Allergy Therapeutics®
Transforming Allergy Treatment

Allergy Therapeutics plc

Interim Report

For the six months ended 31 December

2007

Allergy Therapeutics plc is a fully integrated European based specialist pharmaceutical company with a profitable core business and a unique development pipeline with the potential to transform allergy treatment. The Company has its own European sales and marketing infrastructure, GMP Manufacturing, R&D facilities and over 350 employees. Year-on-year sales growth supports an extensive R&D programme developing unique, best-in-class, disease-modifying, ultra-short-course allergy vaccines. Established in 1998, FTSE AIM listed in 2004 (AGY.L), with a heritage stretching back to 1934.

Contents

Key Points

Highlights

- Gross sales increased by 23% to £21.6m (2006: £17.5m)
  - Pollinex® Quattro named-patient sales increased by 23%
  - £2.7m milestone payment received from Canadian licensee
- Operating profit before R&D and strategic costs increased to £7.5m (2006: £4.5m)

	H1 2008	H1 2007
Operating loss	**(4,424)**	(7,860)
Strategic costs	**1,721**	1,388
Development costs	**10,200**	11,009
Operating profit before strategic and development costs	**7,497**	4,537

- R&D expenditure reduced to £10.2m (2006: £11.0m)
- Operating loss reduced to £4.4m (2006: £7.9m)

Operational key points

- Successful MHRA audit in February 2008 at both facilities
- FDA's clinical hold remains pending their general review of novel vaccines and adjuvants
- No further significant new investment in R&D without the support of a partner

Joint Statement from the Chairman and Chief Executive Officer

"Probably the most advanced adjuvant in development today is MPL®."

Introduction

Allergic rhino-conjunctivitis

Allergy remains a major area of unmet medical need. The allergy 'epidemic' continues to grow and it is increasingly recognised that for many suffering from Seasonal Allergic Rhino-conjunctivitis (commonly known as 'hay fever') it is far from being a trivial matter. The more severe sufferers often have a greatly impaired quality of life, impacting upon their work, study, sleep and leisure activities. These are patients for whom pharmacotherapy does not work; antihistamines are not sufficiently efficacious and corticosteroids either offer inadequate relief, or are hard to accept as a long-term therapy proposition, or both.

The more severe sufferers seek medical help and, having failed on treatment with the primary care practitioner, are treated by physicians specialising in the field of allergy. These specialists are the professionals who administer allergy vaccination in its various forms. Most of these immunological treatments are administered to the severe sufferer by way of subcutaneous injection. As well as offering an effective treatment option when the best pharmacotherapy has failed, these products offer the prospect of long-term benefit as they treat allergy at its root cause by 'rebalancing' the immune system. It is for this group of patients and their physicians that Allergy Therapeutics aims to transform the treatment of allergy by developing much improved products offering effective treatment in an ultra-short course of four injections over three weeks.

Period review

Therapeutic innovation

Innovation in the field of allergy, as far as pharmacological treatment is concerned, seems to have come to an end with the non-sedating anti-histamines and leukotriene inhibitors. Sales of these convenient and well-tolerated medications are still measured in the billions of US dollars but the effects are short-lived and for many patients efficacy levels are low. Patent expiries and OTC use ('over the counter' – not requiring doctor's prescription) are making them less relevant for the pharmaceutical industry and the specialist doctors. However, in the allergy vaccine field there are currently a number of innovations in development. Oral delivery of allergens – including sub-lingual (under the tongue) and swallowed – offers the prospect of injection-free

"The Phase III programme in Grass and Ragweed MATAMPL has been active."

"Adjuvants – such as Allergy Therapeutics' MPL® – offer the possibility of quicker, shorter courses of injected vaccines, improved safety and efficacy."

treatment, potentially by a broader group of physicians. Adjuvants – such as Allergy Therapeutics' MPL® – offer the possibility of quicker, shorter courses of injected vaccines, improved safety and efficacy. Remarkably, in the six months after June 2007, all the allergy vaccine products in late phase development have suffered setbacks ranging from Phase III failure to regulatory delay. One such setback was the US clinical hold imposed by the FDA on Allergy Therapeutics' MPL®-based vaccine development programme.

United States clinical hold

At the time of the publication of Allergy Therapeutics' annual report for 2007 in September last year, our extensive late-phase clinical trial programme had been on 'clinical hold' by the FDA in the United States for some three months. At that stage we were still analysing the unexpected adverse event which caused the FDA to impose the clinical hold, and a final diagnosis of the condition had not yet been determined. Our intensive efforts to understand the adverse event, including detailed advice from leading experts in the fields of neurology, allergy and immunology from the universities of Harvard, Johns Hopkins and Cambridge, were pointing strongly away from any scientific or medical foundation for any link between our study drug, MATAMPL, and the adverse event observed.

The situation today is that the patient involved has fully recovered, a conclusion has been reached on the diagnosis and the expert advice continues to offer no convincing scientific argument or medical precedents to support any potential for a link with our study drug. Extensive contact with the FDA has confirmed that the Agency also does not know of any convincing mechanism connecting our study drug with the one adverse event we have seen, nor with any theoretical class of similar adverse events. It has also confirmed that no reportable similar adverse events are known to the Agency from their review of others' data. However, the FDA is still in the process of conducting a broad review into vaccine adjuvants, and is still unable to give us any indication of when their review might be complete.

We are confident that the data do not support the continued clinical hold on our development programme and continue to assist the FDA wherever we can in their review.

Joint Statement from the Chairman and Chief Executive Officer continued

"The company continues to build upon its strong core business."

