matters concerning the Company and IP2IPO Limited and IP2IPO Management Limited and confirms he will notify the Company of any conflict of interest.

Save as disclosed above there are no letters of appointment existing or proposed between any Non-executive Director and the Company.

The aggregate remuneration including benefits in kind of the Directors of the Company for the period ended 30 June 2004 amounted to £26,000. It is estimated that under the arrangements currently in force the aggregate remuneration to be paid to the Directors in the financial period ending 30 June 2005 will be approximately £215,000.

- (g) Synairgen operates a Group Stakeholder Pension scheme for all employees participating in the scheme with HSBC Bank plc. The employer contribution is 6 per cent. of basic salary for all employees except Richard Marsden and John Ward, whose company contributions will be 9 per cent. of basic salary. The employee's gross contribution must be at least 6 per cent. of his or her basic salary. This scheme commenced from 30 July 2004.
- (h) John Davies and Bruce Smith are both directors of IP2IPO and are therefore deemed to be acting in concert with IP2IPO under the rules of the City Code.

On Admission, their interests in the issued share capital of the Company are as follows:

	<i>Number of Shares held</i>	<i>Percentage of Enlarged Issued Share Capital Held</i>
John Davies	10,000	0.05
Bruce Smith	200,000	0.92

- (i) The Founders, being employees of the University and by virtue of the intellectual property regulations of the University, may receive, at the discretion of Southampton Asset Management, a fair and equitable proportion of the proceeds of any sale of Ordinary Shares by Southampton Asset Management. Stephen Holgate has acknowledged that he will not benefit from the sale proceeds of the Sale Shares.

3. Substantial Shareholders

- (a) As at the date of this document, other than interests of Directors disclosed in paragraph 2(d) above, the Directors are aware of the following holdings which represent an interest within the meaning of Part VI of the Act, directly or indirectly, in three per cent. or more of the issued share capital of the Company:

<i>Name of Shareholder</i>	<i>Number of Shares Held</i>	<i>Percentage of Issued Share Capital Held</i>
Dr Ratko Djukanovic	833,300	5.95%
Dr Donna Davies	833,300	5.95%
Southampton Asset Management Limited	4,000,000	28.57%
IP2IPO Limited	1,000,000	7.14%
IP2IPO Management Limited	5,640,000	40.29%
Beeson Gregory Index Nominees Limited	860,000	6.14%

- (b) As at Admission, the Directors are aware of the following holdings which represent an interest within the meaning of Part VI of the Act, directly or indirectly, in three per cent. or more of the issued share capital of the Company:

<i>Name of Shareholder</i>	<i>Upon Admission</i>	
	<i>Number of Shares Held</i>	<i>Percentage of Enlarged Issued Share Capital Held</i>
Professor Stephen Holgate	835,323	3.9
Dr Ratko Djukanovic	833,300	3.8
Dr Donna Davies	833,300	3.8
Southampton Asset Management Limited	3,600,000	16.6
IP2IPO Limited	1,000,000	4.6
IP2IPO Management Limited	5,640,000	26.0
Beeson Gregory Index Nominees Limited	860,000	4.0

4. Memorandum of Association of the Company

The memorandum of association contains (*inter alia*) provisions to the following effect:

- (a) The liability of the members is limited.
- (b) The Company's principal objects are set out in clause 3 of the memorandum and include carrying on of business as a general commercial company.

5. Articles of Association

The following is a summary of the rights attaching to the Ordinary Shares as set out in the Company's articles of association:

(a) *Dividends*

Subject to the provisions of the Act and if the profits of the Company justify such payments, the Directors may declare and pay interim dividends on shares of any class of such amounts as and when they think fit. All dividends are apportioned and paid *pro rata* according to the amounts paid on the shares. No dividend or other monies payable on or in respect of a share will bear interest as against the Company. The Directors may retain any dividend or other monies payable on or in respect of shares on which the Company has a lien, and may apply them towards the satisfaction of the debts, liabilities or engagements in respect of a lien. Any dividend unclaimed for 12 years will be forfeited and revert to the Company.

