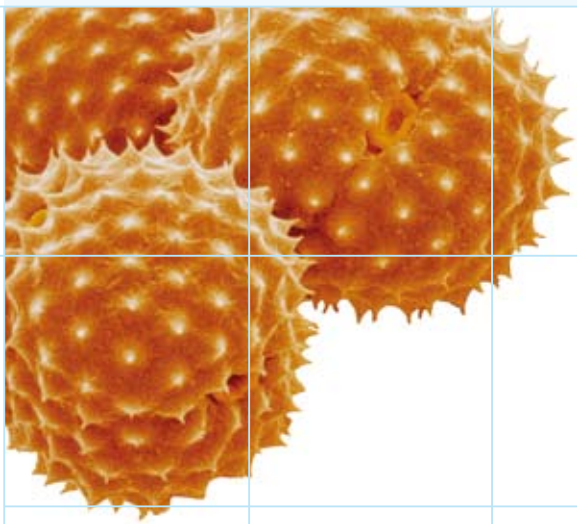
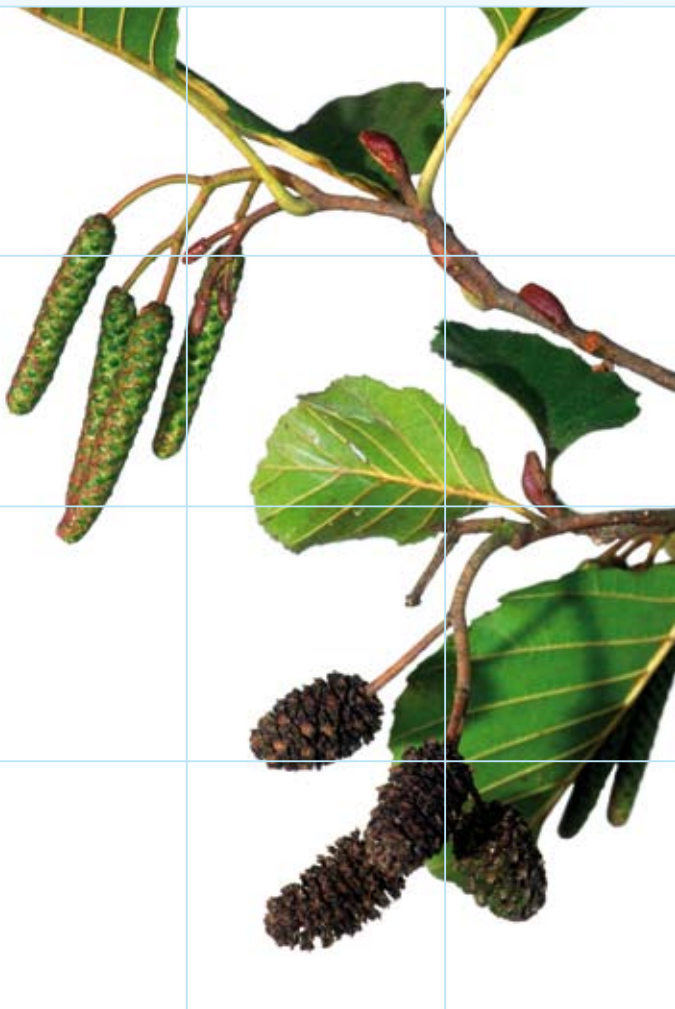
Allergy Therapeutics®

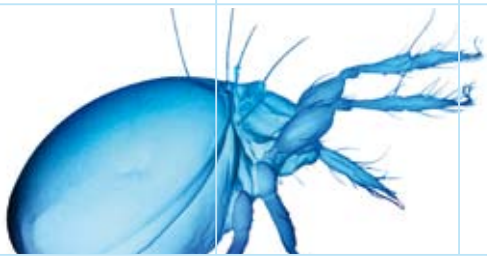
Allergy Therapeutics plc

Annual Report & Accounts

2005







Allergy Therapeutics plc (ATp) is a specialty pharmaceutical company focused upon the treatment and prevention of allergy. Our mission is to establish a position as a mainstream supplier of novel therapies for the prevention and treatment of allergy with a comprehensive range of innovative, patent protected, high value allergy vaccine products.

Contents

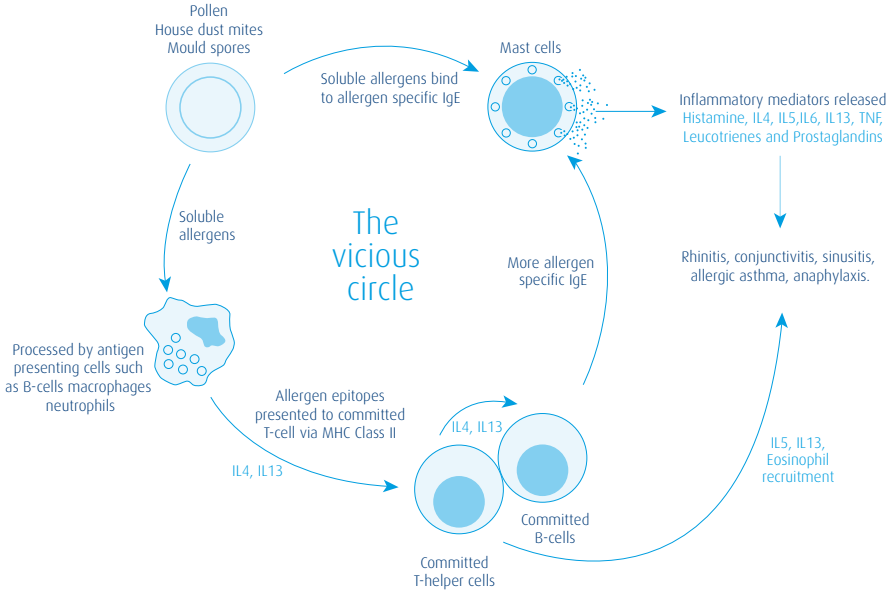
The Science

What are allergies?

An allergy is an immune hypersensitivity reaction in which the body's natural defences react inappropriately to specific proteins or allergens from common substances such as pollen, mould spores, peanuts and many more.

Allergic symptoms may vary depending on the nature and presentation of the specific allergens but all allergens, in some way or other, cause inflammation in mucosal surfaces such as those in the eyes, nose, upper and lower respiratory tracts. These symptoms are typically referred to as 'hay fever' if they affect the eyes and nose, and allergic asthma if they affect the lower respiratory tract. Additionally, allergens such as house dust mite, whilst affecting both the upper and lower respiratory tract, can also cause allergic eczema through skin contact whilst food allergens also affect the gastro-intestinal tract. Allergy Therapeutics currently focuses on vaccine treatments for the major problem of allergies caused by inhaled airborne allergens.

The anatomy of allergy



The key characteristic that distinguishes allergic individuals is the production of large quantities of IgE antibodies specific to the sensitising allergens. IgE is naturally important in handling parasitic infections and is highly bound to mast cells acting as a trigger for this class of immune cell. When the target allergens crosslink these bound antibodies, the mast cells release a wide range of inflammatory materials, including histamine, which are responsible for the allergy symptoms. Additionally, this process stimulates the production of further IgE antibodies. Antihistamines are effective in partially controlling allergic symptoms but have no effect on the course and development of the underlying disease which can progressively become worse.

Our product pipeline

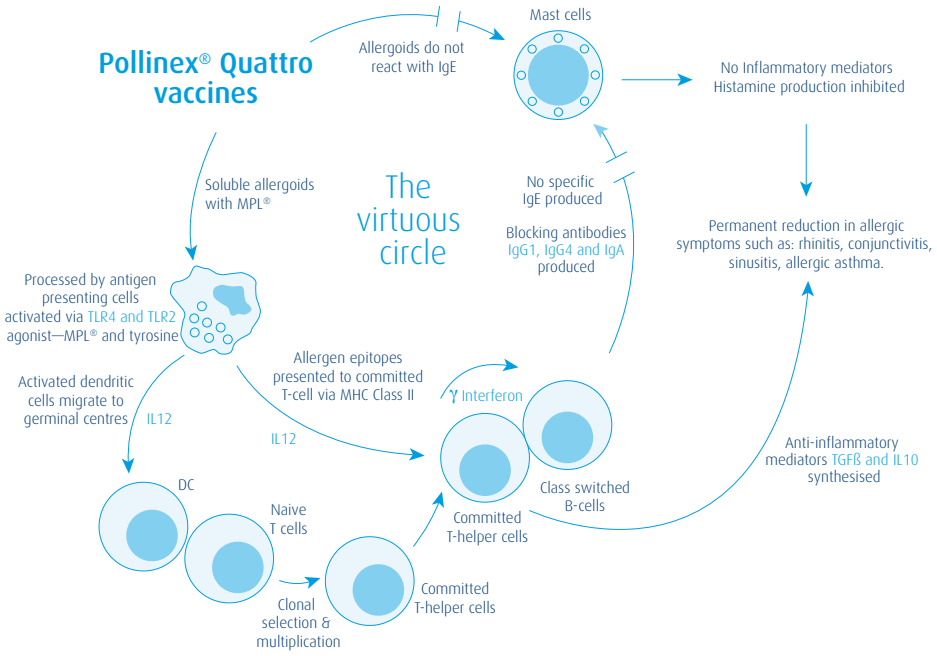
Product	Pre-Clinical	Phase I	Phase II	Phase III	Registration
Pollinex® Quattro Grass					
Pollinex® Quattro Tree					
Pollinex® Quattro Ragweed					
Pollinex® Quattro Japenese Cedar					
Pollinex® Quattro Mite					
Sublingual MPL®					

Allergy vaccination

Allergy vaccination or immunotherapy treats the underlying cause of allergic disease, providing both symptomatic relief and the potential of a permanent cure.

To achieve this the vaccine must modify the immune response by blocking the interaction of allergens with IgE and must prevent the production of allergen-specific IgE antibodies. Traditionally, this has required long courses of injections with gradually increasing doses of allergen to build the patient's tolerance to the allergenic challenge whilst avoiding serious allergic reactions to the vaccine. Allergy Therapeutics has pioneered short-course vaccination in which the allergens are modified (allergoids) to prevent reaction with IgE, combined with the biocompatible depot L-tyrosine and a powerful toll receptor agonist (TLR4/TLR2) – monophosphoryl lipid A (MPL®) as adjuvants. These rapidly induce profound changes in the immune response to the allergens whilst substantially reducing the risk of allergic reactions.

Pollinex® Quattro vaccines

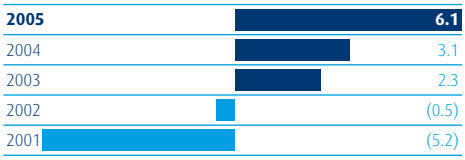


Phase I and II clinical studies have included over 850 hay fever patients and have demonstrated significant clinical activity of Pollinex® Quattro vaccines (4 injections). In a 'Clinical Use' study of over 3000 patients, approximately 90% demonstrated improvements in clinical symptoms. Patients also showed little or no seasonal rise in IgE and a significant increase in blocking IgG antibodies compared with the placebo patients where the reverse was true. In particular, production of allergen-specific IgG4 antibodies was correlated with successful treatment.