Toll-Like Receptor (TLR) agonists and antagonists

Allergy Therapeutics' innovative late stage development vaccines are designed to offer relief to severe sufferers from allergy to the major inhaled allergens of grass, tree and ragweed pollen. The Company has certain exclusive rights to the use of MPL® as an adjuvant to enhance the performance of these allergy vaccines – this is the 'intellectual property' the existence of which justifies the considerable investment made and to be made by Allergy Therapeutics in the development of these products to date. There is currently only one vaccine adjuvant approved by the US FDA – alum, salts of aluminium – and adjuvants are seen as an exciting development area. Probably the most advanced adjuvant in development today is MPL®. It has been safely tested in tens of thousands of patients in double-blind clinical trials, including our own.

MPL® acts as a stimulant – or agonist – to a component of the immune system known as a Toll Like Receptor (TLR4). It is the nature of pharmaceutical development for technologies to be developed in parallel in several places, and TLRs are no exception; this is illustrated by the number of licensing and other transactions recently signed in the field. This sort of 'big pharma' validation of a technology is reassuring to those involved elsewhere in its development.

The treatment of allergy in the UK

In September the House of Lords Science and Technology Committee issued a well-researched and insightful report into the state of allergy healthcare provision in the UK. People often ask why Allergy Therapeutics generates the vast majority of its sales outside the UK; for an answer to this question, it is sufficient to read the report by the House of Lords. The UK, one of the countries most afflicted with allergy, has amongst the fewest specialist physicians in the developed world and, as a consequence, unacceptably poor provision of healthcare services to allergy sufferers. Unfortunately there is no quick solution, but the House of Lords' proposal for the establishment of a national network of allergy centres each headed by a specialist is a sensible prescription which, if followed, would mean that one day Allergy Therapeutics has a 'home' market and UK patients can have easier access to our innovative products.

"Group net sales increased by 19% to £19.6m."

"We have a number of late stage assets which have the potential to create very significant value for shareholders."

Operating review

R&D activity in the period has been focused on dealing with the US Clinical Hold: assessing the situation, preparing for meetings and interactions with the FDA, generating a working and workable proposal to navigate through the clinical hold and to recommence the clinical development activities. Although this has been a challenging time for us all, we recognise the importance of the job the FDA has to do and the importance of dealing with its concerns in as timely a manner as possible.

Meanwhile, the Phase III programme in Grass and Ragweed MATAMPL has, despite the US Clinical Hold, been active. Both studies had hundreds of patients who had received treatment and had to be followed through their respective seasons. In the case of the pivotal Grass study, G301, the study was fully recruited and all the patients treated as planned, so the data which has been collected over the second half of 2007 is being processed and analysed. These data are scheduled to be available early Q2 2008 for inclusion in registration dossiers for submission in key countries. In the case of the equivalent Ragweed study, R301, the US Clinical Hold was imposed when slightly more than one third of the patients had been treated 'per protocol'. This however still constitutes a sizeable study in the allergy vaccine field – some 379 patients (from a total of 993 recruited), of these some 260 are assumed to be on active study drug; as a consequence we are analysing the study as planned and the data from this will be available later in Q2 2008.

The period saw the implementation in Germany of the sales force optimisation initiative which was designed following a detailed review conducted late last financial year. Although it takes time to implement such extensive operational change and for the benefits to be seen, we are confident that our core business performance will continue to benefit from this investment long into future, further augmented as the programme is propagated to Italy and Spain.

Manufacturing in the newly commissioned Noon Building is now fully integrated and work on upgrading our GMP manufacturing facilities in the main Freeman Building is progressing, with the objective of being fully prepared for a PAI – Pre Authorisation

Joint Statement from the Chairman and Chief Executive Officer continued

"Gross profit increased by 30% to £14.2m."

"Manufacturing in the newly commissioned Noon Building is now fully integrated."

Inspection from the US FDA and the equivalents from the EU, Japanese and Canadian authorities. In February the MHRA conducted a routine inspection of the Worthing facilities, with a highly satisfactory outcome confirming the continued improvement of our standards.

In summary, the Company continues to build upon its strong core business and to plan for the ultimate success of its integrated project to bring modern, ultra-short course allergy vaccines to the world's markets.

Financial review

The results for the six months to 31 December 2007 have been encouraging and have continued the progress shown in previous years.

Gross sales, before the rebate in Germany, for the period were £21.6m (H1 2006: £17.5m). This represents an increase of 23% over the previous period, driven primarily by growth of named-patient sales of Pollinex® Quattro, the Group's four-shot allergy vaccine and by the receipt of a licensee milestone of £2.7m (H1 2006: £0.5m). At present, approximately 70% of the Group's sales are generated in Germany, so an increase in the compulsory rebate following price rises in the period of on average 6.5% increased the rebate to £2.1m (H1 2006: £1m). Consequently, after the rebate, group net sales increased by 19% to £19.6m (H1 2006: £16.5m).

Owing to the seasonality of the allergy market, some 60-70% of Allergy Therapeutics' sales are generated in the first half of the financial year and, as a consequence, the interim results present a better performance than can be expected over the course of a full year.

Gross profit increased by 30% to £14.2m, representing a gross margin of 72% of sales, compared with £10.9m and 66% in the same period last year. The increase in the gross margin was an expected trend resulting, not only from the receipt of the licensee milestone, but from increased sales against a background of an investment programme in the manufacturing facility that is starting to pay dividends in improving gross margin.

Sales and marketing expenses, the major component of distribution costs, have increased in line with our expectations; our

"Our German team has set up a new sales and marketing infrastructure."

"Our core business performed well during 2007 and we expect a continuation of this strong performance."

German team has set up a new sales and marketing infrastructure following a wholesale review of its activities. Costs increased to £6.1m (H1 2006: £5.3m), an increase of 15% over the previous period. Administration costs of £2.3m (H1 2006: £2.5m) were marginally lower by 8%.

