Allergy Therapeutics®
Transforming Allergy Treatment

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Allergy Therapeutics plc

Annual Report & Accounts

2007

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

Shareholder Information

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Key Points

£25.7m

2007 net sales

9%

Increase on 2006 net sales

£2.0m

Core business operating profit

Financial

- Net sales increased by 9% to £25.7 million (2006: £23.6 million)
- Pollinex® Quattro named-patient sales increased by 23%
- Core business performance:

	2007 £m	2006 £m
Operating loss	**(26.8)**	(6.7)
Research and development	**25.3**	9.6
Strategic costs developing Pollinex Quattro	**3.5**	0.7
Core business operating profit	**2.0**	3.6

- R&D expenditure increased 165% to £25.3 million (2006: £9.6 million) as pivotal Phase III programme progressed
- €40 million debt facility secured

Operational

- Started two pivotal Phase III studies for Pollinex Quattro Grass and Ragweed
  - The world's first global Phase III allergy vaccine development programme
- Promising interim data from Phase I/II study of an oral (sub-lingual) grass allergy vaccine
- New United Kingdom manufacturing facility, the 'Noon Building', opened as part of an extensive manufacturing upgrade
- However, all clinical activity put on hold by FDA in July
  - Impact on timing and potential size of subsequent programmes
  - Discussions with FDA are ongoing
  - Allergy Therapeutics remains confident of a positive outcome

Chairman's Statement

"Patients across Europe continue to benefit from Pollinex Quattro."

"A very strong safety profile for Pollinex Quattro."

Allergy Therapeutics is an integrated pharmaceutical company with a core sales and marketing operation selling £26 million (€39 million) of allergy vaccines primarily in the European Union ('EU') with Germany as its most important market. The Company manufactures all of its own vaccines in facilities based in Worthing on the south coast of England. In addition to this core business, Allergy Therapeutics is developing innovative allergy vaccines built upon a novel patented adjuvant, MPL®. These new products, branded Pollinex Quattro, offer a very attractive profile combining high efficacy in a convenient ultra-short schedule of only four injections. Pollinex Quattro's safety and efficacy has been proven through its use in the treatment of over 100,000 patients in Europe.

Allergy vaccination has been practiced in Europe and North America for almost a century; the seminal paper was published in the Lancet in 1911 by Dr Leonard Noon. The treatment described in the Lancet – incremental doses of aqueous allergen extract injected subcutaneously, starting with very low doses and gradually increasing, with injections every few days initially and lasting several months, even extending to years, in duration – could almost be used unaltered to describe the majority of current therapy in the United States and Japan today. While there is efficacy the side effects noted by Noon are still today characteristic of current practice in the United States. These side effects can take the form of systemic reactions, including anaphylactic shock, which can be fatal. No existing allergy vaccine in the United States has Food and Drug Administration ('FDA') approval.

Allergy Therapeutics, with Pollinex Quattro, is developing a modern product for all markets which bears little resemblance to the traditional immunotherapy in widespread use in the United States. The allergens in Pollinex Quattro have been chemically modified to reduce their allergenicity and to make rapid updosing possible. The resulting 'allergoid' is adsorbed onto L-tyrosine which is a depot adjuvant that assists the safety by releasing the modified allergens slowly. The inclusion of MPL directs the immune system away from the allergic 'Th2 type' response towards the healthy 'Th1 type'. In short, Pollinex Quattro was developed to offer the many benefits of allergen immunotherapy with more convenient dosing and the potential of greatly reduced risk. Allergy Therapeutics' clinical trials programme was approved by the FDA and designed to permit this modern product to be commercialised in the United States under FDA approval.

The readers of this annual report will be aware that Allergy Therapeutics' clinical trials programme was put on hold by the FDA in July 2007. As the government agency charged with public safety in relation to pharmaceuticals in the United States, the FDA's job is a difficult and complex one. This is especially true in the context of trials with innovative products where by definition clinical experience is limited. Allergy Therapeutics' clinical hold resulted from FDA concerns following a reported adverse event in G301, the Phase III study for Pollinex Quattro Grass which is now well into its observation phase. The adverse event at the root of the FDA hold is very rare with a background incidence of about 1 in 100,000 persons per year. The physicians assessing the patient believe that a

Our History

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

1949 Beecham Group Ltd acquire CL Bencard.

1972 Launch of Pollinex vaccine in the United Kingdom containing grass pollen allergens.

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

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

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

1999 Launch of Pollinex Quattro in Germany.

POLLINEX Quattro

Proven through its use in the treatment of over 100,000 patients in Europe.

The Freeman Building

- 5,000m² facility
- Serves as our corporate headquarters
- Houses our R&D facility
- Dedicated to the manufacture of Pollinex Quattro

relationship between the event and participation in the study is unlikely. In other words, the patient's condition is more probably due to another cause and occurred on a Pollinex Quattro study by mere mischance.

Strenuous efforts are being directed at addressing the concerns of the FDA and in the opinion of the Board the FDA clinical hold will be lifted in due course. Of Allergy Therapeutics' three main development projects involving Pollinex Quattro – Grass, Tree and Ragweed – it is the Ragweed project that has been most immediately affected by the clinical hold. The pivotal Pollinex Quattro Ragweed study, R301, was compromised as only 379 of the 992 patients recruited at the time the hold was imposed had received a full course of treatment. As a result, Allergy Therapeutics anticipates the completion of the Pollinex Quattro Ragweed development will require further studies in the future. This will mean a delay in the Ragweed programme and the United States launch is now expected in 2010/2011 – subject of course to the FDA hold being lifted. The Grass and Tree programmes, which are global allergens found across the main markets of Europe and Japan as well as North America, are likely to be less affected partly owing to this geographical picture and partly owing to their clinical status. The Phase III Grass trial (G301) had already completed the treatment phase when the FDA imposed its hold and continues as planned. The associated safety study can only begin when the FDA hold is lifted, but this study is conducted outside the pollen season and can, therefore, start soon after the FDA hold is lifted. Tree is in Phase II and the current study (T204) is in an environmental challenge chamber in Canada.

In the meantime, patients across Europe continue to benefit from Pollinex Quattro on a named patient basis and the registration of Pollinex Quattro Grass and Pollinex Quattro Tree in Europe remains a core objective for the Company, enhancing existing markets and entering into new ones.

In view of the safety issues inherent in the current treatment practices in the United States, the likely resolution of the adverse event at the origin of the clinical hold and the 100,000 patient registry which shows a very strong safety profile for Pollinex Quattro, Allergy Therapeutics is confident that this innovative, efficacious and safe product will eventually be granted licensure and be widely used in the United States and elsewhere.

Ignace Goethals
Chairman
24 September 2007

2003 Launch of Oralvac Plus.

2004 Pollinex Quattro receives MMW Pharmaceuticals award.

2004 Company floats on the Alternative Investment Market, London.

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

2006 Successful completion of Phase II study of Pollinex Quattro Ragweed.

2007 Noon Building opens, AT's second manufacturing facility.

2007 Dosing commences in Phase III Pollinex Quattro Grass Study.

Our business at a glance

Poised for growth

Allergy Therapeutics is a European based specialist pharmaceutical company focused upon the treatment and prevention of allergies.

Mission statement

To create a sustainable, fast growing and profitable global pharmaceutical business with a substantial franchise in the allergy sector by developing innovative, patented, registered therapies for both the treatment and prevention of allergy-related conditions.

Our strategy

To establish a position as a mainstream provider of novel therapies for the prevention and treatment of allergy with a comprehensive range of innovative, patent protected and high value allergy vaccines.

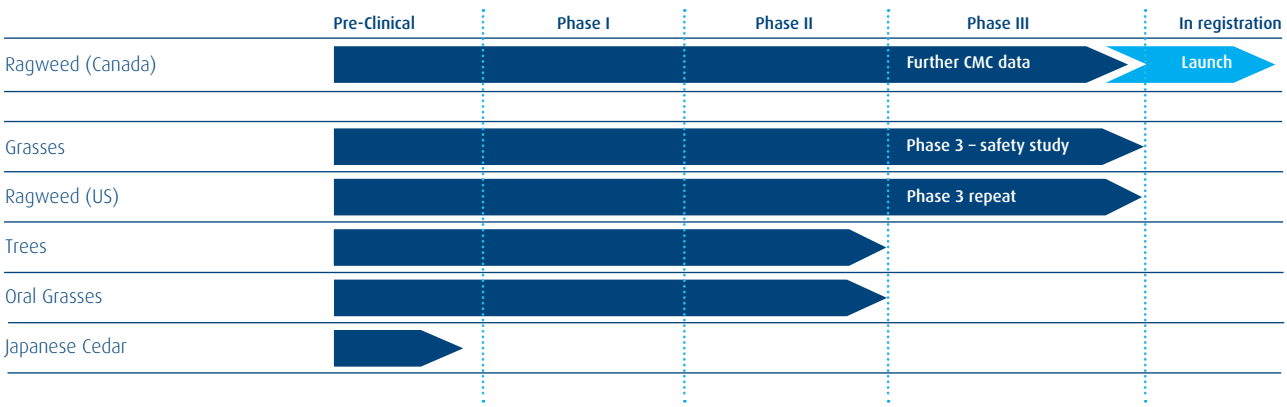
Our business model

We are a fully integrated specialist pharmaceutical company with Good Manufacturing Practice facilities, research and clinical development capability plus sales and marketing operations. We have the people, the physical assets and the intellectual property associated with this fully integrated business model – a proven business infrastructure, which can be leveraged.

Business development

Our routes to market are either through directly owned sales and marketing infrastructure or partnering in its various forms. Allergy Therapeutics is in the fortunate position of having an existing infrastructure in the important markets of Europe and a high level of expertise in the commercialisation of allergy vaccines.

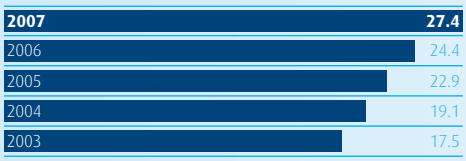
Product pipeline



Our portfolio

Innovative therapies

Gross sales £m



Operating profit (before R&D and strategic costs) £m

Our products

We have built upon a solid foundation of existing allergy vaccines which have been marketed, developed and improved upon steadily since the foundation of the business almost 70 years ago. Pollinex Quattro, at the leading edge of vaccine technology, containing the TLR4 agonist vaccine adjuvant MPL, leads a portfolio of both injected and sublingual allergy vaccines.

Injected vaccines

Allergy Therapeutics' current portfolio of competitive injected products is based on a combination of allergoids (modified allergens), tyrosine depot and MPL adjuvant. These technologies offer significant benefits over older allergy vaccination technologies. Our development programme is designed to improve product characteristics, for example, by providing an improved safety profile and reducing the number of injections over the treatment period. This results in well-accepted products which, when registered, are likely to be prescribed by a higher percentage of physicians to a larger number of patients.

Sublingual vaccines

We intend to develop a range of orally administered allergy vaccines comprising common allergens combined with MPL. These products could overcome the need for injections and signal the way forward for the widespread acceptance and administration of allergy vaccines. The possibility of self administration and prescription by non-specialists will improve the convenience of the product by removing dependence on clinically supervised administration.

Pollinex® Quattro

Pollinex Grasses & Rye

Pollinex Trees

Oralvac® (sublingual)

Research and development

We have a long-term commitment to research and, in particular, to develop innovative therapies for both the treatment and prevention of allergy related conditions. These activities are managed by our scientists located in our offices in Worthing and Munich utilising a multinational team of consultants and Clinical Research Organisations. Approximately 70 internal scientific staff are currently conducting the largest ever global allergy vaccine clinical development programme.

