Allergy Therapeutics plc

Annual Report & Accounts

Allergy Therapeutics®
Transforming Allergy Treatment

Allergy Therapeutics is a European-based speciality pharmaceutical company focused upon the treatment and prevention of allergy.

Our strategy

- Continue to build our European commercial infrastructure
- Continue developing improved allergy vaccines with novel adjuvants, improved dosing characteristics and hence patient compliance and new delivery formulations generating a patent protected, registered product portfolio
- Broaden the portfolio through the in-licensing and co-development of selected products
- Identify strong commercial partners for the non-European specialist markets

Highlights

Financial Highlights

Net sales

+21%

£31 million

Net sales increased by 21% to £31 million (2007: £25.7 million)

Pollinex® Quattro sales

+25%

£11.9 million

Pollinex Quattro named patient sales increased by 25% to £11.9 million (2007: £9.5 million)

R&D expenditure

Reducing

£16.3 million

R&D expenditure decreased to £16.3 million (2007: £25.3 million)

Operational Highlights

Phase III studies

Successful completion of the two largest Phase III studies ever undertaken in allergy vaccination

Pollinex Quattro efficacy

Incontrovertible proof of efficacy of Pollinex Quattro Grass and Ragweed

Pollinex Quattro Grass

Clear route to registration in Europe for Pollinex Quattro Grass

MHRA audit

Successful MHRA audit at both facilities in February 2008

Investment in R&D

No further significant new investment in R&D without the support of a partner

FDA general review

FDA's clinical hold remains pending their general review of adjuvants in vaccines

Chairman's Statement

"Great strides were made in implementing our strategy during the year, with two Phase III clinical trial successes"

This year Allergy Therapeutics celebrated its tenth birthday and it has been a remarkable year. The Company's strategy is to build upon a strong core integrated pharmaceutical business and, through an extensive R&D programme, bring lasting relief to hayfever sufferers through the development of the first ultra-short course allergy vaccine, Pollinex Quattro. Great strides were made in implementing the strategy during the year, with two Phase III clinical trial successes. In May we announced the successful outcome of the first pivotal Phase III study of Pollinex Quattro against grass, Study G301, and as these accounts were being prepared we heard that the equivalent study in Ragweed allergy, R301, had also met its primary efficacy endpoint despite the curtailment of this study by the FDA clinical hold. Evidence of the efficacy of Pollinex Quattro is incontrovertible.

Over the last ten years pursuing our strategy has involved the clinical development of Pollinex Quattro, an innovative vaccine against the often debilitating condition of allergic rhinitis and the first ever allergy treatment to contain a vaccine adjuvant, MPL®. The advantage of MPL is that the desensitising vaccine works after just four pre-seasonal injections, as compared with twenty or more injections with traditional immunotherapy.

In a landmark result, our G301 study, undertaken in the United States, Canada and Western Europe and the first ever successfully conducted large-scale double blind placebo controlled trial in allergy vaccination to achieve its primary efficacy endpoint, provided a highly successful conclusion to these efforts. The outcome of this study is detailed elsewhere in this report. In summary, it proved that the product is safe and highly effective in treating patients' hayfever.

On the basis of this pivotal result, Allergy Therapeutics will make a submission for marketing authorisation in the European Union for Pollinex Quattro Grass. Already available in Europe on a 'named patient' basis, Pollinex Quattro Grass should become the first ultra-short course allergy vaccine registered across Europe. The combination of solid scientific evidence of efficacy, the associated plethora of clinical data, and marketing authorisations achieved utilising the most modern and demanding standards of clinical proof, will provide a strong foundation for the future sales and profit growth of the Company.

Allergy Therapeutics has its own sales and marketing operations in five Western European countries – Germany, Italy, Spain, United Kingdom and Austria. As the registration of Pollinex Quattro approaches, our commercial teams have been preparing their sales and marketing infrastructures for the launch of this transformational new product. Led by Germany, the largest market in Europe for allergy vaccines and source of over 70% of the Company's revenues, this has involved a widespread modernisation and restructuring of our commercial operations.

In parallel, we have invested 10 million in our manufacturing facilities, human resources and the processes required to ensure and maintain the highest GMP-compliant standards. In essence, investment in the Company's operational areas has increased as the considerable R&D costs have started to reduce. Allergy Therapeutics is now poised to capitalise on carefully laid and diligently executed plans.

In the United States, owing to the Food and Drug Administration ('FDA') clinical hold which is still in force whilst the FDA continues its

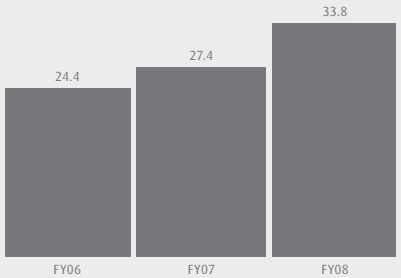
wider review of vaccine adjuvants, there is still uncertainty surrounding the progress of the Company's ambitions. The strategy of the Company is to defer any further extensive R&D expenditure until the FDA hold is lifted and a partner is identified who can fund such future spending. The United States is the world's largest market and remains a significant potential upside to the Company without further financial exposure.

During the year Allergy Therapeutics has been active in seeking clarity and a way forward with the FDA; the most recent guidance suggests that the FDA plans to introduce a working group on adjuvants in the next six months. GlaxoSmithKline, which also uses MPL containing adjuvant systems in its broad portfolio of development vaccines, has announced that it will resubmit Cervarix, which also has been caught up in the FDA's general adjuvant review, with new efficacy data in the summer of 2009. Allergy Therapeutics feels that this may be the catalyst for the current uncertainty surrounding adjuvants, MPL and Pollinex Quattro to be resolved. Although the FDA's clinical hold has been frustrating for everyone at Allergy Therapeutics there is now at least some positive light on the horizon. Allergy Therapeutics' core European business remains strong and growing, funded by its existing bank facilities and the cash it increasingly generates. Despite this, there has been a steady erosion of the share price since the Company's clinical programmes were put on 'Clinical Hold' by the FDA in July 2007. It was particularly frustrating for the Directors that the excellent G301 results announced in May did not reverse this trend. However, as Allergy Therapeutics moves from the extended period of R&D and operational investment to a core-business focused operating company with growing sales generated by Pollinex Quattro, particularly once approved, its profit margins are expected to improve to the industry average, creating an attractive financial profile for investors.

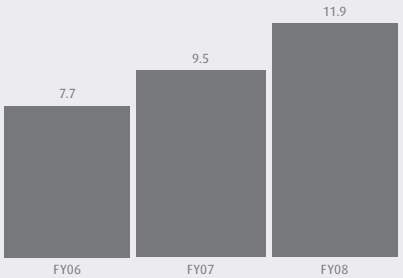
Ignace Goethals
Chairman
22 September 2008

How we're doing

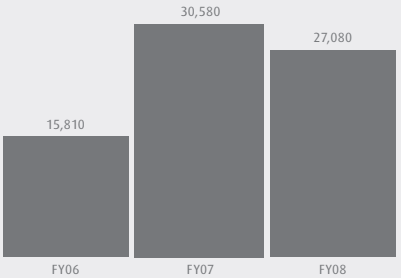
Gross Sales
£m



Pollinex Quatro Sales
£m



Cardboard/Paper Recycling Rates
kg



Chief Executive's Review

"One of the striking features of the G301 outcome is the robustness of the result."

The successful outcome of G301, Allergy Therapeutics' pivotal Phase III study of Pollinex Quattro Grass, announced on 14 May 2008 was undoubtedly the most important event during the financial year. Conducted predominantly in the United States, G301 was the largest ever Phase III double blind placebo controlled study in the allergy vaccine field and to date is the only study of its type to achieve its primary efficacy endpoint.

After the financial year end we were delighted to learn that R301, a similar phase III trial with our Ragweed allergy vaccine, also met its primary efficacy endpoint which was particularly pleasing as this was the study most negatively affected by the FDA's clinical hold which occurred in the middle of the treatment phase of this study. At the time of writing the data is still being assessed, but achieving a phase III clinical trial end-point when fewer than 40% of the subjects were given the full four-shot treatment is very encouraging and speaks volumes for the efficacy of the Pollinex Quattro range.

Variability characterises clinical trials in the field of allergy. The pollen seasons vary from country to country, area to area, and year to year. The patients recruited into studies vary. The subjective assessment of symptom scores by patients in the studies is prone to variation. The compliance of the subjects to the study protocols is geographically highly variable. During 2007, three other allergy vaccine products were in Phase III studies in the United States and all 'failed'. One of these was a successful European product in the same allergen, in the same geography and even using some of the same study centres as G301. We are therefore very pleased that Pollinex Quattro has been successful in this most stringent of tests.

One of the striking features of the G301 outcome is the robustness of the result. All of the key prospectively defined analyses are positive, showing a robust, clear and statistically significant benefit over placebo. Another feature, which bodes well for the future patient experience with Pollinex Quattro, is the unusually high levels of compliance; all but 5% of the patients completed the course of treatment. In most allergy vaccine studies, including those of sub-lingual products where the main proposed advantage is patient convenience, the compliance levels have been significantly worse and of course in real life, outside the controlled conditions of the clinical trial, compliance is likely to be poorer still. The excellent compliance with Pollinex Quattro is explained by the small number of injections, just four, and the speed of the treatment; it can be completed in as little as three weeks and as close as three weeks to the start of the pollen season. We believe that the result in terms of patients actually receiving the treatment as intended by their physicians will make ultra-short course injected allergy vaccines the treatment of choice for allergy specialists and their moderate to severe allergic patients.

The G301 study will form the basis of a submission in early 2009 to the European authorities for the licensure of Pollinex Quattro Grass, with the first registration anticipated in or before 2010. The initial target market will be Germany, followed by Italy, Spain, UK and Austria, in each of which we have an existing commercial infrastructure, and France and the Netherlands. These seven countries represent the biggest commercial potential in Europe for the product.

"The excellent compliance with Pollinex Quattro is explained by the small number of injections, just four, and the speed of the treatment."

The planned European registrations will be supported by our heightened emphasis on the development and optimisation of our commercial operations in the key European markets. Our new management team in Germany enters its second year, and the focused projects they are implementing are gaining traction, with many of the operating key performance indicator targets being met on schedule and exceeded. Very experienced and energetic new General Managers have been appointed for both Italy and Spain, Nunzio di Grazia and Immaculada Abella Diez respectively, to continue and accelerate the optimisation of our commercial infrastructure in those markets.

In the United Kingdom we have a small presence, reflecting the small number of allergy specialists in the country. The issue of the poor provision of healthcare services to allergy sufferers in the United Kingdom was highlighted during the year in a report by the House of Lords Science and Technology Committee. Together with other stakeholders (professional groups, patient groups and companies), Allergy Therapeutics is supporting the National Allergy Strategy Group in its efforts to bring about an appropriate response from the Government to the House of Lords report, and to implement its recommendations. Success in this would mean that the UK for the first time could have the professional infrastructure to treat sizeable numbers of British patients with allergy vaccines.

The three key characteristics of Pollinex Quattro, setting it apart from the competition, are 'fast, strong, safe'. These characteristics are derived from the patented adjuvant MPL. The German marketing team has come up with a new 'visual image' to assist in the promotion of the product by focusing on these characteristics. After thorough market research to confirm its efficacy in promoting the key messages and having them retained by the prescribing physicians, Popeye was selected as the embodiment of 'fast, strong, safe'. This innovative new campaign has been launched this season in Germany and the first indications are that it is proving very effective. On a more subtle note, in April, Pollinex Quattro was awarded the 2008 Biermann Pneumologie Preis for 'outstanding therapy concepts in pulmonology'.

