Allergy Therapeutics (Holdings) Limited

Annual Report and Accounts

30 June 2004

Contents

Chairman's review	1
Chief Executive Officer's review	2
Financial review	4
Directors' report	6
Statement of directors' responsibilities	8
Independent auditors' report	9
Consolidated profit and loss account	10
Company balance sheet	11
Consolidated balance sheet	12
Consolidated cash flow statement	13
Consolidated statement of total recognised gains and losses	14
Notes	15

Chairman's review

Allergy Therapeutics (Holdings) Limited (Allergy Therapeutics, or the Group) is a group transformed; we have enjoyed our second consecutive year of profits and our sixth consecutive year of sales growth; our balance sheet is strong and the whole team are focused, energetic and enthusiastic. Allergy Therapeutics is, as a result, poised for further transformation as we move to build on the strong base we have established.

FIPCO

Allergy Therapeutics is an emerging, fully integrated, specialty pharmaceuticals company ('FIPCO'). We have all the key elements in place: GMP manufacturing, product development, sales and marketing. We have the people, the physical assets and the intellectual property associated with this fully integrated business model – a proven business infrastructure, which can be leveraged.

Value Drivers

We firmly believe we have a solid foundation from which to build a sustainable, high value business. The key 'value drivers' are:

- the existing core allergy vaccines business and the sales and marketing infrastructure which supports it;
- the development pipeline of innovative allergy vaccines with greatly improved product characteristics and the intellectual property which protects it;
- an experienced and enthusiastic team of skilled individuals with the vision and energy to grow and develop the company.

Strategy

Our strategy is focused on the development of a self-sustaining specialty pharmaceutical company.

Short term

- to continue to develop the MPL®-based allergy vaccine pipeline, with the vision of transforming the treatment of allergic conditions;
- to continue to grow revenues in the established markets of Germany, Italy and Spain, adding new 'own infrastructure' markets, such as the UK, as commercially supportable opportunities arise;
- to identify strong partners to collaborate in the development and commercialisation of our portfolio in markets where an 'own infrastructure' approach is not feasible.

Medium to long term

- to build upon the existing infrastructure, diversifying the therapeutic base and broadening the company's geographic reach;
- to provide a flow of new development opportunities through the identification of attractive clinical pipeline products for partnering;
- to add to the group's portfolio by acquiring or in-licensing new products for marketing;
- to grow the business both organically and through appropriate mergers & acquisitions activity.

Future

I believe that Allergy Therapeutics has a very bright future. Implementation of our strategy will require access to the capital markets in one form or another in the immediate future, and a number of attractive options are being explored. I look forward to another year of achievements in 2004/5.

Ignace Goethals
Chairman
5th August 2004

Chief Executive Officer's review

Markets and opportunities

Allergy vaccination remains a niche market in the very large therapeutic area of seasonal allergic rhinitis (SAR) and allergic asthma. The total respiratory market world-wide is over €24bn, with SAR accounting for €10bn of this total. Most of these sales represent 'symptomatics' such as anti-histamines, bronchodilators and inhaled steroids; in many markets these products are now available over the counter without prescription. Although the epidemiology of allergy is growing rapidly, the market growth is below 5% p.a. Allergy vaccination is recognised - by specialists and the World Health Organisation - as the only curative treatment, our estimates are that allergy vaccination amounts to a total of only €400m at manufacturers' prices, approximately 4% of the SAR market by value but considerably less by patient numbers. Within this small allergy vaccine niche there are several competitors, mainly with 'branded generic' product offerings, often unregistered. Allergy Therapeutics has approximately 7% of this worldwide niche market.

This situation presents Allergy Therapeutics with a number of opportunities:

- to increase market share by expanding into new markets with our existing products. During 2003/4 we began the process of re-entering the UK market. In the immediate future we will be exploring other markets we can enter in the short term, either directly or through partners.
- to break out of the niche and compete in the larger mainstream market; this is the objective of our product development efforts. We will achieve this by developing and registering MPL®-based vaccines with improved product characteristics, shorter courses offering faster efficacy with fewer injections or, ultimately, no injections as a sublingual MPL®-containing vaccine is developed.
- to participate actively in a much-needed consolidation of the allergy vaccine niche.

Our core business continued to perform well despite difficult conditions in our major market, Germany. The statutory rebate, which enforces a repayment by all pharmaceutical companies of a proportion of their reimbursed sales, was unexpectedly increased from 6% to 16% mid-way through our financial year. This was compounded by additional patient co-payment measures, which resulted in some confusion amongst patients and physicians alike, causing a reduction in patient throughput. Our focus products - Pollinex Quattro and Oralvac - both showed good growth year-on-year. Fuller details of the financial performance of the Company are to be found in the following Financial review.

During the year we began planning for an entry into the UK market. This will initially be achieved by a focused effort during the pollen season, using a contract sales organisation to promote our registered Pollinex products, for allergy to grass and tree pollens, to UK specialists. Although the UK market is characterised by a weak healthcare infrastructure in relation to allergy, we are delighted at last to be offering products for sale in our domestic market.