Our manufacturing facilities

During 2006 we began to implement our plans for the refurbishment of our United Kingdom based manufacturing facilities. A new sterile facility, the 'Noon Building', has been created near to the existing main building. This investment is key to the delivery of our strategy to globalise the Pollinex Quattro brand. It will release capacity for the introduction of an improved, higher volume manufacturing plant in the existing building. This will ensure the timely launch of Pollinex Quattro worldwide once registrations are achieved. Additional benefits of this investment are the doubling of capacity for manufacturing named-patient products, the creation of more warehousing capacity and improved compliance.

Transforming treatment

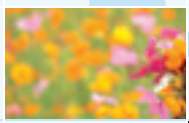
Dr Harold Kaiser, Clinical Professor of Medicine at the University of Minnesota Medical School, R301 Coordinating Principal Investigator, who enrolled the first patient, said:

"I am pleased to be involved with this pivotal study with this innovative allergy immunotherapy product. The benefit gained by the inclusion of the adjuvant MPL – an alternative very short course of immunotherapy seems to me to offer the potential of a convenient treatment option for busy physicians and their patients."

The market opportunity in the United States is considerable with most experts estimating that between two and four million patients receive immunotherapy injections each year. In contrast to European practice, these injections are mixed by the allergist and contain very low levels of unmodified allergen. The injections commence at low levels of allergen exposure and build up very slowly over time. In general, a patient in the United States may receive 30 to 40 injections in the first year and commonly in excess of 100 injections over the course of treatment across 3 or 4 years. Response to treatment often takes 6 to 12 months to commence. These factors lead to compromises in safety, poor efficacy and low patient acceptance.

The United States practice differs from Europe, not just in the number of injections but also in the number of allergies that are treated. In the United States patients are often tested for 40 different allergies and all positive test results are then treated. These treatments may also include clinically meaningless or insignificant problems. In Europe allergists treat far fewer allergies. Those targeted are the clinically significant and unavoidable ones like pollen allergens. It is thought that, by reducing the 'minimal persistent inflammation' levels of a patient, other allergies will be improved without need for further specific treatment.

For Allergy Therapeutics, this means that upon launch we will need to communicate clearly the Pollinex Quattro benefits of four injections over a three week period leading to a nearly immediate treatment response in patients. We will also need to communicate the idea of targeting treatment towards the unavoidable airborne allergens and careful patient selection.



80%

The USA represents greater than 80% of the entire allergy market which is over $12.6 billion.

2-4m

Between two and four million patients receive immunotherapy injections each year.

Designed to address unmet needs

Dr Lawrence DuBuske, President of the American Association of Certified Allergists and Consultant in Allergy at Brigham and Women's Hospital, Harvard Medical School, said:

"Pollinex Quattro represents a unique technological advance incorporating recent understanding of the critical role of Toll-like receptor activation in determining immune responses to potential allergens. The Pollinex Quattro combination of modified allergen which reduces allergenicity while preserving immunogenicity with simultaneous Toll-like receptor activation provides both rapid efficacy and enhanced safety for allergen specific vaccination. Pollinex Quattro holds the promise of truly revolutionising the practice of allergy treatment."

There are three programmes of subcutaneous immunotherapy in our clinical development programme: Pollinex Quattro Grass (Phase III), Ragweed (Phase III) and Tree (Phase II), all of which are based on proprietary technologies. In addition, an oral vaccine utilising MPL has completed its first Phase II study.

Pollinex Quattro vaccines contain three distinct technologies, which act synergistically. Natural allergens are chemically modified to improve safety and allow for delivery of higher doses. These are combined with a depot technology to provide prolonged desensitisation and further improved tolerability. Finally, the immune response is specifically enhanced and directed by the adjuvant monophosphoryl lipid A (MPL). MPL is a Toll-Like 4 Receptor (TLR4) agonist and has been extensively tested in Pollinex Quattro and other late stage and approved vaccines including GlaxoSmithKline's Fendrix® and Cervarix®.

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 potential
- Delivered in an ultra-short course

Substantially de-risked
- Pollinex Quattro safety confirmed in nearly 100,000 adults and children treated to date
- MPL – safe, well tolerated and effective

A blockbuster waiting to happen
- The USA represents greater than 80% of the entire current annual $12.6 billion allergy market (2005 IMS)
- Best in class profile with only 4 injections and efficacy within three weeks

Delivered in an ultra-short course.

4 injections

Best in class profile with only four injections and efficacy within three weeks.

Chief Executive's Review

"The two largest clinical trials ever to be undertaken in the field of allergy vaccination."

"First ever examination of oral delivery of MPL in humans."

During the year to the end of June 2007, Allergy Therapeutics has made great progress in executing the plans which will culminate in the launching onto worldwide markets of our transformational allergy vaccine products. In every area of our operations important steps forward were made and pieces of the overall strategy for globalising the Pollinex Quattro brand were put into place. We faced great challenges in the past few months, especially those related to the FDA, and we will work to meet these challenges during the coming year.

Allergy Therapeutics' core business is a robust £25.7 million annual turnover commercial operation with sales in Germany, Italy, Spain, Austria, United Kingdom and Central Europe and manufacturing based in the United Kingdom. This core business is a solid enterprise with double digit growth rates and pre-tax profits before development and strategic costs in the region of £2.0 million. In addition to providing valuable cash for strategic investments mainly aimed at the development and manufacture of Pollinex Quattro – expenditure on these items took the overall Group result to a loss of £23.8 million – this core business represents a window onto the world of pharmaceutical commercialisation. In Europe it is a base to build upon and launch our new products. In other markets, our in-house expertise provides valuable confidence in implementing the future commercialisation of Pollinex Quattro. As the Pollinex Quattro launch phase approaches we have made a start at investing in these sales and marketing operations and have commenced with a sales force optimisation project carried out by a leading external consultancy firm. As a result of this exercise we have also strengthened the team in Germany through the appointment of a new General Manager, Peter Keysers, three district managers and several new sales representatives.

The strength of our core business was given excellent third party validation in May when the Royal Bank of Scotland signed a €40 million loan facility with Allergy Therapeutics. The funding provided by this facility is earmarked for the strategic development initiatives of the Company, but the facility is secured on the cash flows from the core business and we were pleased at this vote of confidence from one of the country's highest quality relationship lenders.

In preparation for the launch of Pollinex Quattro as a fully registered product in all the major markets worldwide, Allergy Therapeutics has made and continues to make significant investments in the manufacturing infrastructure in Worthing. In February our new manufacturing facility, the Noon Building, was formally opened by Professor Tony Frew, President of the European Academy of Allergology and Clinical Immunology. This facility was inspected by the United Kingdom's MHRA – the Medicines and Healthcare products Regulatory Agency – and commenced full operations in March. The opening of the Noon Building allowed us to commence in earnest the upgrading and refurbishment of our original facility, now called the Freeman Building. We are improving many of our processes along the way and are creating a world class sterile manufacturing capability. Our facilities are named after Dr Leonard Noon and Dr John Freeman, the joint 'fathers of immunotherapy' whose pioneering work was carried out in London's St Mary's Hospital in the early years of the 20th century.

In the clinic, we successfully recruited over 2,000 patients into our pivotal Phase III studies. The Pollinex Quattro Ragweed study (R301) and Pollinex Quattro Grass study (G301) are the two largest clinical trials ever to be undertaken in the field of allergy vaccination. R301 was targeted to recruit 1074 patients and had achieved 992 at the time of the FDA clinical hold.

£25.7m

A robust £25.7 million turnover

The Noon Building

- 2,000m² self-sufficient facility.
- Houses warehousing, manufacturing, inspection, labelling, packing and despatch.
- Contains 14 new manufacturing booths.
- Fitted to highest GMP standards.

G301 included 1024 patients in total and these patients were recruited in nearly 100 centres across North America and Europe. The G301 participants have been recording their symptom experience and their intake of symptomatic medication using electronic diaries throughout the grass pollen season this year and the trial is scheduled to produce preliminary results by the end of Q1 2008. United States launch timing is subject to when the FDA hold is lifted and to meeting the FDA requirements for a safety database.

For Pollinex Quattro Tree, Allergy Therapeutics has commenced an interesting Phase II study in an environmental challenge chamber, T204, of similar design to our successful R204 study. 120 patients were included in the first phase of this study and a further 180 are required to complete the study. In addition to completing the FDA's Phase II requirements and preparing the move of this product into global Phase III, T204 was designed to provide important cross-reactivity data. The study is to explore the efficacy of the product for patients suffering allergy to oak pollen as well as birch pollen. The vaccine contains allergoids of birch, alder and hazel pollens, which are of the same taxonomic order (fagales) as oak and which, in laboratory experiments, display common main allergen components. If this part of the trial is successful it would potentially expand the commercial potential for Pollinex Quattro Tree considerably, especially in North America where allergy to oak pollen is common.

FDA clinical holds are unusual but not rare. In our case it has, as is clear from the foregoing, had a profound impact upon Allergy Therapeutics' development programmes. It is hard to predict when, and on what terms, the clinical hold will be lifted. The ultimate implications, both financial and clinical, for the Company remain uncertain. The Directors remain of the view that – given the status of the programme before the imposition of the clinical hold, the imminent availability of Phase III efficacy data, the ongoing partnering discussions, and the strength of the core business – there will be multiple funding and development options for the future once the clinical hold is lifted. The challenges imposed by the current FDA position re-confirm the robustness of Allergy Therapeutics' integrated pharmaceutical company business model.

Allergy Therapeutics has broad intellectual property rights to the use of MPL in vaccines administered subcutaneously (by injection) and sublingually (under the tongue). We recently completed a Phase I/II study which recorded a number of firsts: it was the first ever examination of oral delivery of MPL in humans and it was the first time that any adjuvant has ever been clinically tested in an oral allergy vaccine. The results were very encouraging, showing a clear benefit from inclusion of 'high dose' MPL with allergens in an oral allergy vaccine. The potential exists, therefore, to develop a sublingual equivalent of Pollinex Quattro: an oral vaccine with comparable efficacy but far more convenient dosing than the currently available products which require many months of daily dosing. Further work on this exciting project is definitely justified.

Finally, a truly heartfelt thank you is owed to the many talented and dedicated people at Allergy Therapeutics who made all the great achievements of this year happen and have risen to the challenges created by the FDA's clinical hold.

Keith Carter
Chief Executive Officer
24 September 2007

Financial Review

"The Group has the third largest allergy vaccine company in Germany."

£9.5m

Pollinex Quattro continued to sell well with gross sales of £9.5 million.

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 2007 turnover was £25.7 million (2006: £23.6 million), an increase of 9% over the previous year; before statutory rebates in the German market, gross sales increased by 13% to £27.4 million (2006: £24.4 million). Statutory rebates are payable by pharmacies in Germany on all state-funded pharmaceutical products and the rebates are refunded by the pharmaceutical companies.

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 continued to grow at the rate of 9% (2006: 7%) during the year. The annual turnover in Germany was £17.1 million (2006: £16.2 million); gross sales, before statutory rebates, were £18.9 million (2006: £17 million), an increase of 11%. The rebate on pharmaceutical sales, which is market wide, changed on 1 May 2006 when it was announced that any price rise since 1 November 2005 would be added to the rebate. With approximately 70% of the Group's sales originating in Germany, the charge for the year increased to £1.6 million (2006: £0.8 million).