Our programme of constant improvement in Supply Operations continues to bear fruit, evidenced in the excellent service record last year. The Medicines and Healthcare products Regulatory Agency ('MHRA') conducted an inspection in February 2008, which passed very successfully with no major findings. The 'lean manufacturing' initiative, which builds upon the investments made in plant and people to establish streamlined and efficient processes, improving compliance, cutting costs and enhancing performance, has begun in earnest and benefits are already being felt across the business.

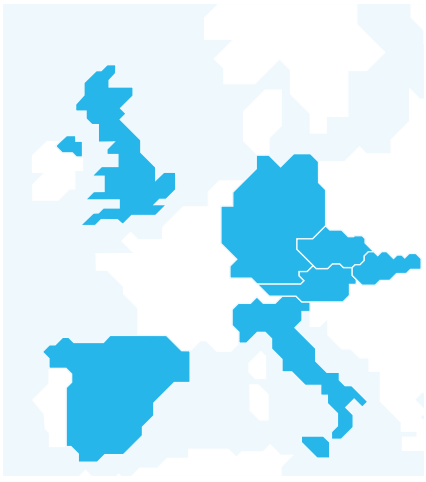
In summary, it has been a year of achievement after many years of investment and hard work by all involved. Allergy Therapeutics today has the first ever clinically proven ultra-short course allergy vaccine and we are poised for submission for registration with the operational infrastructure being prepared to exploit it.

Keith Carter
Chief Executive Officer
22 September 2008

Our vision

- To generate and effectively utilise scientific and clinical information to maximise our Company potential and benefit allergy sufferers.
- To ensure that all our work is conducted to the highest scientific and ethical standards for the benefit of patients and shareholders.

Our markets



Allergy Therapeutics directly conducts commercial operations in most of the major immunotherapy markets in the world. We have a strong presence in Europe with our own operations in several markets including Germany, Italy, Spain and the United Kingdom. In markets without a direct presence, we often make our products available through distributors. The most important distributor markets are Canada, Holland and South Korea.

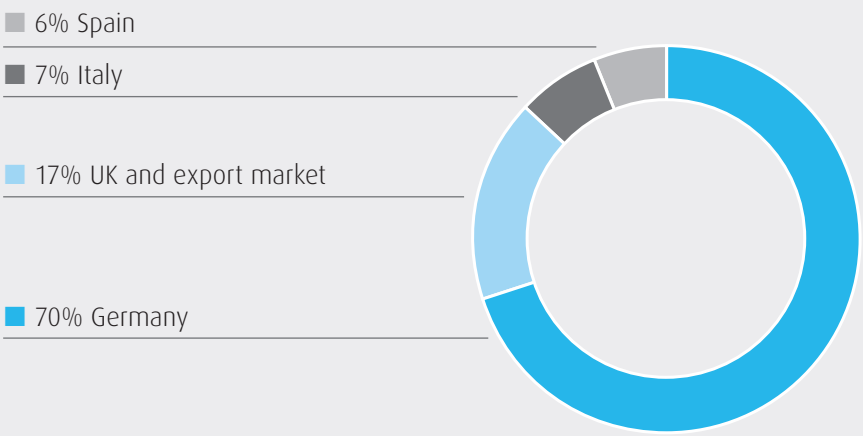
We are restructuring our operations across Europe. Part of this process has involved the appointment of new talented and experienced management teams in our most important markets to accelerate the growth of our business.

Germany

The most important market for the Company, Germany is also the single largest immunotherapy market in the world by value with IMS reporting annual sales in this market of €260 million. The market has a strong preference towards injectable rather than sublingual immunotherapy and this favours Pollinex Quattro.

The Company restructured the business in Germany in 2007 and we expect to see the impact of this in the coming years. Changes that took place include the appointment of a new General Manager as well as two new District Managers and a complete modification of our sales and marketing activities.

Net sales by country



Italy

We estimate the total Italian immunotherapy market to be worth €55 million in sales per year. There are two market factors that hamper our opportunity in this market. One is that the market is largely a sublingual one although there are signs that this may be about to change. The second factor is that the market is in decline due to negative economic conditions impacting patients and their ability to pay for vaccines. We have conducted a review of our operations in this market and have made and continue to make major changes. In addition to a new General Manager, we have made significant modifications to our activities, as in Germany, and we have added improved data systems to track and grow our business.

Spain

Total market sales per year in Spain are estimated to be €56 million. The market has been growing in high single digits over recent years which we expect will continue. The market favours injectable over sublingual products.

As with the other markets, we have restructured our business in Spain with the recent appointment of a new General Manager and changes to both our activities and to our information systems that support sales and marketing.

United Kingdom

The United Kingdom, our home market, is one of our most challenging markets. For historical reasons the use of immunotherapy products went into severe decline in the 1980s and 1990s and has yet to recover. The use of immunotherapy products in this market significantly trails that of similarly sized European countries. To exacerbate this, there are few allergy specialists in this country. Recently we appointed a new Country Manager to focus on not just growing our market share but also in growing the market as a whole. We are working with several Groups who are actively seeking solutions to address these problems. These actions include lobbying the government for greater focus on allergy patients and their treatment.

Our people

Peter Keysers, General Manager Germany
Peter has been with the Company since 2007. He joined us from Novo Nordisk where he had responsibility for sales, marketing and medical activities as Sales Director. Peter has eighteen years of experience in the industry.

Nunzio Di Grazia, General Manager Italy
Nunzio has worked within the pharmaceutical industry for 18 years with companies including Abbott and Organon. Most recently Nunzio was Sales and Marketing Director at Shire and joined Allergy Therapeutics during the summer of 2008.

Imma Abella, General Manager Spain
Imma joined the Company in September 2008 bringing with her twenty years experience within the pharmaceutical industry. She has previously worked with leading companies including Sandoz, Novartis and UCB. Imma joins the Company from UCB where she was Senior Director of Global Operations.

Ian Reid, Country Manager United Kingdom
Ian assumed responsibilities in 2007 as Country Manager in the United Kingdom after joining the Company in 2005. Prior to joining the Company, Ian managed an oncology specialist sales force for Schering Plough adding to his extensive twenty-five years within the industry.

Our products

According to current opinion, IgE mediated allergies (type one allergies) are due to dysregulation of the T helper lymphocyte (TH) cell. Whereas healthy people develop tolerance to allergens, allergy sufferers have a TH2-dominated immune response with increased IgE and corresponding clinical symptoms. This dysregulation of the immune system can be counteracted efficiently using specific immunotherapy (SIT). By administering high doses of allergen, the balance between TH1 and TH2 response to the allergen can be restored. Since SIT was first carried out successfully by Leonard Noon in 1911, SIT has become established as the only causal therapy for type 1 allergies.

Ever since the Company (as C. L. Bencard) was founded in 1934, Allergy Therapeutics has been a pioneer in allergy research. In 1999 Allergy Therapeutics began a transformation of SIT by introducing allergy vaccination with only four injections per course (Pollinex Quattro). The short treatment period is due to the use of L-tyrosine absorbed allergoids and the innovative adjuvant, monophosphoryl-lipid A (MPL). An adjuvant is a substance which improves the immune response to an antigen or allergen.

MPL is derived from a lipopolysaccharide (LPS) which is obtained from the cell wall of Salmonella Minnesota R 595 using a process of extraction, purification and detoxification. The history of MPL goes back to the first studies carried out by Johnson et al. in 1956, in which the adjuvant properties of LPS were demonstrated for the first time. It subsequently transpired that the lipid A fraction of the LPS was responsible for the adjuvant effect. The team led by Edgar Ribi (Hamilton, Montana) modified lipid A so that the immunogenic properties were retained and toxicity was considerably reduced. The final product has the chemical name 3-O-desacyl-4′ monophosphoryl-lipid A (MPL).

As a vaccine adjuvant, MPL has been used for many years in vaccine studies and has been tested on over 30,000 subjects with more than 100,000 doses. Vaccines with systems containing MPL have been evaluated in various indications such as cervical cancer and malaria at GlaxoSmithKline. Two vaccines with an adjuvant system containing MPL have received broad approval, including in Europe: a hepatitis B vaccine and an HPV vaccine to protect against cervical cancer – Fendrix and Cervarix, respectively. These modern, successful vaccines are already widely used.

The adjuvant effect of MPL in SIT has been documented in numerous studies. The adjuvant effect of MPL is seen in its essential role of promoting the switch from a TH2-directed immune response (with IgE induction) to a TH1-directed immune response.

Pipeline

Following years of significant investment our Pipeline has now advanced into late stage development focusing on the major pollen allergies of grass, tree and ragweed in the major markets of Europe and North America. Impact of this work on sales is already being experienced as significant clinical data and publications are being generated.

Although clinical work in the United States has halted under the FDA's clinical hold, Pollinex Quattro, incorporating MPL as an adjuvant, for grass allergy is entering into Registration phase in Europe with a submission planned for early 2009. Pollinex Quattro products for trees and ragweed are in Phase II and III respectively.

The focus on MPL in our development work crosses over to sublingual products where we have completed a Phase I/II study in grass. Our goal in this programme is to develop a more convenient and effective sublingual product than is currently available. Finally, we are conducting pre-clinical work with Japanese Cedar which is the single most significant pollen in Japan.

Our portfolio

Allergy Therapeutics' current portfolio of competitive products includes marketed products containing allergoids (modified allergens), tyrosine depot and MPL adjuvant. These technologies offer significant benefits over older allergy vaccination technologies. Allergy Therapeutics' development programme is designed to improve product characteristics by providing an improved safety profile and reduce the number of injections over the treatment period, resulting in well-accepted registered products likely to be prescribed by a higher percentage of physicians.

Pollinex® Quattro

Pollinex Grasses & Rye

Pollinex Trees

Oralvac® (sublingual)

Our product pipeline

Pre-clinical	Phase 1	Phase 2	Phase 3	Registration
Japanese Cedar	Sublingual MPL	Trees (US/Canada/Europe)	Grasses (US) Ragweed (US/Canada)	Grasses (Canada/Europe)

Pollinex Quattro Grass Results

The Pollinex Quattro Grass G301 study was a global, multi-centre, double-blind, placebo-controlled, Phase III study and is the largest allergy vaccine study ever conducted. The primary objective of this study was to compare the efficacy of Pollinex Quattro Grass versus placebo as measured by the combined allergy symptom (eyes and nose) plus medication scores (CSMS) during the four peak weeks of the 2007 grass pollen season.

In May the Company was pleased to announce that the study was successful and that it had met it's primary endpoint. The primary efficacy outcome showed a highly statistically significant 13.4% benefit in the Pollinex Quattro Grass treatment Group compared with placebo (p=0.0038). The 'non-missing data' population demonstrated this benefit to be as great as 26.9% (p=0.0031). In secondary analyses, the benefits of Pollinex Quattro Grass were demonstrated in a 12% improvement in CSMS over the entire season (p=0.0093); an 11% improvement in eye and nose symptoms (p=0.013) and a 17% improvement in patients with severe rhino-conjunctivitis (p=0.0023). Other sub-Group analyses showed statistically significant benefits of up to 63%.

The study included patients with a history of moderate to severe symptoms of seasonal allergic rhino-conjunctivitis ascribed to grass pollen exposure that required repeated use of antihistamines, nasal steroids, and/or leukotriene modifiers. The severity of symptoms was assessed with a Disease Severity Questionnaire and sensitivity to grass pollen was confirmed by skin prick test and RAST (IgE test). Sensitivity to other allergies with mild symptoms was permitted. Patients with moderate to severe asthma were excluded together with patients with autoimmune or other clinically significant and relevant disease.

Patients received four injections of Pollinex Quattro Grass at weekly intervals with allowance for dose adaption in case of adverse events and treatment was to be completed at least 3 weeks before the start of the grass pollen season.

G301 study

1028

Patients recruited in study

Study G301 was a double-blind placebo-controlled study conducted in 94 centres in the United States, Canada and Europe. A total of 1,028 patients were recruited into the study and randomised to receive Pollinex Quattro Grass or placebo.