(b) *Return of capital*

On a winding up of the Company, the balance of assets available for distribution to members will be applied first in repaying to members the amounts paid upon the shares held by them together with any premium paid up or credited as paid up on the issue of such shares. The liquidator may, with the sanction of an extraordinary resolution of the Company, divide among the holders of the Company's shares (in specie or in kind) the whole or any part of the assets of the Company, and may, with the like sanction, determine how such division is to be carried out.

(c) *Voting*

Each Ordinary Share confers the right to receive notice of and attend at all meetings of shareholders. Each holder of Ordinary Shares present at a general meeting in person has one vote on a show of hands, and, on a poll, one vote for each Ordinary Share of which he is a holder whether he is present in person or by proxy.

(d) *Restrictions on voting*

No holder of shares may vote unless all calls or other sums outstanding from him in respect of shares in the Company have been paid.

(e) *Variation of rights*

The Articles contain provisions that all of the rights and privileges attached to any class of shares in the Company may be varied or abrogated in such manner as may be provided by those rights or privileges or, in the absence of any such provisions, with the consent in writing of the holders of three-quarters in nominal value of the issued shares of that class, or with the sanction of a resolution passed by not less than three-quarters of the votes cast at a separate meeting of the holders of the shares of that class. At every such separate meeting the quorum is two persons holding or representing by proxy one-third in nominal amount of the issued shares of that class.

(f) *Transfer of shares*

Transfers of shares may be effected in writing or in any other form approved by the Directors. The Directors may refuse to register a transfer of shares unless (provided, in the case of a share traded on a recognised investment exchange that this would not prevent dealings in the share taking place on an open and proper basis):

- (i) it is duly stamped and lodged at the registered office or at such other place as the Directors may appoint and is accompanied by the certificate for the shares to which it relates and such other evidence as the Directors may reasonably require to show the right of the transferor to make the transfer;
- (ii) it is in respect of one class of share; and
- (iii) in the case of a transfer to joint holders, there are no more than four transferees.

(g) *Alteration of capital*

The Company may increase, consolidate, divide, sub-divide or cancel its share capital by ordinary resolution. The Company may by special resolution reduce its share capital and any capital redemption reserve fund or any share premium account in any manner subject to applicable conditions and consents required by law.

6. Material Contracts

The following contracts, being contracts outside the ordinary course of business, have been entered into by companies within the Group in the two years prior to the date of this document and are or may be material.

(a) *Placing Agreement*

On 20 October 2004 the Company entered into a Placing Agreement with the Directors and Baird. Under the agreement, Baird undertook as agent for the Company to use its reasonable endeavours to procure persons to subscribe for the New Ordinary Shares at the Placing Price and if and to the extent Baird is not able to procure placees for such New Ordinary Shares, itself as principal to take up such New Ordinary Shares. Under the Placing Agreement, the Company agreed to pay to Baird a corporate finance fee and a commission of 4 per cent. of the value at the Placing Price of the New Ordinary Shares issued pursuant to the Placing, in each case together with any applicable VAT.

The Placing Agreement is conditional on, *inter alia*, Admission becoming effective before 8.00 a.m. in 26 October 2004 or such later time as the Company and Baird may agree being, in any event, not later than 23 November 2004.

The agreement may be terminated if certain conditions, including Admission, are not satisfied.

(b) *Nominated Adviser and Broker Agreement*

On 20 October 2004 the Company and the Directors entered into an agreement with Baird pursuant to which Baird has agreed to act as the Company's Nominated Adviser and Broker for a period of 12 months from the date of admission and thereafter, subject to termination on at least 3 months' prior written notice by Baird or the Company to the other (the "Nominated Adviser Agreement"). Under the Nominated Adviser Agreement the Company has agreed to pay Baird, for its services, an annual fee.

(c) *Lock-up Agreements*

The Directors, Donna Davies and Ratko Djukanovic have agreed by agreements with Baird dated 19 October 2004 that they will not, subject to limited exceptions, following Admission and without Baird's prior consent, dispose of any Ordinary Shares (or any interest therein) until the later of the date on which the Company announces its results or publishes its accounts for the year ended 30 June 2006.

