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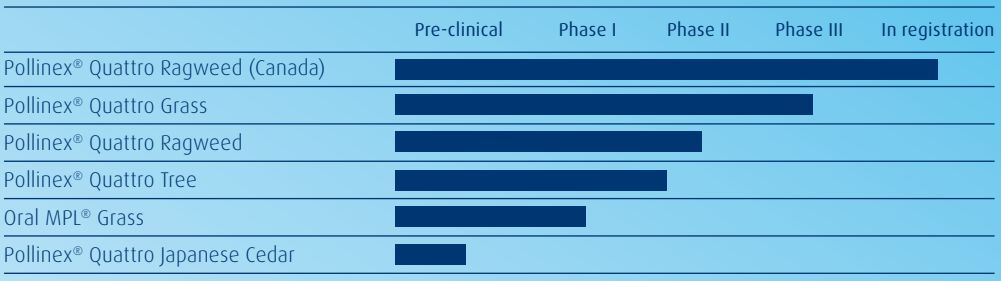
Allergy Therapeutics plc Annual Report & Accounts 2006

Allergy Therapeutics plc

Annual Report & Accounts

2006

Product pipeline



Highlights

Significant progress in the clinical development programmes:

- Pollinex® Quattro Grass in phase III
- Eight phase I & II studies completed
- Marketing application accepted for review in Canada following the positive outcome of Pollinex® Quattro Ragweed pivotal study
- Successful meeting with the Pharmaceutical and Medical Devices Agency (PMDA) in Japan for Pollinex Quattro Grass; acceptance of the Company's plans to conduct trials for the eventual registration of Pollinex Quattro

Expansion of EU sales and marketing infrastructure to Poland, Austria, the UK, and the Czech and Slovak Republics

Extensive manufacturing upgrade commenced

Second manufacturing unit on target to open by the end of 2006

Granted a broad technology patent for the combination of MPL® with tyrosine and an antigen by the European Patent Office, covering 24 countries in Europe

Senior management team strengthened with three key appointments

New bank facilities of £4 million available

£19 million gross proceeds (£18.3 million net) raised from a placing of 19 million shares

Chairman's Statement

Ours is a growth company, with prospects and potential out of proportion to its size

As we approach the end of our second year as a public company, I am pleased to report that Allergy Therapeutics plc (the Company) is a much strengthened business in every field, and progress continues to be made across the board.

In the clinic Pollinex Quattro, the ultra-short-course four-shot vaccine against allergies causing hay fever, achieved a number of key milestones.

- A very successful pivotal Phase II/III study decisively validated the technology with convincing proof of efficacy after only four injections and only three weeks. This has allowed us to make a submission for registration in Canada, which has been accepted for review.
- With this impetus, our planning for the critical Phase III programme moved forward dramatically and discussions with regulatory agencies – in particular the US FDA – progressed markedly, with the FDA accepting our proposals to move into Phase III with Pollinex Quattro Grass.
- Substantial progress was made on the practical process of commencing the Phase III work, with a leading CRO engaged, centres being selected, investigator meetings planned, and the 'Caution: Allergen' awareness-raising campaign being initiated across North America and Europe.

The Company is now entering the most exciting phase of development with the flagship product line, Pollinex Quattro.

We believe that Pollinex Quattro has the potential to transform the treatment of allergy, one of the major chronic therapy areas. The potential we see in our business, in particular the development pipeline based upon the unique patented vaccine adjuvant, MPL, requires us to invest to unlock the success that can be ours. Not only do the clinical trials require significant financial resources, but as an integrated pharmaceutical company we have the opportunity to make and sell our own new products. Success only comes about if it is anticipated and planned for. Our manufacturing operations team already has well-developed plans in place that will ensure our preparedness for the forthcoming launches of Pollinex Quattro worldwide. We are on plan to ensure the supply to all markets reliably and to the highest Good Manufacturing Practice (GMP) standards. In addition, our commercial operations must be strengthened further – both organically and otherwise – in advance of the launch of the new products.

In order to fund the next phase of unlocking the Company's potential, a placing of shares was completed in May, raising £19 million gross. The proceeds will be invested mainly in the worldwide clinical studies for Pollinex Quattro vaccines for up to three allergens – Grasses, Trees and Ragweed – being the major causes of hay fever. In addition there is extensive investment in manufacturing plant, processes and personnel, and in the strategic marketing efforts for Pollinex Quattro.

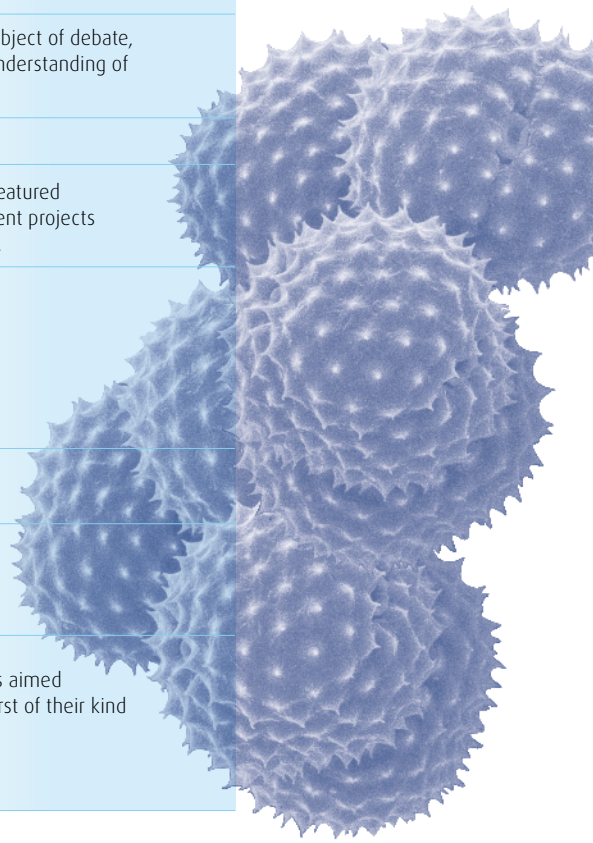
During the year Allergy Therapeutics (the Group) made further progress in its markets, with sales in excess of £23 million, 14% up on the previous year despite some supply difficulties encountered in balancing the demands of both the development activity and market supply. Measures have already been taken to ensure no repetition of these supply issues, not least the investment in a second manufacturing facility planned to be operational by the end of 2006. Before R&D, the Group made profits of £3.4 million, a slight decrease of 8% on last year owing to the increased strategic investments alluded to above. We anticipate two further years of increased investment to impact our profitability, and are confident that this is the best route to increasing shareholder value.

continued on page 06

100 years of Allergy

Allergy Therapeutics focuses on vaccine treatments for the major problem of allergies caused by inhaled airborne allergens.

1906	Clemens von Pirquet uses the term 'allergy' for the first time – Munchener Medizinische Wochenschrift (MMW) 30	Previously there was no accepted term for the state of altered immunological reactivity causing hypersensitivity to normally benign substances
1911	Leonard Noon and John Freeman perform the first successful allergy vaccinations in St Mary's Hospital, Paddington	Vaccination consists of gradually increasing doses of injected allergen extracts, administered weekly or twice-weekly – very similar to current practice in many countries including the USA
1934	CL Bencard (now Allergy Theraputics) formed to formulate allergy vaccines for clinicians	Previously doctors would prepare their own vaccines from raw material allergen extracts
1965	Development of alum (depot)-adsorbed allergen vaccines	By obtaining a sustained release effect at the injection site, allergy vaccine safety is enhanced
1972	Development of an improved depot formulation L-tyrosine Launch of allergoid vaccines by Bencard	An improved depot which allows a lower number of injections Allergen extracts modified to reduce allergenicity, allowing faster, safer up-dosing
1992	Pioneering work by Romagnani establishes the Th1/Th2 paradigm for the mechanism of allergy and allergy desensitising vaccines	Although mechanisms are still subject of debate, this paradigm permitted a first understanding of how allergy vaccines work
1994	First sublingual allergy vaccines developed	Bencard introduces Oralvac®
1996	SmithKline Beecham licenses MPL from Ribi as a Th1-inducing adjuvant for vaccines, including allergy vaccines	This adjuvant has subsequently featured in six of GSK's vaccine development projects as well as AGY's Pollinex Quattro.
1998	Allergy Therapeutics formed as buy-out of Bencard from SmithKline Beecham WHO position paper identifies allergy vaccines as the only causative treatment for allergy	
1999	Pollinex Quattro launched as a named-patient product	
2004	Pollinex Quattro awarded the MMW Arzneimittelpreis for pharmaceutical innovation	Nearly 100 years after the coining in the same journal of the term 'allergy'
2006	Allergy Therapeutics receives FDA acceptance of Phase III plans for Pollinex Quattro Grass Pollinex Quattro Ragweed accepted for review by Canadian Authorities	This completes the requirements prior to final stage pivotal studies aimed at worldwide registration – the first of their kind