- Clinically significant benefit
- Statistically significant difference
- 13.4%–62.9% improvement

Overall, a total of 1,028 patients were recruited in 94 centres (620 patients in the United States, 291 patients in Canada, 65 patients in the United Kingdom and 52 in Austria). Patients were randomised (one active: one placebo), and study populations included the intent-to-treat (ITT) population for primary efficacy outcome (1,028 patients) and the 'non-missing data' (NMD) set of 343 patients with complete electronic symptom plus medication score data for the four peak pollen weeks.

Demographically both active and placebo Groups were well balanced, the mean age of patients was 36yrs, 95% reported rhinitis and conjunctivitis (14% asthma) with an average duration > 20yrs.

The study showed exceptional results in terms of compliance and safety. Greater than 95% of patients on Pollinex Quattro Grass completed the course of treatment and 92% completed the study altogether. Seven patients on active treatment and four patients on placebo withdrew from the study owing to adverse events.

There was an improvement in Quality of Life during the pollen season following treatment with Pollinex Quattro Grass demonstrated by a statistically significant difference compared with placebo in RQLQ with values ranging from 0.34-0.64 points difference (NMD). There was also a 6.5-fold increase in grass-specific IgG with treatment with Pollinex Quattro Grass with no change on placebo.

Altogether treatment with Pollinex Quattro Grass was very well tolerated. The commonest side effects were local injection site reactions reported in total by just over half the patients. Individual symptoms included pain (32%), itching (30%), swelling (25%) and redness (19%) and the majority were mild in intensity. With each individual injection, 63%–70% of patients reported no adverse effects. Only one adverse event was classified as serious and considered 'possibly related' to treatment (transverse myelitis, resolved).

In conclusion the study met its primary objective to show that pre-seasonal immunotherapy with Pollinex Quattro Grass demonstrates significant clinical benefit in patients with moderate to severe seasonal allergic rhinitis and/or conjunctivitis ascribed to grass pollen exposure. Furthermore, the treatment is well tolerated with a very high rate of patient compliance.

"Proof of efficacy and safety of Pollinex Quattro in this grass study is a breakthrough for allergy sufferers."

Professor Tony Frew MB, BChir, MD, FRCP

Professor of Allergy and Respiratory Medicine, Brighton and Sussex Medical School

Late Breaking News – Pollinex Quattro Ragweed Results

Pollinex Quattro Ragweed (R301) was also a multi-centre, double-blind, placebo-controlled, Phase III study conducted in North America and is the second largest allergy vaccine study ever conducted. The primary objective of this study was to compare the efficacy of Pollinex Quattro ragweed versus placebo as measured by the combined allergy symptom (eyes and nose) plus medication scores (CSMS) during the three peak weeks of the 2007 ragweed pollen season.

The study was similar to G301 and included patients with moderate to severe allergic rhino-conjunctivitis ascribed to ragweed pollen that required repeated use of pharmacotherapy. Patients were randomised on a two active to one placebo basis and received four rising dose injections of Pollinex Quattro Ragweed at weekly intervals.

The study was planned to recruit 1,074 patients in up to 85 centres in the United States and Canada. Recruitment and treatment, however, were curtailed by the FDA clinical hold on G301. At that time of the clinical hold 993 patients had been enrolled and 381 patients had received all four injections and completed the course of treatment. The primary analysis was conducted on the group of patients who completed the course of treatment with secondary analysis of the ITT population (which included patients who received any number of injections).

Initial results demonstrate that the study met its primary endpoint with Pollinex Quattro Ragweed demonstrating a statistically significant 12.0% benefit over placebo (p=0.0478). Furthermore, although the effect size was less, a statistically significant benefit (p=0.0283) was also demonstrated in the original ITT population.

Pollinex Quattro Ragweed

Pollinex Quattro Ragweed (R301) was also a multi-centre, double-blind, placebo-controlled, Phase III study conducted in North America and is the second largest allergy vaccine study ever conducted.

Board of Directors

Ignace Goethals
Non-executive Chairman (63)

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 World-wide 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.

Keith Carter
Chief Executive Officer (49)

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.

Ian Postlethwaite
Finance Director (45)

Ian joined Allergy Therapeutics in April 2002 as Finance Director. Prior to this he worked for Ellerman Investments (1997–2002), a UK private equity house, undertaking the roles of Chief Executive Officer with AFS, one of the largest independent finance houses in the UK, and Finance Director with a number of successful start up technology companies. Previously he held senior finance positions with Ericsson, from 1994–1997, 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.

Thomas Holdich
R&D Director (49)

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.

Christian Grätz
Director, Market Operations (55)

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 United States 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.

Stephen Smith
Non-executive Director (55)

Stephen is a Chartered Management Accountant, Fellow of the Association of Corporate Treasurers and Member of the Institute for Turnaround who, since 1995, has operated as an independent consultant and interim manager (CRO/CEO/COO/FD) on an international basis. Up to 1995 Stephen held various senior financial positions in UK based international public companies including six years as Group Treasurer of The Rank Organisation and three years as Group Finance Director of a quoted hotel company.

Stephen chairs the Remuneration and Audit Committees.

Virinder Nohria
Non-executive Director (54)

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 FDA. Dr. Nohria served as Chief Medical Officer and Vice President of Xcel Pharmaceuticals Inc., a specialty pharmaceutical company in the United States until the sale of the Company to Valeant Pharmaceutical International in early 2005. Prior to joining Xcel, Dr. Nohria held several positions in biotechnology and pharmaceutical companies including UCB Pharma and Eli Lilly and Company. Dr. Nohria is a board certified paediatric neurologist and received his medical degree from Cambridge University and doctorate in neuropharmacology from University of Bradford. He is currently based in the United States and has affiliations with Emory and Duke Universities.

Virinder sits on the Remuneration Committee.

Financial Review

"Company gross sales in Germany were £23.8 million (2007: £18.9 million), an increase over the previous year of 26%."

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

Adoption of IFRS

From 1 July 2007, Allergy Therapeutics has adopted International Financial Reporting Standards (IFRS) in the preparation of its financial statements. This has required a restatement of the results for the year ended 30 June 2007 which had been reported previously under UK GAAP. Details of this restatement are shown in the transitional reconciliations presented in note 33 to the financial statements.

IFRS has different presentation and disclosure requirements to UK GAAP and has involved significant changes to the presentation of the financial statements. Wherever possible, the Group has attempted to present the financial statements in a consistent manner with those presented in the past.

Revenue

For the year ended 30 June 2008 total gross sales increased by 25% to £34.2 million (2007: £27.4 million). Sales included the receipt of milestone payments from the Canadian licensee of £2.7 million (2007: £1.2 million). After statutory rebates in the German market net sales were £31.0 million (2007: £25.7 million), an increase over the previous year of 21%. Sales benefited from the increasingly strong Euro; the relative strength of the Euro over the previous year adding £1.9 million to the net sales.

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 during the year at the rate of 20% (2007: 9%). Company gross sales in Germany were £23.8 million (2007: £18.9 million), an increase over the previous year of 26%. The rebate on pharmaceutical sales, which is market wide, changed on 1 May 2006, for two years hence, when it was announced that any price rise since 1 November 2005 would be added to the rebate and since approximately 70% of sales originate in Germany, the charge increased to £3.2 million for the year (2007: £1.6 million).

In Italy and Spain the Group has demonstrated a positive performance. In Italy annual sales were £2.5 million (2007: £2.3 million), an increase of 9% and in Spain sales were £1.9 million (2007: £1.7 million), an increase of 12%.

Operations in the UK, the Czech and Slovak Republics, Poland and Austria performed well contributing £1.5 million to sales (2007: £1.4 million).

Licensees

The Group also sells through licensees and distributors, accounting for 13% of the gross sales. Total sales for the year were £4.5 million (2007: £3 million) an increase of 50% 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 £2.7 million (2007: £1.2 million) were received, triggered by reaching certain development activities.

"The Group's flagship product, Pollinex Quattro continued to sell well, with gross sales of £11.9 million (2007 £9.5 million) an increase of 25% over the previous year."

Product sales

The Group's flagship product, Pollinex Quattro continued to sell well, with gross sales of £11.9 million (2007 £9.5 million) an increase of 25% over the previous year.

Cost of sales and net operating expenses

In general, manufacturing costs have increased as a result of an increase in headcount to ensure compliance with recommended good manufacturing practice (GMP) and due to investments in new plant and machinery leading to increased depreciation costs. As a consequence of these investments, cost of goods sold was £10.9 million (2007: £10.1 million), an increase of 8% over the previous year.

Investments in restructuring the German sales infrastructure increased the marketing and promotion spend, the main component of distribution costs, by 14% to £12.9 million (2007: £11.3 million). Administrative expenses have increased by 25% to £6.6 million (2007: £5.3 million) due mainly to the inclusion of the cost of financial derivatives under IFRS. As the development programme for Pollinex Quattro neared its end, R&D costs have decreased by 36% to £16.3 million (2007: £25.3 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 world-wide basis the Group recorded an operating loss on ordinary activities of £15.6 million (2007: loss £26.3 million). However, before research and development costs, the operating profit including milestones was £0.7 million (2007: loss of £0.9 million), which allows for a more reasonable appreciation of the improvement of the core business performance this year.

Taxation

As a result of its investment in research and development, the Company has benefited in the past 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. The last R&D tax credit has been received for the year ended 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 remained above the 250 threshold. The Budget proposals were approved by the European Commission in July 2008 and the Company should be able to make a claim for R&D tax credits for the period beginning 1 August 2008, subject to meeting the relevant criteria for the period ended June 2009.

The Group in total has losses to carry forward of £59 million (2007: £39 million), although in Germany it is likely that corporation taxes will fall due before other entities in the Group.

Net assets

Due primarily to investments in R&D the balance sheet had net liabilities at 30 June 2008 of £11.3 million (2007, assets: £8.6 million), a decrease of £19.9 million.

Capital expenditure on tangible fixed assets in the year was £2.3 million (2007: £2.9 million); contributing to the increase in the value of tangible fixed assets to £6.9 million from £5.5 million. The main component of this spend is the improvement to the manufacturing plant for the production of Pollinex Quattro.

Stock values increased by 18% during the year to £5.8 million (2007: £4.9 million) following the strategy, initiated the year before last to maintain supply to markets, resulted in higher levels of key stock items held, and also because the strategic investment in manufacturing is increasing stock costs in general.

Creditors falling due within 1 year were lower at the year end by 26% to £8.1 million (2007: £10.9 million), primarily due to a decrease in accruals and trade creditors relating to development activities at the end of the year offset by an increase in short term borrowings.

Capital structure

The Group finances its operations through cash generated from its core business and bank lines. The Group arranged a senior debt facility with its bank, RBS, in May 2007 for Euro €10m to be drawn down over a two year period conditional upon the operating business performance. The balance drawn at the year end was €3.1.6m.

The Group's funding requirements depend on a number of factors, including the Group's product development programmes, which began to decrease in activity this year and are set to decrease further in the following financial year.

Cash flows

As at the 30 June 2008 cash totalled £2.3 million, a decrease of £3.4 million from £5.7 million at 30 June 2007 due primarily to the significant investment in the year in the R&D programme. For the year, net cash used in operations amounted to £19.1 million (2007: £20.7 million).

Ian Postlethwaite
Finance Director
22 September 2008

Directors' Report

The Directors present their annual report and the audited financial statements for the 12 months ended 30 June 2008. 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 £20,297k (2007: £23,256k). The results for the year are set out on page 26 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 4 and 5 and the Financial Review on pages 14 to 15 and are incorporated in the Directors' Report by reference.

Fair review of the Company's business

Turnover in the year increased to £31.0 million compared to £25.7 million in the previous year, an increase of 21%.

Operating profit before development costs, which reflects the performance of the core business, was £0.7 million compared to a loss of £(0.9) million in the previous year, the increased profit a consequence primarily of higher sales partly offset by smaller increases in operating expenses.