IP2IPO, the IP2IPO Connected Parties, Southampton Asset Management and a further beneficial holder of Ordinary Shares have agreed by agreements with Baird dated 19 October 2004 that they will not, subject to limited exceptions, following Admission and without Baird's prior consent, dispose of any Ordinary Shares (or any interest therein) until the later of the date on which the Company announces its results or publishes its accounts for the year ended 30 June 2005. Thereafter, IP2IPO and Southampton Asset Management have agreed, subject to limited exceptions, that they will not, without Baird's prior consent, dispose of Ordinary Shares (or any interest therein) representing more than 50 per cent. of their respective interests in Ordinary Shares on Admission, until the later of the date on which the Company announces its results or publishes its accounts for the year ended 30 June 2006.

Pursuant to the agreements referred to above, the Directors, IP2IPO, the IP2IPO Connected Parties, Southampton Asset Management, Donna Davies and Ratko Djukanovic have also agreed that any sale of Ordinary Shares made prior to the later of the date on which the Company announces its results or publishes its annual audited accounts for the year ended 30 June 2007 shall only be made through the Company's stockbroker.

(d) *Relationship Agreement*

On 19 October 2004, the Company entered into an agreement with IP2IPO Limited and IP2IPO Management Limited (together the "IP2IPO Shareholders"), conditional upon Admission and effective for so long as the IP2IPO Shareholders, together with their associates (which means their associates within the meaning of Rule 3.12 of the Listing Rules), hold (whether directly or indirectly) in aggregate shares in the capital of the Company representing 30 per cent. or more of the Company's entire issued ordinary share capital, pursuant to which the IP2IPO Shareholders agree:

- (i) to exercise their respective rights as shareholders to ensure that all transactions, relationships and agreements between the Company and the IP2IPO Shareholders or any associate is on arm's length terms and on a normal commercial basis;
- (ii) that neither they nor their associates will acquire, agree to acquire or announce any intention to acquire shares in the Company nor make a general offer for all or part of the share capital of the Company;
- (iii) to give the Company 2 days' notice of any intention of an IP2IPO Shareholder or an associate to dispose of any interest in the share capital of the Company which would reduce the IP2IPO Shareholders' and their associates' aggregate holding to less than 30 per cent.

(e) *Licence Agreement*

Information on the Licence Agreement is included in Part II of this document.

(f) *Facilities Agreement*

On 11 October 2004, Synairgen Research Limited entered into a facilities agreement with the University of Southampton School of Medicine (which replaced an earlier facilities agreement) pursuant to which the University agreed to make certain facilities and equipment available to Synairgen Research Limited. The agreement can be terminated by either party on not less than 6 months' notice in writing expiring on or after 31 August 2006, subject to a review of the terms with effect from 31 August 2005 to be negotiated in good faith and the right of either party to terminate on 3 months notice in writing if revised terms cannot be agreed after 3 months.

Equipment

Synairgen will pay the University £41,000 per annum (to be reviewed 6 monthly) for the use of equipment and facilities within the Brooke Laboratory and £9,000 per annum for the use of certain other specialist facilities.

(g) *Consultancy Agreements*

Simon Shaw

- (i) A consultancy agreement between Simon Shaw and Synairgen Research Limited signed and dated 3 July 2003 will terminate on Admission. The services provided were the duties of a Chairman. Mr Shaw received fees of £550 per day, all reasonable expenses incurred in connection with the services including mileage. Mr Shaw was subject to provisions protecting the intellectual property of Synairgen Research Limited and to various post termination restrictions.
- (ii) Mr Shaw has confirmed by deed that save for the fees accrued to the termination date, which have not yet been invoiced and which will not exceed the sum of £15,000, he has no claims (whether contractual or otherwise) against Synairgen Research Limited.

Alamas Limited

- (i) A consultancy agreement between Synairgen Research Limited and Alamas Limited (a company owned by Richard Marsden and his wife, Alison Marsden) dated 13 January 2004 will terminate on Admission. The services were provided by Richard Marsden for a minimum of 100 hours per month at an annual fee of £50,000 plus VAT. Expenses were payable together with mileage. The agreement included provisions to protect the intellectual property of Synairgen Research Limited and included various post termination restrictions.
- (ii) Alamas Limited has confirmed by deed that save for the fees accrued to the termination date, which have not yet been invoiced and which will not exceed the sum of £25,000, it has no claims (whether contractual or otherwise) against Synairgen Research Limited.