Research and development expenditure decreased during the period to £10.2m (H1 2006: £11m) as the development activity for the MPL®-based vaccine range progressed into the latter stages of the Phase III programme.

The operating loss for the period was £4.4m (H1 2006: £7.9m) but before development and strategic costs associated with the commercialisation of Pollinex Quattro, the operating profit was £7.5m (H1 2006: £4.5m); higher due to the receipt of licensee milestone income and improved gross margins. Strategic costs include such activities as regulatory inspection readiness, compliance improvement plans, upgraded manufacturing processes, strategic marketing initiatives and business development.

Finance expense costs for the period were £2.2m (H1 2006: £0.2m), the increase was principally due to the new RBS loan liability being revalued reflecting changes in the Euro: Pound exchange rate.

Capital expenditure for the period was £1.6m (H1 2006: £1.7m) and represents upgrades to the facilities in preparation for launching Pollinex Quattro. Net current assets excluding cash are £3.1m (H1 2006: £3.4m), lower due to the increase in short-term debt facilities.

Net assets of £2.2m (H1 2006: £24.7m) show a decrease of £22.5m against the previous period end, due primarily to the investments in R&D over the period and the corresponding increase in debt facilities.

Net cash used in operating activities for the period was £9.3m (H1 2006: outflow £7.4m), higher than the previous period by £1.9m due principally to the higher R&D payments.

Outlook

Our core business performed well during 2007 and we expect a continuation of this strong performance in the current year with further good sales growth. The lean manufacturing initiative,

Joint Statement from the Chairman and Chief Executive Officer continued

"Our core business performed well during 2007."

following a period of significant investment, is commencing and is expected to lead to further improvements in operating margin.

During the next few weeks, we expect to receive the results of our Grass PQ Phase III trial which, if successful, will lead to the submission of a dossier for registration in the EU. This is currently scheduled to take place in Q1 2009 after addition of the CMC, (Chemistry Manufacturing & Controls) component.

We will continue our intensive discussions with the FDA to resolve the Clinical Hold. Our understanding, however, is that the Clinical Hold is part of a broader review by the FDA into vaccine adjuvants and we are unable at this stage to obtain any indication from the Agency as to when this review might be complete.

Fundamentally, Allergy Therapeutics is a European speciality pharmaceutical company with a growing sales base, a substantial manufacturing facility, a full sales and marketing infrastructure operating in growth markets. In addition to this core base, we have a number of late stage assets which have the potential to create very significant value for shareholders. Once the FDA position has been resolved, the Company shall be seeking to develop these assets with partners, representing significant upside potential for shareholders.

Ignace Goethals
Chairman
17 March 2008

Keith Carter
Chief Executive Officer
17 March 2008

Condensed consolidated income statement

	Notes	6 months to 31 Dec 2007 £'000 unaudited	6 months to 31 Dec 2006 £'000 unaudited	12 months to 30 Jun 2007 £'000 unaudited
Revenue		**19,572**	16,460	25,742
Cost of sales		**(5,378)**	(5,526)	(10,068)
Gross profit		**14,194**	10,934	15,674
Distribution costs		**(6,098)**	(5,332)	(11,312)
Administration expenses – other		***(2,320)***	*(2,453)*	*(5,273)*
Research and development costs		***(10,200)***	*(11,009)*	*(25,343)*
Administration expenses		**(12,520)**	(13,462)	(30,616)
Other income		**0**	0	32
Operating loss		**(4,424)**	(7,860)	(26,222)
Finance income		**93**	434	647
Finance expense		**(2,414)**	(54)	(131)
Loss before tax		**(6,745)**	(7,480)	(25,706)
Income tax		**0**	816	2,503
Loss for the period		**(6,745)**	(6,664)	(23,203)
Loss per share				
Basic and diluted (pence per share)	3	**(8.2p)**	(8.1p)	(28.3p)

Condensed consolidated balance sheet

	Notes	31 Dec 2007 £'000 unaudited	31 Dec 2006 £'000 unaudited	30 Jun 2007 £'000 unaudited
Assets				
Non-current assets				
Property, plant and equipment		**6,902**	4,771	5,931
Intangible assets – goodwill		**2,380**	2,296	2,300
Intangible assets – other		**653**	773	714
Investments		**1,217**	910	1,011
Total non-current assets		**11,152**	8,750	9,956
Current assets				
Trade and other receivables		**4,277**	4,852	3,373
Inventory		**6,014**	3,836	4,911
Cash and cash equivalents		**5,752**	15,204	5,696
Total current assets		**16,043**	23,892	13,980
Total assets		**27,195**	32,642	23,936
Liabilities				
Current liabilities				
Trade and other payables		**(6,718)**	(5,329)	(10,714)
Other financial liabilities		**(452)**	0	0
Total current liabilities		**(7,170)**	(5,329)	(10,714)
Net current assets		**8,873**	18,563	3,266
Non-current liabilities				
Retirement benefit obligation		**(2,439)**	(2,461)	(2,182)
Long-term borrowings		**(15,170)**	0	(2,161)
Long-term provisions		**(217)**	(193)	(191)
Total non-current liabilities		**(17,826)**	(2,654)	(4,534)
Total liabilities		**(24,996)**	(7,983)	(15,248)
Net assets		**2,199**	24,659	8,688
Equity				
Capital and reserves				
Issued capital	4	**92**	92	92
Share premium	4	**33,173**	33,173	33,173
Merger reserve – shares issued by subsidiary	4	**40,128**	40,128	40,128
Reserve – shares held by EBT	4	**(31)**	(60)	(36)
Reserve – share based payments	4	**886**	494	675
Revaluation reserve	4	**212**	42	226
Foreign exchange reserve	4	**(54)**	(14)	(48)
Retained earnings	4	**(72,207)**	(49,196)	(65,522)
Total equity		**2,199**	24,659	8,688

