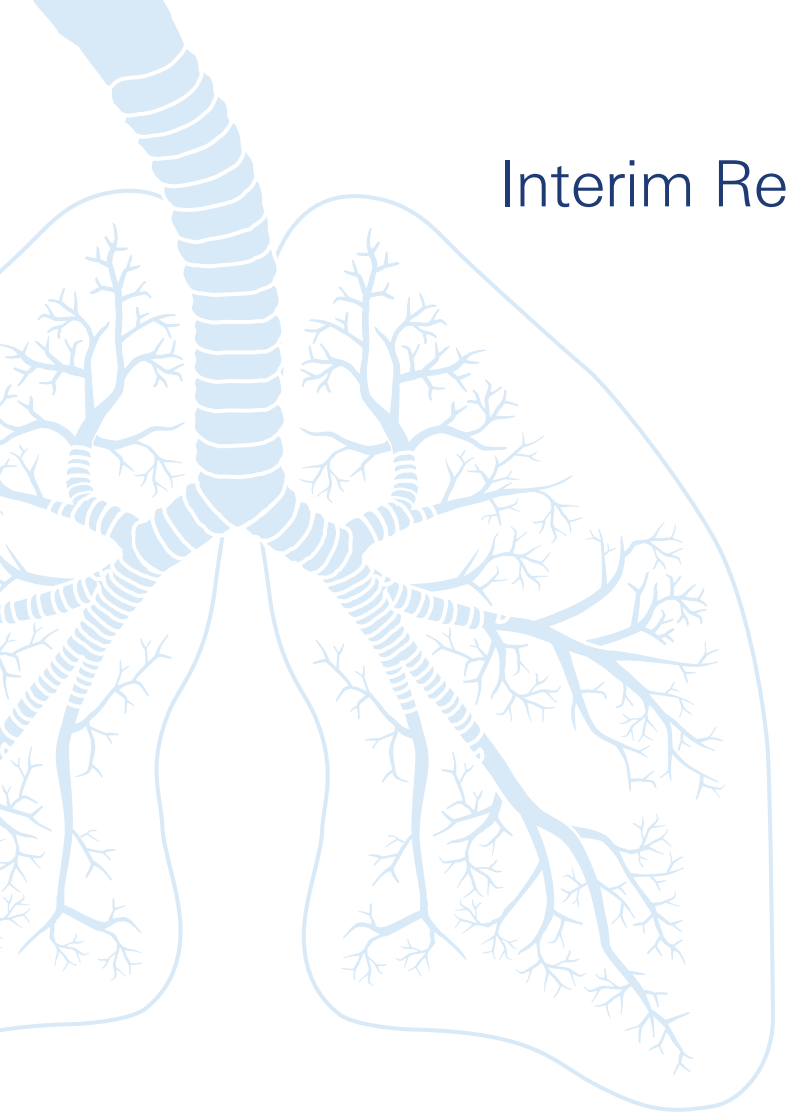

Interim Report 2005

synairgen plc

Synairgen is a drug discovery company focused on identifying and out-licensing new pharmaceutical products which address the underlying causes of asthma and chronic obstructive pulmonary disease ('COPD')

Highlights

for the six months ended 31 December 2005

Operational highlights

- Interferon beta ('IFNß') for asthma: commencement of inhaled IFNß Phase I clinical trial; initial results expected mid 2006
- IFNß for COPD: *in vitro* proof of concept studies underway
- Recruitment of scientific team complete

Financial highlights

- Turnover was £77k (six months ended 31 December 2004: £58k)
- Operating loss for the period was £742k (six months ended 31 December 2004: loss of £390k) in line with management expectations
- Cash outflow for the period was £438k (six months ended 31 December 2004: £283k)
- Net funds at 31 December 2005 of £8.2 million (31 December 2004: £9.1 million)

Chairman's Statement

Introduction

Synairgen is a drug discovery company focused on researching treatments to address the causes of asthma and chronic obstructive pulmonary disease ('COPD') through both proprietary and collaborative programmes.

During the six months ended 31 December 2005, Synairgen has continued to pursue its proprietary programmes and we are very pleased with our progress as our first product, inhaled interferon beta ('IFNß') for asthma, entered the clinical trial phase. In parallel, we have also continued to study IFNß for its potential to protect COPD patients from the effects of the common cold. Within our other proprietary programmes we have continued to research into impaired epithelial barrier function in asthma and the restorative effects of various growth factors. Analysis and interpretation of the data generated through our collaboration with a significant undisclosed international biotechnology company has now commenced.

Operating Review

Proprietary Programmes

Inhaled IFNß

- *Asthma*
  Inhaled IFNß has the potential to prevent or alleviate rhinovirus (common cold virus) induced asthma attacks (exacerbations) in patients with severe asthma, thereby reducing the frequency of hospitalisations and absenteeism from work and school. We believe that such a therapy could address a significant unmet clinical need and generate significant savings in healthcare costs.