Product development

During the year Allergy Therapeutics has made great strides towards recommencing its product development programme. We are in the process of developing a fully-costed, largely out-sourced development plan for:

- ultra-short course (4 shots) subcutaneous allergy vaccines in the most important allergens, namely grass, tree, house dust mite, ragweed (for N. America) and Japanese cedar. A successful pre-investigational New Drug (IND) meeting has been held with the Food and Drug Administration, USA, (FDA) and subject to further feedback from the regulatory authorities, Allergy Therapeutics is at the point of initiating pivotal phase III double blind, placebo-controlled studies for each of these; first launches are forecast for 2007/8.
- MPL®-based sublingual allergy vaccines for the same allergens. During the year we commenced the toxicology study required to permit 'first in man' proof of concept studies, which will commence in the third quarter of 2004. Existing sublingual allergy vaccines, such as Allergy Therapeutics' Oralvac®, are regarded by specialists as efficacious but less so than injected products. We hope, by integrating MPL® into a sublingual vaccine, to achieve efficacy rates comparable to or better than subcutaneous vaccines with a short, simple sublingual dosage the patient can self-administer. The commercial potential of such a product would be significant.

During the year Allergy Therapeutics' Scientific Advisory Board ('SAB') was established and held its first meeting. The objective of the SAB is to access the highest calibre opinion-leaders and the most experienced clinicians in the allergy field to validate development plans and to increase Allergy Therapeutics' profile globally. We are very fortunate to have been able to attract an excellent group:

Prof. Hendrik Nolte (Chairman)	Copenhagen, Denmark
Prof. Larry DuBuske	Harvard, USA
Prof. Anthony Frew	Southampton, UK
Prof. Johannes Ring	Munich, Germany

Business development

Allergy Therapeutics is an emerging, fully integrated, specialty pharmaceuticals company. We intend to continue to pursue the 'specialty pharmaceuticals' business model: to build our infrastructure, increasing the scale and geographic and therapeutic reach of the business through a combination of development, partnering and acquisition.

During the year we appointed Sage Healthcare, a high-level specialist pharmaceutical consultancy group, to assist in finding partners for the development and commercialisation of our products in the USA and Japan. This process is ongoing, and although at an early stage, initial responses have been promising.

Chief Executive Officer's review (continued)

People

Keith Carter, age 45
Chief Executive Officer
(appointed chief executive office 1 November 2003)

Ignace Goethals, age 58
Non Executive Chairman
(resigned chief executive & chairman and appointed non executive chairman 1 November 2003)

Christian Graetz, age 51
Market Operations Director

Stephen Smith, age 51
Non Executive Director

Thomas Holdich, age 45
R&D Director
(appointed 22 July 2004)

Ian Postlethwaite, age 41
Finance Director

Andrew Turnbull, age 31
Supply Operations Director

Conclusion

Allergy Therapeutics is a business with successful products, an excellent development pipeline, first rate people and an integrated infrastructure for the development, manufacture, marketing, sale and distribution of ethical prescription pharmaceuticals. We have much to be proud of, and are in the position to achieve much, much more.

Keith Carter
Chief Executive Officer
5th August 2004

Financial review

The following review should be read in conjunction with the Group's consolidated financial statements and related notes appearing elsewhere in this annual report.

Turnover

For the year ended 30 June 2004 total gross sales increased by 9% to £19,122k (2003: £17,508k); after statutory rebates in the German market net sales were £18,001k (2003: £17,329k), an increase over the previous year of 4%.

Own markets

Allergy Therapeutics competes directly in the three most important European markets for allergy vaccination: Germany, Italy and Spain. Allergy Therapeutics is the third largest allergy vaccine company in Germany, with annual gross sales of £12,836k (2003: £12,120k), an increase over the previous year of 6%. The German market is the largest in the world for 'finished form' allergy vaccines; Allergy Therapeutics' market share is growing gradually and last year amounted to 13%. Trading in Germany remained difficult as State budgetary pressures continued to impact on the healthcare sector; in addition to patient co-payment measures which temporarily reduced the frequency of patients' doctor visits, the rebate on pharmaceutical sales, which affected the entire pharmaceutical sector, was increased in January 2004 to 16% from the 6% in the preceding year.

In Italy and Spain the Group has continued to increase its market share. In Italy annual sales were £1,806k (2003: £1,633k), an increase of 11% and in Spain sales were £1,111k (2003: £757k), an increase of 47%.

Licencees

The Group also sells through licencees and distributors who account for 18% of the gross sales. Total gross sales for the year were £3,369k (2003: £2,998k), an increase of 12% on the previous year.

Product sales

The Group's flagship product, Pollinex Quattro, continued to sell exceptionally well, with gross sales of £5,113k (2003: £4,537k) an increase of 13% over the previous year.

Cost of sales and net operating expenses

Despite the rebate on pharmaceutical sales in Germany of £1,121k the gross margin has remained at 69% thanks to the efficient use of production resources. Cost of sales were £5,513k (2003: £5,327k), an increase of 3% over the previous year.

An investment in additional sales people and an uplift in the marketing and promotion spend increased the distribution costs by 14% to £6,569k (2003: £5,756k). However administration costs were down 8% to £4,786k (2003: £5,225k) due mainly to one-off expenditure in the year ending 30 June 2003 with regard to reorganisation.

Results of operation

The Group recorded an operating profit of £1,556k (2003: £1,953k). However, the result for the year ending 2003 included the reversal of a provision for £614k (see note 27). For the purpose of comparison of operating profit year-on-year this non-recurring item should be deducted from the published result to arrive at an operating profit of £1,339k for 2003; thus giving an increase in operating profit this year of 16%.