T-helper cells isolated during the pollen season from patients treated with active vaccine showed an allergen-specific, highly significant, rise in the production of γ interferon and no seasonal rise in IL4 and IL5. In patients treated with the placebo the reverse was true. These results are entirely consistent with effective treatment of the underlying immunological cause of pollen allergy. Phase III registration trials are planned for the next pollen season in Europe and North America.

Gross sales £m

Operating profit (before R&D, rebates and exceptionals) £m



+20%

Gross sales this year up 20% on last year to £22.9m.

+97%

Operating profit (before R&D, rebates and exceptionals) up 97% on last year to £6.1m.

Highlights

- Successful IPO raising £15m net of expenses
- Gross sales up 20% to £22.9m
- Operating profit before R&D, rebates and exceptionals up 97% to £6.1m
- Start of first pivotal study for registration of Pollinex® Quattro
- First outlicense of Pollinex® Quattro
- Pollinex® Quattro awarded prestigious MMW Arzneimittelpreis for pharmaceutical innovation
- UK patent granted for sublingual (under the tongue) use of MPL® as an adjuvant to immunological therapies
- German rebates reduced to 6% from January 2005

Chairman's Statement

Our History

1934 Foundation of CL Bencard a specialist allergy company in Devon, England.

1949 Beecham Group Ltd acquire CL Bencard.

1972 Launch of Pollinex® vaccine in the UK containing grass pollen allergens.

1975 Launch of Pollinex® R (Ragweed) for the Canadian market.

1994 Launch of Oralvac®, a sublingual allergy desensitising vaccine in Germany.

1998 Management buy-in acquires Bencard business from Smithkline Beecham to form Allergy Therapeutics Ltd (ATL).

1999 Launch of Pollinex® Quattro in Germany.

2003 Launch of Oralvac® Plus.

2004 Pollinex® Quattro receives MMW Pharmaceuticals award.

2004 The Company lists on AIM.

2005 Sign first outlicensing deal with Allerpharma for Pollinex® Quattro in Canada.

This has been a year of significant change for Allergy Therapeutics. We have undergone a major transition from being a privately-owned company to a public company listed on the London Stock Exchange. From having plans for clinical trials, we now have patients enrolled and being treated in a first pivotal study.

In October 2004 Allergy Therapeutics Group listed on the Alternative Investment Market of the London Stock Exchange, raising £15 million net of expenses. The declared use of proceeds was to accelerate the clinical development of the Pollinex® Quattro family of products, the Company's innovative ultra-short-course (4 shots total pre-seasonally) allergy vaccines based on the TRL4 agonist vaccine adjuvant MPL®. Since then excellent progress has been made; relationships with various regulatory bodies established, the 'path to registration' clarified and a first pivotal clinical trial commenced. The Company is on track to commence full Phase III studies on vaccines against allergy to the most common pollens during the 2006 pollen season.

Allergy Therapeutics is a fully integrated pharmaceutical company. This gives us great strength in further developing the business in tandem with the new products. Furthermore, Pollinex® Quattro – our main development product – is currently being sold on a 'named patient product' (NPP) basis in Germany, Italy and Spain, where such sales of pre-registration products are permitted. We have sold over 115,000 units of the product to date, giving us great and increasing confidence in the efficacy and safety of these vaccines.

The Company has made good progress in its commercialisation activities. Gross sales are £22.9 million, up 20% against the previous year, driven chiefly by a 41% increase in sales of Pollinex® Quattro. This includes our first out-licence agreement for Pollinex® Quattro, with Allerpharma for the Canadian market. £1 million of milestone income was booked in the year, with a further £7 million to be paid over the development period of the vaccines, subject to the achievement of certain development objectives. Operating profit including milestone income but before German sales rebate, R&D and exceptional items has nearly doubled to £6.1 million (2004: £3.1 million).

One of the attractions of Allergy Therapeutics' business model is that the extensive R&D programme now under way is funded in part by the profits from our commercial operations. Consequently, despite R&D investment of £5.6 million compared with £0.5 million last year, the loss after tax amounted to £1.9 million compared to last year's profit of £1.2 million. We anticipate a further substantial increase in R&D investment this year as the Phase III programme progresses for Pollinex® Quattro vaccines for Allergic Rhinitis (AR) to major pollens, and the sublingual programme gets under way.

Allergy Therapeutics has a first-class team of people whose efforts have produced these excellent results in every area; I thank each one for his or her efforts.

If, as we anticipate, our development activities over the next few years are successful, we will be in the position of having the first ever innovative, ultra-short-course allergy vaccines registered both in Europe and with the Food and Drug Administration for sale in the USA. This outcome would be extremely positive for the Company and would represent a major change to the opportunities and challenges facing us. In preparation, during the course of the year we have strengthened our team in sales and marketing, R&D, manufacturing and regulatory. Further investment in the team will be required over the coming years to meet our strategic goals – to develop world-beating products, manufacture them for all markets and sell them through our own sales and marketing infrastructure across the European Union, working with partners elsewhere.

We are looking forward to another year full of accomplishments in 2005/6.

Ignace Goethals
Chairman
12 September 2005

Chief Executive's Review

60%

Probability of child suffering from rhinitis if both parents are sufferers.

1BN

Number of pollen grains a single ragweed plant produces in an average season. Each grain can travel up to 400 miles.

26.2%

The total US population showing positive skin test responses to ragweed pollen.

Allergy is the 'epidemic of the 21st Century'. A large and growing proportion of the population is suffering in different degrees to allergy to common, unavoidable substances such as pollens, mites and the dander of domestic pets. In the USA, 54% of the total population show positive responses to skin tests for one or more of the 10 most prevalent allergens[1] ; such sensitisation is an indication of allergy or the potential to develop the symptoms of allergy. The numbers suffering are also growing rapidly; the same US survey conducted 12 years earlier put the number of positive skin tests at just over 20% of the population. The same patterns are seen across the developed world.

Allergy can be a minor irritation of short duration, or it can seriously impair the quality of life of the sufferer – rendering work, exams, leisure and even sleep impossible. Furthermore, Allergic Rhinitis (AR) is now recognised to be a precursor of asthma, a life-threatening condition, in many patients[2]. Allergic people have 3 times greater risk of becoming asthmatic than non-allergics[2], a phenomenon known as the 'Allergic March'. Allergy is also very costly – $11 billion is spent annually by patients and health insurance systems on symptomatic treatment[3], and the economic costs to society in terms of lost days of work and hospitalisation due to asthma attacks are thought to be even greater.

Transforming allergy treatment

As recognised by the World Health Organisation[4], unlike any other available treatment, allergy vaccines (also referred to as specific immunotherapy or 'allergy shots') act at the immunological source of the disease, have the unique potential to offer long term relief to successfully treated patients and arrest the Allergic March. Allergy Therapeutics plc ('ATp') is at the leading edge in developing new vaccines to treat AR. Currently, allergy vaccines represent a small niche area: less than 3% of allergic patients are offered vaccines. This is mainly because the existing products require many injections over a long period – in the USA up to 200 shots over 5 years is not unusual – and carry greater risks of side effects than many physicians and patients are willing to tolerate.

Allergy Therapeutics' pipeline of MPL®-based products is designed to overcome these shortcomings, allowing allergy vaccination to become a mainstream treatment rather than a last resort. With our ultra-short-course, efficacious and well-tolerated vaccines our mission is to transform allergy treatment.

Registration

In mainstream pharmaceuticals the products prescribed by physicians across the world must have marketing authorisations, granted by national regulatory authorities such as the FDA. The granting of such authorisations is commonly referred to as 'registration' and requires rigorous proof of product quality, safety and efficacy through clinical trials culminating in pivotal 'Phase III' studies.

Allergy vaccines have traditionally been made to order for individual prescription according to which allergens cause the patient's symptoms. This has meant that, in general, allergy vaccines fall outside the normal registration system and are sold as 'named patient products' – another reason why this treatment has been relegated to a niche.

As part of Allergy Therapeutics' aim of transforming allergy treatment by modernising allergy vaccination, we have embarked on a programme of clinical trials with the objective of gaining registration in all the major markets worldwide for standardised products suitable for a broad range of patients. As far as we are aware, no other allergy vaccines are being developed on this worldwide basis which requires the highest standard of evidence of efficacy and safety. The money raised at the IPO was required to fund this programme of studies.

Allergy Therapeutics' strategy

Allergy Therapeutics has continued to pursue its strategy as an integrated, Europe-based, specialty pharmaceutical company and over the last 12 months has made major steps forward. The Company is building its EU sales and marketing infrastructure and has made significant progress in its development pipeline of innovative, ultra-short-course allergy vaccines based on MPL®, a TLR4 agonist which acts as a vaccine adjuvant. The guiding principle of the development pipeline is to create efficacious and safe allergy vaccines with improved product characteristics for patient and payers, as they can be administered over a short period of time, with few injections or possibly injection-free, as a sublingual treatment.

1 Journal of Allergy and Clin Immunol., August 2005: 'Prevalences of positive skin test responses to 10 common allergens in the US population: Results from the 3rd National Health and Nutrition Examination Survey'.
2 'Bousquet J, van Cauwenberge P, Khaltaev N. Allergic rhinitis and its impact on asthma. ('ARIA') Journal of Allergy and Clinical Immunology – 2001.
3 Datamonitor: Pipeline Insight: Asthma, COPD and Allergic Rhinitis, April 2005.
4 WHO Position Paper 1997. Allergen Immunotherapy: therapeutic vaccines for allergic diseases.

Chief Executive's Review continued

"If you can develop an efficacious allergy vaccine with only 4 shots, it will be very attractive to the American market."

US Opinion Leader

Progress

Allergy Therapeutics performed well in the 12 months ended June 2005, both in delivering strong financial results and taking strategic actions that will underpin the delivery of long-term future performance of the Group.

In particular, the move into life as a publicly listed company in October 2004 has been a major highlight. The raising of £15 million, net of expenses, was the most advantageous means of securing funds to accelerate the clinical development of Pollinex® Quattro. The Company has since made progress with establishing the 'path to registration' for the family of vaccines and building relationships with various regulatory bodies. Subject to further regulatory approval, the Company is on track to commence full Phase III studies on vaccines against allergy to certain common pollens during the 2006 pollen season.

The financial performance of the business reflects significant advances made in the year throughout the Company. The Company has benefited from good progress in its commercialisation activities – for the year ended 30 June 2005 gross sales, before milestone income, of £21.9 million were generated, up 15% against the previous year, driven chiefly by a 41% increase in sales of Pollinex® Quattro. Operating profit, including milestone income but before German sales rebate, R&D and exceptional items, a key measure of performance of the core business, has nearly doubled to £6.1 million for the financial year (2004: £3.1 million).

We have also signed our first out-licence agreement for Pollinex® Quattro, with Canadian pharmaceuticals company Allerpharma, to whom Allergy Therapeutics granted exclusive rights for the Canadian market. £1 million of milestone income was earned in the year, with a further £7 million to be paid over the development period of the vaccines, subject to the achievement of certain development objectives.