Condensed consolidated statement of recognised income and expense

	6 months to 31 Dec 2007 £'000 unaudited	6 months to 31 Dec 2006 £'000 unaudited	12 months to 30 Jun 2007 £'000 unaudited
Loss for the period	**(6,745)**	(6,664)	(23,203)
Actuarial gain/(loss) on defined benefit pension scheme	**60**	(165)	48
Exchange differences on translation of foreign operations	**(6)**	(14)	(48)
Revaluation gains and (losses)	**(14)**	(21)	163
Total recognised income and (expense)	**(6,705)**	(6,864)	(23,040)

Condensed consolidated cash flow statement

	6 months to 31 Dec 2007 £'000 unaudited	6 months to 31 Dec 2006 £'000 unaudited	12 months to 30 Jun 2007 £'000 unaudited
Cash flows from operating activities			
Loss before tax	**(6,745)**	(7,480)	(25,706)
Adjustments for:			
Foreign exchange (gain)/loss	**(169)**	24	(9)
Finance income	**(93)**	(434)	(647)
Finance expense	**2,237**	54	29
Non cash movements on defined benefit pension plan	**97**	(2)	15
Depreciation and amortisation	**655**	369	953
Charge for share based payments	**211**	188	369
Loss on disposal of property, plant and equipment	**0**	11	22
(Increase)/decrease in trade and other receivables	**(888)**	(1,273)	130
Increase in inventories	**(1,103)**	(185)	(1,260)
(Decrease)/increase in trade and other payables	**(3,388)**	592	5,142
Net cash used in operations	**(9,186)**	(8,136)	(20,962)
Interest paid	**(96)**	(54)	(5)
Income tax refunded	**0**	816	2,503
Net cash used in operating activities	**(9,282)**	(7,374)	(18,464)
Cash flows from investing activities			
Interest received	**77**	432	721
Bank loan fees and interest paid	**(996)**	0	(678)
Payments for property plant and equipment	**(1,613)**	(1,714)	(3,109)
Net cash used in investing activities	**(2,532)**	(1,282)	(3,066)
Cash flows from financing activities			
Proceeds from issue of equity shares	**5**	0	24
Proceeds from borrowings	**11,865**	0	3,342
Net cash generated by financing activities	**11,870**	0	3,366
Net increase/(decrease) in cash and cash equivalents	**56**	(8,656)	(18,164)
Cash and cash equivalents at the start of the period	**5,696**	23,860	23,860
Cash and cash equivalents at the end of the period	**5,752**	15,204	5,696

Notes

1. Accounting policies

Basis of preparation

The unaudited consolidated interim financial information is for the six month period ended 31 December 2007. They have been prepared in accordance with the accounting policies set out below which are based on the recognition and measurement principles of International Financial Reporting Standards (IFRS) in issue as adopted by the European Union (EU) and are effective at 30 June 2008 or are expected to be adopted and effective at 30 June 2008, our first annual reporting date at which we are required to use IFRS accounting standards adopted by the EU. The interim financial information does not include all of the information required for full annual financial statements.

From 1 July 2006 the Group has adopted IFRS in the preparation of its consolidated financial statements. Comparative financial information previously published under UK Generally Accepted Accounting Principles has been restated on an IFRS basis for the opening balance sheet as at 1 July 2006, interim accounts as at 31 December 2006 and for the year ended 30 June 2007. The change in the Group's reported performance and financial position on adopting IFRS is fully disclosed in these interim consolidated financial statements.

The consolidated financial statements have been prepared under the historical cost convention.

The interim financial information has not been audited nor has it been reviewed under ISRE 2410 of the Auditing Practices Board. The financial information set out in this interim report does not constitute statutory accounts as defined in Section 240 of the Companies Act 1985. The Group's statutory financial statements for the year ended 30 June 2007 prepared under UK GAAP have been filed with the Registrar of Companies. The auditor's report on those financial statements was unqualified and did not contain a statement under Section 237(2) of the Companies Act 1985.

First-time adoption of International Financial Reporting Standards

The opening IFRS balance sheet as at the date of transition on 1 July 2006 has been prepared with regard to the measurement and recognition rules of IFRS 1 'First-time adoption of International Financial Reporting Standards'. The most significant optional exemptions adopted are set out below:

(a) Cumulative translation differences which exist at the time of the transition can be transferred into the retained earnings and the foreign exchange reserve therefore shows only differences arising after transition (IFRS 1 'First time adoption of International Financial Reporting Standards').

(b) Business combinations that occurred before the opening IFRS balance sheet date are exempt from the application of the standard (IFRS 3 'Business Combinations') and have not been restated.

Accounting policies

The principal accounting policies adopted by the Group are set out below:

Consolidation

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of over one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated on the date control ceases.

1. Accounting policies continued

The Group uses the purchase method of accounting for the acquisition of a subsidiary. The cost of an acquisition is measured by the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of the acquisition is less than the fair value of the net assets of the subsidiary acquired the difference is recognised directly in the income statement.

Inter-company transactions, balances and unrealised gains and losses on transactions between Group companies are eliminated except for unrealised losses if they show evidence of impairment.

Goodwill

Goodwill arising from business combinations is the difference between the fair value of the consideration paid and the fair value of the assets and liabilities and contingent liabilities acquired. It is initially recognised as an intangible asset at cost and is subject to impairment testing on an annual basis or more frequently if circumstances indicate that the asset may have been impaired. Details of impairment testing are described in the accounting policies.

Intangible assets acquired as part of a business combination

Intangible assets acquired in a business combination are identified and recognised separately from goodwill where they satisfy the definition of an intangible asset and their fair values can be measured reliably. The cost of such intangible assets is their fair value at the acquisition date.

Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortisation and accumulated impairment losses.