Taxation

During the year tax losses (£1,213k) were surrendered to a shareholder under the consortium relief legislation. The Company and its UK trading subsidiary have trading losses to carry forward as at the 30 June 2004 of £5,940k and have released the deferred tax asset created last year since utilisation of losses will not occur in the near future due to plans for significant R&D investment.

Net assets

Net assets at 30 June 2004 were £7,076k, an increase from £6,161k for the year ended 30 June 2003 as a result of the profit for the financial year less the cost of shares acquired for the benefit of the employee benefit trust (EBT) (see over).

Intangible assets comprise goodwill and know-how and continue to be amortised over 15 years.

Capital expenditure on tangible fixed assets in the year was £760k. This expenditure included the purchase of a new enterprise resource planning (ERP) system (£188k) and contributed to the increase in the value of tangible fixed assets to £1,650k from £1,221k for the year ending 30 June 2003.

Stock has remained fairly static at approximately £1,825k year on year. The increase in debtors falling due within 1 year of £2,062k (2003: £1,578k) resulted mainly from a large sale booked in June to a licencee. Debtors falling due after 1 year reduced to £223k (2003: £736k) after the release of the deferred tax asset.

Creditors falling due within 1 year reduced slightly at the year end to £3,277k (2003: £3,997k), after the deferred consideration due to the vendor of the Allergy Therapeutics Italia s.r.l was paid.

Financial review (continued)

Capital structure

The Group finances its operation through a term loan, £945k as at 30 June 2004, and self-generated operating income.

The Group's funding requirements depend on a number of factors, including the Group's product development programs, which are planned to increase in activity in the following financial year. New funds are expected to be raised.

During the year the Company purchased through an employee benefit trust 7,500,000 ordinary shares (see note 1). These shares will be issued to employees on exercise of their options.

Treasury policies and financial risk management

All treasury operations are conducted within a framework approved by the Board. As a matter of policy, the Group does not undertake speculative transactions that would increase currency or interest rate exposure.

The Group is exposed to movements in foreign exchange rates against the euro for trading transactions, and the translation of net assets and earnings of European subsidiaries. The main trading currencies of the Group are pounds sterling, the euro and the US dollar. The financial statements of foreign entities are translated using the accounting policies described in note 1 to the financial statements.

The exposure to foreign exchange market risk is managed and monitored by the Treasury Committee. The Group has undertaken foreign currency hedges through the use of forward foreign exchange contracts during the year to 30 June 2004 (see note 21).

Due to the low gearing of the Group, the Group's interest charge has limited exposure to interest rate movements. Total debt as at 30 June 2004 was £945k (2003: £1,250k - non interest bearing).

Cash flows

As at the 30 June 2004 cash was £1,457k, an increase of £190k from £1,267k at 30 June 2003. For the year ended 30 June 2004 net cash inflow from operating activities amounted to £1,508k compared to £1,921k in the previous year as a result of the investment in sales and marketing infrastructure.

During the year cash generated from operations was used primarily to fund capital expenditure, a share buy-back for the creation of an EBT and the pay-back of loans.

Ian Postlethwaite
Finance Director
5th August 2004

Directors' report

The directors present their annual report and the audited financial statements for the 12 months ended 30 June 2004. The financial statements are for Allergy Therapeutics (Holdings) Limited (the Company) and its subsidiary companies (together, the Group).

Principal Activities

The Group is engaged in the development, manufacture, marketing and sale of a range of pharmaceutical vaccine products designed for the immunological treatment of the allergic condition. Vaccinations take the form of allergen-specific named-patient-specific and standard products in injectable, oral and sub-lingual presentations. The business is headquartered in Worthing, West Sussex where development and manufacturing is based whilst there are sales and marketing subsidiaries in Germany, Italy and Spain. Distributors market the Group's products in Canada, South Korea, Switzerland, Belgium, The Netherlands and Portugal. Pliva is the Group's licencee for Central and Eastern Europe. The Group is dedicated to the development and launch of innovative new products that further advance the treatment of the allergic condition.

A review of the Group's business and activities is contained in the Chairman's and CEO's Review on pages 1 to 3.

The profit for the year after taxation was £1,218k (2003: £5,790k). The results for the year are set out on page 10 and are dealt with in more detail in the Financial Review on pages 4 and 5.

Going Concern

After making enquiries, the directors continue to believe that the Group will have adequate resources to continue in operational existence and accordingly have applied the going concern principle in drawing up the financial statements.

Market Value of Land and Buildings

In the opinion of the directors, the market value of the land and buildings of the Group is in excess of the current book values but a recent valuation has not been sought.

Directors and Directors' Interests

Details of directors who served during the year are set out on page 3 with the exception of Christian de Mey (non executive director) who resigned on 18 March 2004.

The interests of the directors in the share capital of the holding company were as follows:

Name	At start of year: Ordinary Shares	Options	At end of year: Ordinary Shares	Options
Ignace Goethals*	2,373,343	1,200,000	2,573,343	1,150,000
Keith Carter*	2,584,643	1,100,000	2,584,643	1,550,000
Christian Graetz	39,440	2,762,100	1,095,540	2,156,000
Ian Postlethwaite	-	2,900,000	-	3,350,000
Andrew Turnbull*	211,398	2,757,100	211,398	3,207,100
Stephen Smith	-	750,000	-	900,000

* All or part are shares held in trust of which the director is a beneficiary.