Pollinex® Quattro

The potential to transform allergy treatment

- Unique advantages for the patient, physician and payer

Designed to address unmet needs

- Disease modifying
- Offering long-term relief
- Delivered in an ultra-short course

Substantially de-risked

- Pollinex Quattro safety confirmed in >74,000 adults and children
- MPL – safe, well tolerated and effective in tens of thousands of patients

A blockbuster waiting to happen

- The USA represents > 80% of the entire current annual $12.6 billion allergy market (IMS, 2005 Sales)
- Datamonitor estimates that a grass pollen immunotherapy prescribed to all moderate/severe intermittent and moderate/severe persistent AR patients in the US could attain sales of $15.3 billion*
- Best in class profile: 4 shots in 3 weeks, efficacy within three weeks
- From a product profile perspective there is no substantial competition

* Source – Datamonitor report 'Immunotherapy in Allergic Rhinitis', March 2006


POLLINEX
Quattro
POLLINEX
Allergy
Therapeutics

Chairman's Statement continued

"During my business development career I have reviewed literally hundreds of technologies, compounds and companies. This experience teaches you to triage opportunities quickly into 'interesting' and 'not interesting'. Allergy Therapeutics is not only interesting but special. Here we have a global, late stage development, targeting an area of unmet need with a unique product proven to deliver clinically meaningful benefits to patients. The market is enormous and, from a Business Developer's perspective, it doesn't get much better." **Dr Manjit Rahelu**

Dr Manjit Rahelu
Head of Business Development
Joined the Company 10 October 2005

Board changes

As previously announced, Dr Virinder Nohria joined the Board of Allergy Therapeutics plc in November 2005 as a non-executive director. His background in pharmaceutical development has already proved very useful, especially as the Company's development programmes move forward and there has been more interaction with the regulatory bodies such as the FDA.

Also at the end of the year Andrew Turnbull resigned as director responsible for Supply Operations and Business Development, to return to his native New Zealand. Andrew had been with the Company since 1999, serving on the Board from 2002; his contributions were many and wide-ranging, but above all his energy and determination will be missed. We all thank him for what he brought to Allergy Therapeutics and we wish him well.

Our people

The progress we have achieved this year is a reflection of the skill and enthusiasm of our team members. I would like to take this opportunity to thank all of my colleagues throughout the Group for their commitment over the year.

In a year characterised by planning for success and putting in place the resources required to deliver on these plans, we have made four key appointments at a senior level. As well as Dr Virinder Nohria, Ray Keeling joined us in October to take charge of our supply operations, a major task to ready the Company for the anticipated worldwide launches and large-scale sales of innovative vaccines whilst continually improving GMP standards in line with the changing regulatory requirements. Ray has a wealth of experience in sterile pharmaceuticals manufacture gained over many years with Aventis. Dr Manjit Rahelu is our new Head of Business Development; a qualified immunologist, Manjit has valuable pharmaceutical business development experience gained at Pfizer and UCB. His engagement will support the Company as it moves into the key final stages of the strategy to bring Pollinex Quattro to markets across the world – which will involve partnerships and collaborations with other companies with complementary strengths. Kevin Wilkinson joined the Company in June as Head of Strategic Marketing. Kevin has been in the pharmaceutical industry in a variety of roles for over ten years, including leading commercial positions with Eli Lilly. His role is important as we progress with the development of Pollinex Quattro and make our preparations for its launch worldwide, including planning EU launches through our own sales and marketing infrastructure.

In summary, I am delighted with the progress the Company is making. Ours is a growth company, with prospects and potential out of proportion to its size. The challenge we face is unlocking that potential for the benefit of patients, healthcare payers, physicians and all the stakeholders in Allergy Therapeutics. We look forward to this challenge with relish.

Ignace Goethals
Chairman
11 September 2006

Chief Executive's Review

Continued positive trial results and future commercial opportunities afforded by the Pollinex Quattro product are hugely exciting

"Allergy Therapeutics is addressing a very important area of medical need, where there is currently no standard of therapy except providing symptomatic treatments for the patients. The Company has a wide range of existing products as well as a promising pipeline, which is in a late stage of development. Recent interactions with regulatory authorities have been very encouraging and have provided a clear pathway to submission and registration. As a drug developer and physician, I am very excited to be on the Board of a company with an exciting pipeline and a seasoned team under an experienced leadership." **Dr Virinder Nohria**

Dr Virinder Nohria
Non-executive Director
Joined the Company 1 November 2005

Allergy Therapeutics passed two major milestones this year: conclusive proof of efficacy of its lead development product – Pollinex Quattro – and acceptance by the FDA that it was prepared for Phase III studies to commence. It would be hard to overstate the implications of these achievements for the Company. We have moved on to a new, advanced stage as a business.

We are proud of having a profitable core business, which has again delivered record sales results during the period. The Board believes that continued positive trial results and future commercial opportunities afforded by the Pollinex Quattro product are hugely exciting and represent an opportunity for the Company to achieve an international position of market leadership in allergy treatment, thereby delivering material shareholder value. Consequently, the Company's strategy will be focused on concluding the clinical trial process for Pollinex Quattro and making the operational investments required to support its launch and sale. The profits and cash flow generated by the current commercial products can be applied to these growth objectives and hence reduce the dependence on external funding.

Strategic background

Allergy Therapeutics is maturing as an organisation. It is already a fully integrated pharmaceutical company on a modest scale, with Sales and Marketing, and Manufacturing operations as well as the R&D programmes developing our proven MPL-based technology. The time has come to begin to leverage these assets in preparation for the completion of our continued clinical trial programme aimed at worldwide registration of Pollinex Quattro in the major hay fever allergens.

During the year we made a number of R&D related announcements tracking certain exciting milestones as they occurred; perhaps the greatest achievement was the completion of our first pivotal study with Pollinex Quattro, the Ragweed 204 (R204) study. As we enjoy success in the clinic and embark on the final phase of clinical trials, the success and size of our new product development activities and the potential for the new vaccines which will result from them is remarkable for a company of our size. Matching the potential of the new products and the commitment to clinical trials dictates that we develop the other major components of the business to ensure full exploitation of the opportunity that we have. We are confident that Pollinex Quattro has the potential to transform allergy treatment – currently a $12.6 billion market (IMS, 2005 Sales) which leaves many patients and their physicians unsatisfied. It is important that we recognise the scale of the opportunity and hence the challenges in seizing it.

Our strategy will continue to focus on partnering solutions for sales and marketing in the USA and Japan – the two largest markets in the world – and to seek ways of being in a position to commercialise ourselves in the EU. This requires intense focus on business development activities.

We maintain the independent manufacturing strategy of supplying our own markets and partners with products manufactured under stringent GMP conditions in our Worthing facilities. To this end we have commenced a major programme of refurbishment and expansion of facilities and hiring of additional key staff. By maintaining control of manufacturing, we retain that part of the margin on sales ascribed to supply, and retain control of a very specialised process which also represents further protection of our technology. Furthermore, we ensure effective communication between the development activities and marketing launch planning activities to deliver our planned product launches on schedule.

In this review I will highlight some of the key milestones achieved since the last annual report, and outline what we believe they mean for the Company in the coming years.

Product development

As noted above, possibly the highlight of the year was the success of the Pollinex Quattro Ragweed study R204. This study was 'pivotal' for Canada – meaning that its outcome can be submitted in support of an application for Marketing Authorisation: the process commonly referred to as 'registration'. Furthermore, data from this study will be supportive for the ongoing process aimed at achieving a registration from the FDA for this product to be sold in the US market.

R204 was a double-blind placebo-controlled study conducted in an Environmental Exposure Chamber ('EEC'), a controlled way of exposing patients to allergen challenge equivalent to that encountered on a high pollen count day. Patients were exposed

Chief Executive's Review continued

in the EEC for three hours on four consecutive days in advance of treatment and whilst in the EEC they kept a periodic record of their symptoms; this set the symptom 'baseline'. The patients were then given four injections of either Pollinex Quattro Ragweed or placebo and three weeks later returned to the EEC, again for four consecutive days and again keeping a periodic record of their symptoms. The primary end-point of the study was the comparison of the change from baseline in the active group compared to that in the placebo group. The result was a compelling confirmation of the efficacy of Pollinex Quattro, chart below left.