Spain demonstrated a solid performance with sales of £1.7 million (2006: £1.5 million) an increase of 13% over the previous year. Italy maintained annual sales of £2.3 million (2006: £2.3 million).

New operations in the United Kingdom, the Czech and Slovak Republics, Poland and Austria – set up in the previous year – performed well, contributing £1.4 million to sales (2006: £0.9 million).

Licensees

The Group also sells through licensees and distributors, accounting for 11% of gross sales. Total sales for the year were £3.0 million (2006: £2.7 million), an increase of 11% on the previous year. Included in licensee sales are milestone receipts from the Company's Canadian licensee for Pollinex Quattro; in the year milestones totalling £1.2 million (2006: £0.8 million) were received, triggered by reaching certain development objectives.

Product sales

The Group's flagship product, Pollinex Quattro, continued to sell well with gross sales of £9.5 million (2006: £7.7 million), an increase of 23% 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). Costs increased further as the headcount in the manufacturing area increased by 31 full time equivalents, an increase of 26% 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 have 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 £10.1 million (2006: £6.5 million) an increase of 55% over the previous year.

Investments in the commercial strategy, including United States market analysis, new market spend and business development, plus continued support for existing markets, increased the marketing and promotion spend – the main component of distribution costs – by 15% to £11.3 million (2006: £9.8 million). Administrative expenses have increased by 28% to £5.9 million (2006: £4.6 million), due mainly to a benefit in the previous period from foreign currency exchange gains, the release of a bad debt provision and the inclusion this year of an increased charge in respect of the German pension scheme. As the development programme for Pollinex Quattro moved forwards into Phase III in the year, costs have increased by

£3.2m

Investment in capital projects

165% to £25.3 million (2006: £9.6 million). Most of the activity relates to the extensive Phase III programme for Grass and Ragweed.

Results of operation

As a consequence of investment in the development programmes in preparation for the launch of Pollinex Quattro on a worldwide basis, the Group recorded an operating loss on ordinary activities of £26.8 million (2006: loss £6.7 million). However, before development costs and strategic costs (defined as costs associated with the objective of launching Pollinex Quattro) of £28.8 million (2006: £10.3 million), the operating profit including milestones was £2.0 million (2006: £3.6 million), which allows for a more reasonable appreciation of the core business performance this year. This operating profit is down on the previous year due to the increase in rebates in Germany and the benefits outlined in the administration costs taken in the previous year.

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. An R&D tax credit of £2.5 million has been received for the years ending 2005 and 2006. 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 is below the 500 threshold, so allowing it to make an R&D tax credit claim for the year under the new proposals. However, the Budget proposals have yet to be approved by the European Commission and any claim will remain outstanding until approval is granted.

The Group in total has tax losses to carry forward of £39 million. As the losses carried forward by the German company are lower than for other entities in the Group and will probably be utilised earlier, it is likely that corporation tax will fall due in Germany sooner than elsewhere.

Net assets

Net assets at 30 June 2007 were £8.4 million (2006: £32.7 million), a decrease of £24.3 million due primarily to investments in R&D. 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 £3.2 million (2006: £2.2 million); contributing to the increase in the value of tangible fixed assets to £5.9 million from £3.6 million. The main components of this spend were: £1.3 million on plant and machinery, including a cold store for the Noon Building and a new MATA processing system; £0.6 million on further refurbishment costs for both the Freeman and Noon Buildings; £0.4 million on other fixtures and fittings; and £0.9 million on computer equipment and software, including compliance software.

Stock value increased by 34% during the year to £4.9 million (2006: £3.7 million). The strategy initiated last year to invest in manufacturing and ensure supply to growing markets has resulted in higher levels of key stock items being held.

Creditors falling due within one year were higher at the year end by 117% at £10.7 million (2006: £4.9 million), primarily due to an increase in accruals and trade creditors relating to development activities at the end of the year. Excluding these development-related items, creditors at the end of June 2007 were £5.3 million.

In prior years the pension scheme in Germany has been accounted for as a defined contribution scheme. Since further information has become available the nature of the scheme in Germany has been reassessed; based on the new evidence, the pension has been reclassified as a defined benefit scheme. We do not consider this to be a fundamental error and therefore a prior period adjustment is not appropriate. The pension charge of £0.3 million for the year has been taken to the profit and loss account for the first time while cumulative actuarial gains and losses relating to the current and previous years have been reported in the statement of recognised gains and losses. The scheme liability is valued at £2.9 million, with planned assets of £0.7 million giving a net liability of £2.2 million. Non-pledged assets, valued at £1.0 million are shown as investments. The net effect of including the pension scheme on the balance sheet is to reduce net assets by £1.2 million.

Capital structure

The Group finances its operations through cash generated from its core business, the net proceeds raised from the placing of shares in May 2006 and bank lines. The Group arranged a new senior debt facility with its bank, RBS, in May 2007 for €40 million, to fund the development programme and strategic initiatives of the Group. The loan is to be drawn down over a two year period conditional upon the operating business performance.

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 continue further in the next financial year.

Cash flows

As at 30 June 2007 cash totalled £5.7 million, a decrease of £18.2 million from £23.9 million at 30 June 2006, due primarily to the significant investment in the year in the development programme of £25.3 million (2006: £9.6 million). Net cash outflow from operating activities in the year amounted to £20.3 million (2006: £8.1 million).

Ian Postlethwaite
Finance Director
24 September 2007

Board of Directors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01 Ignace Goethals
Non-Executive Chairman (62)
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.

As Non-Executive Chairman, Ignace is responsible for leadership of the Board by ensuring Board effectiveness, good corporate governance and effective communication with shareholders.

Ignace sits on the Audit and Remuneration Committees.

02 Keith Carter
Chief Executive Officer (48)
Keith is a founding shareholder of Allergy Therapeutics, and was part of the team that orchestrated the MBI of the Company from SmithKline Beecham. Prior to this his career was spent in corporate advisory and corporate finance work with Lloyds Merchant Bank, Drexel Burnham Lambert and latterly at NatWest Markets, the investment banking arm of the National Westminster Bank, where he headed the Pharma Group. He began specialising in advice to the pharmaceuticals industry in 1990, when he ran his own corporate finance boutique. Keith has a First Class Honours degree in Economics from Cambridge University.

As Chief Executive Officer, Keith is responsible for the executive management of Group operations, investor relations, implementation of the Board's collective decisions, overseeing all operational aspects of the Group and directing the long-term strategy.

03 Ian Postlethwaite
Finance Director (44)
Ian joined Allergy Therapeutics in April 2002 as Finance Director. Prior to this he worked for Ellerman Investments (1997–2002), a United Kingdom private equity house, undertaking the roles of Chief Executive Officer with AFS, one of the largest independent finance houses in the United Kingdom, and Finance Director with a number of successful start-up technology companies. Previously he held senior finance positions with Ericsson, from 1994–1997, and Philips Electronics from 1989–1994. He is a qualified accountant and a Fellow of the Chartered Association of Certified Accountants. Ian has a BSc (Hons) in Geological Sciences from Aston University.

As Finance Director, Ian is responsible for Group financial reporting and control, tax, finance systems and internal audit. Ian is also the Company Secretary, a position he has held since 2004.

04 Thomas Holdich
R&D Director (48)
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 therapeutics areas ranging from epilepsy and schizophrenia to HIV and inflammatory bowel disease.

As R&D Director, Tom is responsible for establishing and maintaining the Group's R&D programmes.

05 Christian Grätz
Director, Market Operations (54)
Christian joined the Company in July 1998. Prior to this he was Marketing & Sales Director at Akzo Nobel/Organon GmbH between 1996 and 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 the 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 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 on economics at Universities of Hagen and Gelsenkirchen and has a Dr (rer. oec.) from Bochum University.

As Market Operations Director, Christian is responsible for global sales and marketing activities.

06 Stephen Smith
Non-Executive Director (54)
Stephen 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 United Kingdom-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.

Stephen chairs the Remuneration and Audit Committees.

07 Virinder Nohria
Non-Executive Director (53)
Virinder works as a strategic consultant in international drug development. He has lead teams in many successful interactions with regulatory bodies in several countries, particularly the United States FDA. Virinder served as Chief Medical Officer and Vice President of Xcel Pharmaceuticals, Inc., a United States specialty pharmaceutical company until the sale of the company to Valeant Pharmaceutical International in early 2005. Prior to joining Xcel, Virinder held several positions in biotechnology and pharmaceutical companies including UCB Pharma and Eli Lilly and Company. Virinder is a board certified paediatric neurologist and received his medical degree from Cambridge University and doctorate in neuropharmacology from University of Bradford. Virinder is currently based in the United States and has affiliations with Emory and Duke Universities.

Virinder sits on the Remuneration Committee.

Directors' Report

The Directors present their annual report and the audited financial statements for the 12 months ended 30 June 2007. 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.

Results

The loss for the year after taxation was £23,817k (2006: £6,173k). The results for the year are set out on page 23 and are dealt with in more detail in the Financial Review.

Business review

The purpose of this business review is to inform members of the Company and help them to assess the Group's performance during the year, through financial and non-financial activities, outlining the trends and factors which are likely to influence future developments. A review of development and performance of the Group, including important events, progress during the year, the financial performance during the year and likely future developments, can be found in the Chairman's Statement on pages 2 and 3, the Chief Executive's Review on pages 8 and 9 and the Financial Review on pages 10 and 11, and are incorporated in the Directors' Report by reference.

Key performance indicators

Turnover in the year was £25.7 million compared to £23.6 million in the previous year, an increase of 9%. An analysis by market shows an increase of 6% in Germany (net of statutory rebates), 15% in Rest of Europe, 29% in North America and 5% in Asia.

Operating profit before development costs and strategic costs – which reflects the performance of the core business – was £2.0 million compared to £3.6 million in the previous year, the reduced profit a consequence of, in part, an increase in German statutory rebates.

Staff turnover in the UK during the year was 15.2% (2006: 12.4%), compared to an average UK staff turnover rate of 18.1% (data supplied by the Chartered Institute of Personnel and Development).

Description of the principal risks and uncertainties facing the Company

Risk that the Group is unable to provide effective commercially successful products

Continued development of viable new products is key to the success of the Group and is a costly and lengthy process. All development projects and business cases are reviewed, and Board approval sought, to ensure budgets are maintained. Clinical programmes may fail or be delayed and therefore not satisfy the appropriate regulatory authorities. As part of the lengthy development process for Pollinex Quattro, the Company's lead development product line, a reported Serious Adverse Event caused the FDA to put the Company's development programme on 'clinical hold' in July 2007. A key risk facing the Company with respect to new product development is whether the clinical hold is lifted, and if so when and on what terms.

Intellectual property risk

Group patents may be challenged at any time and any unsuccessful defence may cause the Group to lose protection for its products and subsequently affect further development and sales. The Group is reliant on some intellectual property owned by external stakeholders that, if lost, may hinder or cease production for some of its products.

Economic risks

A high level of risk is attached to the research, development and commercialisation of innovative new drugs. The Group ensures that business cases are scrutinised before Board approval and that any increases in costs are justified. Key suppliers may be unable to execute contractual requirements that hamper product development and/or the route to markets but the Group maintains appropriate measures to protect its supply chains. Approximately 70% of Group sales are made in Germany and therefore Group results are sensitive to German legislation and government policies. The Group is developing further markets in Europe, Asia and North America.

Financial risks

Adequate funding may not be available to the Group, either through reserves or external partners, for the advancement of clinical trials, manufacturing and marketing. Failure to obtain further funding may lead to postponement or cancellation of programmes and a scale back of operations. The Board actively reviews the financial requirements of the Group on a regular basis to preserve a routine level of investment and, in May 2007, secured further funding from a major UK bank.