John Ward

- (i) An oral consultancy agreement between John Ward and Synairgen Research Limited entered into with effect from 6 September 2004 terminated on Admission. The services provided were financial expertise for a fee of £500 per day. Mr Ward was not subject to any restrictions.
- (ii) Mr Ward has confirmed by deed that save for the fees accrued to the termination date, which have not yet been invoiced and which will not exceed the sum of £20,000, he has no claims (whether contractual or otherwise) against Synairgen Research Limited.

Professor Stephen Holgate

- (i) Professor Holgate is employed by the University and provides services to Synairgen under a consultancy agreement between Synairgen, the University and himself dated 1 August 2003. The agreement was for an initial fixed term of 24 months, expiring on 31 July 2005. This has been extended to 31 January 2007. Thereafter, the agreement is terminable by the parties on six months' written notice. He provides technical and scientific expertise for 15 days per year on an as and when needed basis. The fees are £15,000 per annum plus VAT, reimbursement of reasonable expenses and professional/medical insurance costs of up to £2,000 per annum. Professor Holgate indemnifies Synairgen in respect of any liability to Income Tax, VAT, National Insurance or similar contributions including interest and penalties. Professor Holgate is subject to provisions protecting the intellectual property of Synairgen. There is a restriction against undertaking projects or providing services which may conflict with the interests of Synairgen and the University agrees it will not direct Professor Holgate to undertake work which will conflict with the interests of Synairgen.

Dr Donna Davies

- (i) Dr Davies is employed by the University and provides services to Synairgen under a consultancy agreement between Synairgen, the University and herself dated 1 August 2003. The agreement was for an initial fixed term of 24 months, expiring on 31 July 2005. This has been extended to 31 January 2007. Thereafter, the agreement is terminable by the parties on six months' written notice. She provides technical and scientific expertise for 30 days per year on an as and when needed basis. The fees are £15,000 per annum plus VAT, reimbursement for reasonable expenses and professional/medical insurance costs of up to £2,000 per annum. Dr Davies indemnifies Synairgen in respect of any liability to Income Tax, VAT, National Insurance or similar contributions including interest and penalties. Dr Davies is subject to provisions protecting the intellectual property of Synairgen. There is a restriction against undertaking projects or providing services which may conflict with the interests of Synairgen and the University agrees it will not direct Dr Davies to undertake work which will conflict with the interests of Synairgen.

Dr Ratko Djukanovic

- (i) Dr Djukanovic is employed by the University and provides services to of Synairgen under a consultancy agreement between Synairgen, the University and himself dated 1 August 2003. The agreement was for an initial fixed term of 24 months, expiring on 31 July 2005. This has been extended to 31 January 2007. Thereafter, the agreement is terminable by the parties on six months' written notice. He provided technical and scientific expertise for 30 days per year on an as and when needed basis. The fees are £15,000 per annum plus VAT, reimbursement for reasonable expenses and professional/medical insurance costs of up to £2,000 per annum. Dr Djukanovic indemnifies Synairgen in respect of any liability to Income Tax, VAT, National Insurance or similar contributions including interest and penalties. Dr Djukanovic is subject to provisions protecting the intellectual property of Synairgen. There is a restriction against undertaking projects or providing services which may conflict with the interests of Synairgen and the University agrees it will not direct Dr Djukanovic to undertake work which will conflict with the interests of the University.

(h) *Share Sale Agreement*

On 11 October 2004 the Company entered into a share sale agreement with the shareholders of Synairgen Research Limited and Synairgen Research Limited pursuant to which the entire issued share capital of Synairgen Research Limited was purchased by the Company in consideration of the issue of a total of 13,999,998 Ordinary Shares to the shareholders of Synairgen Research Limited.

7. Litigation

No member of the Group has engaged in, nor is currently engaged in, any litigation or arbitration proceedings nor, so far as the Directors are aware, is any litigation or claim pending or threatened by or against the Company or any member of the Group which has, has had or may have a significant effect on the Group's financial position.

8. Taxation

United Kingdom Taxation

Introduction

The information in this section is based on the Directors' understanding of current tax law and Inland Revenue practice. The following should be regarded as a summary and should not be construed as constituting advice. Prospective shareholders are strongly advised to take their own independent tax advice but certain potential tax benefits are summarised below in respect of an individual resident in the UK for tax purposes.