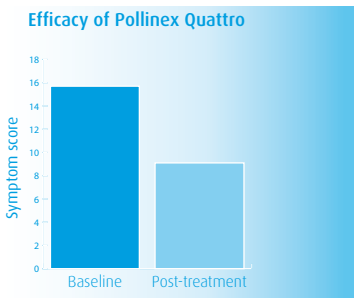
The reduction of symptom score against baseline was large, at 42%. The clinical significance of this can be appreciated by considering how the scores are compiled: eight different nose and eye symptoms are each given a score of 0–3:

0 no symptoms,
1 mild symptoms (which do not interfere with everyday activities),
2 moderate symptoms (which do); and
3 severe.

Therefore at baseline, the patients recorded an average total symptom score of 16 equating to an average of two for each of the eight symptoms scored – whereas after treatment the average was one. Pollinex Quattro therefore reduced the patients' average symptoms from 'moderate, interferes with everyday life' to 'mild, does not interfere with everyday activities'. This is real, tangible patient benefit.

The relative improvement over placebo was 48%. The statistical significance was very high, with a 'p score' (a measure of confidence that the result was not mere chance) of less than 0.01. The generally accepted threshold for significance is 0.05.

The study also clearly demonstrated the positive contribution made to allergy vaccines by MPL, our patent-protected adjuvant. A further assessment of this study looked at the patients' quality of life. Allergic Rhinoconjunctivitis, or hay fever, is known to have bad effects on sufferers beyond the nose and eye symptoms typically measured as the pivotal end-point of the studies. These elements contribute to the most relevant thing for patients – the interruption to their ability to participate fully in everyday life. Pollinex Quattro showed statistically significant improvement over placebo on the important 'practical problems' and 'overall assessment' scores.



R204 was the first study of its kind in allergy vaccination and we hope that our success with this well-controlled method of testing allergy vaccines will lead to increased sponsor and regulator acceptance of the EEC as a useful alternative to relying on natural pollen flight to provide the allergen challenge.

Because allergy vaccines act at the immunological level, correcting the imbalances which underlie allergy, they are considered to confer long-term benefit – and indeed, doctors normally stop treatment after three to five years and observe that the patients' reduced symptoms and use of medication is maintained into the following years. As part of our investigation of Pollinex Quattro we are interested to know how much of the protection offered to the patients after three weeks (far faster than any other vaccine on the market) is retained after 12 months and whether re-treating the patients gives incremental benefit. This is the purpose of R205, a follow-up study to R204, where the same patients were invited to return to the EEC and potentially have a second year's treatment. This study was commenced in June and is due to be completed in December 2006.

Regulatory

These two studies are merely part of an extensive pre-Phase III programme Allergy Therapeutics has completed in the past year. All our clinical work is ultimately aimed at one objective: the registration of Pollinex Quattro in all the major markets, allowing it to be offered to the 150 million people who are estimated to suffer from allergic rhinitis across the world. We made a major step in this direction when we attended an 'End of Phase II' meeting with the US FDA at the end of June. This meeting was for the FDA to consider the pre-Phase III data and the Company's proposals for Phase III for Pollinex Quattro Grasses. The outcome of this meeting was very favourable, with the FDA accepting our readiness to move into Phase III and conduct one large, well-controlled study in North America as the basis for registration in the USA. We have concurrently been working with EU authorities to progress to EU-wide registration and

"Pollinex Quattro is a real breakthrough that offers patients the opportunity to receive treatment for their allergies in four injections per year instead of the 10, 20 or even 40 injections that have been standard. The sales potential of Pollinex Quattro, both in Europe and in the United States, after registration is tremendous and a major reason why I decided to join this rapidly growing company." **Kevin Wilkinson**

Kevin Wilkinson
Head of Strategic Marketing
Joined the Company 1 June 2006

have had our first contacts with the Japanese PMDA where we were able to establish their view on our development programme and the next steps required on the path to registration in Japan. Pollinex Quattro is the only allergy vaccine in truly worldwide development. We believe we will be 'first in class' onto the major markets of the world, and that the product has a clear 'best in class' profile for patients, payers and physicians.

Manufacturing

Our Supply Operations strategy has four key aims:

1. To increase capacity and flexibility.
2. To introduce a new Pollinex Quattro manufacturing capability.
3. To gain formal FDA approval of the manufacturing plant in time for product launches.
4. To support the growth of the core business.

This strategy is underpinned by a capital investment programme of over £5 million over the next three years.

These aims are being implemented initially by commissioning an additional facility to liberate the space required for manufacturing, packaging, quality and science, and administrative accommodation for the projected business growth, compliance needs and product launch requirements.

The key objectives and milestones required to deliver our supply operations strategy have been carefully planned, including the ongoing recruitment of people with the key skills required in a highly regulated aseptic environment for the manufacture of injectable products. Such resources are required in support of the R&D timelines and, in recognition of the lead time to recruit and train the best people, in readiness for our planned growth and exciting product launches. These timely investments in resources will impact costs. In particular, direct headcount will inevitably increase in the short term. However, our indirect-to-direct ratio will improve and positively impact our margins in the mid to long term, when additional sales volumes have the effect of reducing our unit costs.

The strategy in Supply Operations is working and already delivering significant business benefits, not least the improvement in customer service performance in support of the core business.

Sales and marketing: financial

During the year Allergy Therapeutics increased its net sales by 14% to £23.6 million and made progress in all its markets. This was achieved despite supply problems encountered where key products went out of stock owing primarily to precedence being given to the materials being manufactured for clinical trials – 21% of all batches were manufactured for this purpose in 2005/6. New offices were also opened to enter the Austrian, UK, Polish, Czech and Slovak markets; this is part of our programme to expand the EU commercial infrastructure. We remain determined to have a significant presence in all the key EU markets by 2009, in time for the launch of registered Pollinex Quattro.

From the financial point of view, the highlight of the year was undoubtedly the £19 million share placing we completed in May. With net proceeds of £18.3 million raised primarily in the London market, we increased our access to liquid resources to £24 million. The providers of these funds share the management's firm belief in the value of the MPL pipeline, underpinned by a solid core business generating sales and cash before the future investment activities.

We have had a year of achievement. Allergy Therapeutics is now in a strong, unique position, with an advanced R&D programme and a core business being prepared to exploit the opportunities, which we anticipate will flow from the development of Pollinex Quattro.

I am pleased by the progress we are making, assembling the components required to make the most of the assets we have so painstakingly developed. Our challenges are excellent ones to have: those of building on strength and maximising the benefits of our assets for our shareholders and other stakeholders which, satisfyingly, include the patients whose lives will be improved thanks to our efforts.

Keith Carter
Chief Executive Officer
11 September 2006

Financial Review

"Allergy Therapeutics has a profitable core business which, combined with its ambitious development programme now at an advanced stage for the subcutaneous line of Pollinex Quattro, is set for reshaping allergy treatment. It is therefore a most interesting time to have joined the R&D group, contributing to its current success and building the regulatory team to support the challenges of the future!" **Evgenia Mengou**

Evgenia Mengou
Head of Regulatory Affairs
Joined the Company 24 October 2005

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 2006 total gross sales increased by 7% to £24.4 million (2005: £22.9 million); after statutory rebates in the German market net sales were £23.6 million (2005: £20.6 million) an increase over the previous year of 14%.

Own markets

The Group competes directly in eight European markets, including three of Europe's four most important for allergy vaccination: Germany, Italy and Spain.

The Group has the third largest allergy vaccine company in Germany, which is the largest market in the world for 'finished form' allergy vaccines. The allergy vaccine market in Germany was affected during the year, as doctors reacted to new rules over their spending and reimbursement for treatment, slowing the rate of market growth to 7% (2005: 30%). Company gross sales in Germany were £17 million (2005: £16.4 million), an increase over the previous year of 4%, and less than expected due to some supply difficulties as a consequence of the demands placed upon the manufacturing facility in preparing material for clinical trials. Action has now been taken to minimise the repetition of these supply issues. The rebate on pharmaceutical sales, which is market wide, was decreased in January 2005 to 6% from the 16% in force the preceding year. This has significantly reduced costs to the Group, since approximately 70% of sales originate in Germany, to a charge of £0.8 million for the year (2005: £2.3 million). However, in a further change to the rules, on 1 May 2006 it was announced that any price rise since 1 November 2005 would be added to the rebate, thus increasing costs.

In Italy and Spain the Group has continued to increase its market share. In Italy annual sales were £2.3 million (2005: £2.1 million) an increase of 10% and in Spain sales were £1.5 million (2005: £1.4 million) an increase of 7%. Both of these markets were affected by the supply difficulties highlighted earlier. New operations in the UK, the Czech and Slovak Republics, Poland and Austria were set up during the year and contributed £0.9 million to sales.