Pollinex® Quattro

Description: Ultra-short-course vaccines for allergy to major pollens.

Dosing: 4 subcutaneous injections administered pre-seasonally by specialist for same season efficacy.

Composition: MPL® (TLR4 agonist adjuvant) combined with allergoids (chemically modified allergens) with L- tyrosine as depot carrier.

Pollinex® Quattro, which on a NPP basis is both a marketed product in certain territories and our flagship development product, has generated sales of £7.2 million (2004: £5.1 million). We have achieved this growth through a targeted approach to marketing in key areas. In Germany, winning the prestigious MMW Award for pharmaceutical innovation has had a noticeably positive effect on sales.

The Company received a further boost regarding the North American market in June when it received clearance from Health Canada to commence pivotal studies on Pollinex® Quattro Ragweed, a vaccine for seasonal rhinitis caused by Ragweed pollen, the major allergen in North America. If successful, the study will allow submission for registration in H1 2006, offering the possibility of a first marketing authorisation for a Pollinex® Quattro product in time for the 2007 season. Should such a registration be achieved, Allergy Therapeutics intends to conduct post-marketing studies to collect further safety and efficacy data which will be supportive to the registration applications to be made in other territories, in particular the USA.

Subject to regulatory approval, Allergy Therapeutics is on track to commence the pivotal Phase III clinical trials programme during the 2006 pollen season. These studies will be multi-centre, multi-national, conducted in both North America and Europe – Allergy Therapeutics is the only allergy vaccine company known to have such a programme of worldwide studies, including in the USA.

Oralvac® Plus

Description: Sublingual vaccines for allergy to major pollens, house dust mite and cat.

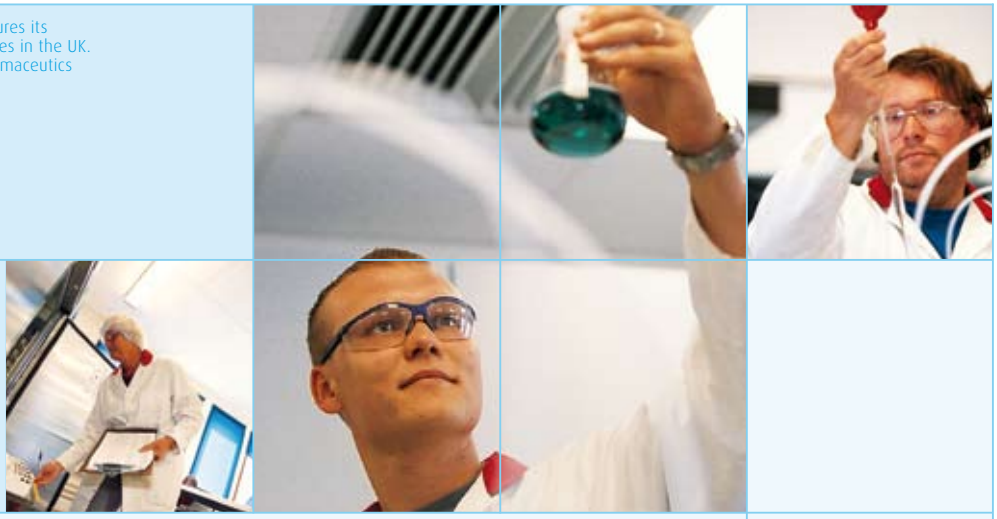
Dosing: Daily drops of liquid under the tongue continued for 1–5 years subject to physician advice.

Composition: Standardised sterile aqueous allergen extracts, Raspberry flavour.

Sales of Oralvac® have increased to £3.9 million (2004: £2.9 million).

Sublingual allergy vaccines have the advantage of easy administration; following diagnosis and prescription by the specialist, the patients self-administer at home. This also makes these products preferable for paediatric use. Sublingual vaccines, however, are generally considered to be less efficacious than injected allergy vaccines,

Allergy Therapeutics manufactures its own vaccines in its GMP facilities in the UK. Much of the development pharmaceutics are also carried out here.



Our Strengths

We firmly believe we have a solid foundation from which to build a sustainable, high value business.

Our business model

We are a fully integrated, specialty pharmaceuticals company. 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.

People
Our greatest strength. Allergy Therapeutics has approximately 250 employees on a FTE basis ranging from sales reps to PhD immunologists, primary production operatives to product managers. Our team has extensive expertise across all functions from manufacturing to regulatory, administration to sales, clinical trials management to medical marketing.

Manufacturing
The advantages of having our own manufacturing capacity are threefold. We maximise the margins to our business on the product we sell; we are in full control of supply to our markets; we can manufacture our own clinical trials materials, which gives us control and flexibility.

Sales and marketing
Allergy Therapeutics has a direct salesforce presence in Germany, Italy, Spain, the UK, Poland and Austria. We are winning market share in our main markets. We are actively exploring ways of increasing our EU sales and marketing 'footprint' as sales increase and in preparation for the successful development of registered ultra-short-course allergy vaccines.

Our products

Our efforts to bring modern vaccine technology to the field of immunotherapy worldwide are unique to the market.

These efforts are also built upon a solid foundation of existing allergy vaccines which have been marketed, developed and improved upon steadily since the foundation of the business over 60 years ago. Pollinex® Quattro, at the leading edge of technology, containing the TLR4 agonist vaccine adjuvant MPL®, leads a portfolio of allergy vaccines, both injected and sublingual.

Chief Executive's Review continued

Over 115,000 treatment sets of Pollinex® Quattro have been sold in Europe to date, mainly for allergic sensitivities to grass and tree pollens.

and require unsupervised long-term repeat administration so patient compliance is questionable. By including MPL® in a sublingual formulation, Allergy Therapeutics is planning to develop new products to address these issues; first-in-man Phase I/II studies are planned to start in the financial year 2005/6.

Other products

For patients with allergy to less common allergens and for markets where short-course injected and sublingual vaccines are not yet accepted, Allergy Therapeutics has the Tyrosine TU t.o.p. and Venomil products. For markets where the NPP route is not possible, we offer the registered Pollinex® Grass, Tree and Ragweed products. Combined sales of these vaccines amounted to £7.9 million in the year (2004: £8.5 million).

Key markets

For GMP-manufactured allergy vaccines, Germany, Italy, Spain and France are the biggest markets in the world. Germany is the largest market and it remains Allergy Therapeutics' most important source of revenue, accounting for nearly 69% of sales. Italy and Spain are of growing importance to us and we continue to invest in these businesses, which represent 10% and 7% of sales respectively.

During the course of the year we initiated plans to set up our own commercial operations in Austria, the UK, Poland and the Czech and Slovak Republics. We also entered into new distribution agreements for Canada (Allerpharma) and Greece (Kite Hellas).

The US is a prime target market for Allergy Therapeutics; it represents over 40% by value of the world pharmaceutical market and allergy is a major and growing health problem; added to this, current allergy vaccine treatment practice is old-fashioned, invasive and not controlled by the FDA – potentially making Allergy Therapeutics' new MPL® containing vaccines very attractive. Therefore we continue to work hard to progress to Phase III clinical trials with the FDA.

Corporate and social responsibility

Allergy Therapeutics recognises its responsibilities to its employees, the wider community and the environment. We are determined to be regarded as a well-managed, responsible company in all the communities in which we operate worldwide.

We are committed to supporting our employees and aim to help them flourish by providing an enjoyable and safe workplace free from discrimination where all employees can receive the training they require to further their development. We also value our relationships with the local community, as indicated by our links with The University of Brighton.

We have a responsibility to consider our impact on the environment and are committed to managing our environmental performance and minimising risk.

Strategy and prospects

Our strategy going forward can be simply summarised. We will develop modern, registered allergy vaccines which are attractive for patients, physicians and payers, thereby widening considerably the markets for which these treatments are appropriate. We will build on our strength in the EU to prepare for full commercialisation of Pollinex® Quattro on our own account when the registrations are achieved. At the appropriate time we will seek partners for markets outside the EU, in particular the USA and Japan. With respect to sublingual allergy vaccines, which should be a General/Family Practitioner product and therefore require a larger salesforce than a company of the size of Allergy Therapeutics can reasonably muster, we will seek partners worldwide – again at the appropriate time. We will continue to manufacture our own products for sale across the world.

The strategy is ambitious, requiring continued achievement in every area of the business. 2004/5 was a very busy year for Allergy Therapeutics; 2005/6 promises to bring even more challenges and opportunities.

Keith Carter
Chief Executive Officer
12 September 2005

In a 'Post Marketing Surveillance' study of Pollinex® Quattro carried out over 3 years and involving over 3,000 patients, 93.5% of subjects enjoyed an improvement in their condition. The safety profile is also very good.

146M

people in the 7 major markets worldwide suffer from allergic rhinitis.

During the year Allergy Therapeutics commenced a major programme of clinical trials which will continue in the current year with Phase III studies planned for certain key allergens.

$11BN

total annual sales of symptomatic allergy treatments.

Our Potential

There is a real opportunity for market transformation and a revolution in the way allergies are treated.

Markets

The $11 billion spent annually on allergy treatments goes almost entirely on symptomatic pharmaceuticals such as antihistamines, inhaled corticosteroids and other anti-inflammatories. None of these products has the curative potential of allergy vaccination.

Allergy Therapeutics is directly represented in 3 of the 4 largest markets for manufactured allergy vaccines in the world: Germany, Italy and Spain. Approximately 700,000 patients are treated with allergy vaccines in these markets – less than 2.5% of the allergic population. Allergy Therapeutics' current share of this niche market is below 15% in all its markets. The potential for growth is considerable.

The US market

For allergy vaccines, the US market for manufactured products is negligible, owing to the current 'Named Patient' approach which prevails there. It is estimated that over 2 million Americans receive long courses of allergy shots formulated by their physicians specifically for each patient. This represents less than 5% of the population suffering from allergic rhinitis. There is currently no vaccine registered with the FDA available on the US market.

R&D

Allergy vaccines are efficacious. Most current vaccines require long term treatment and multiple injections. Our development approach is to apply the latest vaccine technology – the TLR4 agonist vaccine adjuvant MPL® – to create better, modern, patented vaccines, effective after a few shots over a short period.

Pollinex® Quattro

Our lead development products are the Pollinex® Quattro family of injected vaccines for major allergens. During the course of the year, following consultation with the FDA and other regulatory authorities, we have opened/approved 2 INDs in the USA, 8 CTAs in Canada and 2 CTAs in the EU. 8 'pre Phase III' studies have been commenced and 2 have completed successfully. Subject to further regulator consents, our pivotal Phase III programme should commence this year.

Sublingual (under the tongue) vaccines

During the year the UK Patent Office granted the first patent in our sublingual MPL® family. Preclinical work demonstrated immunological efficacy of MPL® delivered in this patient-friendly way. Proof of concept 'first-in-man' studies are planned to commence in the coming months.

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 2005 total gross sales increased by 20% to £22.9 million (2004: £19.1 million); after statutory rebates in the German market net sales were £20.6 million (2004: £18.0 million) an increase over the previous year of 14%.