Staff turnover in the UK during the year was 13.4% (2007: 15.2%), compared to an average UK staff turnover rate of 19.2% (2007: 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. The clinical hold imposed by the FDA on Pollinex Quattro last year remains as part of a wider ongoing investigation into adjuvant technologies. A key risk facing the Company with respect to new development in the United States is whether the clinical hold is lifted and if so, on what terms. The registration of Pollinex Quattro in Europe, however, remains a key priority and is continuing.

Product liability risk

Despite extensive product testing prior to market launch, products may produce unanticipated adverse side effects that may hinder their marketability. The Group may be insufficiently covered for any potential litigation which in some cases can potentially be open-ended. The Group's manufacturing facilities and those of some of its suppliers are subject to regulatory requirements and there is a risk that such facilities may not comply with such requirements.

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, will hinder or cease production for some of it products.

Economic risks

A high level of risk is attached to the research, development and commercialisation of innovative 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. The Group may be unable to attract partners or licencees on favourable terms or recruit the right staff to help develop and market its products. Approximately 70% of Group sales are made in Germany and therefore Group results are sensitive to German legislation and government policies.

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 review the financial requirements of the Group on a regular basis to preserve a routine level of investment. Currency risk is regularly reviewed and currency hedging is initiated when and where appropriate.

Financial risk management objectives and policies
Note 23 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 25% over the previous year. In R&D, the Phase III Pollinex Quattro Grass trial was the largest ever allergy study performed, providing encouraging results.

Position of the Company's business at the end of the year
The implementation of commercial and marketing initiatives across all territories has helped to maintain and strengthen the Group's robust, profitable core business. Successful Phase III results for Pollinex Quattro Grass will form the basis of a submission for registrations within Europe allowing the Group to focus on European markets and further strengthen its core business. However, the Group's R&D programme is well-placed to continue US trials once the clinical hold is lifted and partner funding has become available.

Main trends and factors likely to affect the future development performance and position of the Company's business
Allergy remains a fast growing market with largely unmet market needs. The allergy 'epidemic' continues to grow and it is increasingly recognised that for many suffering from hayfever, it is far from being a trivial matter. There are currently very few competitors in the niche market in which the Group performs with none at such advanced stages of product development. The Board is confident in achieving European registration for Pollinex Quattro Grass following its successful Phase III trial and expects further expansion of product sales worldwide.

Environmental matters
The Board is committed to minimising the Group's impact on the environment and ensuring compliance with environmental legislation. The Board considers that its activities have a low environmental impact. 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 and is committed to achieving equality of opportunity in all employment practices. A thorough review of all employees is performed annually to identify and promote areas that require development and growth; feedback is encouraged and sought. Staff are motivated by performance related incentives, which help to attract and retain the right people, and are encouraged to achieve business targets through market-rate pay, performance based bonuses and LTIPs. The Board is committed to the retaining of staff as a high priority for the Group and implementing well balanced, challenging incentives makes this possible. Training and development appropriate to individual and business needs is offered and remuneration for professional development is considered on a case by case basis.

Information about persons with whom the Company has contractual or other arrangements which are essential to the business of the Company
The Company uses consultants on a limited contractual basis and where needs arise fills posts with full time qualified personnel.

Directors and Directors' interests
The Directors who held office during the period were as follows:

		Date of appointment
Ignace Goethals	Non-executive Chairman	8 September 2004
Keith Carter	Chief Executive Officer	1 July 2004
Christian Grätz	Market Operations Director	8 September 2004
Thomas Holdich	R&D Director	8 September 2004
Ian Postlethwaite	Finance Director	1 July 2004
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.

Mr Ignace Goethals and Dr Christian Grätz retire by rotation in accordance with the Articles of Association and, being eligible, offer themselves for re-election at the forthcoming Annual General Meeting.

Directors' Report continued

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+LTIPs	Ordinary Shares	Options+LTIPs
Ignace Goethals*	1,797,912	1,150,000	1,897,912	1,150,000
Keith Carter*	2,597,669	2,492,500	3,172,669	1,862,654
Christian Grätz	404,658	2,581,000	510,658	2,539,986
Thomas Holdich	–	655,000	–	698,471
Ian Postlethwaite	–	3,875,000	–	3,844,690
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 6 September 2008 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
Fidelity International Limited	12,140,577	14.81
Smithkline Beecham Biologicals Manufacturing S.A	10,118,748	12.35
M&G Investment Management	5,000,000	6.10
Invesco	4,162,645	5.08
Dr Piyush Patel	3,600,000	4.39
Keith Carter (including shares held by APIC Trustees Limited)*	3,172,669	3.87
Universities Staff Superannuation Fund	2,907,260	3.55
Axa Framlington Investment Management	2,679,554	3.27
Spark Ventures	2,674,195	3.26
Hermes Pensions Management Limited	2,511,761	3.06

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

Changes to interest in own shares

During the year the Company allocated 740,378 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.

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 page 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 other 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 Human Resources manager takes the minutes of the meeting and acts as an employee representative. It 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 22 to 24.

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 periodically of the Company's subsidiaries in the UK, Germany, Austria, Italy and Spain. The Group also has a budgeting and reporting system in place with results compared to budget, variance analysis and re-forecasting of projected results.

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 the 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 are to 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 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.

Research and development

The Group will continue its policy of investment in research and development although this will be at a lower level of spend than that seen in previous years, in order to improve its competitive position in the market. In accordance with International Accounting Standards, during the year the Group expensed to the income statement £16.3 million (2007: £25.3 million) in the year ended 30 June 2008 on research and development. Further details on the Group's research and development are included in the Chief Executive's Review on pages 4 and 5.

Going concern

The Group incurred losses for the financial years ended 30 June 2007 and 2008 primarily as a consequence of its investment in research and development activities; these losses have been funded by equity issues, debt facilities and cash generated by the operating business.

The Group has prepared detailed budgets, including cash flow projections, for the periods ending 30 June 2009 to 30 June 2011. These projections include assumptions on the trading performance of the operating business and the continued availability of the existing debt facilities. 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 and other sensitivities 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 considered and prioritised the actions that could be taken to offset the impact of any shortfall in operating performance.

Directors' Report continued

Market value of land and buildings
Whilst the market values of some properties differ from book values, the Directors believe that the differences are not material.

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 2008 was 28 days (2007: 48 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. The Group does not tolerate any harassment or discrimination.

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 briefings by Directors and 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.

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 and considers health and safety a priority. 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 and 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 – Group financial statements
The Directors are responsible for preparing the Annual Report and the Group financial statements in accordance with applicable United Kingdom law and those International Financial Reporting Standards as adopted by the European Union.

Company law requires the Directors to prepare financial statements for each financial year which present fairly the financial position of the Group and the financial performance and cash flows of the Group for that period. In preparing those financial statements, the Directors are required to:
- select suitable accounting policies and then apply them consistently;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- state that the Group has complied with IFRSs, subject to any material departures disclosed and explained in the financial statements.

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 Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Statement of Directors' responsibilities – Company financial statements
The Directors are responsible for preparing the Company financial statements in accordance with applicable United Kingdom law and regulations.

Company law requires the Directors to prepare financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). 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 those financial statements, the Directors are required to:
- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent; and
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements.

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 Group 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 388(1) 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 22 September 2008.

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 principal 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 2008 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 3-year Plan Cycle. The number of provisional shares awarded to executive directors under the Plan is shown in the Directors' share option table.

(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 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 3-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. 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. The bonus is determined and agreed by the Remuneration Committee in September each year for the preceding financial year.

(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.

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.

							Year ended 30 June 2007	
	Basic salary £	Bonus for the year £	Taxable benefits £	Fees £	Total £	Pension £	Total £	Pension £
Keith Carter	173,000	–	11,170	–	184,170	22,490	201,221	21,483
Ian Postlethwaite	132,450	–	11,137	–	143,587	13,245	147,008	12,225
Christian Grätz	147,023	–	14,628	–	161,651	27,556	158,832	26,154
Tom Holdich	138,437	–	11,170	–	149,607	13,844	157,202	13,219
Ignace Goethals	40,000	–	–	–	40,000	–	40,000	–
Stephen Smith	–	–	–	36,000	36,000	–	36,000	–
Virinder Nohria	38,000	–	–	–	38,000	–	34,500	–
Totals	668,910	–	48,105	36,000	753,015	77,135	774,763	73,081

Directors' Remuneration Report continued

Directors' share options

	Options held at 1st July 2007	Options granted in the year	Options exercised in the year	Options lapsed in the year	Options held at 30th June 2008	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	–	575,000	–	175,000	5.0	18/12/2002	18/12/2012
	450,000	–	–	–	450,000	45.0	26/02/2005	26/02/2014
	600,000	–	–	400,002	199,998	100.4	08/03/2008	08/03/2015
	*14,609	–	–	–	14,609	0.64	01/03/2009	01/09/2009
	**342,500	345,156	–	–	687,656	–	–	–
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	–	–	200,001	99,999	100.4	03/03/2008	08/03/2015
	*14,609	–	–	–	14,609	0.64	01/03/2009	01/09/2009
	**225,000	169,691	–	–	394,691	–	–	–
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	–	100,000	–	1,400,000	5.0	18/12/2002	18/12/2012
	450,000	–	–	–	450,000	45.0	26/02/2005	26/02/2014
	200,000	–	–	133,334	66,666	100.4	08/03/2008	08/03/2015
	**225,000	198,320	–	–	423,320	–	–	–
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	–	–	133,334	66,666	100.4	08/03/2008	08/03/2015
	**225,000	176,805	–	–	401,805	–	–	–
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	**11,782,718**	**889,972**	**681,000**	**866,671**	**11,125,019**			

* SAYE Scheme
** Long Term Incentive Plan

The aggregate amount of gains made by Directors upon the exercise of share options in the year ended 30 June 2008 was £185,395 (year ended 30 June 2007 £Nil)

At 30 June 2008 the London Stock Exchange market value of shares was 28p per share. The range of values during the period from 1 July 2007 to 30 June 2008 was 25p to 119.5p per share.

Stephen Smith
Chairman, Remuneration Committee
22 September 2008

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

We have audited the Group financial statements of Allergy Therapeutics plc for the period ended 30 June 2008 which comprise the consolidated income statement, the consolidated balance sheet, the consolidated statement of recognised income and expense, the consolidated cash flow statement and notes 1 to 33. These Group financial statements have been prepared under the accounting policies set out therein.

We have reported separately on the parent Company financial statements of Allergy Therapeutics plc for the period ended 30 June 2008.

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 Group financial statements in accordance with United Kingdom law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the Group 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 Group financial statements give a true and fair view and whether the Group financial statements have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Report of the Directors is consistent with the financial statements. The information given in the Report of the Directors includes that specific information presented in the Chairman's Report, Chief Executive's Review, and the Financial Review that is cross referred from the Business Review section of the Report of the Directors.

In addition we report to you if, in our opinion, 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 Group financial statements. The other information comprises only the Chairman's Report, Chief Executive's Review, Financial Review, Report of the Directors 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 Group 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 Group financial statements. It also includes an assessment of the significant estimates and judgments made by the Directors in the preparation of the Group financial statements, and of whether the accounting policies are appropriate to the Group'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 Group 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 Group financial statements.

Opinion

In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Group's affairs as at 30 June 2008 and of its loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Report of the Directors is consistent with the financial statements.