Financial risk management objectives and policies

Note 18 in the Notes to the Financial Statements gives details of the Company's objectives and policies for risk management of financial instruments.

Development and performance of the Company's business during the financial year

Pollinex Quattro, the Group's flagship product, continued to sell well with sales increasing by 23% over the previous year. The core business performance remained solid enabling the continued funding of R&D. Major expansion and refurbishment of manufacturing and R&D facilities with the hiring of additional key staff will help achieve the strategic aims.

Position of the Company's business at the end of the year

Despite the FDA clinical hold delaying product launch in the United States, the core business remains robust and the Board is confident the hold will be lifted enabling the clinical progression of Pollinex Quattro.

Environmental matters

The Board is committed to minimising the Group's impact on the environment. The Group strives to ensure that all emissions including the disposal of gaseous, liquid and solid waste products are controlled in accordance with applicable legislation and regulations. Disposal of hazardous waste is handled by specialist agencies.

Employees

The Group currently employs over 350 people in seven countries. A thorough review with all staff is performed annually to identify and promote areas that require development and growth; feedback from staff is encouraged and sought. Staff are motivated by performance related incentives, which help to attract and retain the right people, and they are encouraged to achieve business targets through market-rate pay, performance based bonuses and share options. The Board is committed to retaining staff as a high priority and implementing well balanced, challenging incentives makes this possible.

A full review of the Group's activities, important events affecting the Group and its development programme is contained in the Chief Executive's Review on pages 8 and 9 and the Financial Review on pages 10 and 11, both of which form part of this report.

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 Graetz	Market Operations Director	8 September 2004
Thomas Holdich	R&D Director	8 September 2004
Ian Postlethwaite	Finance Director	1 July 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.

Dr Tom Holdich and Mr Stephen Smith 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:

	At beginning of year:		At end of year:	
Name	Ordinary shares	Options	Ordinary shares	Options
Ignace Goethals*	1,797,912	1,150,000	1,797,912	1,150,000
Keith Carter*	2,597,669	2,164,609	2,597,669	2,492,500
Christian Graetz	1,104,658	2,356,000	404,658	2,581,000
Thomas Holdich	–	430,000	–	655,000
Ian Postlethwaite	–	3,664,609	–	3,875,000
Stephen Smith	6,513	900,000	6,513	900,000
Virinder Nohria	5,211	100,000	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 21 September 2007 the Company had been notified of the following major interests, each representing 3% or more of the existing issued ordinary share capital:

Shareholder	Ordinary shares	% held
SmithKline Beecham Biologicals Manufacturing S.A.	10,118,748	12.35
Fidelity International Limited	9,151,894	11.17
Axa Framlington Investment Management	5,779,620	7.05
Hermes Pensions Management Limited	4,540,027	5.54
Universities Staff Superannuation Fund	3,008,260	3.67
Baillie Gifford & Company Limited	2,674,195	3.26
Quester Limited	2,654,795	3.24
Keith Carter (including shares held by APIC Trustees Limited)*	2,597,669	3.17
Lehmen Brothers International (Europe)	2,597,650	3.17

* Keith Carter, Chief Executive Officer, is a beneficiary of these shares.

Changes to interest in own shares

During the year the Company allocated 89,057 shares out of the Employee Benefit Trust to satisfy share options that were exercised.

Corporate governance

The Company's shares are listed on the Alternative Investment Market ('AIM') of the London Stock Exchange ('LSE'). The Company is therefore subject to the AIM Admission Rules, February 2007 of the LSE (the 'Rules') and is consequently not required to comply with the best practice corporate governance provisions contained within the Combined Code – June 2006 (the 'Code') appended to the Listing Rules of the Financial Services Authority. Nevertheless, the Company fully recognises the importance of good corporate governance and fully endorses the spirit and principles of the Code and seeks voluntarily to adhere to the Code where possible, taking into consideration the Group's size and constitution of the Board.

The Board

The Board is led by the Chairman and comprises the Chief Executive Officer, the Finance Director, two further executive Directors and two non-executive Directors. Biographical details of all Board members are shown on pages 12 and 13. The roles of Chairman, who is non-executive, and Chief Executive Officer are separate. The Directors feel that given the current size of the Company, it is not appropriate to appoint more than three non-executive Directors and the roles of Company Secretary and Finance Director are not deemed necessary to be separated. All Directors have direct access to the services and advice of the Company Secretary and to external independent professional advice at the expense of the Company.

The Board has a formal schedule of matters specifically reserved to it for decision at Board meetings. This covers strategy and management, financial reporting and controls, internal controls, major contracts, external communications with investors, executive committee appointments and remuneration, appropriate delegation of authority, corporate governance matters and appropriate policies for key areas including health and safety, corporate social responsibility and the environment.

The Board delegates certain responsibilities to committees, details of which are set out below.

Board committees

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 Board considers that, because of its current size, it is not appropriate to have a separate Nominations Committee and reserves for itself the responsibility for the appointment of new Directors under the leadership of the Non-Executive Chairman.

The Audit Committee, with written terms of reference, comprises Stephen Smith (Chairman) and Ignace Goethals. It meets at least twice each year and is responsible for ensuring that the financial performance of the Group is properly reported and monitored, meeting with the auditors and reviewing the reports from the auditors relating to the financial statements.

The Remuneration Committee, also with written terms of reference, comprises Stephen Smith (Chairman), Ignace Goethals and Virinder Nohria. The Committee reviews the compensation policy and strategy for the Group as a whole and the scale and structure of the executive Directors' remuneration packages, including grants of share options and the terms of their service contracts. No Director takes part in the discussion of his own remuneration. It is also responsible for grant of options under the Group's Long Term Share Incentive Plan.

Full details of Directors' remuneration and a statement of the Company's remuneration policy are set out in the Directors' Remuneration Report on pages 19 to 21.

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 carries out reviews of the Company's subsidiaries in the UK, Germany, Austria, Italy and Spain.

Shareholder relations

The Group maintains a policy of open dialogue with all shareholders to ensure that the objectives of the Group are understood. The Chief Executive Officer, R&D Director and Finance Director make regular presentations to stakeholders and discuss any areas of concern and meet regularly with analysts and major shareholders to provide updated information about the Group. Press releases, general information on the Group, shareholder presentations and investor information can be accessed via the Group's website, www.allergytherapeutics.com.

Engagement of auditors for the supply of non-audit services

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

In determining the policy, the Audit Committee has taken into account relevant ethical guidance regarding the provision of non-audit services by the external audit firm, and does not agree to the auditor providing a service if, having regard to the ethical guidance, the result is that the external auditor audits its own firm's work, the external auditor makes management decisions for the Company, a mutuality of interest is created or the external auditor is put in the role of advocate for the Company.

International Financial Reporting Standards ('IFRS')

Reporting under IFRS will 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 comparative numbers to be included. It will also be necessary to prepare Interim statements to 31 December 2007 under 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.

Significant changes that may affect the Group under IFRS include the treatment of goodwill (IAS 36) and accounting for research and development (IAS 38). The changes under these standards are summarised as follows:

- Goodwill is not amortised under IFRS; instead IAS 36 requires an annual impairment review.
- Under IAS 38, research costs must be written off as incurred, whereas development costs should be capitalised where particular criteria are met. This contrasts with SSAP 13, where an entity may choose to capitalise development costs.

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 appropriate enquiries, which included a review of the annual budget, by considering the cash flow requirements for the foreseeable future and the effects of sales sensitivity on the Company's funding plans, the Directors continue to believe that the Group will have adequate resources to continue in operational existence for the foreseeable future and accordingly have applied the going concern principle in drawing up the financial statements. In reaching this view the Directors have taken account of the actions that could be taken to offset the impact of any shortfall in operating performance and the availability of funding under the €40 million loan facility provided by RBS.

Market value of land and buildings

In the opinion of the Directors, the market value of the land and buildings of the Group is in excess of the current book values.

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 2007 was 48 days (2006: 39 days).

Dividend

The Company is unable to declare a dividend.

Employment policies

Equal opportunities

The Group is committed to providing equal opportunities in employment irrespective of background, age, sexual orientation, religion, gender, nationality, marital status or disability. Our aim is to attract the best people in the industry and we believe in maximising every employee's potential.

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 at www.allergytherapeutics.com.

Directors' Report
continued

Health & Safety
The Group is committed in providing a safe environment for its employees and others who are engaged in or may be impacted by the Group's operations. Policies relating to Health & Safety are set out on the Group's Intranet and Staff Handbook. Procedures are monitored and improvements identified through periodic audits and safety inspections. The Group's Health & Safety Committee meets regularly to discuss issues and promote good practice with Health & Safety Officers promoting and monitoring safe working conditions.

Statement of Directors' responsibilities
The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare financial statements in accordance with United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice). The financial statements are required by law to give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these 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 UK 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 Company 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 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 Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

In so far as the Directors are aware:

- there is no relevant audit information of which the Company's auditors are unaware; and
- 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 ensuring compliance with the AIM Rules.

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 24 September 2007.

Ian Postlethwaite
Company Secretary

Directors' Remuneration Report

The Remuneration Committee

The Remuneration Committee comprises Stephen Smith (Chairman), Ignace Goethals and Dr Virinder Nohria. The Committee held three meetings during the past financial year which were also attended by the Human Resources Manager. The principle purpose of the Committee is to determine and agree the Directors' salary increases, annual bonuses, scope of pension arrangements 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', benchmarking reports from MM&K and Watson Wyatt Data Services and a sample taken from AIM listed pharmaceutical companies of similar size and value (the 'Comparator Group').

Remuneration policy

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

The remuneration of executive Directors comprises the following 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 2007 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. The value of shares allocated to executive Directors during the year was between 71% and 86% of annual salary. The number of provisional shares awarded to executive Directors is shown below.

	Shares awarded in the year	Total shares awarded to 30 June 2007
Keith Carter	142,500	342,500
Ian Postlethwaite	95,000	225,000
Christian Grätz	95,000	225,000
Tom Holdich	95,000	225,000

(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.

(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 2007 ranged between 10% and 15% 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 defined-contribution 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 the Bencard Allergie GmbH pension scheme in Germany.