Own markets

The Group competes directly in 3 markets, 3 of Europe's 4 most important for allergy vaccination: Germany, Italy and Spain.

The Group is the third largest allergy vaccine company in Germany, with annual gross sales of £16.4 million (2004: £12.8 million), an increase over the previous year of 28%. The German market is the largest in the world for 'finished form' allergy vaccines; the Group's share is growing and last year amounted to 13%. Trading in Germany improved during the year as the effects of patient co-payment, which temporarily reduced the frequency of patients' doctor visits when introduced in 2003, diminished. The rebate on pharmaceutical sales, which was market-wide, was increased in January 2004 to 16% from the 6% in force the preceding year. This has been costly to the Group, since approximately 70% of sales originate in Germany, with a charge of £2.3 million for the year (2004: £1.1 million). As from 1 January 2005, the rebate has reverted to 6% and is now calculated using current list prices, instead of the October 2002 prices used previously.

In Italy and Spain the Group has continued to increase its market share. In Italy annual sales were £2.1 million, an increase of 17% and in Spain annual sales increased by 24% to £1.4 million.

Licencees

The Group also sells through licensees and distributors, accounting for 13% of the gross sales. Total sales for the year were £3.0 million (2004: £3.4 million) a decrease of 12% on the previous year, and included a milestone of £1 million from the Company's Canadian licensee for Pollinex® Quattro.

Lower sales have been recorded in some territories. In line with the strategy of building a pan European sales force, the contract with Pliva, who had the rights to the Central and Eastern Europe (CEE) markets, was terminated. Consequently any unsold stock in the CEE market was bought back from Pliva and sales that had been recorded in June of the previous year were not repeated this year.

Product sales

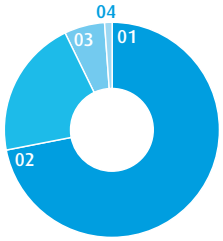
The Group's flagship product, Pollinex® Quattro, continued to sell exceptionally well, with gross sales of £7.2 million (2004 £5.1 million) an increase of 41% over the previous year.

Cost of sales and net operating expenses

Despite the rebate on sales in Germany of £2.3 million the gross margin has improved to 76% due to: the use of production resources in supporting the R&D activities, the one-off release of a stock obsolescence provision and the inclusion of £1 million of milestones with no associated cost of goods. Cost of goods sold were 12% lower than in the previous year at £4.9 million.

An investment in additional sales people and an uplift in the marketing and promotion spend increased the distribution costs by 22% in the year to £8.0 million. However administration costs were held at the same level as the preceding year at £4.3 million. As discussed in the Chief Executive's Review, the development programme for Pollinex® Quattro was initiated this year and as a result development costs are significantly higher than in the previous year at £5.6 million (2004: £0.5 million). This expenditure supported the ongoing early phase development activity associated with grass, tree and ragweed allergens and the pivotal ragweed study in Canada, designed to achieve the registration of Pollinex® Quattro in Canada for ragweed earlier than anticipated at the time of the IPO in October 2004. Of the total R&D expenditure £1.5 million relates to internal development costs.

Gross sales by region



01 Germany – £16.5 million (72%)
02 Rest of Europe – £4.7 million (21%)
03 North America – £1.4 million (6%)
04 Asia – £0.3 million (1%)

The Group's flagship product, Pollinex® Quattro, continued to sell exceptionally well with gross sales up 41% on last year.

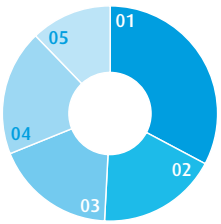
+24%

Sales in Spain were up 24% to £1.4 million.

+20%

Total gross sales increased to £22.9 million up 20% on last year.

Product sales 2005



01 Pollinex® Quattro – £7.2 million (33%)
02 Oralvac® Plus – £3.9 million (18%)
03 Tyrosine – £3.8 million (18%)
04 Pollinex® – £4.1 million (19%)
05 Others – £2.9 million (12%)

Results of operation

The Group recorded an operating loss of £2.4 million (2004: profit £1.6 million). However, before development costs, the German rebates and exceptional items, the operating profit was £6.1 million (2004: £3.1 million) including milestone income of £1 million (2004: £nil); which allows for a more reasonable comparison of performance and highlights an impressive result from the core business this year. Interest receivable was significantly higher at £0.5 million (2004: £0.1 million) as a result of higher cash balances following the IPO.

Taxation

As a result of the investment in development, the Group has the option to receive a tax credit of £0.7 million which, if claimed, is expected to be received in the following financial year. In the previous year no tax credit was claimed but tax losses surrendered to a shareholder under consortium relief legislation, less the release of a deferred tax credit, resulted in a charge of £0.4 million. The Group has losses to carry forward for the current year of £8.9 million.

Net assets

Net assets at 30 June 2005 were £20.1 million (2004: £7.1 million), an increase of £13.0 million due primarily to the £15 million net proceeds raised from the IPO in October 2004.

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 £0.9 million, contributing to the increase in the value of tangible fixed assets to £2.1 million from £1.7 million. This expenditure included upgrades to plant and machinery and further payments on the ERP system.

Stock has increased during the year to £2.7 million (2004: £1.8 million) to support the increase in sales and after a number of one-off events including the release of a stock obsolescence provision of £0.3 million. The increase in debtors falling due within 1 year to £3.2 million (2004: £2.1 million) results mainly from the milestone invoiced of £1 million.

Creditors falling due within 1 year increased significantly at the year end to £6.1 million (2004: £3.3 million), primarily due to an increase in accruals relating to development activities.

Capital structure

The Group finances its operations through cash generated from its core business and the net proceeds raised from the IPO.

The Group's funding requirements depend on a number of factors, including the Group's product development programmes, which were initiated in the year to June 2005 and are planned to increase further in activity in the following financial year. The Group currently has no debt on its balance sheet but will in the future be considering bank debt as a means of financing its manufacturing related increases in working capital and capital expenditure as the core business prepares itself for supplying worldwide markets.

Cash flows

As at 30 June 2005 cash totalled £15.1 million, an increase of £13.6 million from £1.5 million at 30 June 2004. For the year net cash outflow before financing amounted to £0.4 million compared to net inflow in the previous year (2004: £1.1 million). Net cash outflow includes significant product development costs of £3.8 million which, when added back to the operating activities, generates core net cash inflow of £3.4 million.

During the previous year, cash generated from operations was used primarily to fund capital expenditure and a share buy-back for the creation of an employee benefit trust.

Ian Postlethwaite
Finance Director
12 September 2005

Board of Directors

01 Ignace Goethals
Non-executive Chairman (59)
Previously Chief Executive of Allergy Therapeutics, Ignace was appointed to Non-executive Chairman in November 2003. Ignace has had a successful career in the pharmaceutical industry with Eli Lilly, Squibb/Bristol Myers Squibb and SmithKline Beecham, rising to the highest levels prior to retiring at the end of 1998, when he was head of worldwide supply operations.

His experience is exceptionally broad, covering sales and marketing, country and regional general management positions, licensing and business development, business unit management (Biologicals and Animal Health) and supply.

Ignace has a degree in Applied Economics from the University of Louvain (Belgium) and an MBA from the University of Chicago.

02 Keith Carter
Chief Executive Officer (46)
Keith is a founding shareholder of Allergy Therapeutics and was part of the team that orchestrated the MBI of the Company from SmithKline Beecham. Prior to this his career was spent in corporate advisory and corporate finance work with Lloyds Merchant Bank, Drexel Burnham Lambert and latterly at NatWest Markets, the investment banking arm of the National Westminster Bank, where he headed the Pharma Group.

He began specialising in advice to the pharmaceuticals industry in 1990, when he ran his own corporate finance boutique. Keith has a First Class Honours degree in Economics from Cambridge University.

03 Ian Postlethwaite
Finance Director (42)
Ian Postlethwaite joined ATL in April 2002 as Finance Director. Prior to this he worked for Ellerman Investments (1997–2002), a UK private equity house, undertaking the roles of Chief Executive Officer with AFS, one of the largest independent finance houses in the UK, and Finance Director with a number of successful start up technology companies.

Previously he held senior finance positions with Ericsson, from 1994 to 1997, and Philips Electronics from 1989 to 1994. He is a qualified accountant and a Fellow of the Association of Chartered Certified Accountants.

Ian has a BSc (Hons) in Geological Sciences from Aston University.

04 Thomas Holdich
R&D Director (46)
Tom joined Allergy Therapeutics in August 2004 from Shire Pharmaceuticals, where he was Head of Clinical Research. He has 19 years' clinical research experience, including senior positions at AstraZeneca and SmithKline Beecham.

05 Andrew Turnbull
Director, Business Development (32)
Andrew joined ATL in August 1998 and was appointed to the Board in August 2002, having been the UK Operations Manager since February 2000.

In addition to Business Development, he is specifically responsible for Supply Operations, Production, Technical Services, Purchasing, Logistics, IT and Market Support. Before joining ATL Andrew managed the process engineering function of Procip Ltd, a design and build company which specialises in the pharmaceutical sector. Andrew has a wealth of experience in process design, control and project management and gained a BChemE (Hons) at Canterbury University, Christchurch, New Zealand.

06 Christian Grätz
Director, Market Operations (52)
Christian is also General Manager of Bencard Allergie. Christian joined the Company in July 1998. Prior to this he was Marketing & Sales Director at Akzo Nobel/ Organon GmbH from 1996 to 1998.

During his time at Organon he restructured the company, in-licensed the entire gynaecology product portfolio from Orion (Finland) and successfully managed a Joint Venture with Janssen-Cilag. Previously Christian was Business Unit Director at American Cyanamid/ Lederle GmbH (1991–1996).

He brought Lederle's vaccines from USA to Europe, where they were launched in 1994 and rapidly gained significant market share. When Lederle and American Home Corp. merged, Christian was responsible for restructuring the new company and was appointed Division Director, Germany.

Before joining Lederle, he held a number of senior management positions with large companies, including BASF/Knoll AG and Beiersdorf AG. Christian lectured in economics at Universities of Hagen and Gelsenkirchen and has a Dr. (rer. oec.) from Bochum University.

07 Stephen Smith
Non-executive Director (52)
Stephen Smith is a Chartered Management Accountant, Fellow of the Association of Corporate Treasurers and member of the Society of Turnaround Professionals who, since 1995, has operated as an independent consultant and interim manager (CRO/CEO/COO/FD) on an international basis.

Up to 1995, Stephen Smith held various senior financial positions in UK-based international public companies, including 6 years as group treasurer of The Rank Organisation and 3 years as group finance director of a quoted hotel company.