On issue, the Ordinary Shares will not be treated as either “listed” or “quoted” securities for tax purposes. Provided that the Company remains one which does not have any of its shares quoted on a recognised stock exchange (which for these purposes does not include AiM), the Ordinary Shares should continue to be treated as unquoted securities.

The following information is based upon the laws and practice currently in force in the UK and may not apply to persons who do not hold their Ordinary Shares as investments.

Capital Gains Tax (“CGT”)

Disposals

Changes were made to the rules relating to the holdings of shares from 6 April 1998 so that the “pooling” of shares (i.e. treating them as one asset) no longer applies. Therefore, any disposal of shares is usually treated on a last in, first out basis for the purposes of calculating gains that are chargeable to tax.

Taper relief

On 5 April 1998, “taper relief” was introduced which applies to individual investors and trustees (but not to corporate investors). Taper relief reduces the chargeable gain assessable to CGT in relation to the period the investment is held and the scales of relief depend upon whether the investment is a “business” or “non-business” asset. The scale of relief is enhanced for those assets that qualify as “business” assets. Business assets include shares in qualifying unquoted trading companies. For these purposes, companies admitted to trading on AiM are regarded as unquoted.

During the period for which the shares are held the classification may change so that for part of the holding period, shares in the Company will be deemed to be non-business assets with the associated reduced scales of taper relief applicable. If this is the case, the taper relief would be calculated by apportioning any gain assessed on shares in the Company between the non-business and business periods with each part of the gain then attracting taper relief at the appropriate rate, for the whole of the qualifying holding period.

Inheritance Tax (“IHT”)

Shares in qualifying AiM trading companies can attract 100 per cent. business property relief from IHT provided that the shares are held for at least two years before a chargeable transfer for IHT purposes takes place.

Income Tax

Taxation of Dividends

UK resident individual shareholders are treated as having received income of an amount equal to the sum of the dividend and its associated tax credit, the tax credit for dividends paid from 6 April 1999 being 10 per cent. of the combined amount of the dividend and the tax credit (i.e. the tax credit will be one ninth of the dividend). The tax credit will effectively satisfy a UK resident individual shareholder’s lower and basic rate (but not higher rate) income tax liability in respect of the dividend. UK resident individual shareholders who are subject to tax at the higher rate (currently 40 per cent.) will have to account for additional tax. The special rate of tax set for higher rate taxpayers who receive dividends is 32.5 per cent. After taking account of the 10 per cent. tax credit, such a taxpayer would have to account for additional tax of 22.5 per cent. In determining what tax rates apply to a UK resident individual shareholder, dividend income is treated as his top slice of income.

A UK resident (for tax purposes) corporate shareholder will generally not be liable to UK corporation tax on any dividend received and will be entitled for tax purposes to treat any such dividend and the related tax credit as franked investment income.

UK pension funds are restricted from claiming a repayment of the tax credit.

Individual shareholders not resident in the UK are generally not taxed in the UK on dividends received by them (unless, exceptionally, the investment is managed by a UK investment manager acting, broadly, on arm’s length terms). By virtue of double taxation agreements between the UK and other countries, some overseas shareholders are able to claim relief for all or part of the tax

credits carried by the dividends they received from UK companies. Persons who are not resident in the UK should consult their own tax advisers on the possible applicability of such provisions, the procedure for claiming repayment and what relief or credit may be claimed in respect of such tax credit in the jurisdiction in which they are resident.

Loss Relief

If a loss arises on the disposal of shares in an unquoted trading company, such shares being originally acquired on a subscription for new shares, the loss may be relieved against income of that year or the previous year (with priority for relief in the current year where income of both years is utilised). Any loss remaining after claiming relief against income, may be available for relief against capital gains in either the current or subsequent years.

Stamp Duty and stamp duty reserve tax

Except in relation to certain categories of person, including market-makers, brokers, dealers and persons connected with depositary arrangements on clearance services, where special rules apply, transfers or sales of Ordinary Shares will be subject to ad valorem stamp duty (payable by the purchaser and at the rate of 0.5 per cent. of the consideration paid (rounded up to the nearest £5) and an unconditional agreement to transfer such shares, if not completed by a duly stamped stock transfer form within 30 days of the day on which such agreement is made or becomes unconditional, will be subject to stamp duty reserve tax (payable by the purchaser at that rate of 0.5 per cent. of the consideration but with no rounding up to the nearest £5). However, if within six years of the date of the agreement an instrument of transfer is executed pursuant to the agreement and the correct amount of stamp duty is paid on that instrument, any liability to stamp duty reserve tax will be cancelled or repaid.