Segmental reporting

A business segment is a group of assets and operations engaged in production that is subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in production within a particular economic environment that is different from that in segments operating in other economic environments.

The Group's one principal activity is the research, development, manufacturing, marketing and sales of allergy treating drugs. This forms the single business stream and primary reporting segment. The Group's secondary reporting segment is geographical and is based both on customer location and country of origin.

Foreign currency translation

Functional and presentational currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The Company's functional currency and the Group's presentational currency is Sterling.

1. **Accounting policies** continued

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at reporting period end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Group companies

The results and financial position of all Group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of the balance sheet.
- Income and expenses for each income statement are translated at actual exchange rates or using an average rate as an approximation.
- All resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities are taken to equity and as previously described, the group has claimed the transitional exemption from retrospective application of IAS21 'The effects of changes in foreign exchange rates'. This means that equity will show any post transition foreign exchange differences. Post-transition differences initially brought to equity are realised on the income statement on disposal of the business.

Income recognition

Revenue is measured by reference to the fair value of consideration received or receivable by the Group for goods supplied and services provided, excluding value added tax. Revenue is recognised upon the performance of services or transfer of risk to the customer.

Sale of goods

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:

- The Group has transferred to the buyer the significant risks and rewards of ownership of the goods which is generally when the customer has physically received the goods.
- The Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold which is again when the customer has physically received the goods.
- The amount of revenue can be measured reliably.
- It is probable that the economic benefits associated with the transaction will flow to the group, and the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Royalties

Royalties are recognised on an accruals basis in accordance with the substance of the relevant agreement.

1. Accounting policies continued

Milestones

Revenues with performance milestones are recognised on the satisfactory occurrence of critical events as pre-defined in the relevant agreement.

Expenditure recognition

Operating expenses are recognised in the income statement upon utilisation of the service or at the date of their origin.

Borrowing costs

All borrowing costs are expensed to the income statement on an accruals basis using the effective interest method except for those costs that are directly attributable to the acquisition, construction or production of a qualifying asset (per IAS 23.4), when they are capitalised as part of the cost of that asset.

Internally generated intangible assets

An internally generated intangible asset arising from development (or the development phase) of an internal project is recognised if, and only if, all of the following have been demonstrated:

- The technical feasibility of completing the intangible asset so that it will be available for use or sale.
- The intention to complete the intangible asset and use or sell it.
- The ability to use or sell the intangible asset.
- How the intangible asset will generate probable future economic benefits.
- The availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset.
- The ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally generated intangible asset can be recognised, research and development expenditure is charged to profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally generated intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses. Amortisation of these assets is calculated on a straight-line basis over the useful economic life of 15 years.

Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and accumulated impairment losses. Provision for depreciation of all tangible assets of the Group is made over their estimated useful lives, principally using the following annual rates:

Buildings	10 years
Computer equipment	3–7 years
Motor vehicles	4 years
Fixtures and fittings	5 years
Plant and equipment	5–10 years

1. Accounting policies continued

Asset residual values and useful lives are reviewed annually and amended as necessary. Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the fixed asset may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount exceeds the higher of the asset's fair value less costs to sell or value in use.

Impairment

The Group's goodwill, other intangible assets and property, plant and equipment are subject to impairment testing.

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units). Goodwill is allocated to those cash generating units that are expected to benefit from synergies of the related business combination and represent the lowest level within the Group at which management controls the related cash flows.

Individual assets or cash generating units that include goodwill and other intangible assets with an indefinite useful life or those not yet available for use are tested for impairment at least annually. All other individual assets or cash generating units are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the assets or cash generating units carrying amount exceeds its recoverable amount. The recoverable amount is the higher of fair value, reflecting market conditions less costs to sell and value in use, based on an internal discounted cash flow evaluation. Impairment losses recognised for cash generating units, to which goodwill has been allocated, are credited initially to the carrying amount of goodwill. Any remaining impairment loss is charged pro rata to the other assets in the cash generating unit. With the exception of goodwill, all assets are subsequently reassessed for indications that an impairment loss previously recognised may no longer exist.

Inventories

Inventory is carried at the lower of cost or net realisable value. The costs of raw materials, consumables, work in progress and finished goods are measured by means of weighted average cost using standard costing techniques. Cost of finished goods comprises direct production costs such as raw materials, consumables, utilities and labour, and production overheads such as employee costs, depreciation, maintenance and indirect factory costs. Standard costs are reviewed regularly in order to ensure relevant measures of utilisation, production lead time and appropriate levels of manufacturing expense are reflected in the standards.

Net realisable value is calculated based on the revenue from sale in the normal course of business less any costs to sell.

1. Accounting policies continued

Leases

In accordance with IAS 17, the economic ownership of a leased asset is transferred to the lessee if the lessee bears substantially all the risks and rewards related to the ownership of the leased asset. The related asset is recognised at the time of inception of the lease at the fair value of the leased asset or, if lower, the present value of the minimum lease payments plus incidental payments, if any, to be borne by the lessee. A corresponding amount is recognised as a finance leasing liability.

The interest element of leasing payments represents a constant proportion of the capital balance outstanding and is charged to the income statement over the period of the lease.

All other leases are regarded as operating leases and the payments made under them are charged to the income statement on a straight-line basis over the lease term. Lease incentives are spread over the term of the lease.

Financial assets

Financial assets are divided into the following categories: loans and receivables; financial assets at fair value through profit or loss; available-for-sale financial assets; and held-to-maturity investments. Financial assets are assigned to the different categories by management on initial recognition, depending on the purpose for which they were acquired. The designation of financial assets is re-evaluated at every reporting date at which a choice of classification or accounting treatment is available.