  The clinical trials aimed at establishing the safety of IFNß commenced in November 2005. The first trial is being conducted at the University of Southampton and will comprise 27 subjects. The first part of this trial has been completed and approved by the Ethics and Safety Panel, allowing progression to the next two stages of the Phase I study. The outcome of this study will determine the extent of further safety studies needed and it is on schedule to complete by the summer 2006.

- *COPD*
  As with asthma, Synairgen is using its *in vitro* models of COPD to establish the potential efficacy of IFNß. Rhinovirus infections are a significant cause of COPD exacerbations and are responsible for many hospitalisations. Initial findings of our research will be presented at the American Thoracic Society Meeting in May 2006.

Barrier Function/Growth Factors

Synairgen holds patent rights to an *in vitro* model system used for testing products capable of restoring epithelial barrier function in asthma. The ability of the epithelium to defend itself against inhaled 'challenges' such as allergens, pollution and cigarette smoke has been shown to be compromised in asthmatics. The first class of compounds that we are testing in this system is a group of growth factors.

Collaborations

Samples generated from our *in vitro* experiments are being analysed by our significant international biotechnology collaborator and both parties are now interpreting the results.

During the period we have reviewed more opportunities than we have the resources to fulfil. Accordingly, we have refined our strategy for collaboration to pursue only those where there is scope for generating sole or joint intellectual property and have therefore ceased to undertake pure fee for service work.

Biobank

The Biobank of well-characterised, disease-specific tissue and samples continues to grow, and this provides our scientists with high quality materials from which to generate our proprietary *in vitro* models and potential new discoveries. In addition, we have collated approximately 750 samples which are currently being prepared for proteomic analysis within Synairgen to establish potential new areas for drug discovery.

Recruitment

We have continued to enhance our research capability. During the period, we completed the recruitment of our core scientific team, which is focused on our three proprietary programmes: IFNß in COPD; Barrier Function (and the related Growth Factors); and Proteomics.

Financial Review

Profit and loss account

Revenue for the six months to 31 December 2005 was £77k (six months ended 31 December 2004: £58k) and was primarily generated from the two contracts with Centocor and our undisclosed international biotechnology collaborator. The operating loss for the period was £742k (2004: loss of £390k), which was in line with our expectations. Research and development expenditure increased from £194k to £486k as the Company commenced the IFNß Phase I clinical trial, recruited additional staff and broadened its research portfolio. Our R&D expenditure will continue to increase further as we progress through the IFNß programme. The increase in other administrative costs from £204k to £319k reflects the planned scaling-up of activities, including the rental of additional space within the University of Southampton. Interest receivable increased from £83k to £198k on account of the IPO funds raised in October 2004. The retained loss was £544k (2004: loss of £307k) and the loss per share was 2.5p (2004: loss of 1.9p).

Balance Sheet

At 31 December 2005, net assets amounted to £8.3 million (31 December 2004: £9.1 million), including cash and deposit balances of £8.2 million (2004: £9.1 million).

Outlook

In the next six months we anticipate progressing the IFNß clinical trial for asthma and determining the extent of any further Phase I trials that may be required. We expect to see exciting developments in our collaborations and our proprietary programmes. We also look forward to updating shareholders on the results of our *in vitro* work on IFNß in the field of COPD.

Simon Shaw
Chairman

Unaudited Consolidated Profit and Loss Account

for the six months ended 31 December 2005

	Notes	Six months ended 31 December 2005 £000	Proforma Six months ended 31 December 2004 £000	Proforma Year ended 30 June 2005 £000
Turnover		**77**	58	202
Cost of sales		**(14)**	(50)	(135)
Gross profit		**63**	8	67
Administrative expenses				
Research and development expenditure		**(486)**	(194)	(557)
Other		**(319)**	(204)	(418)
Total		**(805)**	(398)	(975)
Operating loss		**(742)**	(390)	(908)
Interest receivable		**198**	83	298
Loss on ordinary activities before taxation		**(544)**	(307)	(610)
Tax on loss on ordinary activities		**–**	–	–
Loss on ordinary activities after taxation and and retained loss for the period		**(544)**	(307)	(610)
Loss per ordinary share				
Basic and diluted loss per share (pence)	2	**(2.51)p**	(1.94)p	(3.26)p

All amounts relate to continuing activities. There were no other recognised gains and losses during any of the periods presented.