Southampton Asset Management have undertaken, under the terms of the Sale Agreement, to bear any stamp duty payable by the placees on the transfer of the Sale Shares.

The above is a summary of certain aspects of current law and practice in the UK. A shareholder who is in any doubt as to his tax position, or who is subject to tax in a jurisdiction other than the UK, should consult his or her professional adviser.

Enterprise Investment Schemes (“EIS”) and Venture Capital Trusts (“VCT”) Reliefs

Provisional approval has been received from the Inland Revenue that an investment in the Company should qualify for the taxation advantages offered under EIS and as a qualifying investment for VCTs. The provisional clearance which, in accordance with customary Inland Revenue practice relates to the qualifying status to the Company and its trade, has been obtained on the basis of the facts provided to the Inland Revenue. Subsequent conditions placed on the Company may affect its qualifying status. Neither the Company nor the Company’s advisers give any warranties or undertakings that EIS relief or VCT qualifying status will be available or that, if given, such reliefs or status will not be withdrawn. Should the law regarding EIS or VCT change then any reliefs or qualifying status previously obtained may be lost.

If the Company ceases to carry on the business outlined in this document during the three year period from the last allotment of Ordinary Shares, this could prejudice the qualifying status of the Company under the EIS and VCT schemes. This situation will be closely monitored with a view to preserving the Company’s qualifying status but this cannot be guaranteed.

Circumstances may arise where the Directors believe that the interests of the Company are not best served by acting in a way that preserves EIS relief (including Capital Gains Tax) or VCT qualifying status. In such circumstances, the Company cannot undertake to conduct its activities in a way designed to preserve any such relief or status claimed by the shareholder.

If the Company does not employ at least 80 per cent. of the proceeds of an EIS/VCT share issue (and other shares of the same class issued on the same day) for qualifying trading purposes within 12 months of the share issue or the Company starting its trade, and the remainder within 24 months of this date, EIS shares would cease to be eligible shares and all of EIS tax relief of investors would be withdrawn. In respect of share subscriptions made by a VCT, the funds invested by the VCT would be apportioned pro-rata and its qualifying holding would be equal to the VCT’s funds that had been employed for qualifying trading purposes within the above time limits. Any remaining element of the VCT’s investment would comprise part of its non-qualifying holding.

The Company does not expect to use all of the money raised within the time period allowed for EIS and VCT relief purposes. Consequently, the availability of these reliefs to investors will depend (amongst other factors) on how much money is raised from individuals seeking EIS relief, and VCT investors, compared with the level of finance raised from investors not otherwise qualifying for such reliefs.

Individual investors and EIS relief

The summary below gives only a brief outline of how the tax reliefs are given assuming the investment qualifies for EIS relief, and the investor is a 40 per cent tax payer. It does not set out all the rules which must be met for periods of between three and five years by the Company and the investor. The tax reliefs will only be relevant to investors who pay income tax and/or wish to defer a capital gain. The summary is not a substitute for the investor obtaining professional advice before applying for shares.

The EIS relief has five elements.

1. *Income Tax Relief*

This allows an investor to reduce the amount of his, or her, liability to income tax in the year of investment. Relief is obtained at the lower rate of income tax, currently 20 per cent., on the amount invested in the shares of qualifying companies. Individual investors who are unconnected with the Company may be able to deduct an amount equal to 20 per cent. of their investment from their liability to income tax in the current tax year. Relief cannot be claimed on more than £200,000 invested by an individual (in any number of qualifying companies) in any tax year. The relief will be limited to an individual's tax liability before EIS relief, and cannot create a loss.

To retain this relief the shares must be held by the investor for a period that ends three years after the share issue date or three years after the trade starts, whichever is later. This will be referred to below as the three year period.

2. *Capital Gains Tax Exemption*

This exempts investors from the liability to capital gains tax when they realise a gain on a disposal of their shares in qualifying companies after the three year period, provided the EIS income tax relief was given on the shares and has not been withdrawn.