Grant Thornton UK LLP
Registered Auditor
Chartered Accountants
Gatwick
22 September 2008

Consolidated Income Statement

for the year ended 30 June 2008

	Note	Year to 30 June 2008 £'000	Year to 30 June 2008 £'000	Year to 30 June 2007 £'000	Year to 30 June 2007 £'000
Revenue	3		**31,022**		25,742
Cost of sales			**(10,865)**		(10,068)
Gross profit			**20,157**		15,674
Distribution costs			**(12,852)**		(11,312)
Administration expenses – other		**(6,640)**		(5,326)	
Research and development costs		**(16,300)**		(25,343)	
Administration expenses			**(22,940)**		(30,669)
Other income			**42**		32
Operating loss			**(15,593)**		(26,275)
Finance income	9		**201**		647
Finance expense	8		**(4,852)**		(131)
Loss before tax			**(20,244)**		(25,759)
Income tax	10		**(53)**		2,503
Loss for the period	28		**(20,297)**		(23,256)
Loss per share					
Basic & diluted (pence per share)	12		**(24.8p)**		(28.4p)

Consolidated Balance Sheet

	Note	30 June 2008 £'000	30 June 2007 £'000
Assets			
Non-current assets			
Property, plant and equipment	15	**6,883**	5,486
Intangible assets – Goodwill	13	**2,468**	2,295
Intangible assets – Other	14	**1,073**	1,159
Investments	16	**1,400**	1,011
Derivative financial instruments	23	**42**	–
Total non-current assets		**11,866**	9,951
Current assets			
Trade and other receivables	18	**3,199**	3,373
Derivative financial instruments	23	**3**	63
Inventories	17	**5,817**	4,911
Cash and cash equivalents	19	**2,298**	5,696
Total current assets		**11,317**	14,043
Total assets		**23,183**	23,994
Liabilities			
Current liabilities			
Trade and other payables	20	**(4,760)**	(10,802)
Current borrowings	21	**(2,422)**	–
Derivative financial instruments	23	**(923)**	(62)
Total current liabilities		**(8,105)**	(10,864)
Net current assets		**3,212**	3,179
Non current liabilities			
Retirement benefit obligation	25	**(2,324)**	(2,182)
Non current borrowings	21	**(23,413)**	(2,161)
Derivative financial instruments	23	**(382)**	–
Non current provisions	22	**(249)**	(191)
Total non current liabilities		**(26,368)**	(4,534)
Total liabilities		**(34,473)**	(15,398)
Net (liabilities)/assets		**(11,290)**	8,596
Equity			
Capital and reserves			
Issued capital	26	**92**	92
Share premium	28	**33,173**	33,173
Merger reserve – shares issued by subsidiary	28	**40,128**	40,128
Reserve – shares held by EBT	28	**(1)**	(36)
Reserve – share based payments	28	**1,031**	675
Revaluation reserve	28	**165**	226
Foreign exchange reserve	28	**(628)**	(133)
Retained earnings	28	**(85,250)**	(65,529)
Total equity		**(11,290)**	8,596

These financial statements were approved by the Board of Directors on 22 September 2008 and were signed on its behalf by:

K Carter
Chief Executive Officer

I Postlethwaite
Finance Director

Consolidated Statement of Recognised Income and Expense

	Year to 30 June 2008 £'000	Year to 30 June 2007 £'000
Loss for the period	**(20,297)**	(23,256)
Actuarial gain on defined benefit pension scheme	**576**	133
Exchange differences on translation of foreign operations	**(495)**	(133)
Revaluation (losses)/gains	**(61)**	163
Total recognised income and (expense)	**(20,277)**	(23,093)

Consolidated Cash Flow Statement

	Note	Year to 30 June 2008 £'000	Year to 30 June 2007 £'000
Cash flows from operating activities			
Loss before tax		**(20,244)**	(25,759)
Adjustments for:			
Foreign exchange gain	28	**(495)**	(133)
Finance income	9	**(201)**	(647)
Finance expense	8	**1,972**	131
Revaluation loss on loan	8	**2,880**	0
Non cash movements on defined benefit pension plan		**158**	140
Depreciation and amortisation	14,15	**1,159**	955
Charge for share based payments		**356**	369
Financial derivative instruments		**1,261**	(40)
Disposal of property, plant and equipment		**(1)**	22
Decrease in trade and other receivables	18	**174**	204
Increase in inventories	17	**(906)**	(1,260)
(Decrease)/increase in trade and other payables		**(5,246)**	5,321
Net cash used in operations		**(19,133)**	(20,697)
Interest paid		**(136)**	(5)
Income tax (paid)/refunded	10	**(53)**	2,503
Net cash used in operating activities		**(19,322)**	(18,199)
Cash flows from investing activities			
Interest received		**201**	647
Investments	16	**(256)**	(191)
Payments for intangible assets		**(151)**	(291)
Payments for property plant and equipment		**(2,472)**	(2,818)
Net cash used in investing activities		**(2,678)**	(2,653)
Cash flows from financing activities			
Proceeds from issue of equity shares	28	**35**	24
Net proceeds from borrowings		**20,411**	3,342
Bank loan fees and interest paid		**(1,844)**	(678)
Net cash generated by financing activities		**18,602**	2,688
Net decrease in cash and cash equivalents		**(3,398)**	(18,164)
Cash and cash equivalents at the start of the period		**5,696**	23,860
Cash and cash equivalents at the end of the period	19	**2,298**	5,696

Notes to the Financial Statements

1. Basis Of Preparation

First year reporting under IFRS

The Group's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) in issue as adopted by the European Union ('EU') and applied in accordance with the Companies Act 1985. This is the first annual reporting date at which we are required to use IFRS adopted by the EU.

Allergy Therapeutics plc's financial statements were prepared in accordance with United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) until 30 June 2007. The transition date to IFRS for the Group was 1 July 2006. The comparative figures in respect of the year ended 30 June 2007 have been restated to reflect changes in accounting policies as a result of adoption of IFRS. The disclosures required by IFRS 1 concerning the transition from UK GAAP to IFRS are given in the reconciliation schedules, presented and explained in note 33.

The consolidated financial statements have been prepared under the historical cost convention except for derivative financial instruments that have been measured at fair value.

Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group in the 30 June 2008 financial statements

At the date of authorisation of these financial statements, certain new Standards, amendments and interpretations to existing standards have been published but are not yet effective. The Group has not adopted any of these pronouncements early. The new Standards, amendments and Interpretations that are expected to be relevant to the Group's financial statements are as follows:

IAS 1 Presentation of Financial Statements (Revised 2007) (effective for reporting periods beginning on or after 1 January 2009)

This amendment affects the presentation of owner changes in equity and introduces a statement of comprehensive income. Preparers will have the option of presenting items of income and expense and components of other comprehensive income either in a single statement of comprehensive income with subtotals, or in two separate statements (a separate income statement followed by a statement of other comprehensive income). This amendment does not affect the financial position or results of the Group but will give rise to additional disclosures. Management is currently assessing the detailed impact of this amendment on the Group's financial statements.

IAS 23 (Revised) Borrowing Costs (effective for accounting periods beginning on or after 1 January 2009)

The option to recognise immediately, as an expense, the borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale is removed. All borrowing costs thus arising must therefore be capitalised. Management is currently assessing the detailed impact of this amendment on the Group's financial statements.

IFRS 3 Business Combinations (Revised 2008) and IAS 27 Consolidated and Separate Financial Statements (Revised 2008) (effective for reporting periods beginning on or after 1 July 2009)

The revised Standards introduce major changes to the accounting treatment for business combinations, transactions with non-controlling interests (a new term for minority interests) and a loss of control of a subsidiary. Management are currently assessing the detailed impact of this amendment on the Group's financial statements.

IFRS 8 Operating segments (effective for reporting periods beginning on or after 1 January 2009)

This IFRS specifies how an entity should report information about its operating segments in its financial statements. Generally, financial information is required to be reported on the same basis as is used internally for evaluating operating segment performance and deciding how to allocate resources to operating segments. Implementation of this standard is expected to increase the number of reportable segments as well as the manner in which the segments are reported. i.e in a manner that is consistent with the internal reporting provided to the chief operating decision-maker. As goodwill is allocated to groups of cash generating units based on segment level, the change will also require the reallocation of goodwill to the newly identified operating segments. Management does not anticipate that this will result in any material impairment of goodwill.

IFRIC 14 – IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (effective 1 January 2008)

This IFRIC addresses the interaction between minimum funding requirements (which are commonly imposed by laws and regulations in some jurisdictions) and the measurement of a defined benefit asset. Management are currently assessing the detailed impact of this amendment on the Group's financial statements.

IFRS 2 amendment to share based payments.

Management are currently assessing the detailed impact of this amendment on the Group's financial statements.

Management anticipate that all the above pronouncements will be adopted in the Group's financial statements for the period beginning 1 January 2009.

Other new Standards and Interpretations have been issued but are not expected to have a material impact on the Group's financial statements.

1. Basis Of Preparation continued

Going concern

The Group incurred losses for the financial years ended 2007 and 2008 primarily as a consequence of its investment in research and development activities; these losses have been funded by equity issues, debt facilities and cash generated by the operating business.

The Group has prepared detailed budgets, including cash flow projections, for the periods ending 30 June 2009 to 30 June 2011. These projections include assumptions on the trading performance of the operating business and the continued availability of the existing debt facilities. 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 and other sensitivities 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 considered and prioritised the actions that could be taken to offset the impact of any shortfall in operating performance.

2. Accounting policies

Consolidation

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

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

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

Goodwill

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

Intangible assets

Acquired as part of a business combination

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

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

Internally generated intangible assets

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

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

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

Notes to the Financial Statements continued

2. Accounting policies continued

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

Manufacturing know-how	15 years
Non-competing know-how	4 years
Other intangibles	15 years
Computer software	7 years

These periods were selected to reflect the various assets' useful economic lives to the Group.

The cost of amortising intangible assets is included within administration costs on the consolidated income statement.

Segmental reporting

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

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

Foreign currency translation

Functional and presentational currency

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

Transactions and balances

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

Group companies

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

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

On consolidation, exchange differences arising from the translation of the net investment in foreign entities are taken to equity. The Group has taken advantage of the exemption in IFRS 1 which allows all foreign exchange differences on consolidation to be set at zero at transition and the foreign exchange reserve therefore only shows post transition foreign exchange differences.

Income recognition

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

Sale of goods

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

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

Royalties

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

2. Accounting policies continued

Milestones

Revenues with performance milestones are received from our licensee in Canada and are treated as royalties. These are recognised on the satisfactory occurrence of critical events as pre-defined in the relevant agreement.

Expenditure recognition

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

Borrowing costs

All borrowing costs are expensed to the income statement on an accruals basis using the effective interest method.

Property, plant and equipment

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

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

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

Assets under course of construction are capitalised but not depreciated. Once the asset is ready for use, it is transferred to the relevant heading and depreciated accordingly.

Impairment

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

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

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

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

Inventories

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

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

Leases

Operating lease rentals are charged to the income statement over the term of the lease. There are no finance leases.

Notes to the Financial Statements continued

2. Accounting policies continued

Financial assets

Financial assets consist of cash and other receivables. Financial assets are assigned to their different categories by management on initial recognition, depending on the contractual arrangements.

Cash and cash equivalents comprise cash on hand, demand deposits and overdrafts, together with other short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

All financial assets are recognised when the Group becomes a party to the contractual provisions of the instrument and are initially recognised at fair value plus transaction costs, and subsequently at amortised cost.

Derecognition of financial assets occurs when the rights to receive cash flows from the investments expire or are transferred and substantially all of the risks and rewards of ownership have been transferred. An assessment for impairment is undertaken at least at each balance sheet date whether or not there is objective evidence that a financial asset or a group of financial assets is impaired.

Financial liabilities

The Group's financial liabilities include bank loans, trade and other payables.

Financial liabilities are recognised when the Group becomes a party to the contractual agreements of the instrument. All interest related charges are recognised as an expense in 'Finance costs' in the income statement.

Trade and other payables are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method.

Borrowings comprise secured bank borrowings, and are initially recognised at the fair value of the consideration received net of issue costs associated with the borrowings. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate method.

Derivative financial instruments

The Group uses interest rate swaps, Euro forward contracts and Euro exchange swaps to manage the exposure to changes in interest and translation rates and these are classified as derivative financial instruments. All derivative financial instruments are initially measured at fair value on acquisition and are subsequently restated to fair value at each reporting date. Any change in the fair value of the instruments is recognised in the Income Statement.