Shareholder Information

Registered Office
Dominion Way
Worthing
West Sussex BN14 8SA

Advisers

Broker & Nominated Adviser
Robert W Baird Ltd
Mint House
77 Mansell Street
London E1 8AF

Auditors
Grant Thornton UK LLP
The Explorer Building
Fleming Way
Manor Royal
Crawley RH10 9GT

Lawyers
Berwin Leighton Paisner
Adelaide House
London Bridge
London EC4R 9HA

Registrars
Capita IRG plc
The Registry
34 Beckenham Road
Beckenham
Kent BR3 4TU

Bankers
The Royal Bank of Scotland
South East Corporate Centre
Turnpike House
123 High Street
Crawley RH10 1DQ

Public Relations Advisers
Bell Pottinger
6th Floor, Holborn Gate
330 High Holborn
London WC1V 7QD

Patent & Trade Mark Attorneys
D Young & Co
120 Holborn
London EC1N 2DY

Directors' Report

The directors present their annual report and the audited financial statements for the 12 months ended 30 June 2005. The financial statements are for Allergy Therapeutics Plc (the Company) and its subsidiary companies (together, the Group). In September 2004, the shares of Allergy Therapeutics (Holdings) Ltd were acquired by Allergy Therapeutics plc, by way of a share-for-share exchange, prior to completing a successful flotation on the AIM on 11 October 2004.

Company statements for Allergy Therapeutics plc cover the period from incorporation, as detailed in the note below. Group statements have been prepared under the merger accounting basis and presented as though they had always been part of Allergy Therapeutics plc.

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 and sublingual 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.

A review of the Group's business and activities is contained in the Chairman's Statement and Chief Executive's Review.

Results

The loss for the year after taxation was £1,929,000 (2004: £1,218,000 profit). The results for the year are set out on page 21 and are dealt with in more detail in the Financial Review.

Directors and directors' interests

The directors who held office during the period were as follows:

		Date of appointment
Ignace Goethals	Non-executive chairman	8 September 2004
Keith Carter	Chief executive officer	1 July 2004
Christian Grätz	Market operations director	8 September 2004
Thomas Holdich	R&D director	8 September 2004
Ian Postlethwaite	Finance director	1 July 2004
Andrew Turnbull	Supply operations director	8 September 2004
Stephen Smith	Non-executive director	8 September 2004

The dates of appointment above refer to appointment as directors of Allergy Therapeutics plc. All the directors were previously directors of Allergy Therapeutics (Holdings) Ltd.

All the directors will retire and offer themselves for re-election at the forthcoming Annual General Meeting.

The directors' interests in the shares of the Company are as follows:

Name	At date of appointment: Ordinary shares	At date of appointment: Options	At end of year: Ordinary shares	At end of year: Options
Ignace Goethals*	2,573,343	1,150,000	2,573,343	1,150,000
Keith Carter*	2,584,643	1,550,000	2,584,643	2,150,000
Christian Grätz	1,095,540	2,156,000	1,095,540	2,356,000
Thomas Holdich	–	–	–	430,000
Ian Postlethwaite	–	3,350,000	–	3,650,000
Andrew Turnbull*	211,398	3,207,100	211,398	3,507,100
Stephen Smith	–	900,000	–	900,000

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

Directors' indemnity
The directors and officers of the Company are insured against any claims arising against them for any wrongful act in their capacity as a director, officer or employee of the Company, subject to the terms and conditions of the policy.

Incorporation
The Company was incorporated on 1 June 2004 as Netstamp Limited. The Company name was changed to Allergy Therapeutics Limited and the Company was re-registered as a public limited company on 4 October 2004. The Company was dormant from 1 June 2004 until 4 October 2004. From 1 June 2004 until 1 July 2004, the director of the Company was Instant Companies Limited.

Substantial shareholders
At 6 September 2005 the Company had been notified of the following major interests, each representing 3% or more of the existing issued ordinary share capital.

Shareholder	Ordinary shares	% held
GlaxoSmithKline plc	10,118,748	16.07
OTC Limited	5,189,776	8.24
Fidelity Investments	4,533,446	7.20
Britel	2,583,773	4.10
APIC Trustees Limited*	2,584,643	4.11
I Goethals	2,573,343	4.09
Universities Superannuation Scheme	2,187,260	3.47
Baillie Gifford & Co.	2,054,795	3.26

*The beneficiary of these shares is K Carter (director).

Changes to interest in own shares
During the year the Company allocated 1,166,524 shares out of the Employee Benefit Trust to satisfy share options that were exercised.

Corporate governance
The Group has established an Audit Committee and a Remuneration Committee with formally delegated duties and responsibilities. The chairman of each committee reports directly to the Board.

The Audit Committee and Remuneration Committee both comprise Stephen Smith (Chairman) and Ignace Goethals.

The Audit Committee meets at least twice a year to review a wide range of issues, including the annual financial statements and the Interim Statement, overseeing the objectivity and effectiveness of the auditors and regulatory compliance. The external auditors are formally invited to attend each meeting. The Committee reviews the Key Issues Memorandum produced by the external auditors.

Full details of directors' remuneration and a statement of the Company's remuneration policy are set out in the Directors' Remuneration Report.

Engagement of auditors for the supply of non-audit services
It is the Company's policy that it will only engage the Company's auditor to supply other professional services to the Company and its subsidiary undertakings if it is satisfied that all the usual conditions of engagement and benchmarks are met. Any agreement to purchase services costing more than £10,000 per engagement must have the prior approval of the Audit Committee.

Internal control
The Board has ultimate responsibility for the system of internal control maintained by the Group. The system is designed to manage rather than eliminate risk. It can provide only reasonable and not absolute assurance against material misstatement or loss and includes the safeguarding of assets, the maintenance of proper accounting records, the reliability of financial information, compliance with appropriate legislation, regulation and best practice and the identification and management of business risk. During the year the Company established an internal audit function, reporting directly to the Audit Committee, which has carried out reviews of the policies and controls of the subsidiaries in Germany, Italy and Spain. A full review of policies and controls in the UK and follow-up reviews of the overseas subsidiaries are scheduled to take place during the financial year ending 30 June 2006.

International Financial Reporting Standards ('IFRS')
Reporting under IFRS is due to be mandatory for the Group for the year ending 30 June 2008 onwards, although consideration will also need to be given to the 2007 results due to the requirement for comparatives on the implementation of IFRS. A project team will be set up to manage the Group's transition from UK GAAP to IFRS and to ensure successful implementation within the required timeframe.

Research and development
The Group will continue its policy of investment in research and development in order to improve its competitive position in the market.

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.

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

Creditors' payment policy and practice
The Group agrees payment terms with suppliers when it enters into contracts for the purchase of goods or services and seeks to abide by those terms when it is satisfied that the supplier has provided the goods or services in accordance with the agreed terms and conditions.

The number of trade creditor days at 30 June 2005 was 52 days (2004: 51 days).

Employment policies
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. In the UK, employees have access to Company information on the intranet. Information about the Group is also available on the Internet.

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

Directors' Report
continued

Statement of directors' responsibilities

Company law in the UK 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 Group and Company and of the profit or loss of the Group 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, for safeguarding the assets of the Group and for taking reasonable steps for the prevention and detection of 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 directors are responsible for ensuring compliance with the AIM rules.

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.

Auditors

Grant Thornton UK LLP offer themselves for reappointment as auditors in accordance with section 385 of the Companies Act 1985. A resolution for their reappointment is to be proposed at the forthcoming Annual General Meeting.

By order of the Board on 12 September 2005,

Ian Postlethwaite
Company Secretary

Directors' Remuneration Report

The Remuneration Committee (unaudited)

The Remuneration Committee was formed on 8 October 2004 and comprises Steve Smith (Chairman) and Ignace Goethals. A remuneration committee was in place prior to 8 October 2004 for the Group's former holding company. The Committee held 2 meetings during the past financial year which were also attended by the Human Resources Manager. The principle purpose of the Committee is to agree the directors' salary increases, annual bonuses and any changes in benefits. In addition, the Committee also agrees the share-related compensation for the directors and other executive management, approves performance-related pay schemes of the Group and other executive compensation matters. For the purpose of reaching appropriate decisions the Committee has used information from the Alan Jones & Associates 'Pharmaceutical Salary Survey', the Halliwell Consulting 'Executive Pay in the Pharmaceuticals & Bio Tech Sector' report and a sample taken from AIM listed pharmaceutical companies of similar size and value (the 'Comparator Group').

Remuneration policy (unaudited)

The Committee's policy is to set remuneration packages for executive directors that are competitive with the market, allowing the Company to attract, motivate and retain executives of the highest calibre. Remuneration packages are designed to reward executives for performance via annual bonus payments and awards of share-related compensation, which together constitute a potentially significant proportion of the total remuneration opportunity.

The remuneration of executive directors comprises the following five elements:

(i) Basic salary

Basic salary reflects the market rate for each position and the individual director's experience and value to the business. Salaries are reviewed annually as at 1 October, taking into account personal performance, and are benchmarked against the Comparator Group.

(ii) Taxable benefits

Taxable benefits represent the provision of a car allowance and private medical insurance.

(iii) Share options

Executive share options have been granted to directors and senior management under the Allergy Therapeutics plc 2005 Executive Share Option Plan and are exercisable between 3 and 10 years from the date of grant, subject to continued employment and the satisfaction of performance conditions. The number of Executive share options were approved on the basis of 2 times annual salary for the Chief Executive and, for all other executive directors, 1½ times annual salary.

The share options granted to individual executive directors to date are disclosed later in this report and include grants made in prior years under previous approved and unapproved option schemes. Share options previously granted by Allergy Therapeutics (Holdings) Ltd were surrendered on 5 October 2004 for share options in Allergy Therapeutics plc, on substantially the same terms.

(iv) Bonus

In the case of the executive team the Company operates a performance related cash bonus based upon individual performance and achievement of personal and corporate objectives. The performance-related bonus for the year ending 30 June 2005 ranged between 25% and 40% of basic salary. Annual bonus payments are capped under service contracts at 40% for K Carter and 30% for all other directors except C Grätz, whose bonus is uncapped.

(v) Pension arrangements

The UK Company operates a Group Personal Pension Scheme and currently makes pension contributions equal to 10% of salary for executive directors, with the exception of K Carter for whom the Company contributes 13% of salary.

C Grätz is a member of Bencard Allergie's pension scheme, which provides a defined benefit on retirement. Bencard Allergie's contributions are based on actuarial reports provided by Swiss Life Pension Management. The pension liability is insured through a reinsurance contract with Swiss Life.

Directors' Remuneration Report
continued

Service contracts (unaudited)

Executive directors	Date of contract*	Notice period
Keith Carter	1 November 2003	6 months
Ian Postlethwaite	7 May 2002	12 months
Christian Grätz	1 April 2001	12 months
Andrew Turnbull	1 September 2003	6 months
Tom Holdich (start date 02/08/04)	2 August 2004	6 months

*The above dates refer to service contracts with Allergy Therapeutics (Holdings) Ltd and, for Christian Grätz, with Bencard Allergie GmbH. All the service contracts, except that of Christian Grätz, were amended on 5 October 2004 to reflect the change of employer to Allergy Therapeutics plc.

Non-executive directors	Date of contract	Notice period
Ignace Goethals	8 September 2004	3 months
Stephen Smith	8 September 2004	3 months

The above contracts replaced previous service contracts in respect of non-executive director roles in the Group's former holding company.