Unaudited Consolidated Balance Sheet

as at 31 December 2005

	Notes	31 December 2005 £000	31 December 2004 £000	30 June 2005 £000
Fixed assets				
Intangible assets		**26**	7	21
Tangible assets		**157**	135	154
		183	142	175
Current assets				
Stocks		**88**	–	55
Debtors		**211**	162	325
Investments: short-term deposits		**8,165**	9,046	8,605
Cash at bank and in hand		**80**	48	78
		8,544	9,256	9,063
Creditors: amounts falling due within one year		**(421)**	(265)	(398)
Net current assets		**8,123**	8,991	8,665
Total assets less current liabilities		**8,306**	9,133	8,840
Capital and reserves				
Called up share capital		**217**	217	217
Share premium account		**8,903**	8,893	8,903
Merger reserve		**483**	483	483
Profit and loss account		**(1,297)**	(460)	(763)
Shareholders' funds	3	**8,306**	9,133	8,840

Unaudited Consolidated Cash Flow Statement

for the six months ended 31 December 2005

	Notes	**Six months ended 31 December 2005 £000**	Proforma Six months ended 31 December 2004 £000	Proforma Year ended 30 June 2005 £000
Net cash outflow from operating activities	4	**(621)**	(290)	(840)
Returns on investments and servicing of finance				
Interest received		**213**	16	196
Capital expenditure and financial investment				
Purchase of intangible fixed assets		**(6)**	(4)	(18)
Purchase of tangible fixed assets		**(24)**	(5)	(42)
Net cash outflow from capital expenditure		**(30)**	(9)	(60)
Net cash outflow before management of liquid resources and financing		**(438)**	(283)	(704)
Management of liquid resources				
Decrease/(Increase) in short-term deposits		**440**	(8,696)	(8,255)
Financing				
Issues of ordinary share capital		**–**	77	77
Share premium received on share issues		**–**	9,923	9,923
Share issue costs		**–**	(1,030)	(1,020)
Cash inflow from financing		**–**	8,970	8,980
Increase/(Decrease) in cash in period	5	**2**	(9)	21

Notes to the Financial Statements

for the six months ended 31 December 2005

1. Basis of preparation

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

The accounting policies and presentation applied to half-yearly figures are consistent with those applied in the last published accounts except where the accounting policies and presentation are to be changed in the next annual financial statements, in which case the new accounting policies and presentation are followed.

The Interim Report was approved by the Board of Directors on 22 February 2006. The financial information for the six months ended 31 December 2005 is unaudited, but has been reviewed in accordance with Auditing Practices Board guidance by BDO Stoy Hayward LLP, whose report is included on page 9. The interim results do not constitute statutory financial statements within the meaning of Section 240(5) of the Companies Act 1985.

The comparatives for the full year ended 30 June 2005 are not the Company's full statutory accounts for that year. A copy of the statutory accounts for that year has been delivered to the Registrar of Companies. The auditors' report on those accounts was unqualified and did not contain a statement under section 237(2) - (3) of the Companies Act 1985.

2. Loss per ordinary share

	Six months ended 31 December 2005	Six months ended 31 December 2004	Year ended 30 June 2005
Loss on ordinary activities after taxation (£000)	**(544)**	(307)	(610)
Weighted average number of ordinary shares in issue	**21,692,308**	15,817,960	18,730,993

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

3. Reconciliation of movements in shareholders' funds

	Share capital £000	Share premium account £000	Merger reserve £000	Profit and loss account £000	Shareholders' funds £000
At 30 June 2004	113	–	510	(153)	470
Issue of ordinary shares	104	9,923	(27)	–	10,000
Share issue costs	–	(1,030)	–	–	(1,030)
Loss for the period	–	–	–	(307)	(307)
At 31 December 2004	217	8,893	483	(460)	9,133
Share issue costs	–	10	–	–	10
Loss for the period	–	–	–	(303)	(303)
At 30 June 2005	217	8,903	483	(763)	8,840
Loss for the period	–	–	–	(544)	(544)
Reversal of UITF 17 charge	–	–	–	10	10
At 31 December 2005	**217**	**8,903**	**483**	**(1,297)**	**8,306**

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

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

	Six months ended 31 December 2005 £000	Six months ended 31 December 2004 £000	Year ended 30 June 2005 £000
Operating loss	**(742)**	(390)	(908)
Depreciation & amortisation	**22**	16	34
UITF 17 charge	**10**	–	–
Increase in stocks	**(33)**	–	(55)
Decrease/(Increase) in debtors	**99**	(18)	(146)
Increase in creditors	**23**	102	235
Net cash outflow from operating activities	**(621)**	(290)	(840)

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

	Six months ended 31 December 2005 £000	Six months ended 31 December 2004 £000	Year ended 30 June 2005 £000
Increase/(Decrease) in cash in period	**2**	(9)	21
(Decrease)/Increase in short-term deposits	**(440)**	8,696	8,255
Change in net funds resulting from cash flows and movement in net funds	**(438)**	8,687	8,276
Net funds at start of period	**8,683**	407	407
Net funds at end of period	**8,245**	9,094	8,683

Independent Review Report to Synairgen plc

Introduction

We have been instructed by Synairgen plc to review the financial information for the six months ended 31 December 2005 which comprises the Profit and Loss Account, the Balance Sheet, the Cash Flow Statement and the related notes. We have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

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

Directors' responsibilities

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

Review work performed

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

Review conclusion

On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the six months ended 31 December 2005.

BDO Stoy Hayward LLP
Chartered Accountants
Southampton

22 February 2006

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