Directors' report (continued)

Employees

Equal opportunities

The Group is committed to providing equal opportunities in employment. All job applicants and employees shall receive equal treatment regardless of sex, race, colour, and nationality or ethnic origin.

Disabled people

The Group, in considering applications for employment from disabled people, seeks to ensure that fair consideration is given to the abilities and aptitudes of the applicant while having regard to the requirements of the job for which he or she has applied. Employees who become unable to carry out the requirements of the job for which they have been employed are given individual consideration and depending on the nature, severity and duration of the disability, may be considered for alternative work.

Communication

The Group has an open communication policy with its employees. Regular communication on the strategy, plans and performance of the Group is undertaken and reinforced by site meetings of staff as well as by briefings through line management.

The Group's commitment to the performance management of its staff encourages both individuals and the Group to recognise individual's strengths and development potential and the remuneration programme is based on merit.

Charitable contributions

The Company made no political or charitable contributions during the year.

Auditors

On 1st July 2004, the Grant Thornton partnership transferred its business to a limited liability partnership, Grant Thornton UK LLP and the directors have agreed to extend the audit appointment to Grant Thornton UK LLP with effect from 1st July 2004 in accordance with section 26(5) of the Companies Act 1989.

Grant Thornton UK LLP, having offered themselves for reappointment as auditors, shall be deemed to be reappointed for the next financial year in accordance with section 386 of the Companies Act 1985.

By order of the Board on 5th August 2004.

Ian Postlethwaite
Company Secretary

Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial period which give a true and fair view of the state of affairs of the Company and Group and of the profit or loss for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

The directors are responsible for ensuring that the directors' report and other information included in the annual report is prepared in accordance with United Kingdom company law.

The maintenance and integrity of the company's website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website. Legislation in the United Kingdom governing the preparation and dissemination of the financial statements may differ from legislation in other jurisdictions.

Report of the independent auditors to the members of
Allergy Therapeutics (Holdings) Limited

We have audited the financial statements of Allergy Therapeutics (Holdings) Limited for the year ended 30 June 2004 which comprise the consolidated profit and loss account, the company and consolidated balance sheets, the consolidated cash flow statement, the consolidated statement of total recognised gains and losses and notes 1 to 27. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinion we have formed.

Respective responsibilities of the directors and auditors

It is the directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable law and United Kingdom accounting standards are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom auditing standards.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

We read other information contained in the annual report, and consider whether it is consistent with the audited financial statements. This other information comprises the Chairman's review, CEO's review, Financial review and the Directors' report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of opinion

We conducted our audit in accordance with United Kingdom auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances, consistently applied and adequately disclosed.

We planned and performed our audit 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 statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Group and the Company as at 30 June 2004 and of the profit of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Grant Thornton UK LLP
Registered Auditors
Chartered Accountants
Gatwick
6th August 2004

Consolidated profit and loss account

for the year ended 30 June

	Note	2004 £'000	2003 £'000
Turnover	*2*	**18,001**	17,329
Cost of sales		**(5,513)**	(5,327)
Gross Profit		**12,488**	12,002
Distribution costs		**(6,569)**	(5,756)
Administrative expenses			
- other		**(4,786)**	(5,225)
- release of provision		**-**	614
		(4,786)	(4,611)
Other operating income		**423**	318
Operating profit		**1,556**	1,953
Exceptional items relating to discontinued operations	*4*	**-**	2,927
Other interest receivable and similar income		**60**	33
Interest payable on loans and overdrafts		**(26)**	(39)
Profit on ordinary activities before tax	*3*	**1,590**	4,874
Tax on profit on ordinary activities	*7*	**(372)**	916
Retained profit for the financial year	*19, 20*	**1,218**	5,790

All amounts relate to continuing activities

Company balance sheet
at 30 June

	Note	2004 £'000	2003 £'000
Fixed assets			
Intangible assets	*10*	**274**	303
Investments	*12*	**1,205**	1,205
		1,479	1,508
Current assets			
Debtors: amounts falling due within one year	*14*	**-**	18
Debtors: amounts falling due after one year	*14*	**387**	2,345
		387	2,363
Creditors: amounts falling due within one year	*15*	**(216)**	(839)
Net current assets		**171**	1,524
Total assets less current liabilities		**1,650**	3,032
Creditors: amounts falling due after one year	*16*	**-**	(750)
Net assets		**1,650**	2,282
Capital and reserves			
Called up share capital	*23*	**51**	51
Share premium	*19*	**40,128**	40,098
Profit and loss account	*19*	**(38,156)**	(37,867)
Other reserve	*19*	**(373)**	-
Equity		**1,640**	2,272
Non-equity		**10**	10
Shareholders' funds	*20*	**1,650**	2,282

These financial statements were approved by the board of directors on 5th August 2004 and were signed on its behalf by:

K Carter
Chief Executive Officer

I Postlethwaite
Finance Director

Consolidated balance sheet
at 30 June

	Note	2004 £'000	2003 £'000
Fixed assets			
Intangible assets	*9*		
Goodwill		**2,945**	3,328
Negative goodwill		**-**	(108)
Net goodwill		**2,945**	3,220
Other intangible assets		**1,072**	1,212
		4,017	4,432
Tangible assets	*11*	**1,650**	1,221
		5,667	5,653
Current assets			
Stocks	*13*	**1,825**	1,915
Debtors: amounts falling due within one year	*14*	**2,062**	1,578
Debtors: amounts falling due after one year	*14*	**223**	736
Cash at bank and in hand		**1,457**	1,267
		5,567	5,496
Creditors: amounts falling due within one year	*15*	**(3,277)**	(3,997)
Net current assets		**2,290**	1,499
Total assets less current liabilities		**7,957**	7,152
Creditors: amounts falling due after one year	*16*	**(881)**	(991)
Net assets		**7,076**	6,161
Capital and reserves			
Called up share capital	*23*	**51**	51
Share premium account	*19*	**40,128**	40,098
Profit and loss account	*19*	**(32,730)**	(33,988)
Other reserve	*19*	**(373)**	-
Equity		**7,066**	6,151
Non-equity		**10**	10
Shareholders' funds	*20*	**7,076**	6,161

These financial statements were approved by the board of directors on 5th August 2004 and were signed on its behalf by:

K Carter
Chief Executive Officer

I Postlethwaite
Finance Director

Consolidated cash flow statement

for the year ended 30 June

	Note	**2004** **£'000**	2003 £'000
Cash inflow from operating activities	*24*	**1,508**	1,921
Returns on investment and servicing of finance			
Interest received		**60**	33
Interest paid		**(26)**	(39)
		34	(6)
Taxation		**364**	180
Capital expenditure and financial investment			
Purchase of fixed assets and intellectual property	11	**(760)**	(406)
Sale of tangible fixed assets		**-**	28
		(760)	(378)
Cash inflow before financing		**1,146**	1,717
Acquisitions and disposals			
Deferred consideration	*15*	**(308)**	(190)
Financing	*25*	**(648)**	(316)
		(956)	(506)
Increase in cash in year	*26*	**190**	1,211

Reconciliation of net cash flow to movement in net funds

		2004 **£'000**	2003 £'000
Increase in cash in the year	*26*	**190**	1,211
Net loans repaid		**305**	-
Other non-cash changes		**-**	6,933
Movement in net debt in year		**495**	8,144
Net funds / debts at beginning of year		**17**	(8,127)
Net funds at end of year	*26*	**512**	17

Consolidated statement of total recognised gains and losses
for the year ended 30 June

	2004 **£'000**	2003 £'000
Profit for the financial year	**1,218**	5,790
Currency translation differences on foreign currency net investment	**40**	(132)
Total recognised gains and losses relating to the year	**1,258**	5,658

Notes (forming part of the financial statements)

1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Group's financial statements and have remained unchanged from the prior year.

Basis of preparation

These accounts have been prepared under the historical cost convention of accounting and in accordance with applicable accounting standards.

The accounts are prepared on a going concern basis.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiary undertakings made up to 30 June 2004.

Goodwill and negative goodwill

Purchased goodwill (representing the excess of the fair value of the consideration given over the fair value of the separable net assets acquired) arising on consolidation in respect of acquisitions is capitalised. Positive goodwill is amortised to nil by equal instalments over its estimated useful life.

Negative goodwill arising on consolidation in respect of acquisitions is included within fixed assets and released to the profit and loss account in the years in which the fair values of the non-monetary assets purchased on the same acquisitions are recovered, whether through depreciation or sale.

Depreciation

Depreciation has been provided on a straight line basis in order to write off the cost less the estimated residual value of depreciable fixed assets over their estimated useful lives.

The rates applicable are:

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

Operating leases

Costs in respect of operating leases are charged on a straight line basis over the lease term.

Intangible fixed assets and amortisation

Non-competing know-how is amortised over 4 years reflecting its estimated useful life to the Group. Acquired licences, patents and manufacturing know-how are capitalised and amortised over their estimated useful economic lives (15 years). Any development costs which are incurred by the Group and are associated with an acquired licence, patent and know-how are written off to the profit and loss account when incurred.

Pension

The Group operates a private personal pension for employees in the UK and Germany. The assets of the schemes are held separately from those of the Group in an independently administered fund. The amount charged against profits represents the contributions payable to the scheme in respect of the accounting period.

Stock valuation

Stocks have been valued at the lower of cost and net realisable value. Costs include materials, direct labour and an appropriate proportion of manufacturing overheads based on normal levels of activity.

Research and development

Laboratory equipment used for research and development is capitalised as plant and equipment and written off in accordance with the Company's depreciation policy. Other research and development expenditures are written off in the year when incurred.

Foreign currencies

Transactions in foreign currencies are recorded using the rate of exchange ruling at the preceding month-end. Monetary assets and liabilities denominated in foreign currencies are translated using the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the profit and loss account.

The assets and liabilities of overseas subsidiary undertakings are translated at the closing exchange rates. Profit and loss accounts of such undertakings are consolidated at the average rates of exchange during the period. Gains and losses arising on these translations are taken to reserves.

Deferred Taxation

Deferred tax is recognised without discounting in respect of all timing differences, in the following year, between the treatment of certain items for taxation and accounting purposes, which have arisen but not reversed by the balance sheet date except as otherwise required by FRS 19.

Turnover

Turnover represents the amounts (excluding value added tax) derived from the provision of goods and services to third party customers, net of statutory rebates paid in Germany.

Cash and liquid resources

Cash, for the purpose of the cash flow statement, comprises cash in hand and deposits repayable on demand, less overdrafts payable on demand.

Liquid resources are current asset investments which are disposable without curtailing or disrupting the business and are either readily convertible into known amounts of cash at or close to their carrying values or traded in an active market.