Directors remuneration (audited)

Details of remuneration of those who served as directors during the year are set out below.

	Basic salary £	Bonus £	Taxable benefits £	Pension contributions £	Fees £	Total £
Executive directors						
Keith Carter	144,325	51,840	10,968	19,500	–	226,633
Ian Postlethwaite	105,308	20,943	10,968	10,531	–	147,750
Christian Grätz	126,608	23,426	12,833	23,148	–	186,015
Andrew Turnbull	87,187	13,895	10,814	8,719	–	120,615
Tom Holdich	109,416	30,250	10,054	10,942	–	160,662
Non-executive directors						
Ignace Goethals	–	–	–	–	24,000	24,000
Steve Smith	–	–	–	–	12,000	12,000
Totals	**572,844**	**140,354**	**55,637**	**72,840**	**36,000**	**877,675**

The bonuses are stated after adjustment with respect to prior year, which reduces the total bonus disclosure by £29,000.

Directors' share options (audited)

	Options held at 1 July 2004	Options granted in the year	Options held at 30 June 2005	Subscription price (pence)	Exercise date from	Expiry date
Executive directors						
Keith Carter	350,000	–	350,000	120.0	31/07/2002[1]	31/07/2011
	750,000	–	750,000	5.0	18/12/2002[1]	18/12/2012
	450,000	–	450,000	45.0	26/02/2005[1]	26/02/2014
	–	*99,601	99,601	100.4	08/03/2008	08/03/2015
	–	500,399	500,399	100.4	08/03/2008	08/03/2015
Ian Postlethwaite	400,000	–	400,000	30.0	03/06/2002	03/06/2012
	1,000,000	–	1,000,000	0.1	02/10/2002	02/10/2012
	1,500,000	–	1,500,000	5.0	17/12/2002[1]	17/12/2012
	450,000	–	450,000	45.0	26/02/2005[1]	26/02/2014
	–	*24,900	24,900	100.4	03/03/2008	08/03/2015
	–	275,100	275,100	100.4	08/03/2008	08/03/2015
Christian Grätz	6,000	–	6,000	0.1	04/10/2004	20/10/2010
	200,000	–	200,000	120.0	31/07/2002[1]	31/07/2011
	1,500,000	–	1,500,000	5.0	18/12/2002[1]	18/12/2012
	450,000	–	450,000	45.0	26/02/2005[1]	26/02/2014
	–	200,000	200,000	100.4	08/03/2008	08/03/2015
Andrew Turnbull	100	–	100	0.1	04/10/2004	22/12/2008
	1,000	–	1,000	0.1	04/10/2004	01/10/2009
	6,000	–	6,000	0.1	04/10/2004	01/10/2010
	50,000	–	50,000	0.1	04/10/2004	02/01/2011
	200,000	–	200,000	120.0	31/07/2002[1]	31/07/2011
	1,000,000	–	1,000,000	0.1	02/10/2002	02/10/2012
	1,500,000	–	1,500,000	5.0	17/12/2002[1]	17/12/2012
	450,000	–	450,000	45.0	26/02/2005[1]	26/02/2014
	–	*24,900	24,900	100.4	08/03/2008	08/03/2015
	–	275,100	275,100	100.4	08/03/2008	08/03/2015
Tom Holdich	–	*222,222	222,222	45.0	02/08/2005[1]	02/08/2014
	–	7,778	7,778	45.0	02/08/2005[1]	02/08/2014
	–	200,000	200,000	100.4	08/03/2008	08/03/2015
Non-executive directors						
Ignace Goethals	1,000,000	–	1,000,000	5.0	18/12/2002[1]	18/12/2012
	150,000	–	150,000	45.0	26/02/2005[1]	26/02/2014
Stephen Smith	750,000	–	750,000	5.0	18/12/2002[1]	18/12/2012
	150,000	–	150,000	45.0	26/02/2005[1]	26/02/2014
Totals	**12,313,100**	**1,830,000**	**14,143,100**			

* Inland Revenue approved scheme

[1] One third of share options granted are exercisable from this date, one third from 12 months after this date and one third from 24 months after this date.

At 30 June 2005 the market value of shares was 87.5p per share. The range of values during the period from 11 October 2004 to 30 June 2005 was 74.5p to 125.5p per share.

Share options previously granted by Allergy Therapeutics (Holdings) Ltd were surrendered on 5 October 2004 for share options in Allergy Therapeutics plc, on substantially the same terms.

Report of the Independent Auditors to the Members of Allergy Therapeutics plc

We have audited the financial statements of Allergy Therapeutics plc for the year ended 30 June 2005 which comprise the consolidated profit and loss account, the consolidated and company balance sheets, the consolidated cash flow statement, the consolidated statement of total recognised gains and losses and notes 1 to 28. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the directors' remuneration report that is described as having been audited.

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 statement, chief executive's review, financial review, directors' report and the unaudited part of the directors' remuneration 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 2005 and of the loss 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 and Chartered Accountants
Gatwick
12 September 2005

Consolidated Profit and Loss Account

for the year ended 30 June 2005

	Note	Year ended 30 June 2005 £'000	Year ended 30 June 2005 £'000	Year ended 30 June 2004 £'000	Year ended 30 June 2004 £'000
Turnover	2		**20,606**		18,001
Cost of sales			**(4,853)**		(5,513)
Gross profit			**15,753**		12,488
Distribution costs			**(8,012)**		(6,569)
Administrative expenses – other		**(4,303)**		(4,335)	
Research and development costs		**(5,620)**		(451)	
Exceptional costs	4	**(614)**		–	
Administrative expenses			**(10,537)**		(4,786)
Other operating income			**378**		423
Operating (loss)/profit			**(2,418)**		1,556
Interest receivable and similar income		**531**		60	
Interest payable on loans and overdrafts		**(42)**		(26)	
			489		34
(Loss)/profit on ordinary activities before tax	3		**(1,929)**		1,590
Tax on loss/profit on ordinary activities	7		**–**		(372)
Retained (loss)/profit for the financial year	21,22		**(1,929)**		1,218
Basic (loss)/earnings per share	9		**(3.4p)**		3.0p
Diluted (loss)/earnings per share	9		**(3.4p)**		2.5p

All amounts relate to continuing activities.

Consolidated Balance Sheet
at 30 June 2005

	Note	30 June 2005 £'000	30 June 2004 £'000
Fixed assets			
Intangible assets	10		
Goodwill		**2,617**	2,945
Other intangible assets		**951**	1,072
		3,568	4,017
Tangible assets	11	**2,111**	1,650
		5,679	5,667
Current assets			
Stocks	13	**2,741**	1,825
Debtors: amounts falling due within one year	14	**3,160**	2,062
Debtors: amounts falling due after one year	14	**–**	223
Cash at bank and in hand		**15,080**	1,457
		20,981	5,567
Creditors: amounts falling due within one year	15	**(6,121)**	(3,277)
Net current assets		**14,860**	2,290
Total assets less current liabilities		**20,539**	7,957
Creditors: amounts falling due after one year	16	**(455)**	(881)
Net assets		**20,084**	7,076
Capital and reserves			
Called up share capital	20	**73**	51
Share premium account	21	**14,924**	–
Other reserves – shares issued by subsidiary	21	**40,128**	40,128
Other reserves – shares held in Employee Benefit Trust	21	**(322)**	(373)
Profit and loss account	21	**(34,719)**	(32,730)
Shareholders' funds – equity	22	**20,084**	7,076

These financial statements were approved by the Board of directors on 12 September 2005 and were signed on its behalf by:

K Carter
Chief Executive Officer

I Postlethwaite
Finance Director

Company Balance Sheet
at 30 June 2005

	Note	30 June 2005 £'000
Fixed assets		
Investments	12	–
Current assets		
Debtors: amounts falling due within one year	14	6
Creditors: amounts falling due within one year	15	(239)
Net current liabilities		(233)
Total assets less current liabilities		(233)
Net liabilities		(233)
Capital and reserves		
Called up share capital	20	73
Share premium	21	14,924
Other reserve – shares held in Employee Benefit Trust	21	(322)
Profit and loss account	21	(14,908)
Shareholders' funds/(deficiency) – equity		(233)

These financial statements were approved by the Board of directors on 12 September 2005 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 2005

	Note	Year to 30 June 2005 £'000	Year to 30 June 2005 £'000	Year to 30 June 2004 £'000	Year to 30 June 2004 £'000
Cash (outflow)/inflow from operating activities	23		**(15)**		1,508
Returns on investment and servicing of finance					
Interest received		**531**		60	
Interest paid		**(42)**		(26)	
			489		34
Taxation	7		**–**		364
Capital expenditure and financial investment					
Purchase of tangible fixed assets	11		**(903)**		(760)
Cash (outflow)/inflow before financing			**(429)**		1,146
Acquisitions and disposals					
Deferred consideration			**–**		(308)
Financing	24				
Gross funds raised on issue of shares		**16,000**		–	
Bank loans repaid		**(945)**		(305)	
Sale/(purchase) of EBT shares		**51**		(373)	
Premium on shares issued by subsidiary		**–**		30	
Expenses paid in connection with issue of shares		**(1,054)**		–	
			14,052		(648)
Increase in cash in year			**13,623**		190

Reconciliation of Net Cash Flow to Movement in Net Funds

	Note	Year to 30 June 2005 £'000	Year to 30 June 2004 £'000
Increase in cash in the year		**13,623**	190
Net loans repaid		**945**	305
Movement in net funds in year	25	**14,568**	495
Net funds at beginning of year		**512**	17
Net funds at end of year	25	**15,080**	512

Consolidated Statement of Total Recognised Gains and Losses

for the year ended 30 June 2005

	Year to 30 June 2005 £'000	Year to 30 June 2004 £'000
(Loss)/profit for the financial year	(1,929)	1,218
Currency translation differences on foreign currency net investment	(60)	40
Total recognised gains and losses relating to the year	(1,989)	1,258

Notes to 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 financial statements have been prepared under the historical 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 2005.

On 14 September 2004 Netstamp Ltd (later to become Allergy Therapeutics plc) acquired, by way of a share-for-share exchange, the whole of the issued share capital of Allergy Therapeutics (Holdings) Limited ('ATHL'). Accordingly, as permitted by Financial Reporting Standard 6, merger accounting has been applied for this combination as if the Group, as currently constituted, has been in place throughout the whole period covered by these financial statements.

The Group profit and loss account for the financial year and the comparatives for the Group balance sheet and Group profit and loss account have been presented as though they had always been part of Allergy Therapeutics plc, despite the fact that the Company was only incorporated on 1 June 2004, in order to compare meaningfully the performance of the underlying Group.

The share capital, share premium and shares held in EBT reserve is that of the Company in 2005. The share capital and shares held in EBT reserve is that of ATHL in 2004. The shares issued by subsidiary reserve relates to the premium on shares previously issued by ATHL. The profit and loss reserve includes all profits and losses for the Group formerly headed by ATHL prior to its merger with the Company.

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.

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 UK scheme 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. The pension liability in Germany is 'insured' through a reinsurance contract with an independent insurance company.