Directors' Remuneration Report
continued

Service contracts

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

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

	Basic salary £	Bonus for the year £	Taxable benefits £	Fees £	Total £	Pension £	Year ended 30 June 2006 Total £	Year ended 30 June 2006 Pension £
Keith Carter	**165,250**	**24,801**	**11,170**	**–**	**201,221**	**21,483**	188,766	20,475
Ian Postlethwaite	**122,250**	**13,588**	**11,170**	**–**	**147,008**	**12,225**	145,081	11,200
Christian Grätz	**133,732**	**13,448**	**11,652**	**–**	**158,832**	**26,154**	165,983	25,174
Tom Holdich	**132,187**	**13,845**	**11,170**	**–**	**157,202**	**13,219**	151,756	12,587
Andrew Turnbull (resigned 31 Dec 2005)	–	–	–	–	–	–	60,379	4,750
Ignace Goethals	**40,000**	**–**	**–**	**–**	**40,000**	**–**	36,000	–
Stephen Smith	**–**	**–**	**–**	**36,000**	**36,000**	**–**	24,784	–
Virinder Nohria	**34,500**	**–**	**–**	**–**	**34,500**	**–**	16,000	–
Totals	**627,919**	**65,682**	**45,162**	**36,000**	**774,763**	**73,081**	788,749	74,186

Directors' share options

	Options held at 1 July 2006	Options granted in the year	Options exercised in the year	Options lapsed in the year	Options held at 30 June 2007	Subscription price (pence)	Exercise date from	Expiry date
Executive Directors								
Keith Carter	350,000	–	–	–	350,000	120.0	31/07/2002	31/07/2011
	750,000	–	–	–	750,000	5.0	18/12/2002	18/12/2012
	450,000	–	–	–	450,000	45.0	26/02/2005	26/02/2014
	600,000	–	–	–	600,000	100.4	08/03/2008	08/03/2015
	14,609*	–	–	–	14,609	64.0	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	17/12/2012
	450,000	–	–	–	450,000	45.0	26/02/2005	26/02/2014
	300,000	–	–	–	300,000	100.4	03/03/2008	08/03/2015
	14,609*	–	–	–	14,609	64.0	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	31/07/2011
	1,500,000	–	–	–	1,500,000	5.0	18/12/2002	18/12/2012
	450,000	–	–	–	450,000	45.0	26/02/2005	26/02/2014
	200,000	–	–	–	200,000	100.4	08/03/2008	08/03/2015
Tom Holdich	222,222	–	–	–	222,222	45.0	02/08/2005	02/08/2014
	7,778	–	–	–	7,778	45.0	02/08/2005	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	18/12/2012
	150,000	–	–	–	150,000	45.0	26/02/2005	26/02/2014
Stephen Smith	750,000	–	–	–	750,000	5.0	18/12/2002	18/12/2012
	150,000	–	–	–	150,000	45.0	26/02/2005	26/02/2014
Virinder Nohria	100,000	–	–	–	100,000	45.0	15/12/2003	15/12/2013
Totals	**10,765,218**	**–**	**–**	**–**	**10,765,218**			

* 2005 SAYE Scheme.

At 30 June 2007 the London Stock Exchange market value of shares was 119.5p per share. The range of values during the period from 1 July 2006 to 30 June 2007 was 91.5p to 141p per share.

Stephen Smith
Chairman, Remuneration Committee
24 September 2007

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 2007 which comprise the Consolidated Profit and Loss Account, the Consolidated and Company Balance Sheets, the Consolidated Cash Flow Statement, the Consolidated Statement of Total Recognised Gains and Losses and notes 1 to 28. These Group financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's 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 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 and are properly prepared in accordance with the Companies Act 1985.

We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we 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. The other information comprises only the Chairman's Statement, Chief Executive's Review, Financial Review, Directors' Report and 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 and the part of the Directors' Remuneration Report to be audited. 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 and parent company's affairs as at 30 June 2007 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.

Grant Thornton UK LLP
Registered Auditors and Chartered Accountants
Gatwick
24 September 2007

Consolidated Profit and Loss Account
for the year ended 30 June 2007

	Note	Year ended 30 June 2007 £'000	Year ended 30 June 2007 £'000	Year ended 30 June 2006 (restated*) £'000	Year ended 30 June 2006 (restated*) £'000
Turnover	2		**25,742**		23,558
Cost of sales			**(10,068)**		(6,513)
Gross profit			**15,674**		17,045
Distribution costs			**(11,312)**		(9,833)
Administrative expenses – other		**(5,887)**		(4,626)	
Research and development costs		**(25,343)**		(9,560)	
Administrative expenses			**(31,230)**		(14,186)
Other operating income			**32**		260
Operating loss			**(26,836)**		(6,714)
Interest receivable and similar income		**647**		545	
Interest payable on loans and overdrafts		**(29)**		(4)	
Other finance costs	6	**(102)**		–	
			516		541
Loss on ordinary activities before tax	3		**(26,320)**		(6,173)
Tax on loss on ordinary activities	8		**2,503**		–
Retained loss for the financial year	20,22		**(23,817)**		(6,173)
Basic and diluted loss per share	10		**(29.1p)**		(9.3p)

* Restated for adoption of FRS 20.

All amounts relate to continuing activities.

Consolidated Balance Sheet
at 30 June 2007

	Note	30 June 2007 £'000	30 June 2006 (restated*) £'000
Fixed assets			
Intangible assets	11		
Goodwill		**1,967**	2,326
Other intangible assets		**714**	829
		2,681	3,155
Tangible assets	12	**5,931**	3,637
Investments	13	**1,011**	–
		9,623	6,792
Current assets			
Stocks	14	**4,911**	3,651
Debtors	15	**3,373**	3,577
Cash at bank and in hand		**5,696**	23,860
		13,980	31,088
Creditors: amounts falling due within one year	16	**(10,714)**	(4,939)
Net current assets		**3,266**	26,149
Total assets less current liabilities		**12,889**	32,941
Creditors: amounts falling due after one year	17	**(2,352)**	(239)
Net assets excluding pension liability		**10,537**	32,702
Retirement benefit obligation	6	**(2,182)**	–
Net assets		**8,355**	32,702
Capital and reserves			
Called up share capital	19	**92**	92
Share premium account	20	**33,173**	33,173
Other reserves – shares issued by subsidiary	20	**40,128**	40,128
Other reserves – shares held in EBT	20	**(36)**	(60)
Other reserves – share-based payments	20	**675**	306
Revaluation reserve	20	**226**	–
Profit and loss account	20	**(65,903)**	(40,937)
Shareholders' funds	22	**8,355**	32,702

* Restated for adoption of FRS 20.

These financial statements were approved by the Board of Directors on 24 September 2007 and were signed on its behalf by:

K Carter
Chief Executive Officer

I Postlethwaite
Finance Director

Company Balance Sheet
at 30 June 2007

	Note	30 June 2007 £'000	30 June 2006 (restated*) £'000
Fixed assets			
Investments	13	**51**	51
Current assets			
Debtors: amounts falling due within one year	15	**203**	14
Creditors: amounts falling due within one year	16	**(76)**	(312)
Net current assets/(liabilities)		**127**	(298)
Total assets less current assets/(liabilities)		**178**	(247)
Net assets/(liabilities)		**178**	(247)
Capital and reserves			
Called up share capital	19	**92**	92
Share premium	20	**33,173**	33,173
Other reserves – shares held in EBT	20	**(36)**	(60)
Other reserves – share-based payments	20	**675**	306
Profit and loss account	20	**(33,726)**	(33,758)
Shareholders' funds/(deficiency)	22	**178**	(247)

* Restated for adoption of FRS 20.

These financial statements were approved by the Board of Directors on 24 September 2007 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 2007

	Note	Year to 30 June 2007 £'000	Year to 30 June 2007 £'000	Year to 30 June 2006 £'000	Year to 30 June 2006 £'000
Cash outflow from operating activities	23		**(20,303)**		(8,099)
Returns on investment and servicing of finance					
Interest received		**647**		545	
Interest paid		**(29)**		(4)	
			618		541
Taxation	8		**2,503**		–
Capital expenditure and financial investment					
Purchase of tangible fixed assets	12		**(3,167)**		(2,192)
Cash outflow before financing			**(20,349)**		(9,750)
Financing	24				
Gross funds raised on issue of shares		**–**		19,000	
Net funds from bank loan		**2,664**		–	
Issue of shares from EBT		**24**		262	
Expenses paid in connection with issue of shares		**–**		(732)	
			2,688		18,530
(Decrease)/increase in cash in year			**(17,661)**		8,780

Reconciliation of Net Cash Flow to Movement in Net Funds

		Year to 30 June 2007 £'000	Year to 30 June 2006 £'000
(Decrease)/increase in cash in year		**(17,661)**	8,780
Net loans advanced		**(2,664)**	–
Movement in net funds in year	25	**(20,325)**	8,780
Net funds at beginning of year		**23,860**	15,080
Net funds at end of year	25	**3,535**	23,860

Consolidated Statement of Total Recognised Gains and Losses
for the year ended 30 June 2007

	Year to 30 June 2007 £'000	Year to 30 June 2006 (restated*) £'000
Loss for the financial year	**(23,817)**	(6,173)
Currency translation differences on foreign currency net investment	**(48)**	29
Actuarial loss arising on pension schemes	**(1,101)**	–
Gain on revaluation of investments	**226**	–
Total recognised gains and losses relating to the year	**(24,740)**	(6,144)

* Restated for adoption of FRS 20.

1 Accounting policies

Change in accounting policies

In preparing the financial statements for the current year, the Company has adopted the following Financial Reporting Standard:

– FRS 20 'Share-Based Payments' (IFRS 2).

FRS 20 'Share-Based Payments'

The Group has adopted FRS 20 with effect from 1 July 2006. FRS 20 requires the recognition of a charge to the profit and loss account for all applicable share-based payments, including share options, SAYE schemes and share-based Long Term Incentive Plans.

The Group has equity-settled share-based payments but no cash-settled share-based payments. All share-based payment awards granted after 7 November 2002 which had not vested prior to 1 July 2006 are recognised in the financial statements.

All goods and services received in exchange for the grant of any share-based payment are measured at their fair values. Where employees are rewarded using share-based payments, the fair values of employees' services are determined indirectly by reference to the fair value of the instrument granted to the employee. This fair value is appraised at the grant date and excludes the impact of non-market vesting conditions (for example, profitability and sales growth targets).

If vesting periods or non-market-based vesting conditions apply, the expense is allocated over the vesting period, based on the best available estimate of share options expected to vest. Estimates are revised subsequently if there is any indication that the number of share options expected to vest differs from previous estimates. Any cumulative adjustment prior to vesting is recognised in the current period.

If market-based vesting conditions apply, the expense is allocated over the relevant period, usually the period over which performance is measured. Vesting assumptions and resulting expenses are fixed at the date of grant, regardless of whether market conditions are actually met. Any adjustment for options which lapse prior to vesting is recognised in the current period.

All equity-settled share-based payments are ultimately recognised as an expense in the profit and loss account with a corresponding credit to 'other reserves'.

The adoption of FRS 20 requires a prior period adjustment to be made for awards granted before 1 July 2006. This has created a reserve for share-based payments at 30 June 2007 of £675,000. Of this amount £369,000 relates to the year ended 30 June 2007, £232,000 relates to the year ended 30 June 2006 and £74,000 relates to earlier years.

The share-based payments reserve replaces the Long Term Incentive Plan reserve of £178,000 held at 30 June 2006 and recognised under UITF 17. The profit and loss reserve account has been adjusted as follows:

	Previously reported £'000	Restated £'000
Profit and loss reserve at 1 July 2005	(34,719)	(34,793)
Profit and loss reserve at 30 June 2006	(40,809)	(40,937)

Basis of preparation

The financial statements have been prepared in accordance with applicable United Kingdom accounting standards and under the historical cost convention except that they have been modified to include the revaluation of certain fixed asset investments. The accounts are prepared on a going concern basis. After making appropriate enquiries, which included a review of the annual budget, by considering the cash flow requirements for the foreseeable future and the effects of sales sensitivity on the Company's funding plans, the Directors continue to believe that the Group will have adequate resources to continue in operational existence for the foreseeable future and accordingly have applied the going concern principle in drawing up the financial statements. In reaching this view the Directors have taken account of the actions that could be taken to offset the impact of any shortfall in operating performance and the availability of funding under the €40 million loan facility provided by RBS.

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 2007.

'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.

1 Accounting policies continued

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

Tangible fixed assets are recognised at cost less deprecation. 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.

Retirement benefits

Defined Contribution Pension Scheme

The pension costs for the Group personal pension scheme charged against operating profits are the contributions payable to the scheme in respect of the accounting period.