Employee Benefit Trust (EBT)

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 shareholders funds on the balance sheet within 'other reserve' initially at the cost that the shares were acquired. The net proceeds received from the issue of these shares through the exercise of options are recognised through this reserve.

Notes (continued)

2 Analysis of turnover

By geographical location	**2004** **£'000**	2003 £'000
Europe	**17,013**	16,422
North America	**680**	608
Asia	**308**	299
	18,001	17,329

3 Profit on ordinary activities before tax

Profit on ordinary activities before tax is stated after charging:	**2004** **£'000**	2003 £'000
Auditors' remuneration:		
Group - audit	**51**	42
- non audit-fees paid to the auditor in respect of other services	**32**	-
Company audit (included in Group above)	**24**	20
Depreciation of tangible assets	**319**	480
Amortisation of intangible assets	**333**	465
Research and development	**451**	527
Operating lease rentals		
- plant & machinery	**7**	8
- other	**312**	303
Release of provision - see note 27	**-**	(614)

An amount of £1,314,000 (2003: £1,187,000) in respect of promotion costs has been reclassified from administration expenses to distribution costs. This has no effect on the results in either year, however comparatives in the profit and loss account have been restated to reflect this reclassification.

4 Exceptional items

	2004 **£'000**	2003 £'000
Release of accrued costs included in other creditors relating to joint venture	**-**	1,211
Minority interest relating to joint venture	**-**	2,059
Termination of joint venture costs	**-**	(343)
	-	2,927

The joint venture agreement with Elan Corporation plc was terminated on 12 December 2002, the resulting profit and loss entries are shown in 2003 above.

Notes (continued)

5 Remuneration of directors

	2004 £'000	2003 £'000
Directors' emoluments	**648**	931
Pension contributions	**52**	36
	700	967
Directors' severance costs (included within directors' emoluments)	**4**	412
Emoluments of highest paid director	**156**	90
Group contribution to pension plan: Pension contributions paid by the Group for highest paid director	**21**	11
The number of directors for whom pension payments are made	**4**	6
Number of directors including the highest paid director who exercised options in the year	**2**	2

6 Staff numbers and costs

The average number of persons employed by the Group (including directors) during the year, analysed by category was as follows:

	Number of employees 2004	2003
R&D, marketing and administration	**85**	83
Sales	**57**	48
Production	**103**	100
	245	231

The aggregate payroll costs for these persons were as follows:	2004 £'000	2003 £'000
Aggregate wages and salaries	**6,332**	6,366
Social security costs	**961**	975
Other pension costs	**267**	253
	7,560	7,594

The average number of employees involved in pension schemes across the Group for 2004 was 131 (2003: 138).

Notes (continued)

7 Tax on profit on ordinary activities

	2004 £'000	2003 £'000
The taxation (charge)/credit is made up as follows:		
UK corporation tax at 30%	**-**	-
Adjustment in respect of prior years	**364**	180
Deferred tax (see note 18)	**(736)**	736
	(372)	916

Current tax reconciliation:	2004 £'000	2003 £'000
Profit before tax	**1,590**	4,874
Tax at standard rate of 30% on profit for year	**477**	1,462
Expenses not deductible for tax purposes	**83**	176
Capital allowances in excess of depreciation	**(117)**	(24)
Other adjustments not taxable	**(172)**	-
Overseas adjustments not taxable	**(383)**	-
Utilisation of tax losses	**(325)**	-
Unrelieved tax losses carried forward	**-**	(717)
Tax losses not utilised	**494**	-
Exceptional item not taxable	**-**	(878)
Allowances for R&D expenditure	**(57)**	(19)
Adjustments to tax charge re R&D tax credits	**-**	180
Surrender of tax losses	**364**	-
Current tax credit	**364**	180

Unrelieved tax losses of £5,940,000 (2003: £6,064,000) remain available to offset against future taxable trading profits.

8 Profit for the financial year

The parent company has taken advantage of section 230 of the Companies Act 1985 and has not included its own profit and loss account in these financial statements. The parent company's loss for the year was £289,000 (2003: profit £2,371,000).

9 Intangible fixed assets - Group

	Goodwill £'000	Negative Goodwill £'000	Manufacturing know-how £'000	Non-competing know-how £'000	Other intangibles £'000	Total £'000
Cost						
Cost brought forward	4,992	(108)	1,000	2,884	987	9,755
Asset reclassification	-	-	-	-	(25)	(25)
Exchange difference	(84)	-	-	82	(9)	(11)
Balance carried forward	4,908	(108)	1,000	2,966	953	9,719
Amortisation						
Balance brought forward	1,664	-	334	2,884	441	5,323
Charge for year	327	(108)	67	-	47	333
Exchange difference	(28)	-	-	82	(8)	46
Balance carried forward	1,963	(108)	401	2,966	480	5,702
Net book value						
At 30 June 2004	**2,945**	**-**	**599**	**-**	**473**	**4,017**
At 30 June 2003	3,328	(108)	666	-	546	4,432

The fair values of intangible assets acquired as part of a business are determined by the realisable market value. Non-competing know-how has been amortised over 4 years in the UK reflecting its estimated useful life to the Company. Goodwill, acquired licences, patents, manufacturing know-how are capitalised and amortised over their estimated useful economic lives (15 years). The directors consider each acquisition separately for the purpose of determining the amortisation period of any goodwill that arises. The following sets out the period over which goodwill is amortised and reasons for the periods chosen:

- Goodwill arising on the acquisition of Allergy Therapeutics Limited and Bencard Allergie GmbH in June 1998 was £4,694,000. The directors have estimated the useful economic life as 15 years, reflecting the expected financial benefits
- Negative goodwill arising on the acquisition of AT Italy in May 1999 was in excess of the fair value of the non-monetary assets acquired and has been fully written back in the year.