Licensees

The Group also sells through licensees and distributors, accounting for 11% of the gross sales. Total sales for the year were £2.7 million (2005: £2.9 million) a decrease of 7% on the previous year. Included in licensee sales are milestone receipts from the Company's Canadian licensee for Pollinex Quattro; in the year three milestones totalling £0.8 million (2005: £1 million) were received, triggered by reaching certain development activities.

Product sales

The Group's flagship product, Pollinex Quattro continued to sell well, despite difficult market conditions and supply problems, with gross sales of £7.7 million (2005: £7.2 million) an increase of 7% over the previous year.

Cost of sales and net operating expenses

In general, manufacturing costs have increased as a result of higher fuel costs and an increase in compliance with recommended good manufacturing practice (GMP). However, costs increased further as the headcount in the manufacturing area increased by 25 full time equivalents, an increase of 25% in the year, to support the growth of the business and prepare for worldwide market launches of Pollinex Quattro. Moreover, investments in new plant and machinery and a second manufacturing facility has led to increased depreciation costs. This investment will help provide greater capacity for the current named-patient sales of Pollinex Quattro, whilst at the same time enabling the existing building to be upgraded without interfering with supply. As a consequence of the environmental cost increases and improvements for the future, cost of goods sold was £6.5 million (2005: £4.9 million) an increase of 32% over the previous year.

Investments in the commercial strategy, including new market spend of £0.7 million and the creation of a business development function plus continued support for existing markets created uplift in the marketing and promotion spend by 22% to £9.8 million (2005: £8.0 million). Administrative expenses have increased by 7% to £4.6 million (2005: £4.3 million) with the inclusion of a provision for the 2005 Long Term Incentive Plan. As discussed in the CEO's statement, the development programme for Pollinex Quattro was initiated in the preceding year and, as the programme has moved forwards towards Phase III, the costs have increased in the year by 71% to £9.6 million (2005: £5.6 million). Most of the activity relates to the extensive Phase II programme for Grass, Tree and Ragweed.

Results of operation

As a consequence of investment in the development

"The globalisation of the Pollinex Quattro brand presents a myriad of challenges and opportunity to the Supply Operations organisation, especially the successful FDA Pre-Approval Inspection of our facilities and our preparedness for the subsequent launch of the brand in the USA. I feel fortunate to be in the enviable position to lead my organisation through significant change and growth, and I am humbled to have the opportunity to contribute to the significant improvement in the quality of life of allergy patients, globally. These are the reasons I chose to join this dynamic company." **Ray Keeling**

Ray Keeling
Head of Supply Operations
Joined the Company 11 October 2005

programmes in preparation for the launch of Pollinex Quattro on a worldwide basis the Group recorded a loss on ordinary activities before taxation of £6.1 million (2005: loss of £1.9 million). However, before development costs and rebates, the operating profit including milestones was £3.7 million (2005: £5.5 million), which allows for a more reasonable appreciation of the core business performance this year; the reduction in profit highlighting that preparation is now well under way for the manufacturing infrastructure and commercial team to be ready for market launches of Pollinex Quattro.

Taxation

As a result of its investment in research and development, the Company has benefited from making R&D claims. These claims have given the Company enhanced deductions for tax purposes and the possibility of benefiting from the receipt of R&D tax credits. A R&D tax credit has been claimed for the year ending June 2005. The Budget announcement in April 2006 put forward proposals to revise the definition for small and medium sized entities regarding the number of employees; the number being increased from 250 to 500. The Group's average headcount for this year has increased to 275, lifting it above the current 250 threshold for the first time, so allowing it to make a R&D tax credit claim for the year. The Budget proposals have yet to be approved by the European Commission, however, if passed the Company may be able to make further R&D tax credit claims in the future. The Group in total has losses to carry forward of £23.3 million, although in Germany it is likely that corporation taxes will fall due before other entities in the Group.

Net assets

Net assets at 30 June 2006 were £32.7 million (2005: £20.1 million), an increase of £12.6 million due primarily to the £18.3 million net proceeds raised from the placing of new shares in May 2006. 19 million new ordinary shares were issued, having been placed with existing and new investors. This additional capital will primarily fund the Company's development pipeline of innovative ultra-short-course allergy vaccines, Pollinex Quattro. The new shares rank pari passu with the existing shares. Following admission of the new shares the Company has 81,950,632 ordinary shares in issue. 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 £2.2 million (2005: £0.9 million); contributing to the increase in the value of tangible fixed assets to £3.6 million from £2.1 million. The main component of this spend (£0.9 million), the development of the second manufacturing unit in Worthing, will equip the Company with the appropriate processing capability to meet the anticipated post-registration increased volumes of Pollinex Quattro for the US and European markets. Other expenditure typically included upgrades to plant and machinery.

In order to manage better demand from the markets higher levels of key stock items are being held, increasing the stock value by 37% during the year to £3.7 million (2005: £2.7 million). Debtors falling due within one year increased marginally by 13% to £3.6 million (2005: £3.2 million) due to higher VAT balances.

Creditors falling due within one year are lower at the year end by 20% to £4.9 million (2005: £6.1 million), primarily due to an increase in accruals relating to development activities at the end of the preceding year.

Capital structure

The Group finances its operations through cash generated from its core business, the net proceeds raised from the placing of new shares in May 2006 and bank lines.

The Group's funding requirements depend on a number of factors, including the Group's product development programmes, which increased further in activity this year and are set to rise further in the following financial year. The Group currently has no debt on its balance sheet, but having agreed new bank lines, will consider using them for working capital finance in the future as a means of financing its core business growth.

Cash flows

As at 30 June 2006 cash totalled £23.9 million, an increase of £8.8 million from £15.1 million at 30 June 2005 due primarily to the net proceeds of £18.3 million raised from the placing of new shares. For the year, net cash outflow from operating activities amounted to £8.1 million (2005: nil). Net cash outflow includes significant product development costs of £9.6 million and strategic investments in manufacturing and commercial infrastructure.

Ian Postlethwaite
Finance Director
11 September 2006

Board of Directors

01 Ignace Goethals Non-Executive Chairman (61)
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 (47)
Keith is a founding shareholder of Allergy Therapeutics and was part of the team that orchestrated the MBO 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 (43)
Ian joined Allergy Therapeutics 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 with 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 Dr Tom Holdich R&D Director (47)
Tom is a pharmaceutical physician whose speciality is global drug development.

Tom joined Allergy Therapeutics in August 2004. He has been involved in clinical research since 1983 and has held senior positions in both large pharmaceutical companies, such as AstraZeneca, and smaller companies, such as Shire Pharmaceuticals, for the past 20 years.

He has directed international clinical research projects from Phase I (first time into man) to Phase IV (life cycle management) in therapeutic areas ranging from epilepsy and schizophrenia to HIV and inflammatory bowel disease.

05 Dr Christian Grätz Director, Market Operations (53)
Christian is also General Manager of Bencard Allergie, Germany.

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.

06 Stephen Smith Non-executive Director (53)
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 held various senior financial positions in UK-based international public companies, including six years as group treasurer of The Rank Organisation and three years as group finance director of a quoted hotel company.

07 Dr Virinder Nohria Non-executive Director (52)
Dr Nohria works as a strategy consultant in international drug development. He has led teams in many successful interactions with regulatory bodies in several countries, particularly with the US FDA. Dr Nohria served as Chief Medical Officer and Vice President of Xcel Pharmaceuticals Inc., a US specialty pharmaceutical company until the sale of the company to Valeant Pharmaceutical International in early 2005.

Prior to joining Xcel, Dr Nohria held several positions in biotechnology and pharmaceutical companies including UCB Pharma and Eli Lilly. Dr Nohria is a board-certified paediatric neurologist and received his medical degree from Cambridge University and his doctorate in neuropharmacology from the University of Bradford. He is currently based in the US and has affiliations with Emory and Duke Universities.

Directors' Report

The directors present their Annual Report and the audited financial statements for the 12 months ended 30 June 2006. The financial statements are for Allergy Therapeutics plc (the Company) and its subsidiary companies (together, the Group).

Principal activities

The Group is engaged in the development, manufacture, marketing and sale of a range of pharmaceutical vaccine products designed for the immunological treatment of the allergic condition. Vaccinations take the form of allergen-specific, named-patient-specific and standard products in injectable and sublingual presentations. The business is headquartered in Worthing, West Sussex, where development and manufacturing is based, with sales and marketing subsidiaries in Germany, Austria, Italy and Spain and representative offices in Poland and the Slovak Republic. 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 £6,119k (2005: £1,929k). The results for the year are set out on page 22 and are dealt with in more detail in the Financial Review.

Business review and future developments

Turnover in the year increased to £23.6 million compared to £20.6 million in the previous year.