Equity

Equity comprises the following:

- 'Issued capital' represents the nominal value of equity shares that have been issued.
- 'Share premium' represents the excess over nominal value of the fair value of consideration received for equity shares, net of expenses of the share issue.
- 'Merger reserve' represents shares issued by the subsidiaries.
- 'Reserve – Shares held in EBT' represent the shares acquired by a trust set up for the benefit of the Group's employees. These shares are deducted from shareholders funds at the cost that the shares were acquired. The net proceeds received from the issue of these shares through the exercise of options are also recognised through this reserve.
- 'Share based payments reserve' represents equity-settled share-based employee remuneration until such share options are exercised.
- 'Revaluation reserve' represents the revaluations of investment assets.
- 'Foreign Exchange reserve' represents the foreign currency translation differences that have occurred since the transition date. Exchange differences prior to this date are included within retained earnings.
- 'Retained earnings' represents retained profits and losses.

Equity is any contract which evidences a residual interest in the assets of the Group after deducting all its liabilities.

Income taxes

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

Deferred income taxes are calculated using the liability method on temporary differences. Deferred tax is generally provided on the difference between the carrying amounts of assets and liabilities and their tax bases. However, deferred tax is not provided on the initial recognition of goodwill, nor on the initial recognition of an asset or liability unless the related transaction is a business combination or affects tax or accounting profit. Deferred tax on temporary differences associated with shares in subsidiaries and joint ventures is not provided if reversal of these temporary differences can be controlled by the Group and it is probable that reversal will not occur in the foreseeable future. In addition, tax losses available to be carried forward as well as other income tax credits to the Group are assessed for recognition as deferred tax assets.

2. Accounting policies continued

Deferred tax liabilities are provided in full, with no discounting. Deferred tax assets are recognised to the extent that it is probable that the underlying deductible temporary differences will be able to be offset against future taxable income. Current and deferred tax assets and liabilities are calculated at tax rates that are expected to apply to their respective period of realisation, provided they are enacted or substantively enacted at the balance sheet date.

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

Defined Benefit Pension Scheme

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

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

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

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

Investments

Investments relate to long-term insurance policies that cannot be directly deducted from the German pension obligation. These are recognised as a separate asset, rather than as a deduction in determining the defined benefit liability.

Provisions

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

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

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

Share based employee compensation

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

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

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

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

Employee Benefit Trust

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

Notes to the Financial Statements continued

2. Accounting policies continued

Use of accounting estimates and judgements

Many of the amounts included in the financial statements involve the use of judgement and/or estimation. These judgements and estimates are based on management's best knowledge of the relevant facts and circumstances, having regard to prior experience, but actual results may differ from the amounts included in the financial statements. Information about such judgements and estimation is contained in the accounting policies and/or the notes to the financial statements and the key areas are summarised below:

Judgements in applying accounting policies

a) Identification of functional currencies requires analysis of the economic environments of the subsidiaries of the Group and the selection of the presentational currency must reflect the requirements of the users of those statements.
b) During the year the Group earned milestone payments to the value of £2,701k (2007: £1,250k). This has been recognised as revenue because it is considered that a significant milestone has been reached for which the earnings process, based on cumulative sales, has been completed.
c) Capitalisation of development costs requires analysis of the technical feasibility and commercial viability of the project concerned. Capitalisation of the costs will be made only where there is evidence that an economic benefit will accrue to the Group. To date no development costs have been capitalised and all costs have been expensed in the Income statement as research and development expenditure, £16.3 million (2007: £25.3 million)

Sources of estimation uncertainty

a) Depreciation rates are based on estimates of the useful lives and residual values of the assets involved.
b) Estimates of future profitability are required for the decision whether or not to create a deferred tax asset.
c) Estimates are required as to asset carrying values and impairment charges.
d) Determining whether goodwill is impaired requires an estimation of the value in use of the cash generating unit to which the goodwill has been allocated. This value in use calculation requires an estimation of the future cash flows expected to arise from the cash generating unit and a suitable discount rate in order to calculate the present value.

3. Revenue

An analysis of revenue by category is set out in the table below:

	2008 £'000	2007 £'000
Sale of goods	**26,476**	22,745
Royalties	**1,845**	1,747
Milestones	**2,701**	1,250
	31,022	25,742

4. Segmental reporting

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

The Group's secondary reporting segments are based on geographical location of customers for the Group's products. The following table provides a breakdown of the Group's sales by geographical market irrespective of the origin of the products and are shown net of inter-segmental sales of £23,602k (2007: £20,825k):

	Year to 30 June 2008 £'000	Year to 30 June 2007 £'000
Germany	**20,596**	17,069
Rest of Europe	**6,763**	6,505
North America	**3,346**	1,845
Asia	**317**	323
	31,022	25,742

4. Segmental reporting continued

The following table provides a breakdown of the Group's sales by the country of origin of the products sold:

	Year to 30 June 2008 £'000	Year to 30 June 2007 £'000
Germany	**20,596**	17,281
Rest of Europe	**4,734**	4,176
UK	**5,692**	4,285
	31,022	25,742

The following analysis shows the carrying value of the assets, excluding cash and cash equivalents, and the additions to those assets in each of the segments:

	Carrying amount of segment assets		Additions to property, plant & equipment and intangible assets	
	Year to 30 June 2008 £'000	Year to 30 June 2007 £'000	Year to 30 June 2008 £'000	Year to 30 June 2007 £'000
Germany	**3,511**	2,753	**96**	54
Rest of Europe	**1,539**	1,387	**19**	46
UK	**15,835**	14,158	**2,289**	3,067
	20,885	18,298	**2,404**	3,167

5. Loss before tax

	2008 £'000	2007 £'000
Loss for the period has been arrived at after charging/(crediting):		
Foreign exchange loss	**495**	133
Depreciation and amortisation:		
Depreciation of property plant and equipment (note 15)	**909**	731
Amortisation of intangible assets (note 14)	**250**	224
Research and development	**16,300**	25,343
Employee benefits expense:		
Employee costs (Note 7)	**14,092**	12,357
Land and buildings held under operating leases	**387**	350
Other operating leases	**448**	382
Audit and non-audit services:		
Fees payable to the Company's auditor for the audit of the Group accounts	**25**	13
Fees payable to the Company's auditor and its associates for other services:		
The audit of the Company's subsidiaries pursuant to legislation	**97**	79
Tax services	**(6)**	17
Other services pursuant to legislation	**31**	60
Share based payment expense (note 27)	**356**	369

6. Remuneration of key management personnel

	2008 £'000	2007 £'000
Salaries and short-term employee benefits	**753**	775
Post employment benefits – defined benefit plans	**28**	26
Post employment benefits – defined contribution plans	**49**	47
Share based payment	**194**	193
	1,024	1,041

Notes to the Financial Statements continued

7. Employees

	2008 £'000	2007 £'000
Employee costs:		
Wages and salaries	11,611	10,015
Social security costs	1,713	1,553
Share based payments	356	369
Pension costs – defined benefit plans	204	243
Pension costs – defined contribution plans	208	177
	14,092	12,357
The average number of employees during the period was made up as follows:		
R&D, marketing and administration	126	124
Sales	69	61
Production	167	149
	362	334

8. Finance expense

	2008 £'000	2007 £'000
Interest on borrowing facility	1,724	0
Bank interest	120	29
Employee defined benefit scheme interest expense	128	102
Other charges	2,880	0
	4,852	131

Other charges represent the revaluation of the Euro borrowing facility

9. Finance income

	2008 £'000	2007 £'000
Bank interest	201	647

10. Income tax expense

	2008 £'000	2007 £'000
Current Tax:		
Corporation tax on loss for the period	–	–
Prior period tax	–	(2,503)
Overseas tax	53	–
Tax charge/(credit) for the period	53	(2,503)

The tax assessed for the period is lower than the standard rate of corporation tax as applied in the respective trading domains where the Group operates. The differences are explained below:

	2008 £'000	2007 £'000
Loss for the period before tax	(20,244)	(25,759)
Loss for period multiplied by the respective standard rate of corporation tax applicable in each domain (average 30%).	(5,972)	(7,728)
Effects of:		
Disallowable expenses	365	59
Capital allowances in excess of depreciation	(228)	(139)
Other fixed asset timing differences, adjustments and movements	51	–
Tax loses (utilised)	(349)	(215)
Allowances for R&D expenditure	(55)	(75)
Tax losses not utilised	6,266	8,110
Adjustment for difference tax rates	32	–
Relief for shares acquired by employees and Directors	(57)	(12)
Tax loss surrendered to R&D tax credit	–	(2,503)
Tax charge/(credit) for the period	53	(2,503)

11. Unrecognised deferred tax

	2008 Deferred tax assets £'000	2008 Deferred tax liabilities £'000	2007 Deferred tax assets £'000	2007 Deferred tax liabilities £'000
Non Current Assets				
Property, plant and equipment	–	(520)	–	(378)
Derivative financial instruments	258	–	19	–
Non Current Liabilities				
Pension and other employee obligations	270	–	351	–
Derivative financial instruments	107	–	–	–
Unused tax losses	16,458	–	11,688	–
	17,093	(520)	12,058	(378)
Offset	(520)	520	(378)	378
Total	16,573	–	11,680	–

No deferred tax has been provided for in respect of these temporary differences.

There is also an unrecognised deferred tax asset in respect of share based payments for £Nil (2007: £950k).

12. Loss per share

	2008 £'000	2007 £'000
Loss for the period attributable to equity shareholders	(20,297)	(23,256)

	2008 Shares '000	2007 Shares '000
Issued ordinary shares at start of the period	81,951	81,951
Ordinary shares issued in the period	–	–
Issued ordinary shares at end of the period	81,951	81,951
Weighted average number of shares in issue for the period.	81,951	81,951
Basic and diluted loss per share (pence)	(24.8p)	(28.4p)

The diluted loss per share does not differ from the basic loss per share as the exercise of share options would have the effect of reducing the loss per share and is therefore not dilutive under the terms of IAS 33.

13. Goodwill

	2008 £'000	2007 £'000
At 1 July	2,295	2,326
Exchange difference	173	(31)
At 30 June	2,468	2,295

For the purposes of impairment testing of goodwill, the Directors recognise the Group's Cash Generating units ('CGU') to be the following:

	2008 £'000	2007 £'000
Germany	2,468	2,295

The recoverable amount for the cash-generating unit above was determined based on a value-in-use calculation, covering a detailed three-year forecast of future cash flows using budgeted projections assuming a 12% discount rate reflecting the Group's weighted average cost of capital.

The Group's management's key assumptions include sales growth, which has been determined based on past experience in this market. The Group's management believes that this is the best available input for forecasting this mature market.

Apart from the considerations described in determining the value in use of the cash generating unit described above, the Group's management is not currently aware of any other probable changes that would necessitate changes in its key estimates.

At each half-year end the Directors have reviewed the goodwill for possible impairment and concluded that no impairment provision is required.