10 Intangible fixed assets - Company

	Patents, trade marks, similar rights & assets, acquisition costs £'000
Cost	
Cost brought forward and carried forward	443
Amortisation	
Balance brought forward	140
Charge for year	29
Balance carried forward	169
Net book value	
At 30 June 2004	**274**
At 30 June 2003	303

11 Tangible fixed assets - Group

	Plant & Machinery £'000	Fixtures & Fittings £'000	Motor Vehicles £'000	Computer Equipment £'000	Land & Buildings £'000	Total £'000
Cost						
Balance brought forward	1,764	367	8	2,165	272	4,576
Additions	217	94	-	449	-	760
Exchange difference	(2)	(4)	-	(18)	(10)	(34)
Balance carried forward	1,979	457	8	2,596	262	5,302
Depreciation						
Balance brought forward	1,099	269	4	1,863	120	3,355
Charge for year	89	46	1	152	31	319
Exchange difference	(2)	(2)	-	(13)	(5)	(22)
Balance carried forward	1,186	313	5	2,002	146	3,652
Net book value						
At 30 June 2004	**793**	**144**	**3**	**594**	**116**	**1,650**
At 30 June 2003	665	98	4	302	152	1,221

12 Fixed asset investments

Company

	Shares in Group undertakings £'000
Cost	
Cost brought forward and carried forward	13,787
Provision	
Provision brought forward and carried forward	(12,582)
Net book value	
At 30 June 2004	**1,205**
At 30 June 2003	1,205

The undertakings in which the Company's interest at the year end is more than 20% are as follows:

Subsidiary undertakings	**Country of incorporation**	**Principal activity**	**Class and percentage of shares held** (all ordinary unless noted)
Allergy Therapeutics Limited	UK	Manufacture & sale of pharmaceutical products	100%
Allergy Therapeutics Developments Ltd	UK	Dormant	100%
Bencard Allergie GmbH	Germany	Sale of pharmaceutical products	100%
Allergy Therapeutics Italia s.r.l	Italy	Sale of pharmaceutical products	100%
Allergy Therapeutics Iberica S L	Spain	Sale of pharmaceutical products	100%
Allergy Therapeutics (Canada) Ltd	Canada	Dormant	100%
Allergy Therapeutics (Bermuda) Ltd	Bermuda	Dormant	100%

Notes (continued)

13 Stocks

	Group	
	2004	2003
	£'000	£'000
Raw materials and consumables	**591**	727
Work in progress	**658**	672
Finished goods	**576**	516
	1,825	1,915

14 Debtors

	Group		Company	
	2004	2003	**2004**	2003
	£'000	£'000	**£'000**	£'000
Amounts falling due within one year				
Trade debtors	**1,405**	990	**-**	-
Taxation and social security	**52**	-	**-**	-
Prepayments and accrued income	**222**	451	**-**	-
Other debtors	**383**	137	**-**	18
	2,062	1,578	**-**	18

	Group		Company	
	2004	2003	**2004**	2003
	£'000	£'000	**£'000**	£'000
Amounts falling due after one year				
Trade debtors	**223**	-	**-**	-
Amounts owed by subsidiary undertakings	**-**	-	**387**	2,345
Deferred tax (note 18)	**-**	736	**-**	-
	223	736	**387**	2,345

15 Creditors: amounts falling due within one year

	Group		Company	
	2004	2003	**2004**	2003
	£'000	£'000	**£'000**	£'000
Bank loan	**278**	500	**-**	500
Trade creditors	**827**	1,196	**-**	-
Taxation and social security	**365**	192	**-**	-
Other creditors	**-**	193	**-**	-
Accruals and deferred income	**1,807**	1,608	**216**	31
Deferred consideration	**-**	308	**-**	308
	3,277	3,997	**216**	839

16 Creditors: amounts falling due after more than one year

	Group		Company	
	2004	2003	**2004**	2003
	£'000	£'000	**£'000**	£'000
Bank loan	**667**	750	**-**	750
Other long term creditors	**214**	241	**-**	-
	881	991	**-**	750

17 Analysis of debt

	Group		Company	
	2004	2003	**2004**	2003
	£'000	£'000	**£'000**	£'000
Debt can be analysed as falling due:				
Within one year	**278**	500	**-**	500
In one to five years	**667**	750	**-**	750
In five years or more	**-**	-	**-**	-
	945	1,250	**-**	1,250

Bank loan and overdraft:

The bank loan and overdraft are secured by a fixed and floating charge over the assets of Allergy Therapeutics Limited. The loan is repayable in instalments between April 2004 and March 2007. Both are subject to a variable interest rate of base rate plus 1.5%.