3. *Loss Relief*

Subject to certain conditions, tax relief is available for a qualifying shareholder who realises a loss on the disposal of the shares on which EIS Income Tax Relief (see 1 above) or CGT Deferral Relief (see 4 below) has been given. The amount of the loss is calculated after reducing the cost of the shares by the amount of any income tax saved as a result of the EIS Income Tax Relief. This loss can be offset against a qualifying gain in the year of the loss or following years, or offset against taxable income in the tax year in which the disposal occurs or the preceding year.

4. *Capital Gains Tax Deferral*

Individuals and certain trustees can defer all or part of their capital gains tax liabilities by subscribing for eligible shares in an EIS company. There is no monetary limit on the amount of the EIS subscription and thus the gain that can be deferred in this way. The gains that can be deferred are those that have arisen in the three years before the EIS shares are issued or those that arise up to one year after that date. Such gains may be the result of the disposal of an asset or, a gain previously deferred by the individual, may have become chargeable to tax.

Investors should note that this relief is a deferral only and that the original capital gain will crystallise on the disposal of the EIS shares at any time, or an earlier breach of the EIS rules. In this event the CGT deferral originally granted will be withdrawn, and tax charged based on a taxable event occurring at the date of disposal, the date the rules cease to be met or, in certain circumstances, by reference to the normal payment date. The investor would however, be able to claim further deferral to the extent that a qualifying reinvestment is made within the time allowed. A transfer of shares on the owner's death does not cause the deferred gain to crystallise.

5. *Serial EIS investor*

Investors who defer a chargeable gain on the disposal of an EIS investment by investing the proceeds of the original investment in ordinary shares of another EIS company may benefit from taper relief on a cumulative basis. In these circumstances, taper relief, which reduces the amount of the chargeable gain according to how long an asset has been held after 5 April 1998, will be calculated over the combined period for which both investments (and further investments if the gain is further deferred) are held. The relief applies where ordinary shares in the first EIS company were issued after 5 April 1998 and are disposed of after 5 April 1999.

Inheritance Tax Relief

Provided a shareholder has owned shares in a qualifying company for at least two years and certain conditions are met at the time of the transfer, 100 per cent. business property relief is available, which reduces the inheritance tax liability on the transfer to nil.

This is only a condensed summary of the tax reliefs available to investors and should not be construed as constituting advice which a potential investor should obtain from his, or her, own investment or taxation adviser before applying for shares.

Venture Capital Trusts and VCT relief

The Company has received provisional clearance from the Inland Revenue of the Company's status as a qualifying VCT investment. The provisional clearance which, in accordance with customary Inland Revenue practice relates to the qualifying status of the Company and its trade, has been obtained on the basis of the facts provided to the Inland Revenue. Subsequent conditions placed on the Company may affect its qualifying status.

Whilst the Company cannot guarantee to conduct its activities in a way to allow it to maintain its status as a qualifying VCT investment, the Directors intend, as far as possible, to do so.

The above information does not set out the provisions relating to EIS and VCT legislation in full and potential investors are advised to seek independent advice on whether they satisfy the conditions for relief and the circumstances in which relief may be unavailable or withdrawn.

Any person who is in any doubt as to his or her tax position or who is subject to tax in a jurisdiction other than the United Kingdom should consult an appropriate professional adviser.

9. **Staff Share Scheme**

The Company has set up a share scheme whereby up to 700,000 unissued shares are to be made available to grant to current and future employees under a share option arrangement. Where possible, options granted to employees will be within the Enterprise Management Incentive ("EMI") Scheme.

The number of shares granted to individual employees and the timing of grant is to be at the discretion of the Directors of the Company. The expectation is that the exercise price of options over shares granted to employees will be set at a price equal to the market value of the shares at the time of grant.

In the event of any capitalisation, rights issue, consolidation, subdivision, reduction or variation of share capital of the Company, the number of shares subject to option may be adjusted in such manner as the Company considers is fair and reasonable.

The options shall normally only be capable of exercise three years from grant. However, in certain circumstances, the Directors may permit an earlier exercise of options. Options will lapse on leaving employment unless as a result of death or in the case of 'good leavers', when they may be exercised up to 12 months later. Options will also lapse 10 years from the date of grant, and on certain other events occurring.