Operating profit before development costs, milestones and rebates, which reflects the performance of the core business, was £2.9 million compared to £4.5 million in the previous year, the reduced profit a consequence of the increased manufacturing costs in the year.

In addition to the above Key Performance Indicators, the Board also regularly monitors staff turnover, which has reduced by more than 30% in the year, as a result of new training initiatives, employee incentive schemes and investment in key personnel.

A full review of the Group's activities and its development programme is contained in the Chief Executive's Review on pages 7 to 9 and the Financial Review on pages 10 and 11, both of which form part of this report.

Financial risk management objectives and policies

Note 17 in the Notes to the Financial Statements gives details of the Company's objectives and policies for risk management of financial instruments.

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
Tom Holdich	R&D Director	8 September 2004
Ian Postlethwaite	Finance Director	1 July 2004
Andrew Turnbull	Supply Operations Director (resigned 31 December 2005)	8 September 2004
Stephen Smith	Non-executive Director	8 September 2004
Virinder Nohria	Non-executive Director	1 November 2005

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

As required by the Articles of Association, Dr Virinder Nohria, having been appointed since the last Annual General Meeting, retires and, being eligible, offers himself for re-election. Keith Carter and Ian Postlethwaite retire by rotation in accordance with the Articles of Association and, being eligible, offer themselves for re-election at the forthcoming Annual General Meeting.

The directors who held office at the end of the financial year had the following interests in the ordinary shares of the Company:

Name	Ordinary shares at 30 June 2005	Options at 30 June 2005	**Ordinary shares at 30 June 2006**	**Options at 30 June 2006**
Ignace Goethals*	2,573,343	1,150,000	**1,797,912**	**1,150,000**
Keith Carter*	2,584,643	2,150,000	**2,597,669**	**2,164,609**
Christian Grätz	1,095,540	2,356,000	**1,104,658**	**2,356,000**
Tom Holdich	–	430,000	**–**	**430,000**
Ian Postlethwaite	–	3,650,000	**–**	**3,664,609**
Stephen Smith	–	900,000	**6,513**	**900,000**
Virinder Nohria	n/a	n/a	**5,211**	**100,000**

* 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.

Substantial shareholders

At 6 September 2006 the Company had been notified of the following holdings of 3% or more of the issued ordinary share capital by the Fund Manager:

Shareholder	Ordinary shares	% held
Fidelity Investments	11,524,342	14.06
GlaxoSmithKline plc	10,118,748	12.35
AXA Framlington Investment Managers	6,223,582	7.59
OTC Limited	4,558,369	5.56
Hermes Pensions Management	4,540,027	5.54
Jupiter Asset Management	3,176,408	3.88
Gartmore Investment Management	3,029,973	3.70
USS	3,008,260	3.67
Baillie Gifford	2,674,195	3.26
Quester Capital Management	2,654,795	3.24
Keith Carter (including shares held by APIC Trustees Ltd*)	2,597,669	3.17

* Keith Carter, Chief Executive Officer, is a beneficiary of this trust.

Changes to interest in own shares

During the year the Company allocated 3,090,840 shares out of the Employee Benefit Trust to satisfy share options that were exercised.

Corporate Governance

The Group has 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 comprises Stephen Smith (Chairman) and Ignace Goethals. The Remuneration Committee comprises Stephen Smith (Chairman), Ignace Goethals and Dr Virinder Nohria.

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 reports produced by the external auditors.

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 are met. Any agreement to purchase services costing more than a predetermined amount per engagement must have the prior approval of the Audit Committee.

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

Long Term Share Incentive Plan

The Long Term Share Incentive Plan was approved at the 2005 AGM. Under the Plan, directors and senior employees may receive, at the discretion of the Remuneration Committee, annual provisional awards of performance vesting shares. The proportion of shares that vests will depend on the Company's performance in terms of total shareholder return (TSR) compared to the TSR performance of each of the companies in the Plan's peer group and will be at the discretion of the Trustee, after taking into account the recommendations of the Remuneration Committee. If the Company's position in the peer group is at or above the 75th percentile, 100% of the provisional shares awarded may vest; between the 75th and 50th percentile, the percentage of shares that may vest will be calculated on a straight-line basis between 100% and 33.33%; below the 50th percentile, no shares will vest. No shares will vest unless the underlying performance of the Company during the Plan cycle is judged by the Remuneration Committee to be satisfactory. A new Plan cycle will commence at the start of each financial year and will comprise not less than three consecutive financial years.

The 2005 Plan commenced on 1 July 2005 and a total of 1,205,871 provisional shares have been awarded. The 2005 Plan's peer group comprises 22 other companies of similar size and value in the pharmaceutical and biotechnology sectors.

Savings Related Share Option Plan (SAYE)

The Company has a Savings Related Share Option Plan under which eligible employees are invited to apply for share options at a discounted price. The Plan is linked to savings contracts under which the employees agree to save regular monthly amounts. At the end of the savings term the employees have the right to exercise their share options at the discounted Plan price.

The 2005 SAYE Plan was open to all employees and full-time executive directors who had completed 12 months continuous service at the offer date. Share options were granted at a 15% discount to the share price at the date of grant. The number of options granted to each participant is related to the amount which the participant has contracted to save over the three year term of the Plan.

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. The Company has an internal audit function, reporting directly to the Audit Committee, which has carried out reviews during the year of the Company's subsidiaries in the UK, Germany, Austria, Italy and Spain.

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 has been set up to manage the Group's transition from UK GAAP to IFRS and to ensure successful implementation within the required timeframe.

The results for the year ended 30 June 2006 will be translated to establish the impact on them of reporting under IFRS and to provide opening Balance Sheet values for the financial year ending 30 June 2007. The main areas affected by IFRS are expected to be amortisation and revenue recognition.

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 all relevant 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 value 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 2006 was 39 days (2005: 52 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, age, 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 individual's strengths and development potential and the remuneration programme is based on merit.

Statement of directors' responsibilities

The directors are responsible for preparing the financial statements in accordance with applicable law and United Kingdom Generally Accepted Accounting Principles.

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; and
- 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 that disclose with reasonable accuracy at any time the financial position of the Group and Company and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible 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.

In so far as the directors are aware:

- There is no relevant audit information of which the Company's auditors are unaware.
- The directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's 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 11 September 2006.

Ian Postlethwaite
Company Secretary

Directors' Remuneration Report

The Remuneration Committee (unaudited)

The Remuneration Committee comprises Stephen Smith (Chairman), Ignace Goethals and Dr Virinder Nohria. The Committee held two 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 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 executive directors of the highest calibre. Remuneration packages are designed to reward executive directors 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 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

The share options granted to individual executive directors to date are disclosed later in this report and comprise 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) Long Term Incentive Plan

During the year ended 30 June 2006 provisional shares were awarded to directors and senior management under the Allergy Therapeutics plc 2005 Long Term Incentive Plan. Distribution of shares under the Plan is conditional on the Company's performance over the three year Plan Cycle, as detailed in the Directors' Report. The value of shares allocated to executive directors was between 70% and 93% of annual salary. The number of provisional shares awarded to executive directors is shown below.

	No of shares
Keith Carter	200,000
Ian Postlethwaite	130,000
Christian Grätz	130,000
Tom Holdich	130,000

(v) SAYE Plan

The 2005 SAYE Plan was open to all employees and full-time executive directors who had completed 12 months continuous service at the offer date. Share options were granted at a 15% discount to the share price at the date of grant. The number of options granted to each participant is related to the amount which the participant has contracted to save over the three year term of the Plan. The number of share options granted to executive directors under the Plan is shown in the directors' share options table on page 20.

(vi) 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 provisions for the year ending 30 June 2006 ranged between 21% and 26% of basic salary. Annual bonus payments are capped under service contracts at 40% for Keith Carter and 30% for all other directors except Christian Grätz, whose bonus is uncapped.

(vii) 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 Keith Carter for whom the Company contributes 13% of salary.

Christian 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.