Defined Benefit Pension Scheme

Scheme assets are measured at fair values. Scheme liabilities are measured on an actuarial basis using the projected unit method and are discounted at appropriate high quality corporate bond rates. The net surplus or deficit, adjusted for deferred tax, is presented separately from other net assets on the balance sheet. A net surplus is recognised only to the extent that it is recoverable by the Group.

The current service cost and costs from settlements and curtailments are charged against operating profit. Past service costs are spread over the period until the benefit increases vest. Interest on the scheme liabilities and the expected return on scheme assets are included in other finance costs. Actuarial gains and losses are reported in the statement of total recognised gains and losses.

Retirement benefits other than pensions are accounted for in the same way.

Stock valuation

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

Research and development

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

1 Accounting policies continued

Investments

Investments in shares in subsidiary undertakings are included at cost less amounts written off.

Investments in long-term insurance policies are included at market value.

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, and milestone payments received from third parties.

Statutory rebates are payable by pharmacies in Germany on all state-funded pharmaceutical products and the rebates are refunded by the pharmaceutical companies. They do not apply to prescriptions to patients of private sick funds. The effective rate is currently 6% of the gross sales price plus 100% of any price increase applied since November 2005. The rebates are reduced by the applicable rate of VAT in Germany.

Milestone payments are amounts received from our licensee in Canada, which become due when certain development activities are reached.

Revenue recognition

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

Cash and liquid resources

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

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

Employee Benefit Trust (EBT)

The financial statements include the assets and liabilities of a trust, set up for the benefit of the Group's employees.

The Employee Benefit Trust has acquired shares in the Company and these are deducted from shareholders funds on the balance sheet within 'Other reserves' 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.

Financial instruments

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into.

A financial liability exists where there is a contractual obligation to deliver cash or another financial asset to another entity, or to exchange financial assets or financial liabilities under potentially unfavourable conditions. In addition, contracts which result in the entity delivering a variable number of its own equity instruments are financial liabilities. Shares containing such obligations are classified as financial liabilities.

Finance costs and gains or losses relating to financial liabilities are included in the profit and loss account. The carrying amount of the liability is increased by the finance cost and reduced by payments made in respect of that liability. Finance costs are calculated so as to produce a constant rate of charge on the outstanding liability.

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its financial liabilities. Dividends and distributions relating to equity instruments are debited direct to equity.

Compound instruments comprise both a liability and an equity component. The elements of a compound instrument are classified in accordance with their contractual provisions. At the date of issue, the liability component is recorded at fair value, which is estimated using the prevailing market interest rate for a similar debt instrument without the equity feature. Thereafter, the liability component is accounted for as a financial liability in accordance with the accounting policy set out above.

The residual is the equity component, which is accounted for as an equity instrument.

Research and development tax credits

Research and development tax credits are recognised in the profit and loss account when received.

2 Segmental analysis

Turnover is attributable to the principle activities of the Group, as defined in the Directors' Report. An analysis of turnover by geographical destination and country of origin, and operating loss and net assets by country of origin is given below.

	Year to 30 June 2007 £'000	Year to 30 June 2006 £'000
Turnover by geographical destination		
Germany	**17,069**	16,155
Rest of Europe	**6,505**	5,666
North America	**1,845**	1,430
Asia	**323**	307
	25,742	23,558
Turnover by country of origin		
Germany	**17,281**	16,155
Rest of Europe	**4,176**	3,823
UK	**4,285**	3,580
	25,742	23,558
(Loss)/profit before tax by country of origin		
Germany	**(435)**	(21)
Rest of Europe	**(71)**	180
UK	**(25,814)**	(6,332)
	(26,320)	(6,173)
Net assets/(liabilities) by country of origin		
Germany	**(583)**	771
Rest of Europe	**82**	185
UK	**8,856**	31,746
	8,355	32,702

Turnover by country of origin for the UK is net of inter-segment sales of £20,825,000 (2006: £19,206,000)

3 Loss on ordinary activities before tax

Loss on ordinary activities before tax is stated after charging:

	Year to 30 June 2007 £'000	Year to 30 June 2006 (restated) £'000
Fees payable to the Company's auditor for the audit of the financial statements	**13**	7
Fees payable to the Company's auditor and its associates for other services:		
Audit of the financial statements of the Company's subsidiaries pursuant to legislation	**79**	89
Other services relating to taxation	**17**	31
All other services	**60**	41
Depreciation of tangible assets	**840**	668
Amortisation of intangible assets	**448**	450
Research and development	**25,343**	9,560
Operating lease rentals – land and buildings	**350**	235
– other	**382**	364
Foreign currency exchange loss/(gain)	**27**	(350)
Equity-settled share-based payments	**369**	232

4 Prior year adjustment

As disclosed in the accounting policies section, a new accounting standard FRS 20 (IFRS 2) 'Share-based Payments' was adopted in the year. The financial effect of this has been analysed below.

In the prior year equity-settled share-based payment arrangements were accounted for under UITF Abstract 17. Under that Abstract, the intrinsic value of the options granted, measured at the date of grant, was expensed to the profit and loss account. Charges under UITF Abstract 17 were £178,000. FRS 20 has been adopted for the first time during the current year. FRS 20 has been applied retrospectively to all equity instruments granted after 7 November 2002 that were unvested as at 1 July 2006.

For the year ended 30 June 2006, the change in accounting policy has resulted in a net increase in the loss for the year of £54,000. The balance sheet at 30 June 2006 has been restated to reflect a share options reserve of £306,000.

For the year ended 30 June 2007 the change in accounting policy has resulted in a charge to the profit and loss account of £369,000. At June 2007 the share options reserve amounted to £675,000.

5 Remuneration of Directors

	Year to 30 June 2007 £'000	Year to 30 June 2006 £'000
Directors' emoluments	**775**	789
Pension contributions	**73**	74
	848	863
Emoluments of highest paid Director	**201**	189
Group contribution to pension plan:		
Pension contributions paid by the Group for highest paid Director	**21**	20
The number of Directors for whom pension payments are made	**4**	5
Gains made by Directors on exercise of options	**–**	2,395

6 Pension costs

Defined contribution scheme

The Group operates a defined-contribution personal pension scheme for certain employees in the UK. The assets of the 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.

Defined benefit scheme

In prior years the pension scheme in Germany has been accounted for as a defined contribution scheme. Since further information has become available the nature of the scheme in Germany has been reassessed; based on the new evidence the pension has been reclassified as a defined benefit scheme. We do not consider this to be a fundamental error and therefore a prior period adjustment is not appropriate. The pension charge of £0.3 million for the year has been taken to the profit and loss account for the first time while cumulative actuarial gains and losses relating to the current and previous years have been reported in the statement of recognised gains and losses. The scheme liability is valued at £2.9 million, with planned assets of £0.7 million giving a net liability of £2.2 million. Non-pledged assets, valued at £1.0 million are shown as investments. The net effect of including the pension scheme on the balance sheet is to reduce net assets by £1.2 million.

6 Pension costs continued

Defined benefit scheme

An actuarial valuation for the purposes of FRS 17 was carried out at 30 June 2007 by Swiss Life Pensions Management GmbH. The major assumptions used by Swiss Life were:

	At 30 June 2007 % p.a.	At 30 June 2006 % p.a.
Retail price inflation	**2.0**	2.0
Salary increases	**3.5**	3.5
Pension increases in payment	**2.0**	2.0
Discount rate at beginning of year	**4.6**	4.0
Discount rate at end of year	**5.0**	4.6
Expected return on assets	**4.1**	4.1
Increase of social security contribution ceiling	**3.25**	3.25

Information for year ended 30 June 2007

The assets in the scheme and the expected rates of return were:

	2007 Expected return % p.a.	2007 Fair value £'000
Insurance policies	**4.1**	**718**
Total market value of assets		**718**
Present value of scheme liabilities		**(2,900)**
Deficit in the scheme		**(2,182)**
Related deferred tax asset*		**–**
Net pension liability		**(2,182)**

* The pension charge generates an unrecognised deferred tax asset of £546,000, however this is unrecognised in the Group accounts as there is uncertainty over the recoverability.

Analysis of the amount charged to operating loss

	2007 £'000
Current service cost	**194**

6 Pension costs continued

Analysis of the amount included in other finance costs

	2007 £'000
Expected return on pension scheme assets	(27)
Interest on pension scheme liabilities	129
Net charge	102

Analysis of the amount recognised in the statement of total recognised gains and losses (STRGL)

	2007 £'000
Actual return less expected return on pension scheme assets	(11)
Experience gains and losses arising on scheme liabilities	(30)
Changes in assumptions underlying the present value of scheme liabilities	174
Total amount relating to year	133
Opening cumulative gains and (losses) recognised in 2007	(1,234)
Actuarial loss recognised	(1,101)
Movement in related deferred tax asset	–
Net movement recognised	(1,101)

Movement in deficit during the year

	2007 £'000
Deficit in scheme at beginning of year	(2,210)
Foreign currency differences	127
Current service cost and finance cost	(296)
Contributions	54
Benefits paid	10
Actuarial gain	133
Deficit in scheme at end of year	(2,182)

6 Pension costs continued

Illustrative information for year ended 30 June 2006

The actuaries have provided illustrative information for the scheme for the year ended 30 June 2006 on the basis that the Group had always adopted the revised accounting treatment.

	2006 Expected return % p.a.	2006 Fair value £'000
Insurance policies	4.1	697
Total market value of assets		697
Present value of scheme liabilities		(2,907)
Deficit in the scheme		(2,210)
Related deferred tax asset		–
Net pension liability		**(2,210)**

Analysis of the amount charged to operating loss

	2006 £'000
Current service cost	**194**

Analysis of the amount included in other finance costs

	2006 £'000
Expected return on pension scheme assets	(26)
Interest on pension scheme liabilities	112
Net charge	**86**

Analysis of the amount recognised in the statement of total recognised gains and losses (STRGL)

	2006 £'000
Actual return less expected return on pension scheme assets	(1)
Experience gains and losses arising on scheme liabilities	(47)
Changes in assumptions underlying the present value of scheme liabilities	242
Total amount relating to year	**194**
Opening cumulative gains and (losses)	–
Actuarial gain recognised	194
Movement in related deferred tax asset	–
Net movement recognised	**194**

6 Pension costs continued

Movement in deficit during the year

	2006 £'000
Deficit in scheme at beginning of year	(2,113)
Foreign currency differences	(74)
Current service cost and finance cost	(280)
Contributions	53
Benefits paid	10
Actuarial gain	194
Deficit in scheme at end of year	**(2,210)**

History of experience gains and losses

	2007	2006
Difference between the expected and actual return on scheme assets		
– amount (£'000)	**(11)**	(1)
– percentage of scheme assets	**1.5**	0.1
Experience gains and losses on scheme liabilities		
– amount (£'000)	**(30)**	(47)
– percentage of scheme liabilities	**1.0**	1.6
Changes in assumptions underlying the present value of scheme liabilities		
– amount (£'000)	**174**	242
Total amount recognised		
– amount (£'000)	**133**	194
– percentage of scheme liabilities	**4.6**	6.6

7 Staff numbers and costs

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

	Number of employees	
	Year to 30 June 2007	Year to 30 June 2006
UK	**209**	163
Germany	**75**	70
Rest of Europe	**50**	42
	334	275

The aggregate payroll costs for these persons were as follows:

	Year to 30 June 2007 £'000	Year to 30 June 2006 £'000
Aggregate wages and salaries	**10,015**	8,605
Social security costs	**1,553**	1,394
Other pension costs	**420**	378
	11,988	10,377

The average number of employees involved in pension schemes across the Group for 2007 was 193 (2006: 193).