As a condition of exercising the option, option holders shall, at the request of the Company, enter into an election to transfer the employers National Insurance liability to the option holder. The Company may also require the option holder to enter into an election to ignore the impact of

restrictions over shares for income tax purposes. The option terms contain a further requirement that the option holder shall reimburse (and indemnify) the Company for any liability to account for income tax or national insurance in connection with the exercise of any options.

Amendments may be made to the share option scheme that the Directors consider appropriate and necessary to ensure the scheme operates as intended.

All shares issued pursuant to the above options will rank *pari passu* with all other Ordinary shares in issue, other than in relation to rights (including to dividends), which will have a record date prior to the date of issue.

10. Working Capital

In the opinion of the Directors, having made due and careful enquiry, and taking into account the anticipated proceeds of the Placing, the working capital available to the Company and its subsidiaries is sufficient for the Group's present requirements, that is for at least twelve months from the date of Admission.

11. Minimum Amount Required to be Raised

The minimum amount which, in the opinion of the Directors, must be raised under the Placing to provide sums required in respect of the matters specified in paragraph 21(a) to Schedule I of the POS Regulations is £4.4 million as set out below:

	<i>£ million</i>
(i) Expenses of the Placing (including commissions)	1.1
(ii) Working capital	3.3
(iii) Purchase of property	Nil
(iv) Payment of borrowings	Nil

12. Miscellaneous

- (a) The total costs and expenses payable by the Company in connection with or incidental to the Placing and Admission including registration and London Stock Exchange fees, printing, advertising and distribution costs, legal and accounting fees and expenses for procuring placees are estimated to amount to approximately £1.1 million. The gross proceeds of the Placing are expected to be £10.0 million and the net cash proceeds to the Company of the Placing are expected to be approximately £8.9 million.
- (b) No person (other than the Company's professional advisers otherwise disclosed in this document and trade suppliers) has received, directly or indirectly, from the Company within the twelve months preceding the date of this document, or entered into contractual arrangements (not otherwise disclosed in this document) to receive, directly or indirectly, from the Company on or after Admission fees totalling £10,000 or more, securities in the Company with a value of £10,000 or more at the Placing Price or any other benefit with a value of £10,000 or more at the date of this document.
- (c) There has been no significant change in the trading or financial position of either the Company or Synairgen since 16 September 2004, being the date to which the Accountants' Reports in Parts IV and V are made up.
- (d) Save as disclosed, no exceptional factors have influenced the Company's activities.
- (e) The period within which placing participations may be accepted pursuant to the Placing and arrangements for the payment and holding of monies payable thereunder pending Admission are set out in the Placing Agreement and in the placing letters sent to prospective placees (the "Placing Letters").
- (f) The Placing Shares are not being offered generally and no applications have or will be accepted other than under the terms of the Placing Agreement and the placing letters. The Placing Shares have been conditionally placed.

- (g) Other than the application for Admission, the Ordinary Shares have not been admitted to dealings on any recognised investment exchange nor has any application for such admission been made, and the Directors do not intend to make any other arrangements for dealing in the Ordinary Shares on any such exchange.
- (h) There are no patents or other intellectual property rights, licences or particular contracts which are of fundamental importance to the Group's business, except as set out in this document.
- (i) The Company's accounting reference date is 30 June.
- (j) Save as disclosed, the Company has no significant investments in progress.
- (k) No financial information contained in this document is intended by the Company to represent or constitute a forecast of profits by the Company nor to constitute publication of accounts by it.
- (l) BDO Stoy Hayward LLP has given and not withdrawn its written consent to the inclusion in this document of its reports and the references thereto and to its name in the form and context in which they are included for the purposes of paragraph 13(1)(g) of the POS Regulations.
- (m) Robert W Baird Limited has given and not withdrawn its written consent to the inclusion in this document of references to its name in the form and context in which they appear.

13. Documents Available for Inspection

Copies of this document will be available for collection only, free of charge, from the offices of Stringer Saul, Fifth Floor, 17 Hanover Square, London W1S 1HU and the offices of Baird, Mint House, 77 Mansell Street, London E1 8AF during normal office hours on any weekday (Saturdays and public holidays excepted) for a period of not less than one month from the date of Admission.

Dated 20 October 2004