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
Tom Holdich	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
Virinder Nohria	1 November 2005	3 months

The above contracts for Ignace Goethals and Stephen Smith 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 £	Fees £	Total £	Pension £	Year ended 30 June 2005 Total £	Year ended 30 June 2005 Pension £
Keith Carter	**157,275**	**20,360**	**11,131**	**–**	**188,766**	**20,475**	207,133	19,500
Ian Postlethwaite	**111,996**	**21,954**	**11,131**	**–**	**145,081**	**11,200**	137,219	10,531
Christian Grätz	**131,024**	**23,443**	**11,516**	**–**	**165,983**	**25,174**	162,867	23,148
Andrew Turnbull	**47,500**	**7,500**	**5,379**	**–**	**60,379**	**4,750**	111,896	8,719
Tom Holdich	**125,875**	**14,750**	**11,131**	**–**	**151,756**	**12,587**	149,720	10,942
Ignace Goethals	**36,000**	**–**	**–**	**–**	**36,000**	**–**	24,000	–
Stephen Smith	**–**	**–**	**–**	**24,784**	**24,784**	**–**	12,000	–
Virinder Nohria	**16,000**	**–**	**–**	**–**	**16,000**	**–**	n/a	n/a
Totals	**625,670**	**88,007**	**50,288**	**24,784**	**788,749**	**74,186**	804,835	72,840

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

Directors' Remuneration Report
continued

Directors' share options (audited)

	Options held at 1 July 2005	Options granted in the year	Options exercised in the year	Options lapsed in the year	Options held at 30 June 2006	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
	600,000	–	–	–	600,000	100.4	08/03/2008	08/03/2015
	–	*14,609	–	–	14,609	0.64	01/03/2009	01/09/2009
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
	300,000	–	–	–	300,000	100.4	03/03/2008	08/03/2015
	–	*14,609	–	–	14,609	0.64	01/03/2009	01/09/2009
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	–	300,000	150,000	–	45.0	26/02/2005[1]	26/02/2014
	300,000	–	–	300,000	–	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
Virinder Nohria	150,000	–	50,000	–	100,000	45.0	15/12/2003[2]	15/12/2013
Totals	**14,293,100**	**29,218**	**2,907,100**	**650,000**	**10,765,218**			

* Shares granted under the SAYE 2005 share plan.

[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 from first of each subsequent month until 1 December 2004.

Dr Virinder Nohria had been granted 150,000 share options and had exercised 50,000 before he was appointed as a director.

Andrew Turnbull exercised his share options after he had resigned as a director.

At 30 June 2006 the London Stock Exchange market value of shares was 99p per share. The range of values during the period from 1 July 2005 to 30 June 2006 was 69.5p to 119.5p per share.

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

We have audited the group and parent company financial statements (the 'financial statements') of Allergy Therapeutics plc for the year ended 30 June 2006 which comprise the principal accounting policies, 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 27. 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 opinions we have formed.

Respective responsibilities of the directors and auditors

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) 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 International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view, whether they are properly prepared in accordance with the Companies Act 1985 and whether the information given in the Directors' Report is consistent with the financial statements. We also report to you if, in our opinion, 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 other transactions 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 only 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 audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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 Group's and Company's 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, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Group's and the parent company's affairs as at 30 June 2006 and of the Group's loss for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements for the year ended 30 June 2006.

Grant Thornton UK LLP
Registered Auditors and Chartered Accountants
Gatwick
11 September 2006

Consolidated Profit and Loss Account
for the year ended 30 June 2006

	Note	Year ended 30 June 2006 £'000	Year ended 30 June 2006 £'000	Year ended 30 June 2005 £'000	Year ended 30 June 2005 £'000
Turnover	2		**23,558**		20,606
Cost of sales			**(6,513)**		(4,853)
Gross profit			**17,045**		15,753
Distribution costs			**(9,833)**		(8,012)
Administrative expenses – other		**(4,572)**		(4,303)	
Research and development costs		**(9,560)**		(5,620)	
Exceptional costs	4	**–**		(614)	
Administrative expenses			**(14,132)**		(10,537)
Other operating income			**260**		378
Operating loss			**(6,660)**		(2,418)
Interest receivable and similar income		**545**		531	
Interest payable on loans and overdrafts		**(4)**		(42)	
			541		489
Loss on ordinary activities before tax	3		**(6,119)**		(1,929)
Tax on loss on ordinary activities	7		**–**		–
Retained loss for the financial year	20,21		**(6,119)**		(1,929)
Basic loss per share	9		**(9.3p)**		(3.4p)

All amounts relate to continuing activities.

Consolidated Balance Sheet
at 30 June 2006

	Note	30 June 2006 £'000	30 June 2005 £'000
Fixed assets			
Intangible assets	10		
Goodwill		**2,326**	2,617
Other intangible assets		**829**	951
		3,155	3,568
Tangible assets	11	**3,637**	2,111
		6,792	5,679
Current assets			
Stocks	13	**3,651**	2,741
Debtors: amounts falling due within one year	14	**3,577**	3,160
Cash at bank and in hand		**23,860**	15,080
		31,088	20,981
Creditors: amounts falling due within one year	15	**(4,939)**	(6,121)
Net current assets		**26,149**	14,860
Total assets less current liabilities		**32,941**	20,539
Creditors: amounts falling due after one year	16	**(239)**	(455)
Net assets		**32,702**	20,084
Capital and reserves			
Called up share capital	19	**92**	73
Share premium account	20	**33,173**	14,924
Other reserves – shares issued by subsidiary	20	**40,128**	40,128
Other reserves – shares held in EBT	20	**(60)**	(322)
Other reserves – Long Term Incentive Plan	20	**178**	–
Profit and loss account	20	**(40,809)**	(34,719)
Shareholders' funds	21	**32,702**	20,084

These financial statements were approved by the Board of Directors on 11 September 2006 and were signed on its behalf by:

K Carter
Chief Executive Officer

I Postlethwaite
Finance Director

Company Balance Sheet
at 30 June 2006

	Note	30 June 2006 £'000	30 June 2005 £'000
Fixed assets			
Investments	12	**51**	–
		51	
Current assets			
Debtors: amounts falling due within one year	14	**14**	6
Creditors: amounts falling due within one year	15	**(312)**	(239)
Net current liabilities		**(298)**	(233)
Total assets less current liabilities		**(247)**	(233)
Net liabilities		**(247)**	(233)
Capital and reserves			
Called up share capital	19	**92**	73
Share premium	20	**33,173**	14,924
Other reserve – shares held in Employee Benefit Trust	20	**(60)**	(322)
Other reserve – Long Term Incentive Plan	20	**178**	–
Profit and loss account	20	**(33,630)**	(14,908)
Shareholders' deficiency		**(247)**	(233)

These financial statements were approved by the Board of Directors on 11 September 2006 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 2006

	Note	Year to 30 June 2006 £'000	Year to 30 June 2006 £'000	Year to 30 June 2005 £'000	Year to 30 June 2005 £'000
Cash outflow from operating activities	22		**(8,099)**		(15)
Returns on investment and servicing of finance					
Interest received		**545**		531	
Interest paid		**(4)**		(42)	
			541		489
Capital expenditure and financial investment					
Purchase of tangible fixed assets	11		**(2,192)**		(903)
Cash outflow before financing			**(9,750)**		(429)
Financing	23				
Gross funds raised on issue of shares		**19,000**		16,000	
Bank loans repaid		**–**		(945)	
Issue of shares from EBT		**262**		51	
Expenses paid in connection with issue of shares		**(732)**		(1,054)	
			18,530		14,052
Increase in cash in year			**8,780**		13,623

Reconciliation of Net Cash Flow to Movement in Net Funds

	Note	Year to 30 June 2006 £'000	Year to 30 June 2005 £'000
Increase in cash in the year		**8,780**	13,623
Net loans repaid		**–**	945
Movement in net funds in year	24	**8,780**	14,568
Net funds at beginning of year		**15,080**	512
Net funds at end of year	24	**23,860**	15,080

Consolidated Statement of Total Recognised Gains and Losses
for the year ended 30 June 2006

	Year to 30 June 2006 £'000	Year to 30 June 2005 £'000
Loss for the financial year	**(6,119)**	(1,929)
Currency translation differences on foreign currency net investment	**29**	(60)
Total recognised gains and losses relating to the year	**(6,090)**	(1,989)

Notes to the Financial Statements

1 Accounting policies

Change in accounting policies

In preparing the financial statements for the current year, the Company has adopted the following Financial Reporting Standards:
- FRS 21 'Events after the Balance Sheet date (IAS 10)'; and
- the presentation requirements of 'FRS 25 Financial Instruments: Disclosure and Presentation (IAS 32)'.

Neither standard has had an impact on the Group's financial statements.

Basis of preparation

These financial statements have been prepared under the historical cost convention of accounting and in accordance with applicable UK accounting standards. The accounts are prepared on a going concern basis.

Basis of consolidation

The consolidated financial statements have been prepared using merger accounting principles and include the financial statements of the Company and its subsidiary undertakings made up to 30 June 2006.

'Other reserves – shares issued by subsidiary' relates to the premium on shares previously issued by Allergy Therapeutics (Holdings) Ltd.

The profit and loss reserve includes all profits and losses for the Group formerly headed by Allergy Therapeutics (Holdings) Ltd prior to its merger with the Company in October 2004.

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 (15 years).