1 Accounting policies continued

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 Group's depreciation policy. Other research and development expenditures are written off in the year when occurred.

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.

Revenue recognition
Revenue is recognised when contractual obligations are met and a right to consideration exists. Where a right to consideration is dependent on the occurrence of a critical event (i.e. when the Group has fulfilled all relevant conditions to be entitled to the revenue), such as for milestone payments, revenue is not recognised until that event occurs.

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.

Investments
Investments are included at cost less amounts written off.

2 Turnover

Turnover is attributable to the principal activities of the Group, as defined in the Directors' Report. An analysis of turnover by geographical market and by country of origin is given below.

	Year to 30 June 2005 £'000	Year to 30 June 2004 £'000
By geographical location		
Germany	**14,175**	11,681
Rest of Europe	**4,714**	5,332
North America	**1,371**	680
Asia	**346**	308
	20,606	18,001
By country of origin		
Germany	**14,175**	11,715
Rest of Europe	**3,481**	2,917
UK	**2,950**	3,369
	20,606	18,001

3 Loss/profit on ordinary activities before tax

	Year to 30 June 2005 £'000	Year to 30 June 2004 £'000
Loss/profit on ordinary activities before tax is stated after charging:		
Auditors' remuneration:		
Group audit	**62**	51
Company audit	**7**	–
Non-audit fees paid to the auditor in respect of other services:		
Tax compliance and assurance	**26**	32
Review of interim statements	**5**	–
Transfer pricing and international tax projects	**60**	–
Depreciation of tangible assets	**436**	319
Amortisation of intangible assets	**448**	333
Research and development	**5,620**	451
Operating lease rentals – plant and machinery	**7**	7
– other	**625**	312
Foreign currency exchange gains	**(262)**	(6)

In addition to the above, an amount of £97,000 was paid to the auditors for work as reporting accountants in connection with the Company's admission to AIM and the issue of shares. The costs have been offset against the share premium account as part of the cost of issuing shares in the year.

4 Exceptional items

	Year to 30 June 2005 £'000	Year to 30 June 2004 £'000
Cost of consultancy services provided in 2000, payable on an initial public offering (IPO) or 'exit'	**614**	–

Consultancy services included assistance with the development of a business strategy regarding entry into the US market. This was reported as a contingent liability, as defined by FRS 12, in the financial statements for the year ended 30 June 2004.

5 Remuneration of directors

	Year to 30 June 2005 £'000	Year to 30 June 2004 £'000
Directors' emoluments	**805**	648
Pension contributions	**73**	52
	878	700
Directors' severance costs (included within directors' emoluments)	–	4
Emoluments of highest paid director	**207**	156
Group contribution to pension plan:		
Pension contributions paid by the Group for highest paid director	**20**	21
The number of directors for whom pension payments are made	**5**	4
Number of directors including the highest paid director who exercised options in the year	–	2

6 Staff numbers and costs

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

	Number of employees	
	Year to 30 June 2005 £'000	Year to 30 June 2004 £'000
R&D, Marketing and Administration	**81**	77
Sales	**52**	49
Production	**96**	99
	229	225

The aggregate payroll costs for these persons were as follows:

	Year to 30 June 2005 £'000	Year to 30 June 2004 £'000
Aggregate wages and salaries	**7,292**	6,332
Social security costs	**1,168**	961
Other pension costs	**382**	267
	8,842	7,560

The average number of employees involved in pension schemes across the Group for 2005 was 127 (2004: 131).

7 Tax on (loss)/profit on ordinary activities

	Year to 30 June 2005 £'000	Year to 30 June 2004 £'000
The taxation credit/(charge) is made up as follows:		
UK corporation tax at 30%	–	–
Adjustment in respect of prior years	–	364
Deferred tax (see note 19)	–	(736)
	–	(372)

Current tax reconciliation:

	Year to 30 June 2005 £'000	Year to 30 June 2004 £'000
(Loss)/profit before tax	**(1,929)**	1,590
Tax at standard rate of 30% on profit/(loss) for year	**(579)**	477
Expenses not deductible for tax purposes	**99**	83
Capital allowances in excess of depreciation	**(104)**	(117)
Other adjustments not taxable	**–**	(172)
Overseas adjustments not taxable	**(60)**	(383)
Utilisation of tax losses	**(419)**	(325)
Tax losses not utilised	**1,824**	494
Allowances for R&D expenditure	**(593)**	(57)
Relief for shares acquired by employees and directors	**(168)**	–
Surrender of tax losses	**–**	364
Current tax credit	**–**	364

Unrelieved group tax losses of £8,900,000 (2004: £9,100,000) remain available to offset against future taxable trading profits.

8 Loss for the financial period

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 period since incorporation was £14,908,000.

9 (Loss)/earnings per share

	Year to 30 June 2005	Year to 30 June 2004
(Loss)/earnings for the year (£'000)	**(1,929)**	1,218
Weighted number of shares in issue	**57,471,180**	40,935,583
Diluted weighted number of shares in issue	**n/a**	49,294,066
Basic (loss)/earnings per share (pence)	**(3.4)**	3.0
Diluted (loss)/earnings per share (pence)	**(3.4)**	2.5

10 Intangible fixed assets – Group

	Goodwill £'000	Manufacturing know-how £'000	Non-competing know-how £'000	Other intangibles £'000	**Total at 30 June 2005 £'000**
Cost					
Cost brought forward	4,908	1,000	2,966	953	**9,827**
Exchange difference	(2)	–	(3)	–	**(5)**
Balance carried forward	4,906	1,000	2,963	953	**9,822**
Amortisation					
Balance brought forward	1,963	401	2,966	480	**5,810**
Charge for year	327	67	–	54	**448**
Exchange difference	(1)	–	(3)	–	**(4)**
Balance carried forward	2,289	468	2,963	534	**6,254**
Net book value					
At 30 June 2005	**2,617**	**532**	**–**	**419**	**3,568**
At 30 June 2004	2,945	599	–	473	4,017

The fair values of intangible assets acquired as part of a business are determined by the realisable market value. The directors consider each acquisition separately for the purpose of determining the amortisation period of any goodwill and other intangible assets that arise. The following sets out the periods over which intangible assets are amortised and reasons for the periods chosen:

- Goodwill, manufacturing know-how and other intangible assets arising on the acquisition of Allergy Therapeutics Limited and Bencard Allergie GmbH in June 1998 have been amortised over 15 years. The directors have estimated that this is the useful economic life of the assets, reflecting the expected financial benefits.
- Non-competing know-how has been amortised over 4 years in the UK reflecting its estimated useful life to the Company.

'Other intangibles' includes trademarks and acquisition costs.

11 Tangible fixed assets – Group

	Plant and machinery £'000	Fixtures and fittings £'000	Motor vehicles £'000	Computer equipment £'000	Freehold land and buildings £'000	**Total at 30 June 2005 £'000**
Cost						
Balance brought forward	1,979	457	8	2,596	262	**5,302**
Additions	366	286	–	251	–	**903**
Disposals	(63)	–	–	(4)	–	**(67)**
Exchange difference	–	–	–	(1)	–	**(1)**
Balance carried forward	2,282	743	8	2,842	262	**6,137**
Depreciation						
Balance brought forward	1,186	313	5	2,002	146	**3,652**
Charge for period	127	73	1	204	31	**436**
Disposals	(62)	–	–	–	–	**(62)**
Balance carried forward	1,251	386	6	2,206	177	**4,026**
Net book value						
At 30 June 2005	**1,031**	**357**	**2**	**636**	**85**	**2,111**
At 30 June 2004	793	144	3	594	116	**1,650**

12 Investments – Company

	Shares in subsidiary undertaking £'000
Cost	
Additions and carried forward	**51**
Provision	
Provision for year and carried forward	**(51)**
Net book value	
At 30 June 2005	**–**

12 Investments – Company continued

At 30 June 2005 the Company's subsidiary undertakings were:

Subsidiary undertaking	Country of incorporation	Principal activity	Percentage of shares held	Class of shares held
Allergy Therapeutics (Holdings) Ltd	UK	Holding company	100%	ordinary and deferred
Allergy Therapeutics (UK) Ltd	UK	Manufacture and sale of pharmaceutical products	100%	ordinary
Allergy Therapeutics Development Ltd	UK	Dormant	100%	ordinary
Bencard Allergie GmbH	Germany	Sale of pharmaceutical products	100%	ordinary
Allergy Therapeutics Italia s.r.l.	Italy	Sale of pharmaceutical products	100%	ordinary
Allergy Therapeutics Iberica S.L.	Spain	Sale of pharmaceutical products	100%	ordinary
Allergy Therapeutics (Canada) Ltd	Canada	Dormant	100%	ordinary
Allergy Therapeutics (Bermuda) Ltd	Bermuda	Dormant	100%	ordinary

Allergy Therapeutics (Holdings) Ltd is owned directly by Allergy Therapeutics plc. All other subsidiary undertakings are owned by Allergy Therapeutics (Holdings) Ltd.

13 Stocks

	Group	
	30 June 2005 £'000	30 June 2004 £'000
Raw materials and consumables	**961**	591
Work in progress	**1,252**	658
Finished goods	**528**	576
	2,741	1,825

There is no material difference between the value of stock above and its replacement cost.

14 Debtors

	Group		Company
	30 June 2005 £'000	30 June 2004 £'000	30 June 2005 £'000
Amounts falling due within one year			
Trade debtors	**2,206**	1,405	**–**
Taxation and social security	**55**	52	**–**
Prepayments and accrued income	**348**	222	**–**
Other debtors	**551**	383	**6**
	3,160	2,062	**6**

	Group	
	30 June 2005 £'000	30 June 2004 £'000
Amounts falling due after one year		
Trade debtors	**–**	223
	–	223

15 Creditors: amounts falling due within one year

	Group 30 June 2005 £'000	Group 30 June 2004 £'000	Company 30 June 2005 £'000
Bank loan	–	278	–
Trade creditors	1,478	827	–
Taxation and social security	372	365	–
Other creditors	485	–	–
Accruals and deferred income	3,786	1,807	239
	6,121	3,277	239

The increase in accruals and deferred income relates primarily to increased development expenditure.

16 Creditors: amounts falling due after more than one year

	Group 30 June 2005 £'000	Group 30 June 2004 £'000
Bank loan	–	667
Other long term creditors	455	214
	455	881

17 Analysis of debt

	Group 30 June 2005 £'000	Group 30 June 2004 £'000
Debt can be analysed as falling due:		
Within one year	–	278
In one to five years	–	667
	–	945

The bank loan was secured by a fixed and floating charge over the assets of Allergy Therapeutics (UK) Ltd. The loan was fully repaid in November 2004.

18 Financial instruments and derivatives

The Group uses financial instruments comprising borrowings, cash and various items, such as trade debtors and trade creditors that arise directly from its operations. The main purpose of these financial instruments is to raise finance for the Group's operations.

The Group also enters into derivatives transactions such as forward foreign currency contracts. The purpose of such transactions is to manage the currency risks arising from the Group's operations and its sources of finance.