Available-for-sale financial assets include non-derivative financial assets that are either designated as such or do not qualify for inclusion in any of the other categories of financial assets. All financial assets within this category are measured subsequently at fair value, with changes in value recognised in equity, through the statement of changes in equity/statement of recognised income and expense. Gains and losses arising from investments classified as available-for-sale are recognised in the income statement when they are sold or when the investment is impaired.

In the case of impairment of available-for-sale assets, any loss previously recognised in equity is transferred to the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement. Impairment losses recognised previously on debt securities are reversed through the income statement when the increase can be related objectively to an event occurring after the impairment loss was recognised in the income statement.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Trade receivables and other receivables are classified as loans and receivables. Loans and receivables are measured subsequent to initial recognition at amortised cost using the effective interest method, less provision for impairment. Any change in their value through impairment or reversal of impairment is recognised in the income statement.

Provision against trade receivables is made when there is objective evidence that the Group will not be able to collect all amounts due to it in accordance with the original terms of those receivables. The amount of the write-down is determined as the difference between the asset's carrying amount and the present value of estimated future cash flows.

1. Accounting policies continued

Financial liabilities

Financial liabilities categorised as at fair value through profit or loss are remeasured at each reporting date at fair value, with changes in fair value being recognised in the income statement. All other financial liabilities are recorded at amortised cost using the effective interest method, with interest-related charges recognised as an expense in finance cost in the income statement. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are charged to the income statement on an accruals basis using the effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

Equity

Share capital is determined using the nominal value of shares that have been issued. Equity is any contract which evidences residual interest in the assets of the Group after deducting all its liabilities.

Income taxes

Current income tax assets and liabilities comprise those obligations to fiscal authorities in the countries in which the Group carries out its operations. They are calculated according to the tax rates and tax laws applicable to the fiscal period and the country to which they relate. All changes to current tax liabilities are recognised as a component of tax expense in the income statement.

Deferred income taxes are calculated using the liability method on temporary differences. This involves the comparison of the carrying amount of assets and liabilities in the consolidated financial statements with their respective tax bases. IAS 12 'Income taxes' does not require deferred tax to be recognised on temporary differences relating to the initial recognition of goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and that affected neither the accounting nor taxable profit.

Deferred tax liabilities are always provided for in full. Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised. Deferred tax assets and liabilities are calculated at tax rates that are expected to apply to their respective period of realisation, provided they are enacted or substantively enacted at the balance sheet date.

Changes in deferred tax assets or liabilities are recognised as a component of tax expense in the income statement, except where they relate to items that are charged or credited directly to equity (such as the revaluation of land) in which case the related deferred tax is also charged or credited directly to equity.

Cash and cash equivalents

Cash and cash equivalents include cash at bank and in hand as well as overdrafts and short-term deposits.

Defined Benefit Pension Scheme

Scheme assets are measured at fair values. Scheme liabilities are measured on an actuarial basis using the projected unit credit method and are discounted at appropriate high quality corporate bond rates that have terms to maturity approximating to the terms of the related liability. Appropriate adjustments are made for past service costs. Past service cost is recognised as an expense on a straight-line basis over the average

1. Accounting policies continued

period until the benefits become vested. To the extent that benefits are already vested the Group recognises past service cost immediately.

Actuarial gains and losses are recognised immediately through the statement of recognised income and expense (SORIE). The net surplus or deficit is presented with other net assets on the balance sheet. The related deferred tax is shown with other deferred tax balances. A surplus is recognised only to the extent that it is recoverable by the Group.

The current service cost, past service cost and costs from settlements and curtailments are charged against administrative expenses in the income statement. Interest on the scheme liabilities and the expected return on scheme assets are included in other finance costs.

Short-term employee benefits, including holiday entitlement are included in current pension and other employee obligations at the undiscounted amount that the Group expects to pay as a result of the unused entitlement.

Provisions

Provisions are recognised when the present obligations arising from legal or constructive obligations resulting from past events, will probably lead to an outflow of economic resources from the group which can be estimated reliably.

Provisions are measured at the present value of the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the balance sheet date.

All provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimates.

Share based employee compensation

The Group operates equity settled share based compensation plans for remuneration of its employees.

All employee services received in exchange for the grant of any share based compensation are measured at their fair values. These are indirectly determined by reference to the share option awarded. Their value is appraised at the grant date and excludes the impact of any non-market vesting conditions (e.g. profitability or sales growth targets).

All share based compensation is ultimately recognised as an expense in profit and loss with a corresponding credit to the share based payments reserve, net of deferred tax where applicable. If vesting periods or other vesting conditions apply, the expense is allocated over the vesting period, based on the best available estimate of the number of shares options expected to vest. Non market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. Estimates are subsequently revised if there is any indication that the number of share options expected to vest differs from previous estimates. No adjustment to expense recognised in prior periods is made if fewer share options ultimately are exercised than estimated.

1. Accounting policies continued

Upon exercise of share options, the proceeds received, net of any directly attributable transaction costs, up to the nominal value of the shares issued are allocated to share capital with any excess being recorded as share premium.

Employee Benefit Trust

The financial statements include the assets and liabilities of a trust set up for the benefit of the group's employees. The employee benefit trust has acquired shares in the Company and these are deducted from the shareholders' funds on the balance sheet at the cost of acquisition.

2. Segmental reporting

The Group's one principal activity is the research, development, manufacturing, marketing and sales of allergy treating drugs. This forms the single business stream and primary reporting segment.