Intangible fixed assets and amortisation

Intangible fixed assets are valued at cost. Non-competing know-how is amortised over four years reflecting its estimated useful life to the Group. Acquired trademarks, 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 trademark, licence, patent and know-how are written off to the profit and loss account when incurred.

Depreciation

All assets except land are depreciated. 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.

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.

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.

1 Accounting policies continued

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 they occur.

Foreign currencies
Transactions in foreign currencies, including those covered by forward exchange contracts, 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 is earned, normally when goods are despatched or royalties become due. 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 shareholder's 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.

Financial instruments
Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its financial liabilities.

Where the contractual obligations of financial instruments (including share capital) are equivalent to a similar debt instrument, those financial instruments are classed as financial liabilities. Financial liabilities are presented as such in the balance sheet. Finance costs and gains or losses relating to financial liabilities are included in the profit and loss account. Finance costs are calculated so as to produce a constant rate of return on the outstanding liability.

Where the contractual terms of share capital do not have any terms meeting the definition of a financial liability then this is classed as an equity instrument. Dividends and distributions relating to equity instruments are debited direct to equity.

R&D tax credits
R&D tax credits are recognised in the profit and loss account when received.

2 Turnover

Turnover is attributable to the principle 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 2006 £'000	Year to 30 June 2005 £'000
By geographical destination		
Germany	**16,155**	14,175
Rest of Europe	**5,666**	4,714
North America	**1,430**	1,371
Asia	**307**	346
	23,558	20,606
By country of origin		
Germany	**16,155**	14,175
Rest of Europe	**3,823**	3,481
UK	**3,580**	2,950
	23,558	20,606

3 Loss on ordinary activities before tax

	Year to 30 June 2006 £'000	Year to 30 June 2005 £'000
Loss on ordinary activities before tax is stated after charging:		
Auditors' remuneration:		
Group audit	**89**	62
Company audit	**7**	7
Non-audit fees paid to the auditor in respect of other services:		
Tax compliance and assurance	**31**	26
Review of interim statements	**6**	5
Transfer pricing and international tax projects	**35**	60
Depreciation of tangible assets	**668**	436
Amortisation of intangible assets	**450**	448
Research and development	**9,560**	5,620
Operating lease rentals – plant and machinery	**7**	7
– other	**592**	625
Foreign currency exchange gains	**(350)**	(262)

In addition to the June 2005 charges 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 were offset against the share premium account as part of the cost of issuing shares in the year.

4 Exceptional costs

	Year to 30 June 2006 £'000	Year to 30 June 2005 £'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.

5 Remuneration of directors

	Year to 30 June 2006 £'000	Year to 30 June 2005 £'000
Directors' emoluments	**789**	805
Pension contributions	**74**	73
	863	878
Emoluments of highest paid director (£'000)	**189**	207
Group contribution to pension plan:		
Pension contributions paid by the Group for highest paid director (£'000)	**20**	20
The number of directors for whom pension payments are made	**5**	5
Gains made by directors on exercise of options (£'000)	**2,395**	–

Two (2005: nil) directors exercised options in the year. The options were exercised prior to or after the date they were appointed or resigned.

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 2006	Year to 30 June 2005
R&D, Marketing and Administration	**98**	81
Sales	**59**	52
Production	**118**	96
	275	229

The aggregate payroll costs for these persons were as follows:

	Year to 30 June 2006 £'000	Year to 30 June 2005 £'000
Aggregate wages and salaries	**8,605**	7,292
Social security costs	**1,394**	1,168
Other pension costs	**378**	382
	10,377	8,842

The average number of employees involved in pension schemes across the Group for 2006 was 128 (2005: 127).

7 Tax on loss on ordinary activities

There is no tax charge arising on the results for the year.

Current tax reconciliation:

	Year to 30 June 2006 £'000	Year to 30 June 2005 £'000
Loss before tax	**(6,119)**	(1,929)
Tax at standard rate of 30% on loss for year	**(1,836)**	(579)
Expenses not deductible for tax purposes	**33**	99
Capital allowances in excess of depreciation	**(177)**	(104)
Overseas adjustments not taxable	**–**	(60)
Utilisation of tax losses	**(47)**	(419)
Tax losses not utilised	**3,796**	1,824
Allowances for R&D expenditure	**(1,036)**	(593)
Relief for shares acquired by employees and directors	**(733)**	(168)
Current tax charge	**–**	–

Unrelieved Group losses of £23 million (2005: £16 million) remain available to offset against future taxable profits. These comprise non-trading losses of £3 million and trading losses of £20 million.

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 was £18,722,000.

9 Loss per share

	Year to 30 June 2006	Year to 30 June 2005
Loss for the year (£'000)	**(6,119)**	(1,929)
Weighted number of shares in issue	**66,117,299**	57,471,180
Basic loss per share (pence)	**(9.3)**	(3.4)

10 Intangible fixed assets – Group

	Goodwill £'000	Manufacturing know-how £'000	Non-competing know-how £'000	Other intangibles £'000	**Total at 30 June 2006 £'000**
Cost					
Balance brought forward	4,906	1,000	2,963	953	**9,822**
Exchange difference	71	–	83	7	**161**
Balance carried forward	4,977	1,000	3,046	960	**9,983**
Amortisation					
Balance brought forward	2,289	468	2,963	534	**6,254**
Charge for year	328	69	–	53	**450**
Exchange difference	34	–	83	7	**124**
Balance carried forward	2,651	537	3,046	594	**6,828**
Net book value					
At 30 June 2006	**2,326**	**463**	**–**	**366**	**3,155**
At 30 June 2005	2,617	532	–	419	3,568

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.

'Other intangibles' comprises trademarks and associated 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 2006 £'000**
Cost						
Balance brought forward	2,282	743	8	2,842	262	**6,137**
Additions	689	1,210	–	293	–	**2,192**
Disposals	(35)	(3)	–	(66)	–	**(104)**
Exchange difference	5	10	–	21	8	**44**
Balance carried forward	2,941	1,960	8	3,090	270	**8,269**
Depreciation						
Balance brought forward	1,251	386	6	2,206	177	**4,026**
Charge for period	159	176	1	300	32	**668**
Disposals	(31)	(3)	–	(59)	–	**(93)**
Exchange difference	4	4	–	17	6	**31**
Balance carried forward	1,383	563	7	2,464	215	**4,632**
Net book value						
At 30 June 2006	**1,558**	**1,397**	**1**	**626**	**55**	**3,637**
At 30 June 2005	1,031	357	2	636	85	2,111

12 Investments – Company

	Shares in subsidiary undertaking £'000
Cost	
Balance brought forward and carried forward	51
Provision	
Balance brought forward	(51)
Adjustment in year	51
Balance carried forward	–
Net book value	
At 30 June 2006	**51**

The provision was reversed in the year as the subsidiary in which shares are held now has sufficient net assets to cover the investment.

At 30 June 2006 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
Bencard Allergie (Austria) GmbH	Austria	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 (Holdings) Ltd is owned directly by Allergy Therapeutics plc. All other subsidiary undertakings except Bencard Allergie (Austria) GmbH are owned by Allergy Therapeutics (Holdings) Ltd. Bencard Allergie (Austria) GmbH is owned by Bencard Allergie GmbH.

13 Stocks

	Group	
	30 June 2006 £'000	30 June 2005 £'000
Raw materials and consumables	**1,081**	961
Work in progress	**2,029**	1,252
Finished goods	**541**	528
	3,651	2,741

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

14 Debtors

	Group		Company	
	30 June 2006 £'000	30 June 2005 £'000	**30 June 2006 £'000**	30 June 2005 £'000
Amounts falling due within one year				
Trade debtors	**1,777**	2,206	**–**	–
Taxation and social security	**435**	55	**–**	–
Prepayments and accrued income	**1,095**	348	**14**	–
Other debtors	**270**	551	**–**	6
	3,577	3,160	**14**	6

15 Creditors: amounts falling due within one year

	Group		Company	
	30 June 2006 £'000	30 June 2005 £'000	**30 June 2006 £'000**	30 June 2005 £'000
Trade creditors	**1,671**	1,478	**–**	–
Taxation and social security	**893**	372	**93**	–
Accruals and deferred income	**2,225**	3,786	**219**	239
Other creditors	**150**	485	**–**	–
	4,939	6,121	**312**	239

16 Creditors: amounts falling due after more than one year

	Group	
	30 June 2006 £'000	30 June 2005 £'000
Other long-term creditors	**239**	455
	239	455

17 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 derivative 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 Group policy that no trading in financial instruments shall be undertaken.

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.