8 Tax on loss on ordinary activities

	Year to 30 June 2007 £'000	Year to 30 June 2006 (restated) £'000
The taxation credit is made up as follows:		
UK corporation tax at 30%	–	–
Adjustment in respect of prior years	2,503	–
	2,503	–
Current tax reconciliation:		
Loss before tax	(26,320)	(6,173)
Tax at standard rate of 30% on loss for year	(7,896)	(1,852)
Expenses not deductible for tax purposes	227	49
Capital allowances in excess of depreciation	(139)	(177)
Other adjustments not taxable	–	–
Overseas adjustments not taxable	–	–
Utilisation of tax losses	(215)	(47)
Tax losses not utilised	8,110	3,796
Allowances for R&D expenditure	(75)	(1,036)
Relief for shares acquired by employees and Directors	(12)	(733)
Tax loss surrendered to R&D tax credit	2,503	–
Current tax credit arising in the UK	2,503	–

Unrelieved Group tax losses of £39 million (2006: £23 million) remain available to offset against future taxable trading profits. These comprise UK trading losses of £34 million, UK non-trading losses of £3 million, losses in Germany of £0.5 million and losses in Italy and Spain of £1.5 million.

9 Loss for the financial period

The parent company has taken advantage of s230 of the Companies Act 1985 and has not included its own profit and loss account in these financial statements. The parent company's profit for the period was £32,000.

10 Loss per share

	Year to 30 June 2007	Year to 30 June 2006
Loss for the year (£'000)	(23,817)	(6,173)
Weighted number of shares in issue	81,950,632	66,117,299
Diluted weighted number of shares in issue	n/a	n/a
Basic and diluted loss per share (pence)	(29.1)	(9.3)

11 Intangible fixed assets – Group

	Goodwill £'000	Manufacturing know-how £'000	Non-competing know-how £'000	Other intangibles £'000	**Total at 30 June 2007 £'000**
Cost					
Cost brought forward	4,977	1,000	3,046	960	**9,983**
Exchange difference	(58)	–	(68)	(6)	**(132)**
Balance carried forward	4,919	1,000	2,978	954	**9,851**
Amortisation					
Balance brought forward	2,651	537	3,046	594	**6,828**
Charge for year	333	63	–	52	**448**
Exchange difference	(32)	–	(68)	(6)	**(106)**
Balance carried forward	2,952	600	2,978	640	**7,170**
Net book value					
At 30 June 2007	**1,967**	**400**	**–**	**314**	**2,681**
At 30 June 2006	2,326	463	–	366	3,155

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.

12 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 2007 £'000**
Cost						
Balance brought forward	2,941	1,960	8	3,090	270	**8,269**
Additions	1,300	972	12	883	–	**3,167**
Disposals	(60)	(2)	(4)	(1,318)	–	**(1,384)**
Exchange difference	(2)	(10)	–	(18)	(7)	**(37)**
Balance carried forward	4,179	2,920	16	2,637	263	**10,015**
Depreciation						
Balance brought forward	1,383	563	7	2,464	215	**4,632**
Charge for period	272	292	2	243	31	**840**
Disposals	(38)	(2)	(4)	(1,317)	–	**(1,361)**
Exchange difference	(1)	(5)	–	(15)	(6)	**(27)**
Balance carried forward	1,616	848	5	1,375	240	**4,084**
Net book value						
At 30 June 2007	**2,563**	**2,072**	**11**	**1,262**	**23**	**5,931**
At 30 June 2006	1,558	1,397	1	626	55	3,637

13 Investments

Investments – Group

	Group insurance policies £'000
At 1 July 2006	–
Additions	1,034
Investment loss	(23)
At 30 June 2007	**1,011**

This insurance policy is designed to contribute towards the obligation in respect of the defined benefit pension scheme (note 6).

Investments – Company

	Company shares in subsidiary undertaking £'000
Cost	
Investment brought forward and carried forward	51
Provision	
Provision brought forward and carried forward	–
Net book value	
At 30 June 2007	**51**

At 30 June 2007 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, a former subsidiary of Allergy Therapeutics (Holdings) Ltd, was liquidated before 30 June 2007.

Allergy Therapeutics (Holdings) Ltd is fully owned by Allergy Therapeutics plc. All other subsidiary undertakings except Bencard Allergie (Austria) GmbH, are fully owned by Allergy Therapeutics (Holdings) Ltd. Bencard Allergie (Austria) GmbH is fully owned by Bencard Allergie GmbH.

14 Stocks

	Group	
	30 June 2007 £'000	30 June 2006 £'000
Raw materials and consumables	**1,706**	1,081
Work in progress	**2,452**	2,029
Finished goods	**753**	541
	4,911	3,651

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

15 Debtors

	Group		Company	
	30 June 2007 £'000	30 June 2006 £'000	**30 June 2007 £'000**	30 June 2006 £'000
Amounts falling due within one year				
Trade debtors	**1,802**	1,777	**–**	–
Amounts owed by subsidiary undertakings	**–**	–	**199**	–
Taxation and social security	**718**	435	**–**	–
Prepayments and accrued income	**722**	1,095	**–**	14
Other debtors	**131**	270	**4**	–
	3,373	3,577	**203**	14

16 Creditors: amounts falling due within one year

	Group		Company	
	30 June 2007 £'000	30 June 2006 £'000	**30 June 2007 £'000**	30 June 2006 £'000
Trade creditors	**4,612**	1,671	**–**	–
Taxation and social security	**446**	893	**66**	93
Accruals and deferred income	**5,499**	2,225	**10**	219
Other creditors	**157**	150	**–**	–
	10,714	4,939	**76**	312

17 Creditors: amounts falling due after more than one year

	Group	
	30 June 2007 £'000	30 June 2006 £'000
Bank loan	**2,161**	–
Other long-term creditors	**191**	239
	2,352	239

In May 2007 the Company entered into a loan agreement with the Royal Bank of Scotland. The facility consists of a seven year term loan of €40,000,000 (£26,896,000). The loan can be drawn down in variable amounts on variable dates during the first two years of the agreement against agreed costs, provided specific financial covenants are met. Repayment of the principal is by instalments and commences after completion of the R&D programme, after the full amount of the loan has been drawn down or from the end of June 2009, whichever is sooner. At the end of June 2007 €4,970,000 (£3,342,000) had been drawn down.

Interest on the loan is at 2.75% above Euribor. An interest rate swap has been entered into starting 2 July 2007 to convert 60% of the notional interest payable from a floating to fixed rate of 4.95% plus margin. A commitment fee of 0.65% is payable from the date of the agreement on the undrawn amount of the loan. Interest and commitment fees are payable quarterly in arrears.

An arrangement fee of €1,250,000 (£840,000) is payable in two tranches: the first tranche of €750,000 (£509,000) was paid on 25 May 2007; the second tranche of €500,000 (£336,000) is payable on 18 June 2009. A further fee of €1,350,000 (£908,000) is payable in two tranches: the first tranche of €600,000 (£404,000) on 31 December 2009; the second tranche of €750,000 (£504,000) on 18 June 2010. The arrangement fee paid in May and issue costs of £672,000 relating to the loan have been offset against the loan balance and are amortised at a constant rate on the carrying amount of the loan over the seven year term.

The loan is secured by a debenture over the Group's assets; a pledge of shares of the subsidiaries Bencard Allergie GmbH, Allergy Therapeutics Italia s.r.l. and Allergy Therapeutics Iberica S.L.; and an Intellectual Property Rights agreement with Bencard Allergie GmbH.

18 Financial instruments and derivatives

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

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

The main risks arising from the Group financial instruments are interest rate risk, liquidity risk and foreign currency risk. The Board reviews and agrees policies for managing each of these risks and they are summarised below.

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.

Interest rate risk

The Group finances its operations through a mixture of cash reserves, short-term bank borrowings and long-term loan. The Group borrows at both fixed and floating rates of interest and uses interest rate swaps to generate the desired interest profile and to manage the Group's exposure to interest rate fluctuations. At the year end the Group's borrowings related solely to the loan entered into in May 2007 and were at floating rates of interest. Interest rate swaps have been contracted to start from the beginning of July 2007 and will convert 60% of the loan borrowings from floating to fixed rates. After taking these into account, approximately 52% of the Group's total committed borrowings are at fixed rates of interest.

Interest rate risk profile of financial liabilities

The interest rate profile of the Group's financial liabilities at 30 June 2007 was:

	Floating rate financial liabilities £'000	Fixed rate financial liabilities £'000	Financial liabilities on which no interest is paid £'000
Currency			
Euros	3,342	–	–

The floating rate financial liabilities comprise Euro denominated bank borrowings that bear interest rates based on three month Euribor (European Inter-Bank Offer Rate).

Currency risk

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

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

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

The majority of the Group's revenue is denominated in Euros. A large part of the manufacturing cost base is denominated in Sterling but some R&D and other costs are denominated in United States 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.

Maturity of financial liabilities

The maturity profile of the Group's financial liabilities at 30 June was as follows:

	30 June 2007 £'000	30 June 2006 £'000
In one year or less, or on demand	–	–
In more than one year but not more than two years	1,345	–
In more than two years but not more than five years	1,997	–
In more than five years	–	–
	3,342	–

18 Financial instruments and derivatives continued

Borrowing facilities

The Group has undrawn committed facilities at 30 June 2007 of €35,392,000 (2006: €362,000) and £4,000,000 (2006: nil).

Fair values of financial assets and financial liabilities

A comparison by category of fair values and book values of the Group's financial liabilities at 30 June was as follows:

	Book value 30 June 2007 £'000	Fair value 30 June 2007 £'000	Book value 30 June 2006 £'000	Fair value 30 June 2006 £'000
Primary financial instruments held or issued to finance the Group's operations:				
Long-term borrowing	**3,342**	**3,342**	–	–
Derivative financial instruments held to manage the interest rate and currency profile:				
Forward foreign currency contracts	**–**	**1**	–	6

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 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 2006	**6**	**–**	**6**
Gains and losses arising in previous years that were recognised in 2006/07	**6**	**–**	**6**
Gains and losses arising before 1 July 2006 that were not recognised in 2006/07	**–**	**–**	**–**
Gains and losses arising in 2006/07 that were not recognised in 2006/07	**63**	**(62)**	**1**
Unrecognised gains and losses on hedges at 30 June 2007	**63**	**(62)**	**1**
Of which:			
Gains and losses expected to be recognised in 2007/08	**63**	**(62)**	**1**

Liquidity risk

The Group seeks to manage financial risk by ensuring sufficient funds or committed borrowing facilities are 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 table below shows the monetary assets held by the Group in currencies other than Sterling.