18 Deferred taxation

	Group	
	2004	2003
	£'000	£'000
The movement on deferred tax asset in the financial statements is set out below:		
Provision brought forward	**736**	-
(Charged) / credited to the profit and loss account	**(736)**	736
Provision carried forward	**-**	736

19 Reserves

	Profit and loss account	
	Group	**Company**
	£'000	**£'000**
At 30 June 2003	**(33,988)**	**(37,867)**
Retained profit / (loss) for the year	**1,218**	**(289)**
Currency translation profit on foreign currency investments	**40**	**-**
At 30 June 2004	**(32,730)**	**(38,156)**

19 Reserves - continued

	Group and Company Share premium account £'000	Other Reserve £'000
At 30 June 2003	**40,098**	**-**
Premium on shares issued in the year	**30**	**-**
Purchase of shares by EBT	**-**	**(375)**
Sale of shares by EBT	**-**	**2**
At 30 June 2004	**40,128**	**(373)**

20 Reconciliation of movement in shareholders funds

	Group		Company	
	2004 £'000	2003 £'000	**2004 £'000**	2003 £'000
Profit / (loss) for the financial year	**1,218**	5,790	**(289)**	2,371
Other recognised gains and losses relating to the period (net)	**40**	(132)	**-**	-
New share capital subscribed (net of issue costs and redemptions)	**-**	3	**-**	3
Increase in share premium	**30**	6,957	**30**	6,957
Purchase of shares by EBT	**(375)**	-	**(375)**	-
Sale of shares by EBT	**2**	-	**2**	-
Net addition to shareholders' funds	**915**	12,618	**(632)**	9,331
Opening shareholders' funds	**6,161**	(6,457)	**2,282**	(7,049)
Closing shareholders' funds	**7,076**	6,161	**1,650**	2,282

21 Commitments

Capital commitments at the end of the financial period, for which no provision has been made, are as follows:

	Group	
	2004 £'000	2003 £'000
Capital commitments	**408**	250

Included above is £225,000 of commitments for new plant and machinery capital projects already underway in the UK (£165,000 for a syringe filler) and £98,000 (2003: £222,000) for a new ERP system.

Other commitments: On 19th November 2003, 3 separate forward foreign exchange contracts were arranged for the sale of €5,000,000 at future dates ranging from 15th October to 30 November 2004.

22 Leasing Commitments

Operating lease payments amounting to £321,000 (2003: £313,000) are due within one year. The leases to which these amounts relate expire as follows:

	Land and buildings		Other	
	2004 £'000	2003 £'000	**2004 £'000**	2003 £'000
In one year or less	**-**	-	**44**	36
Between one and five years	**172**	135	**105**	114
In five years or more	**-**	28	**-**	-
	172	163	**149**	150

23 Called up share capital

	2004 £'000	2003 £'000
Authorised		
Equity: 790,151,667 ordinary shares of 0.1p each	**790**	790
Non-equity: 9,848,333 deferred shares of 0.1p each	**10**	10
	800	800
Allotted, called up and fully paid		
Equity: 41,032,824 ordinary shares of 0.1p each (2003: 40,792,876)	**41**	41
Non-Equity: 9,848,333 deferred shares of 0.1p each	**10**	10
	51	51

During the year 239,948 new ordinary shares of 0.1p each were issued for cash consideration of £29,913.

Share options

Details of the share options over the Company's ordinary shares are as follows:

At start of year	Granted during year	Exercised	Lapsed in year	At end of year	Exercise price	Exercise date from	Exercise date to
1,074,800	-	(271,300)	-	803,500	0.1p	On exit only	
1,264,850	-	-	(43,500)	1,221,350	120p	31/07/02	31/07/12
400,000	-	-	-	400,000	30p	03/06/02	03/06/12
3,000,000	-	(1,000,000)	-	2,000,000	0.1p	02/10/02	02/10/12
7,866,866	-	(13,267)	(53,333)	7,800,266	5p	18/12/02	18/12/12
-	2,564,000	-	-	2,564,000	45p	26/02/05	26/02/15
13,606,516	**2,564,000**	**(1,284,567)**	**(96,833)**	**14,789,116**			

24 Reconciliation of operating profit to operating cash flow

	2004 £'000	2003 £'000
Operating profit	**1,556**	1,953
Depreciation	**319**	480
Amortisation of intangibles	**333**	465
Loss on disposal of fixed assets	**-**	21
Effect of foreign exchange rate changes	**109**	(272)
Decrease / (increase) in stocks	**90**	(50)
(Increase) / decrease in debtors	**(682)**	76
(Decrease) in creditors	**(217)**	(752)
Net cash inflow from continuing activities	**1,508**	1,921

25 Analysis of financing

Financing	2004 £'000	2003 £'000
Repayment of loans	**(1,305)**	-
New loan facility	**1,000**	-
Issue of ordinary shares	**30**	27
Cash paid to close joint venture	**-**	(343)
Purchase of shares by EBT	**(375)**	-
Issue of shares by EBT	**2**	-
	(648)	(316)

26 Analysis of net funds

	At beginning of period £'000	Cash flow £'000	At end of period £'000
Cash at bank and in hand	**1,267**	**190**	**1,457**
Debt due	**(1,250)**	**305**	**(945)**
	17	**495**	**512**

27 Contingent liabilities

The Group has a contingent liability of £614,000 in respect of an amount payable on an initial public offering (IPO) or 'exit'. This was reclassified from other long term creditors to a contingent liability, as defined by FRS 12, during the year ended 30 June 2003.

Allergy Therapeutics (Holdings) Limited * Dominion Way * Worthing * West Sussex * BN14 8SA * UK
Tel: +44 1903 844700 * Fax: +44 1903 844726
Internet: www.allergytherapeutics.com
Registered number 3565290