Notes to the Financial Statements continued

14. Intangible assets

	Manufacturing know-how £'000	Non-competing know-how £'000	Other intangibles £'000	Computer software £'000	Total £'000
Cost					
At 1 July 2006	1,000	3,046	960	788	5,794
Additions	–	–	–	291	291
Foreign exchange	–	(68)	(6)	(13)	(87)
At 30 June 2007	1,000	2,978	954	1,066	5,998
Additions	–	–	–	151	151
Foreign exchange	–	438	38	60	536
At 30 June 2008	**1,000**	**3,416**	**992**	**1,277**	**6,685**
Amortisation					
At 1 July 2006	537	3,046	594	525	4,702
Charge for the year	63	–	52	109	224
Foreign exchange	–	(68)	(6)	(13)	(87)
At 30 June 2007	600	2,978	640	621	4,839
Charge for the year	67	–	51	132	250
Foreign exchange	–	438	36	49	523
At 30 June 2008	**667**	**3,416**	**727**	**802**	**5,612**
Net book value					
At 1 July 2006	463	–	366	263	1,092
At 30 June 2007	400	–	314	445	1,159
At 30 June 2008	**333**	**–**	**265**	**475**	**1,073**

15. Property, plant and equipment

	Plant & machinery £'000	Fixtures & fittings £'000	Motor vehicles £'000	Computer equipment £'000	Assets under course of construction £'000	Freehold land & buildings £'000	Total £'000
Cost or valuation							
At 1 July 2006	2,941	1,960	8	2,302	–	270	7,481
Additions	1,300	972	12	592	–	–	2,876
Foreign exchange	(2)	(10)	–	(5)	–	(7)	(24)
Disposals	(60)	(2)	(4)	(1,318)	–	–	(1,384)
At 30 June 2007	4,179	2,920	16	1,571	–	263	8,949
Additions	424	420	–	228	1,182	–	2,254
Asset reclassification	(647)	(7)	–	(267)	921	–	–
Foreign exchange	14	76	–	14	–	46	150
Disposals	6	(3)	–	–	–	–	3
At 30 June 2008	**3,976**	**3,406**	**16**	**1,546**	**2,103**	**309**	**11,356**
Depreciation							
At 1 July 2006	1,383	563	7	1,939	–	215	4,107
Charge for the year	272	292	2	134	–	31	731
Foreign exchange	(1)	(5)	–	(2)	–	(6)	(14)
Disposals	(38)	(2)	(4)	(1,317)	–	–	(1,361)
At 30 June 2007	1,616	848	5	754	–	240	3,463
Charge for the year	276	420	3	184	–	26	909
Foreign exchange	9	45	–	3	–	42	99
Disposals	5	(3)	–	–	–	–	2
At 30 June 2008	**1,906**	**1,310**	**8**	**941**	**–**	**308**	**4,473**
Net book value							
At 1 July 2006	1,558	1,397	1	363	–	55	3,374
At 30 June 2007	2,563	2,072	11	817	–	23	5,486
At 30 June 2008	**2,070**	**2,096**	**8**	**605**	**2,103**	**1**	**6,883**

All assets are secured against the Company's bank borrowings.

16. Investments

The Group carries an insurance policy which is designed to contribute towards the obligation in respect of the defined benefit pension scheme.

	2008 £'000	2007 £'000
At 1 July	1,011	843
Additions	256	191
Gains/(losses) in the investment	133	(23)
	1,400	1,011

17. Inventories

	2008 £'000	2007 £'000
Raw materials and consumables	1,763	1,706
Work in progress	3,620	2,452
Finished goods	434	753
	5,817	4,911

18. Trade and other receivables

	2008 £'000	2007 £'000
Trade receivables	1,956	1,802
Other receivables	447	131
VAT	296	718
Prepayments	500	722
	3,199	3,373

All amounts due as shown above are short-term. The carrying value of trade receivables is considered a reasonable approximation of fair value. All trade and other receivables have been reviewed for indicators of impairment. Certain trade receivables were found to be impaired and a provision of £267k (2007: £57k) has been recorded accordingly. The impaired receivable has arisen due to the non-performance of a supplier to Allergy Therapeutics Italia s.r.l. where an amount of money collected on the Company's behalf was not paid over.

In addition, some of the unimpaired trade receivables are past due as at the reporting date. The age of financial assets past due but not impaired is as follows:

The following financial assets were overdue by:

	2008 £'000	2007 £'000
Trade receivables		
Not more than 3 months	494	463
More than 3 months but not more than 6 months	43	35
More than 6 months but not more than 1 year	229	70
More than one year	8	50
	774	618

19. Cash and cash equivalents

	2008 £'000	2007 £'000
Cash at bank and in hand	2,298	5,696

20. Trade and other payables

	2008 £'000	2007 £'000
Trade payables	2,312	4,612
Social security and other taxes	403	446
Other creditors	292	157
Accrued expenses and deferred income	1,753	5,587
	4,760	10,802

Notes to the Financial Statements continued

21. Borrowings

	2008 £'000	2007 £'000
Due within one year		
Facility borrowing	1,582	–
Short term loan	840	–
	2,422	–
Due after more than one year		
Facility borrowing	22,444	2,161
Long term loan	969	–
	23,413	2,161

The facility borrowing is denominated in Euros and provided by Royal Bank of Scotland plc. The interest on the loan is a floating rate of Euribor plus 2.75%. The loan is secured in favour of The Royal Bank of Scotland plc by means of a debenture over the Group's assets, an Intellectual Property Rights Agreement with Bencard Allergie GmbH and share pledge agreements with Bencard Allergie GmbH, Allergy Therapeutics Italia s.r.l. and Allergy Therapeutics Iberica S.L

22. Provisions

The provision refers to a leaving indemnity reserve in Allergy Therapeutics Italia s.r.l. Under Italian law, alongside each monthly salary payment an amount is paid into this reserve for each employee. When the employee leaves the Company the accrued amount is paid to him in the form of a deferred salary payment.

	£'000
At 1 July 2007	191
Additions in year	58
At 30 June 2008	**249**

23. Financial instruments

Risk management

The Group manages its capital to ensure that entities within the Group will be able to continue as a going concern whilst maximising the return to stakeholders through the effective management of liquid resources raised through share issues and facility loan arrangements. The IAS 39 categories of financial assets and liabilities included in the balance sheet and the headings under which they are shown are as follows:

Categories of financial instrument

	2008 £'000	2007 £'000
Financial assets		
Current		
Fair value through profit and loss	3	63
Loans and receivables (including cash and cash equivalents)	4,997	8,347
Non current		
Fair value through profit and loss	42	–
Loans and receivables (including cash and cash equivalents)	–	–
	5,042	8,410
Financial liabilities		
Current		
At amortised cost (including borrowings and payables)	(6,779)	(10,356)
Fair value through profit and loss	(923)	(62)
Non current		
At amortised cost (including borrowings and payables)	(23,662)	(2,352)
Fair value through profit and loss	(382)	–
	(31,746)	(12,770)

23. Financial instruments continued

Derivative financial instruments

The Group uses derivative financial instruments to mitigate the effects of exchange rate exposure through the use of forward exchange contracts and interest rate volatility through the use of interest rate swap arrangements.

The fair value is calculated by reference to market rates and supported by counterparty confirmation.

Interest rate swap

Although management consider the interest rate swaps as an effective hedging tool they are not formally designated as such. They are arranged to convert 60% of the Company's loan borrowings from floating to fixed rates.

Euro forward contracts

The Group has Euro forward contracts with its bank that are arranged for the sale of €29,309k to purchase GBP at an average blended rate of 1.3306 at future dates from July 2008 to March 2010.

Euro exchange swap

The Group has utilised a Euro exchange swap for the sale of €1,675k to purchase GBP at an average blended rate of 1.259, due for maturity in August 2008.

Derivative of financial instrument

	2008 £'000	2007 £'000
Current assets		
Derivative financial instruments		
– Euro forward contracts – held for trading	–	63
– Euro exchange swap – held for trading	3	–
	3	63
Non current assets		
Derivative financial instruments		
– Interest rate swap – held for trading	42	–
Current liabilities		
Derivative financial instruments		
– Euro forward contracts – held for trading	897	62
– Interest rate swap – held for trading	26	–
	923	62
Non current liabilities		
Derivative financial instruments		
– Euro forward contracts – held for trading	382	–

Foreign currency risk

The Group conducts most of its day to day financial activities in either the Euro, which is the functional currency of the majority of the active subsidiaries, or Sterling. In addition some costs are denominated in US dollars and Canadian dollars.

The Group carries bank balances in the following currencies:

	2008 £'000	2007 £'000
Sterling	1,812	478
Euro	(624)	1,113
US dollars	418	2,199
Canadian dollars	671	1,895
Slovak koruna	13	5
Polish zloty	8	6
	2,298	5,696

Notes to the Financial Statements continued

23. Financial instruments continued

The risks resulting from transaction exposure are mitigated by the use of forward contracts which are managed to eliminate approximately 80% of the exposure on a 12 month basis. Foreign currency denominated financial assets and liabilities, translated into Sterling at closing rates, are as follows:

	2008			2007		
	Sterling £'000	Euro £'000	Other £'000	Sterling £'000	Euro £'000	Other £'000
Financial assets	2,698	1,192	1,110	1,376	2,891	4,143
Financial liabilities	(2,758)	(4,944)	–	(4,261)	(3,168)	(2,989)
Short term exposure	(60)	(3,752)	1,110	(2,885)	(277)	(1,154)
Financial assets	–	42	–	–	–	–
Financial liabilities	(382)	(23,662)	–	–	(2,352)	–
Long term exposure	(382)	(23,620)	–	–	(2,352)	–

The following table illustrates the sensitivity of the net result for the year and the equity of the Group with regard to its financial assets and liabilities and the Euro to Sterling exchange rate.

	2008 £'000	2007 £'000
If Sterling had strengthened against the Euro by 5%		
Net results for the year	895	19
Equity	405	341
	1,300	360
If Sterling had weakened against the Euro by 5%		
Net results for the year	(639)	(19)
Equity	(448)	(377)
	(1,087)	(396)

Interest rate risk

The Group finances its operations through both equity fundraising and bank facilities. The main borrowing facility borrowing is at floating rates of interest with a hedge comprising an interest rate swap covering 60% of the total outstanding which converts floating to fixed rates of interest. The following table illustrates the sensitivity of the net result for the year and equity to possible changes in interest rates of + 1% and – 1%, with effect from the beginning of the year on the remaining element of borrowings. These changes are considered to be reasonable given the current market conditions and the calculations are based on the financial instruments held at each balance sheet date, all other variables being held constant:

	2008		2007	
	£'000 + 1%	£'000 – 1%	£'000 + 1%	£'000 – 1%
Net results for the year	(83)	83	(1)	1
Equity	–	–	–	–
	(83)	83	(1)	1

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. In order to minimise this risk the Group endeavours only to deal with companies which are demonstrably creditworthy and this, together with the aggregate financial exposure, is continuously monitored. The maximum exposure to credit risk is the value of the outstanding amount.

Credit risk on cash and cash equivalents is considered to be small as the counterparties are all substantial banks with high credit ratings. The maximum exposure is the amount of the deposit.

23. Financial instruments continued

Liquidity risk

The Group currently holds substantial cash balances to provide funding for research and production activity. Management continues to have the option to raise funding from the issue of equity shares and, more recently, has raised significant funding through a bank facility to ensure the Group remains able to meet its commitments as they fall due. As at 30 June 2008 the Group's contractual maturities are summarised as follows:

Current liabilities

	2008		2007	
	£'000 Within 6 months	£'000 6 to 12 months	£'000 Within 6 months	£'000 6 to 12 months
Borrowing Facility	–	2,422	–	–
Trade payables	2,506	9	4,603	9
Other short term liabilities	2,245	–	6,190	–
Derivatives	555	368	55	7
	5,306	2,799	10,848	16

Non-current liabilities

	2008		2007	
	£'000 1 to 5 years	£'000 Later than 5 years	£'000 1 to 5 years	£'000 Later than 5 years
Borrowing Facility	23,413	–	2,161	–
Other long term liabilities	–	2,573	–	2,373
Derivatives	382	–	–	–
	23,795	2,573	2,161	2,373

There is no material difference between the fair values and the book values of these financial instruments.

24. Operating lease commitments

The following payments are due to be made on operating lease commitments:

	Land & buildings		Other		Total	
	2008 £'000	2007 £'000	2008 £'000	2007 £'000	2008 £'000	2007 £'000
Within one year	384	293	276	308	660	601
Two to five years	836	818	436	236	1,272	1,054
Over five years	431	517	–	–	431	517
	1,651	1,628	712	544	2,363	2,172

Notes to the Financial Statements continued

25. Retirement benefit obligations

Defined contribution scheme

The Group operates a defined contribution 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 the profits represents the contributions payable under the scheme in respect of the accounting period totalling £208k (2007: £177k).