The main risk arising from the Group financial instruments is foreign currency risk while to a lesser extent there is interest rate risk and liquidity risk. The board reviews and agrees policies for managing each of these risks and they are summarised below. These policies have remained unchanged from previous years.

All transactions in derivatives, principally forward foreign currency contracts, are undertaken to manage the risks arising from underlying business activities and no transactions of a speculative nature are undertaken.

It is, and has been in previous years, the Group policy that no trading in financial instruments shall be undertaken.

18 Financial instruments and derivatives continued

Short-term debtors and creditors

Short-term debtors and creditors have been excluded from all the following disclosures, other than the currency risk disclosures.

Currency risk

The Group does not hedge its exposure of foreign investments held in foreign currencies.

The Group is exposed to translation and transaction foreign exchange risk. In relation to translation risk the repatriation of assets is insignificant and the only exposure is revaluation of the assets at year end for accounting purposes. Therefore, Group policy does not deem it necessary to cover this risk.

Transaction exposures are hedged, mainly using the forward hedge market. The Group seeks to hedge its exposures using a variety of financial instruments, with the objective of minimising fluctuations in exchange rates on future transactions and cash flows.

The majority of the Group's revenue is denominated in euros, whilst a material element of the cost base is denominated in sterling. The Group policy is to eliminate approximately 50% of currency exposures on a rolling 12 month basis through the use of forward currency contracts.

Gains and losses on hedges

The Group policy is to hedge exposures to currency risk. The table below shows the extent to which the Group has unrecognised and/or deferred gains and losses in respect of financial instruments used as hedges at the beginning and end of the year. The table also shows the amount of gains and losses which have been included in the profit and loss account for the year and those that are expected to be recognised in future profit and loss accounts.

	Gains £'000	Losses £'000	Total net gains/(losses) £'000
Unrecognised gains and losses on hedges at 1 July 2004	**149**	–	**149**
Gains and losses arising in previous years that were recognised in 2004/05	**(149)**	–	**(149)**
Gains and losses arising in 2004/05 that were not recognised in 2004/05	**207**	–	**207**
Unrecognised gains and losses on hedges at 30 June 2005	**207**	–	**207**
Of which:			
Gains and losses expected to be recognised in 2005/06	**207**	–	**207**

Interest rate risk

The directors do not consider that the business is exposed to material interest rate risk. The Group finances its operations through cash reserves. The cash reserves held by the Group since October 2004 have negated the need to use significant interest bearing short-term borrowings, whereas previously short-term borrowings were held.

18 Financial instruments and derivatives continued

Liquidity risk

The Group seeks to manage financial risk by ensuring sufficient liquidity is available to meet foreseeable needs and to invest cash assets safely and profitably. Surplus cash is invested in various deposit accounts to spread the risk and to generate a higher return of interest.

The amounts below show the monetary assets held by the Group in currencies other than sterling.

	Group	
Currency	30 June 2005 £'000	30 June 2004 £'000
Euro	**883**	541
US dollar	**48**	23
Canadian dollar	**25**	–
	956	564

Borrowing facilities

The Group has undrawn committed borrowing facilities of €362,000 (£242,000).

19 Deferred taxation

	Group	
	30 June 2005 £'000	30 June 2004 £'000
The movement on deferred tax asset in the financial statement is set out below:		
Provision brought forward	–	736
(Charged)/credited to the profit and loss account	–	(736)
Provision carried forward	–	–

Deferred tax assets have not been recognised due to the uncertainty of future profits.

20 Called up share capital

	30 June 2005 £'000	30 June 2004 £'000
Authorised		
Equity: 790,151,667 ordinary shares of 0.1p each	**790**	790
Equity: 9,848,333 deferred shares of 0.1p each	**10**	10
	800	800
Allotted, called up and fully paid		
Equity: 62,950,632 ordinary shares of 0.1p each (2004: 41,032,824)	**63**	41
Equity: 9,848,333 deferred shares of 0.1p each	**10**	10
	73	51

On 11 October 2004, 21,917,808 ordinary shares of 0.1p each were issued for cash consideration of £16,000,000. The difference between the consideration of £16,000,000 and the aggregate nominal value of £22,000 has been credited to the share premium account.

The deferred shares have no voting rights or dividend rights attached to them.

20 Called up share capital continued

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
9,600	–	(3,200)	(800)	5,600	0.1p	04/10/2004	22/12/2008
40,825	–	(11,863)	(3,250)	25,712	0.1p	04/10/2004	01/10/2009
73,975	–	(32,700)	(3,837)	37,438	0.1p	04/10/2004	01/10/2010
29,100	–	(7,300)	(2,600)	19,200	0.1p	04/10/2004	20/10/2010
650,000	–	(400,000)	–	250,000	0.1p	04/10/2004	02/01/2011
1,221,350	–	–	(34,000)	1,187,350	120p	31/07/2002[1]	31/07/2011
400,000	–	–	–	400,000	30p	03/06/2002	03/06/2012
2,000,000	–	–	–	2,000,000	0.1p	02/10/2002	02/10/2012
3,000,000	–	–	–	3,000,000	5p	17/12/2002[1]	17/12/2012
150,000	–	(27,332)	–	122,668	5p	17/12/2003[1]	17/12/2012
4,750,000	–	(500,000)	(250,000)	4,000,000	5p	18/12/2002[1]	18/12/2012
400,266	–	(144,133)	(24,500)	231,633	5p	04/10/2004	25/01/2013
90,000	60,000	–	–	150,000	45p	15/12/2003[2]	15/12/2013
2,474,000	–	(39,996)	(50,000)	2,384,004	45p	26/02/2005[1]	26/02/2014
-	452,222	–	(222,222)	230,000	45p	02/08/2005[1]	02/08/2014
-	2,200,001	–	–	2,200,001	100.4p	08/03/2008	08/03/2015
15,289,116	**2,712,223**	**(1,166,524)**	**(591,209)**	**16,243,606**			

[1] One third of share options granted are exercisable from this date, one third from 12 months after this date and one third from 24 months after this date.
[2] 30,000 share options granted are exercisable from this date and 10,000 are exercisable from first of each subsequent month until 01/12/2004.

21 Reserves

	Group Profit and loss account £'000	Company Profit and loss account £'000
At 30 June 2004	**(32,730)**	**–**
Retained loss for the year	**(1,929)**	**(14,908)**
Currency translation profit on foreign currency investments	**(60)**	**–**
At 30 June 2005	**(34,719)**	**(14,908)**

	Group and Company Share premium account £'000	Group Shares issued by subsidiary £'000
At 30 June 2004	**–**	**40,128**
Premium on shares issued in the year	**15,978**	**–**
Expenses paid in connection with share issue	**(1,054)**	**–**
At 30 June 2005	**14,924**	**40,128**

21 Reserves continued

	Group and Company Other reserve – EBT £'000
At 30 June 2004	**(373)**
Sale of shares by EBT	**51**
At 30 June 2005	**(322)**

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

At 30 June 2005 there were 5,264,109 shares in the Employee Benefit Trust with an aggregate value of £322,000 which reduced the shareholders' funds accordingly. The shares will be allotted as employees exercise share options. The market value of the shares at 30 June 2005 was £4,606,000.

During the year the EBT reserve was transferred at its value of £373,000 from Allergy Therapeutics (Holdings) Ltd to Allergy Therapeutics plc.

22 Reconciliation of movement in shareholders' funds

	Group Year to 30 June 2005 £'000	Year to 30 June 2004 £'000	Company Year to 30 June 2005 £'000
(Loss)/profit for the financial year	**(1,929)**	1,218	**(14,908)**
Other recognised gains and losses relating to the period (net)	**(60)**	40	**–**
Issue of shares	**16,000**	–	**16,051**
Shares issued by subsidiary	**–**	30	**–**
Purchase of shares by EBT	**–**	(375)	**–**
Transfer of EBT balance from subsidiary	**–**	–	**(373)**
Sale of shares by EBT	**51**	2	**51**
Expenses paid in connection with share issue	**(1,054)**	–	**(1,054)**
Net addition to shareholders' funds	**13,008**	915	**(233)**
Opening shareholders' funds	**7,076**	6,161	**–**
Closing shareholders' funds	**20,084**	7,076	**(233)**

23 Reconciliation of operating (loss)/profit to operating cash flow

	Year to 30 June 2005 £'000	Year to 30 June 2004 £'000
Operating (loss)/profit	**(2,418)**	1,556
Depreciation	**436**	319
Amortisation of intangibles	**448**	333
Loss on disposal of fixed assets	**5**	–
Effect of foreign exchange rate changes	**(58)**	109
(Increase)/decrease in stocks	**(916)**	90
(Increase)/decrease in debtors	**(875)**	(682)
Increase/(decrease) in creditors	**3,363**	(217)
Net cash (outflow)/inflow from operating activities	**(15)**	1,508

24 Analysis of financing

	Year to 30 June 2005 £'000	Year to 30 June 2004 £'000
Repayment of loans	**(945)**	(1,305)
New loan facility	**–**	1,000
Issue of ordinary shares (net of expenses)	**14,946**	–
Share premium on shares issued by subsidiary	**–**	30
Purchase of shares by EBT	**–**	(375)
Issue of shares by EBT	**51**	2
	14,052	(648)

25 Analysis of change in net funds

	At beginning of period £'000	Cash flow £'000	At end of period £'000
Cash at bank and in hand	**1,457**	**13,623**	**15,080**
Debt due	**(945)**	**945**	**–**
	512	**14,568**	**15,080**

26 Capital commitments

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

	Group 30 June 2005 £'000	Group 30 June 2004 £'000
	436	408

Included above is £143,000 for ongoing factory refurbishments in the UK, £88,000 for new plant and machinery (2004: £225,000) and £31,000 for an ERP system installed in 2003 (2004: £98,000). A further £53,000 relates to office refurbishment works in Spain.

Other commitments:

Between November 2004 and February 2005, 6 separate forward foreign exchange contracts were arranged for the sale of €7,000,000 (£4,678,000) at future dates ranging from 30 September 2005 to 31 January 2006.

27 Leasing commitments

Operating lease payments amounting to £366,000 (2004: £321,000) are due within one year. The leases to which these amounts relate expire as follows:

	Land and buildings		Other	
	30 June 2005 £'000	30 June 2004 £'000	**30 June 2005 £'000**	30 June 2004 £'000
In one year or less	**58**	–	**45**	44
Between one and five years	**42**	172	**204**	105
In five years or more	**17**	–	**–**	–
	117	172	**249**	149

28 Contingent liabilities

Allergy Therapeutics (UK) Ltd., a subsidiary of Allergy Therapeutics plc, has guaranteed the deposits required for leases on company cars and rented office space occupied by a fellow subsidiary, Bencard Allergie GmbH. The amount as at 30 June 2005 was €107,000 (£72,000).

Designed and produced by **Emperor Design Consultants Ltd**
Telephone **020 7729 9090** **www.emperordesign.co.uk**

Allergy Therapeutics plc
Dominion Way
Worthing
West Sussex
BN14 8SA

T: +44 (0)1903 844720
F: +44 (0)1903 844726

www.allergytherapeutics.com