3. Loss per share

	6 months to 31 Dec 2007 unaudited £'000	6 months to 31 Dec 2006 unaudited £'000	12 months to 30 Jun 2007 unaudited £'000
Loss for the period attributable to equity shareholders	**(6,745)**	(6,664)	(23,203)
	Shares '000	Shares '000	Shares '000
Weighted average number of shares in issue for the period.	**81,951**	81,951	81,951
Basic and diluted loss per share (pence)	**(8.2p)**	(8.1p)	(28.3p)

4. Condensed consolidated statement of changes in equity

	Issued capital £'000	Share premium £'000	Merger reserve – shares issued by subsidiary £'000	Reserve – shares held in EBT £'000	Reserve – share based payments £'000	Revaluation reserve £'000	Foreign exchange reserve £'000	Retained earnings £'000	Total equity £'000
At 1 July 2006	**92**	**33,173**	**40,128**	**(60)**	**306**	**63**	**0**	**(42,367)**	**31,335**
Exchange differences on translation of foreign operations							(14)		(14)
Actuarial losses								(165)	(165)
Valuation losses taken to equity						(21)			(21)
Net income recognised directly in equity						(21)	(14)	(165)	(200)
Loss for the period after tax								(6,664)	(6,664)
Total recognised income and expense						(21)	(14)	(6,829)	(6,864)
Share based payments					188				188
At 31 December 2006	**92**	**33,173**	**40,128**	**(60)**	**494**	**42**	**(14)**	**(49,196)**	**24,659**
Exchange differences on translation of foreign operations							(34)		(34)
Actuarial gains								213	213
Valuation gains taken to equity						184			184
Net income recognised directly in equity						184	(34)	213	363
Loss for the period after tax								(16,539)	(16,539)
Total recognised income and expense						184	(34)	(16,326)	(16,176)
Share based payments					181				181
Sale of shares by Employee Benefit Trust				24					24
At 30 June 2007	**92**	**33,173**	**40,128**	**(36)**	**675**	**226**	**(48)**	**(65,522)**	**8,688**
Exchange differences on translation of foreign operations							(6)		(6)
Actuarial gains								60	60
Valuation losses taken to equity						(14)			(14)
Net income recognised directly in equity						14)	(6)	60	40
Loss for the period after tax								(6,745)	(6,745)
Total recognised income and expense	–		–	–		(14)	(6)	(6.685)	(6,705)
Share based payments						211			211
Sale of shares by Employee Benefit Trust				5					5
At 31 December 2007	**92**	**33,173**	**40,128**	**(31)**	**886**	**212**	**(54)**	**(72,207)**	**2,199**

5. Transition to IFRS

From 1 July 2006 the Group has adopted International Financial Reporting Standards (IFRS) in the preparation of its financial statements.

The main items contributing to the change in financial information compared with that reported under UK GAAP as at the transition date are shown below:

IFRS 1 – First time adoption of International Financial Reporting Standards

The reporting standard allows certain exemptions including the exemption from the retrospective application of IAS 21 'The effects of changes in foreign exchange rates'. The cumulative translation balance is moved into the retained earnings at the date of transition and any subsequent translation differences recognised under IAS 21 are held as a separate component of equity.

IFRS 3 – Business Combinations

Positive goodwill is carried on the balance sheet and amortised over an appropriate life under UK GAAP. IFRS requires that the amortisation ceases at the time of transition and a regime of impairment testing put in place including a test for impairment at the time of transition.

IAS 26 – Retirement Benefit Plans

Until 30 June 2007, the pension scheme in Germany had been accounted for as a defined contribution scheme. At this date, further information became available and as a result of this new evidence the pension has been reclassified as a defined benefit scheme. Prior periods have been restated as this is considered a material omission under IFRS.

Detailed reconciliations between UK GAAP and IFRS of both equity and profit are shown at the end of this note.

5. Transition to IFRS continued

Reconciliation of equity as at 1 July 2006

Balance sheet	UK GAAP £'000	Goodwill reversal (see note 1 on page 28) £'000	Pension restatement (see note 2 on page 28) £'000	IFRS £'000
Assets				
Non-current assets				
Property, plant and equipment	3,637			3,637
Intangible assets – goodwill	2,326			2,326
Intangible assets – other	829			829
Investments			843	843
Total non-current assets	6,792		843	7,635
Current assets				
Trade and other receivables	3,577			3,577
Inventories	3,651			3,651
Cash and bank balances	23,860			23,860
Total current assets	31,088			31,088
Current liabilities				
Trade and other payables	(4,939)			(4,939)
Total current liabilities	(4,939)			(4,939)
Non-current liabilities				
Retirement benefit obligation	0		(2,210)	(2,210)
Long-term provisions	(239)			(239)
Total non-current liabilities	(239)		(2,210)	(2,449)
Net assets	32,702		(1,367)	31,335
Equity				
Capital and reserves				
Issued capital	92			92
Share premium	33,173			33,173
Merger reserve – shares issued by subsidiary	40,128			40,128
Reserve – shares held by EBT	(60)			(60)
Reserve – share based payments	306			306
Revaluation reserve	0		63	63
Retained earnings	(40,937)		(1,430)	(42,367)
Total equity	32,702		(1,367)	31,335

Shares issued by subsidiary relates to the share premium of Allergy Therapeutics (Holdings) Ltd.

5. Transition to IFRS continued

Reconciliation of equity as at 31 December 2006

Balance sheet	UK GAAP £'000	Goodwill reversal (see note 1 on page 28) £'000	Pension restatement (see note 2 on page 28) £'000	IFRS Foreign exchange reserve (see note 3 on page 28) £'000	IFRS £'000
Assets					
Non-current assets					
Property, plant and equipment	4,771				4,771
Intangible assets – goodwill	2,132	164			2,296
Intangible assets – other	773				773
Investments			910		910
Total non-current assets	7,676	164	910		8,750
Current assets					
Trade and other receivables	4,852				4,852
Inventories	3,836				3,836
Cash and bank balances	15,204				15,204
Total current assets	23,892				23,892
Current liabilities					
Trade and other payables	(5,329)				(5,329)
Total current liabilities	(5,329)				(5,329)
Non-current liabilities					
Retirement benefit obligation	0		(2,461)		(2,461)
Long-term provisions	(193)				(193)
Total non-current liabilities	(193)		(2,461)		(2,654)
Net assets	26,046	164	(1,551)	0	24,659
Equity					
Capital and reserves					
Issued capital	92				92
Share premium	33,173				33,173
Merger reserve – shares issued by subsidiary	40,128				40,128
Reserve – shares held by EBT	(60)				(60)
Reserve – share based payments	494				494
Revaluation reserve	0		42		42
Foreign exchange reserve	0		35	(49)	(14)
Retained earnings	(47,781)	164	(1,628)	49	(49,196)
Total equity	26,046	164	(1,551)	0	24,659

Shares issued by subsidiary relates to the share premium of Allergy Therapeutics (Holdings) Ltd.