	Group	
Currency	30 June 2007 £'000	30 June 2006 £'000
Euro	**1,114**	1,446
United States Dollar	**2,199**	52
Canadian Dollar	**1,895**	29
Slovak Koruna	**5**	3
Polish Zloty	**6**	1
	5,219	1,531

19 Called up share capital

	30 June 2007 £'000	30 June 2006 £'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	**82**	82
Equity: 9,848,333 deferred shares of 0.1p each	**10**	10
	92	92

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

Share options

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

At start of year	Granted in year	Exercised in year	Lapsed in year	At end of year	Exercise price	Exercise date from	Exercise date to
4,800	–	600	100	4,100	0.1p	04/10/2004	22/12/2008
20,312	–	1,650	200	18,462	0.1p	04/10/2004	01/10/2009
25,038	–	1,750	–	23,288	0.1p	04/10/2004	01/10/2010
13,950	–	700	–	13,250	0.1p	04/10/2004	20/10/2010
200,000	–	–	–	200,000	0.1p	04/10/2004	02/01/2011
987,350	–	–	9,100	978,250	120p	31/07/2002[1]	31/07/2011
400,000	–	–	–	400,000	30p	03/06/2002	03/06/2012
1,000,000	–	–	–	1,000,000	0.1p	02/10/2002	02/10/2012
1,500,000	–	–	–	1,500,000	5p	17/12/2002[1]	17/12/2012
69,334	–	5,334	–	64,000	5p	17/12/2003[1]	17/12/2012
4,000,000	–	–	–	4,000,000	5p	18/12/2002[1]	18/12/2012
171,300	–	21,683	750	148,867	5p	04/10/2004	25/01/2013
100,000	–	–	–	100,000	45p	15/12/2003[2]	15/12/2013
1,880,681	–	49,013	–	1,831,668	45p	26/02/2005[1]	26/02/2014
230,000	–	–	–	230,000	45p	02/08/2005[1]	02/08/2014
1,900,001	–	–	–	1,900,001	100.4p	08/03/2008	08/03/2015
497,507	–	1,953	20,137	475,417	64p	01/03/2009	01/09/2009
–	179,358*	–	1,900	177,458	99.45p	01/05/2010	01/11/2010
13,000,273	**179,358**	**82,683**	**32,187**	**13,064,761**			

* Shares granted under the SAYE 2005 share plan.

[1] One third of share options granted were 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 were exercisable from this date and 10,000 were exercisable from 1st of each subsequent month until 01/12/2004.

Long Term Incentive Plan

Details of the shares provisionally awarded under the Plan are as follows:

At start of year	Awarded in year	Vested in year	Lapsed in year	At end of year	Vesting price	Plan cycle starts	Plan cycle ends
1,205,871	–	3,187	31,245	1,171,439	–	01/07/05	30/06/08
–	999,995	–	13,744	986,251	–	01/07/06	30/06/09
1,205,871	**999,995**	**3,187**	**44,989**	**2,157,690***			

* This is the maximum contingent number of shares that could vest under the terms of the Plan.

20 Reserves

	Group Profit and loss account £'000	Company Profit and loss account £'000
At 30 June 2006	(40,809)	(33,630)
Restated for FRS 20	(128)	(128)
Retained (loss)/profit for the year	(23,817)	32
Currency translation profit on foreign currency investments	(48)	–
Actuarial losses	(1,101)	–
At 30 June 2007	**(65,903)**	**(33,726)**

	Group Investment revaluation reserve £'000	Company Investment revaluation reserve £'000
At 1 July 2006	–	–
Revaluation of insurance investment	226	–
At 30 June 2007	**226**	**–**

	Group and Company Share premium account £'000	Group Shares issued by subsidiary £'000
At 30 June 2006	33,173	40,128
At 30 June 2007	**33,173**	**40,128**

	Group and Company Other reserve – share based payments £'000	Group and Company Other reserve – EBT £'000
At 30 June 2006	178	(60)
Restated for FRS 20	128	–
Sale of shares by EBT	–	24
Provision in year for share-based payments	369	–
At 30 June 2007	**675**	**(36)**

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

At 30 June 2007 there were 2,084,212 shares in the Employee Benefit Trust with an aggregate cost of £36,000 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 2007 was £2,490,633.

21 Share-based payments

Equity-settled share-based payments

The Company has a Savings Related Share Option Plan which has been offered to all employees and executive Directors with 12 months continuous service. Options granted in 2006 and 2007 are exercisable at a 15% discount to the average market share price on the date of grant. The vesting period is three years. The options are settled in equity once exercised. If the options remain unexercised after a period of six months from the start of the vesting period, the options expire. Options are forfeited if the employee leaves the Company before the options vest.

The Company has a Long Term Incentive Plan under which Directors and senior employees may receive annual provisional awards of performance vesting shares. The number of shares that may vest depends on the Company's performance during the Plan cycle in terms of total shareholder return (TSR) compared to the TSR performance of the companies in the Plan's peer group. If the Company's position in the peer group at the end of the Plan cycle is at or above the 75th percentile, 100% of the shares provisionally 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. Each Plan cycle will comprise not less than three consecutive financial years. Awards are forfeited if the employee leaves the Company before the shares vest.

Share options were granted to employees and Directors under earlier schemes. The vesting periods are usually from one to three years. The vesting of some options is dependent on the Company's TSR performance as for the Long Term Incentive Plan detailed above. The options are settled in equity once exercised. If the options remain unexercised after a period of 10 years from the date of grant, the options expire. Options are forfeited if the employee leaves the Company before the options vest.

For the following disclosure, Long Term Incentive Plan awards with a nil exercise price have been disclosed separately to avoid distorting the weighted average exercise prices.

(a) Share options

	Year to 30 June 2007 Number	Year to 30 June 2007 Weighted average exercise price £	Year to 30 June 2006 Number	Year to 30 June 2006 Weighted average exercise price £
Outstanding at the beginning of the year	**13,000,273**	**0.37**	16,243,606	0.33
Granted during the year	**179,358**	**0.99**	497,507	0.64
Exercised during the year	**(82,683)**	**0.30**	(3,090,840)	0.09
Forfeited during the year	**(32,187)**	**0.80**	(650,000)	0.94
Outstanding at the end of the year	**13,064,761**	**0.38**	13,000,273	0.37
Exercisable at the year end	**10,435,218**	**0.24**	9,799,764	0.23

Included in the above numbers outstanding at 30 June 2007 are 9,751,897 (2006: 9,799,764) share options granted before 7 November 2002 which have been excluded from the share-based payments charge in accordance with the FRS 20 'Share-based Payments' transitional provisions.

Options exercised during the year had a weighted average share price at date of exercise of 112p (2006: 91p).

The share options outstanding at the end of the year have a weighted average remaining contractual life of 5.7 years (2006: 5.9 years) and have the following range of exercise prices:

Exercise price (p)	30 June 2007 Number	30 June 2006 Number
0.1–5	**6,971,967**	7,004,734
6–45	**2,561,668**	2,610,681
46–120	**3,531,126**	3,384,858
	13,064,761	13,000,273

21 Share-based payments continued

The fair values of options granted under the Savings Related Share Option Plan during the year were determined using the Black-Scholes Pricing Model. Expected volatility was based on historic volatility at the date of grant. The assumptions made to value options granted during the years ended 30 June 2006 and 30 June 2007 were as follows:

	30 June 2007	30 June 2006
Weighted average fair value	**41.3p**	26.4p
Weighted average share price	**117.0p**	75.0p
Weighted average exercise price	**99.5p**	64.0p
Expected volatility	**30%**	30%
Expected dividend yield	**0%**	0%
Risk free interest rate	**5%**	5%

The share-based payment charge assumes an expected option life of 3.25 years, an employee attrition rate of 10% and an early surrender risk of 10%.

(b) Long Term Incentive Plan awards

	30 June 2007 Number	30 June 2006 Number
Outstanding at the beginning of the year	**1,205,871**	–
Granted during the year	**999,995**	1,205,871
Vested during the year	**(3,187)**	–
Forfeited during the year	**(44,989)**	–
Outstanding at the end of the year	**2,157,690**	1,205,871

Awards granted under the Long Term Incentive Plan have a nil exercise price and are valued at the market price at the date of grant, 100.0p (2006: 69.5p). The share-based payment charge assumes an employee attrition rate of 10% and a vesting probability of 41.5%.

22 Reconciliation of movement in shareholders' funds

	Group		**Company**	
	Year to 30 June 2007 £'000	Year to 30 June 2006 £'000	**Year to 30 June 2007 £'000**	Year to 30 June 2006 £'000
(Loss)/profit for the financial year	**(23,817)**	(6,173)	**32**	(18,776)
Other recognised gains and losses relating to the period (net)	**(48)**	29	**–**	–
Issue of shares	**–**	19,000	**–**	19,000
Issue of shares from EBT	**24**	262	**24**	262
Share-based payments	**369**	232	**369**	232
Expenses paid in connection with share issue	**–**	(732)	**–**	(732)
Actuarial losses	**(1,101)**	–	**–**	–
Revaluation of investments	**226**	–	**–**	–
Net (deduction from)/addition to shareholders' funds	**(24,347)**	12,618	**425**	(14)
Opening shareholders' funds	**32,702**	20,084	**(247)**	(233)
Closing shareholders' funds	**8,355**	32,702	**178**	(247)

23 Reconciliation of operating loss to operating cash flow

	Year to 30 June 2007 £'000	Year to 30 June 2006 (restated) £'000
Operating loss	**(26,836)**	(6,714)
Depreciation	**840**	668
Amortisation of intangibles	**448**	450
Loss on disposal of fixed assets	**20**	10
Effect of foreign exchange rate changes	**(9)**	(20)
Charge for share-based payments	**369**	232
Increase in stocks	**(1,260)**	(910)
Decrease/(increase) in debtors	**204**	(416)
Increase/(decrease) in creditors	**5,727**	(1,399)
Other non-cash differences	**194**	–
Net cash outflow from operating activities	**(20,303)**	(8,099)

24 Analysis of financing

	Year to 30 June 2007 £'000	Year to 30 June 2006 £'000
Funds drawn on new loan facility	**3,342**	–
Issue costs and finance costs relating to loan	**(678)**	–
Issue of ordinary shares (net of expenses)	**–**	18,268
Issue of shares from EBT	**24**	262
	2,688	18,530

25 Analysis of change in net funds

	At beginning of period £'000	Cash flow £'000	Other non-cash changes £'000	At end of period £'000
Cash at bank and in hand	23,860	(18,164)	–	5,696
Debt due	–	(2,664)	503	(2,161)
	23,860	**(20,828)**	**503**	**3,535**

Non-cash changes relate to issue costs not paid at 30 June 2007.

26 Capital commitments

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

	Group 30 June 2007 £'000	Group 30 June 2006 £'000
Total capital commitments	**1,311**	1,191

Included in the above is £280,000 for ongoing factory refurbishments in the UK (2006: £809,000); £854,000 for new plant and machinery (2006: £382,000); and £177,000 for IT equipment and systems upgrades.

Other commitments

Between November 2006 and May 2007, 22 separate forward foreign exchange contracts were arranged for the sale of €17,407,000 (£11,705,000) at future dates from July 2007 to February 2008.

27 Leasing commitments

Operating lease payments amounting to £602,000 (2006: £600,000) are due within one year. The leases to which these amounts relate expire as follows:

	Land and buildings		Other	
	30 June 2007 £'000	30 June 2006 £'000	**30 June 2007 £'000**	30 June 2006 £'000
In one year or less	**29**	17	**99**	2
Between one and five years	**155**	170	**209**	301
In five years or more	**110**	110	**–**	–
	294	297	**308**	303

28 Contingent liabilities

Allergy Therapeutics (UK) Ltd, a subsidiary of Allergy Therapeutics plc, has guaranteed the deposits required for leases on company cars and rented office space occupied by a fellow subsidiary, Bencard Allergie GmbH. The amount as at 30 June 2007 was €78,000; £52,000 (2006: €78,000; £54,000).

A cross-guarantee exists between Allergy Therapeutics plc, Allergy Therapeutics (Holdings) Ltd, Allergy Therapeutics (UK) Ltd, Bencard Allergie GmbH, Allergy Therapeutics Italia s.r.l. and Allergy Therapeutics Iberica S.L. in which the liabilities of each entity under the RBS loan agreement are guaranteed by all the others.