17 Financial instruments and derivatives continued

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. A large part of the manufacturing cost base is denominated in Sterling but some R&D and other costs are denominated in US Dollars, Canadian Dollars and Euros. 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 2005	**207**	**–**	**207**
Gains and losses arising in previous years that were recognised in 2005/06	**(207)**	**–**	**(207)**
Unrecognised gains and losses brought forward	**–**	**–**	**–**
Gains and losses on hedges arising in 2005/06	**52**	**–**	**52**
Gains and losses on hedges arising in 2005/06 that were recognised in the year	**(46)**	**–**	**(46)**
Unrecognised gains and losses on hedges at 30 June 2006	**6**	**–**	**6**
Of which:			
Gains and losses expected to be recognised in 2006/07	**6**	**–**	**6**

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.

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	
	30 June 2006 £'000	30 June 2005 £'000
Currency		
Euro	**1,446**	883
US Dollar	**52**	48
Canadian Dollar	**29**	25
Slovak Koruna	**3**	–
Polish Zloty	**1**	–
	1,531	956

Borrowing facilities

The Group has undrawn committed borrowing facilities at 30 June 2006 of €362,000; £250,000 (2005: €362,000; £242,000), expiring within one year. Additional borrowing facilities of £4 million were agreed but not signed at 30 June 2006.

18 Deferred taxation

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

19 Called up share capital

	Year to 30 June 2006 £'000	Year to 30 June 2005 £'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: 81,950,632 ordinary shares of 0.1p each (2005: 62,950,632)	**82**	63
Equity: 9,848,333 deferred shares of 0.1p each	**10**	10
	92	73

On 4 May 2006 19,000,000 ordinary shares of 0.1p each were issued for cash consideration of £19,000,000. The difference between the consideration of £19,000,000 and the aggregate nominal value of £19,000 has been credited to the share premium account.

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

Share options

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

At start of year	Granted during year	Exercised in year	Lapsed in year	At end of year	Exercise price	Exercise date from	Exercise date to
5,600	–	(800)	–	4,800	0.1p	04/10/2004	22/12/2008
25,712	–	(5,400)	–	20,312	0.1p	04/10/2004	01/10/2009
37,438	–	(12,400)	–	25,038	0.1p	04/10/2004	01/10/2010
19,200	–	(5,250)	–	13,950	0.1p	04/10/2004	20/10/2010
250,000	–	(50,000)	–	200,000	0.1p	04/10/2004	02/01/2011
1,187,350	–	–	(200,000)	987,350	120p	31/07/2002[1]	31/07/2011
400,000	–	–	–	400,000	30p	03/06/2002	03/06/2012
2,000,000	–	(1,000,000)	–	1,000,000	0.1p	02/10/2002	02/10/2012
3,000,000	–	(1,500,000)	–	1,500,000	5p	17/12/2002[1]	17/12/2012
122,668	–	(53,334)	–	69,334	5p	17/12/2003[1]	17/12/2012
4,000,000	–	–	–	4,000,000	5p	18/12/2002[1]	18/12/2012
231,633	–	(60,333)	–	171,300	5p	04/10/2004	25/01/2013
150,000	–	(50,000)	–	100,000	45p	15/12/2003[2]	15/12/2013
2,384,004	–	(353,323)	(150,000)	1,880,681	45p	26/02/2005[1]	26/02/2014
230,000	–	–	–	230,000	45p	02/08/2005[1]	02/08/2014
2,200,001	–	–	(300,000)	1,900,001	100.4p	08/03/2008	08/03/2015
–	*346,905	–	–	346,905	64p	01/03/2009	01/09/2009
16,243,606	**346,905**	**(3,090,840)**	**(650,000)**	**12,849,671**			

* Shares granted under the SAYE 2005 share plan.

[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 1st of each subsequent month until 1 December 2004.

In addition 1,205,871 shares were provisionally allocated to the LTIP 2005 share plan. This is the maximum contingent number of shares that could vest under the terms of the plan, as detailed in the Directors' Report.

20 Reserves

	Group Profit and loss account £'000	Company Profit and loss account £'000
At 30 June 2005	(34,719)	(14,908)
Retained loss for the year	(6,119)	(18,722)
Currency translation profit on foreign currency investments	29	–
At 30 June 2006	**(40,809)**	**(33,630)**

	Group and Company Share premium account £'000	Group Shares issued by subsidiary £'000
At 30 June 2005	14,924	40,128
Premium on shares issued in the year	18,981	–
Expenses paid in connection with share issue	(732)	–
At 30 June 2006	**33,173**	**40,128**

	Group and Company Other reserve – LTIP £'000	Group and Company Other reserve – EBT £'000
At 30 June 2005	–	(322)
Issue of shares from EBT	–	262
Provision for Long Term Incentive Plan	178	–
At 30 June 2006	**178**	**(60)**

'Shares issued by subsidiary' relates to the share premium account of Allergy Therapeutics (Holdings) Ltd. The reserve arose as a result of the merger.

At 30 June 2006 there were 2,173,269 shares in the Employee Benefit Trust with an aggregate cost of £60,000 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 2006 was £2,151,536.

1,205,871 shares were provisionally allocated to the LTIP 2005 share plan. This is the maximum contingent number of shares that could vest under the terms of the plan.

21 Reconciliation of movement in shareholders funds

	Group		Company	
	Year to 30 June 2006 £'000	Year to 30 June 2005 £'000	Year to 30 June 2006 £'000	Year to 30 June 2005 £'000
Loss for the financial year	(6,119)	(1,929)	(18,722)	(14,908)
Other recognised gains and losses relating to the period (net)	29	(60)	–	–
Issue of shares	19,000	16,000	19,000	16,051
Transfer of EBT balance from subsidiary	–	–	–	(373)
Issue of shares from EBT	262	51	262	51
Long Term Incentive Plan	178	–	178	–
Expenses paid in connection with share issue	(732)	(1,054)	(732)	(1,054)
Net addition to/(deduction from) shareholders' funds	12,618	13,008	(14)	(233)
Opening shareholders' funds	20,084	7,076	(233)	–
Closing shareholders' funds	**32,702**	20,084	**(247)**	(233)

22 Reconciliation of operating loss to operating cash flow

	Year to 30 June 2006 £'000	Year to 30 June 2005 £'000
Operating loss	**(6,660)**	(2,418)
Depreciation	**668**	436
Amortisation of intangibles	**450**	448
Loss on disposal of fixed assets	**10**	5
Effect of foreign exchange rate changes	**(20)**	(58)
Provision for Long Term Incentive Plan	**178**	–
Increase in stocks	**(910)**	(916)
Increase in debtors	**(416)**	(875)
(Decrease)/increase in creditors	**(1,399)**	3,363
Net cash outflow from operating activities	**(8,099)**	(15)

23 Analysis of financing

	Year to 30 June 2006 £'000	Year to 30 June 2005 £'000
Repayment of loans	**–**	(945)
Issue of ordinary shares (net of expenses)	**18,268**	14,946
Issue of shares by EBT	**262**	51
	18,530	14,052

24 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	15,080	8,780	23,860
	15,080	**8,780**	**23,860**

25 Capital commitments

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

	Group 30 June 2006 £'000	Group 30 June 2005 £'000
	1,191	436

Included in the above is £806,000 for new facilities and ongoing factory refurbishments in the UK (2005: £143,000) and £382,000 for new plant and machinery (2005: £88,000).

Other commitments:

Between November 2005 and March 2006, seven separate forward foreign exchange contracts were arranged for the sale of €6,500,000 (£4,517,000) at future dates ranging from 29 September 2006 to 20 February 2007. At the end of June 2006 a spot rate foreign exchange contract was arranged for the purchase of CAD7,000,000 (£3,440,000) in July 2006.

26 Leasing commitments

Operating lease payments amounting to £600,000 (2005: £366,000) are due within one year. The leases to which these amounts relate expire as follows:

	Land and buildings		Group	
	30 June 2006 £'000	30 June 2005 £'000	**30 June 2006 £'000**	30 June 2005 £'000
In one year or less	**17**	58	**2**	45
Between one and five years	**170**	42	**301**	204
In five years or more	**110**	17	**–**	–
	297	117	**303**	249

27 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 2006 was €78,000; £54,000 (2005: €107,000; £72,000).

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A long established, fully integrated pharmaceuticals company:

- Allergy Therapeutics plc is a fully integrated specialist pharmaceutical company with a profitable core business and a unique development pipeline with the potential to transform allergy treatment.
- The Company has its own European Sales and Marketing infrastructure, GMP Manufacturing, R&D facilities and 275 employees.
- Year-on-year sales growth supports an extensive R&D programme developing unique, best in class, disease modifying, ultra-short-course allergy vaccines.
- Established in 1998, FTSE AIM listed in 2004 (AGY.L), with a heritage stretching back to 1934.

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