5. Transition to IFRS continued

Reconciliation of equity as at 30 June 2007

Balance sheet	UK GAAP £'000	Goodwill reversal (see note 1 on page 28) £'000	Pension restatement (see note 2 on page 28) £'000	IFRS Foreign exchange reserve (see note 3 on page 28) £'000	IFRS £'000
Assets					
Non-current assets					
Property, plant and equipment	5,931				5,931
Intangible assets – goodwill	1,967	333			2,300
Intangible assets – other	714				714
Investments	1,011				1,011
Total non-current assets	9,623	333			9,956
Current assets					
Trade and other receivables	3,373				3,373
Inventories	4,911				4,911
Cash and bank balances	5,696				5,696
Total current assets	13,980				13,980
Current liabilities					
Trade and other payables	(10,714)				(10,714)
Total current liabilities	(10,714)				(10,714)
Non-current liabilities					
Retirement benefit obligation	(2,182)				(2,182)
Long-term borrowings	(2,161)				(2,161)
Long-term provisions	(191)				(191)
Total non-current liabilities	(4,534)				(4,534)
Net assets	8,355	333	0	0	8,688
Equity					
Capital and reserves					
Issued capital	92				92
Share premium	33,173				33,173
Merger reserve – shares issued by subsidiary	40,128				40,128
Reserve – shares held by EBT	(36)				(36)
Reserve – share based payments	675				675
Revaluation reserve	226				226
Foreign exchange reserve				(48)	(48)
Retained earnings	(65,903)	333		48	(65,522)
Total equity	8,355	333	0	0	8,688

Shares issued by subsidiary relates to the share premium of Allergy Therapeutics (Holdings) Ltd.

5. Transition to IFRS continued

Reconciliation of loss for the period ended 31 December 2006

	UK GAAP £'000	Goodwill reversal (see note 1 on page 28) £'000	Pension restatement (see note 2 on page 28) £'000	IFRS £'000
Revenue	16,460			16,460
Cost of sales	(5,526)			(5,526)
Gross profit	10,934			10,934
Distribution costs	(5,332)			(5,332)
Administrative expenses – other	*(2,636)*	*164*	*19*	*(2,453)*
Research and development costs	*(11,009)*			*(11,009)*
Administration expenses	(13,645)	164	19	(13,462)
Finance income	434			434
Finance expense	(2)		(52)	(54)
Loss before tax	(7,611)	164	(33)	(7,480)
Income tax	816			816
Loss for the period	(6,795)	164	(33)	(6,664)

Reconciliation of loss for the year ended 30 June 2007

Revenue	25,742			25,742
Cost of sales	(10,068)			(10,068)
Gross profit	15,674			15,674
Distribution costs	(11,312)			(11,312)
Administration expenses – other	*(5,887)*	*333*	*281*	*(5,273)*
Research and development costs	*(25,343)*			*(25,343)*
Administration expenses	(31,230)	333	281	(30,616)
Other income	32			32
Finance income	647			647
Finance expense	(131)			(131)
Loss before tax	(26,320)	333	281	(25,706)
Income tax	2,503			2,503
Loss for the period	(23,817)	333	281	(23,203)

5. Transition to IFRS continued

Notes to transition statements:

1) Goodwill recognised by the group on acquisition of Allergy Therapeutics (UK) Ltd and Bencard Allergie GmbH under UK GAAP was amortised over a period of 15 years. Under IFRS goodwill is not amortised, but tested annually for impairment. The goodwill amortisation charge recognised in accordance with UK GAAP in 2006/7 was written back. The result of these adjustments is to decrease the amortisation charge in the income statement for the six months ended 31 December 2006 by £164,000 and by £333,000 for the year ended 30 June 2007 and increase the carrying value of those intangible assets by the same amounts.

   The Group performed an impairment review of goodwill at the date of transition to IFRS and at each subsequent reporting date and concluded that no adjustment was required as no impairment had taken place.

2) Until 30 June 2007, the pension scheme in Germany had been accounted for as a defined contribution scheme. At this date, further information became available and as a result of this new evidence the pension has been reclassified as a defined benefit scheme. Prior periods have been restated as this is considered a material omission under IFRS.

3) Under IFRS 1, any cumulative foreign exchange translation balance at the date of transition is moved into retained earnings and any subsequent translation differences recognised under IAS 21 are held as a separate component of equity.

6. Cash flow

As a result of the transition to IFRS the following changes have resulted in the cash flow statement.

The definition of cash under UK GAAP is narrower than under IAS 7 'Cash flow statements'. Under IFRS highly liquid investments, readily convertible to a known amount of cash and with an insignificant risk of a change in value are regarded as cash equivalents. Such a readily convertible investment is the money market deposit and this is included in the heading 'Cash and cash equivalents'.

Under UK GAAP payments to acquire property, plant and equipment were classified as part of 'Capital expenditure and financial investment' whilst under IFRS such payments have been reclassified as part of 'Investing activities'.

There are no other material differences between the cash flow statement presented under IFRS and that presented under UK GAAP.

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