Defined benefit scheme

The Group operates a defined benefit pension scheme for certain employees in Germany. The actuarial valuation was carried out by Swiss Life Pensions Management GmbH at 30 June 2008. The major assumptions used were as follows:

	2008 % pa	2007 %pa
Retail price inflation	**3.3**	2.0
Salary increases	**4.0**	3.5
Pension increases in payment	**2.0**	2.0
Discount rate at the beginning of the year	**5.0**	4.6
Discount rate at the end of the year	**6.0**	5.0
Expected return on assets	**4.1**	4.1
Increase of social security contribution ceiling	**3.25**	3.25
Average life expectancies		
Male, 65 years of age at the balance sheet date	**18.0**	17.9
Female, 65 years of age at the balance sheet date	**22.2**	22.0
Male, 45 years of age at the balance sheet date	**40.8**	40.6
Female, 45 years of age at the balance sheet date	**44.8**	44.6

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

	2008 £'000	2007 £'000
Fair value of planned assets	**932**	718
Present value of scheme liabilities	**(3,256)**	(2,900)
Deficit in the scheme	**(2,324)**	(2,182)
Experience gains/(losses) on plan assets	**23**	(11)
Experience gains/(losses) on plan liabilities	**201**	(30)

The pension charge generates an unrecognised deferred tax asset of £270k, however this is unrecognised in the Group accounts as there is uncertainty over the recoverability.

	2008 £'000	2007 £'000
Amounts charged to operating loss		
Current service costs	**222**	194
Amounts included in other finance costs		
Expected return on pension scheme assets	**(31)**	(27)
Interest on pension scheme liabilities	**159**	129
Net charge	**128**	102
Amounts recognised in the statement of recognised income and expense		
Actual return less expected return on pension scheme assets	**23**	(11)
Experience gains and losses arising on scheme liabilities	**201**	(30)
Changes in assumptions underlying the present value of scheme liabilities	**352**	174
Total amount relating to year	**576**	133
Opening cumulative (losses)	**(1,101)**	(1,234)
Actuarial loss recognised	**(525)**	(1,101)
Net movement recognised	**(525)**	(1,101)

25. Retirement benefit obligations continued

Movement in deficit during the year

	2008 £'000	2007 £'000
Deficit at 1 July	(2,182)	(2,210)
Foreign currency differences	(444)	127
Current service cost and finance cost	(350)	(296)
Contributions	64	54
Benefits paid	12	10
Actuarial gains	576	133
Deficit at 30 June	(2,324)	(2,182)

The expected contributions over the forthcoming year are £228,000.

History of experience gains and losses

	2008 %	2008 £'000	2007 %	2007 £'000
Scheme assets				
Difference between the expected and actual return	2.6	23	1.5	(11)
Scheme liabilities				
Experience gains and (losses)	6.7	201	1.0	(30)
Changes in assumptions underlying present value		352		174
Total amount recognised	17.7	576	4.6	133

The Group has taken advantage of the exemption from the requirement to disclose the history of experience prior to the date of transition contained within IFRS 1.

26. Issued share capital

	2008 Shares	2008 £'000	2007 Shares	2007 £'000
Authorised share capital				
Ordinary shares of 0.10p each				
1 July and 30 June	790,151,667	790	790,151,667	790
Deferred shares of 0.10p each				
1 July and 30 June	9,848,333	10	9,848,333	10
Issued and fully paid				
Ordinary shares of 0.10p				
At 1 July	81,950,632	82	81,950,632	82
Issued during the year	–	–	–	–
At 30 June	81,950,632	82	81,950,632	82
Issued and fully paid				
Deferred shares of 0.10p				
At 1 July	9,848,333	10	9,848,333	10
Issued during the year	–	–	–	–
At 30 June	9,848,333	10	9,848,333	10
Issued share capital	91,798,965	92	91,798,965	92

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

Notes to the Financial Statements continued

27. Share based payments

The Group has a Savings Related Share Option Plan for the benefit of all employees and Executive Directors with 12 months continuous service. Options granted in 2007/8 are exercisable at a 10% discount to the average market share price on the date of grant. (The 2006 and 2007 schemes carried a 15% discount). 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 end of the vesting period, the options expire. Options are forfeited if the employee leaves the Group before the options vest.

The Group has a Long Term Incentive Plan under which Executive Directors and senior employees may receive annual provisional awards of performance vesting shares. The number of shares that vest depends on the Group'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 Group'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 Group 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 Group'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 the grant, the options expire. Options are forfeited if the employee leaves the Group before the options vest.

The following share based payments were issued during the year:

	Number issued	Exercise Price (£)	Exercise period on or before
LTIP	1,921,165	0.000	01/07/2010
SAYE	632,576	0.306	01/05/2011
	2,553,741		

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 price (WAEP):

	2008 WAEP		2007 WAEP	
	Number	Price (£)	Number	Price (£)
Outstanding at the beginning of the year	**13,064,761**	**0.38**	13,000,273	0.37
Granted during the year	**632,576**	**0.31**	179,358	0.99
Exercised during the year	**(710,206)**	**0.05**	(82,683)	0.30
Forfeited during the year	**(1,533,831)**	**0.98**	(32,187)	0.80
Outstanding at the year end	**11,453,300**	**0.31**	13,064,761	0.38
Exercisable at the year end	**10,362,224**	**0.30**	10,435,218	0.24

Included in the above numbers outstanding at 30 June 2008 are 8,983,191 (2007: 9,751,897) share options granted before 7 November 2002 or vested before 1 July 2006 which have been excluded from the share-based payments charge in accordance with the IFRS 1 'First-time Adoption of International Financial Reporting Standards' transitional provisions.

Options exercised during the year had a weighted average share price at date of exercise of 28p (2007: 112p).

The share options outstanding at the end of the year have a weighted average remaining contractual life of 5.4 years (2007: 5.7 years) and have the following range of exercise prices:

Exercise price (p)	30 June 2008 Number	30 June 2007 Number
0.1–5	**6,260,261**	6,971,967
6–45	**3,194,244**	2,561,668
46–120	**1,998,795**	3,531,126
	11,453,300	13,064,761

27. Share based payments continued

The fair value of options granted under the Savings Related Share Option Plan has been arrived at using the Black-Scholes model. The assumptions made to value options granted were as follows:

Date of grant	Vesting period (yrs)	Date of vesting	Expected life (yrs)	Exercise price (£)	Risk-free rate	Share price at grant (£)	Volatility of share price	Fair value (£)	Number outstanding
10/04/08	3	01/05/11	3.2	0.3060	5%	0.34	41.6%	0.17	632,576
26/03/07	3	01/05/10	3.2	0.9945	5%	1.17	30%	0.41	101,653
11/01/06	3	01/03/09	3.2	0.6400	5%	0.75	30%	0.26	356,847

- Expected volatility was based on historic volatility at the date of grant
- The share-based payment charge assumes an expected option life of 3.2 years, an employee attrition rate of 5% per annum and an early surrender risk of 5% per annum.
- The expected number of shares vesting was 'trued-up' for actual leavers at the balance sheet date.

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

Date of grant	Vesting period (yrs)	Date of vesting	Expected life (yrs)	Exercise price (£)	Risk-free rate	Share price at grant (£)	Volatility of share price	Fair value (£)	Number outstanding
21/12/07	3	04/07/10	3	0.0000	n/a	0.385	n/a	0.385	1,724,536
09/10/06	3	01/07/09	3	0.0000	n/a	1.000	n/a	1.000	818,602
14/12/05	3	14/12/08	3	0.0000	n/a	0.695	n/a	0.695	1,026,459

- Awards granted under the LTIP are valued at the market price at the date of grant.
- The share-based payment charge assumes an employee attrition rate of 5% per annum and a vesting probability of 41.5%.

The Group recognised total expenses of £356,000 (2007: £369,000) related to equity-settled share based payment transactions during the year.

28. Consolidated statement of changes in equity

	Issued capital £'000	Share premium £'000	Merger reserve – shares issued by subsidiary £'000	Reserve – shares held in EBT £'000	Reserve – share based payments £'000	Revaluation reserve £'000	Foreign exchange reserve £'000	Retained earnings £'000	Total equity £'000
At 1 July 2006	**92**	**33,173**	**40,128**	**(60)**	**306**	**63**	**–**	**(42,406)**	**31,296**
Exchange differences on translation of foreign operations							(133)		(133)
Actuarial gains								133	133
Valuation gains taken to equity						163			163
Net income recognised directly in equity						163	(133)	133	163
Loss for the period after tax								(23,256)	(23,256)
Total recognised income and expense						163	(133)	(23,123)	(23,093)
Share based payments					369				369
Sale of shares by Employee Benefit Trust				24					24
At 30 June 2007	**92**	**33,173**	**40,128**	**(36)**	**675**	**226**	**(133)**	**(65,529)**	**8,596**
Exchange differences on translation of foreign operations							(495)		(495)
Actuarial gains								576	576
Valuation losses taken to equity						(61)			(61)
Net income recognised directly in equity						(61)	(495)	576	20
Loss for the period after tax								(20,297)	(20,297)
Total recognised income and expense						(61)	(495)	(19,721)	(20,277)
Share based payments					356				356
Sale of shares by Employee Benefit Trust				35					35
At 30 June 2008	**92**	**33,173**	**40,128**	**(1)**	**1,031**	**165**	**(628)**	**(85,250)**	**(11,290)**

Notes to the Financial Statements continued

29. Contingent liabilities

Allergy Therapeutics (UK) Ltd, a subsidiary of Allergy Therapeutics plc, has guaranteed the deposits required for leases on Group cars and rented office space occupied by a fellow subsidiary, Bencard Allergie GmbH. The amount as at 30 June 2008 was €78,000; £52,000 (2007: €78,000; £52,000).

A cross-guarantee exists between 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.

30. Capital commitments

The Group's capital commitments at the end of the financial period, for which no provision has been made, are as follows:

	30 June 2008 £'000	30 June 2007 £'000
Capital commitments	**1,123**	1,311

Included in the above is £126,000 for ongoing factory refurbishments in the UK (2007: £280,000); £623,000 for new plant and machinery (2007: £854,000) and £374,000 for IT equipment and systems upgrades (2007: £177,000).

31. Related party transactions

Allergy Therapeutics plc's related parties include its subsidiary companies and its key management.

Key management personnel are the Company's directors, and as such full disclosure of their remuneration can be found in the Directors' Remuneration report on page 22.

At 30 June 2008, 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

32. Events after the balance sheet date

There have been no material post-balance sheet events as defined by IAS 10 which would require disclosure or adjustment to the 30 June 2008 Financial Statements.

33. Transition to IFRS

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

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

a) Exemption from the retrospective application of IAS 21 'The effects of changes in foreign exchange rates'. The cumulative foreign exchange translation balance is moved into the retained earnings at the date of transition and any subsequent translation differences recognised under IAS 21 are held as a separate component of equity.
b) Business combinations that occurred before the opening IFRS balance sheet date are exempt from the application of the standard (IFRS 3 'Business Combinations') and have not been restated.
c) Exemption has been claimed under IFRS 1 regarding the defined benefit pension scheme for the need to disclose the history of experience prior to the date of transition.
d) Share options granted before 7 November 2002 or vested before 1 July 2006 have been excluded from the share-based payments charge.
e) Exemption from the retrospective application of IAS 21 with regard to 'fair value adjustments and goodwill' has been taken.

33. Transition to IFRS continued

Detailed reconciliations between UK GAAP and IFRS of both equity and profit are shown below.

Reconciliation of equity as at 1 July 2006

Balance sheet

	UK GAAP £'000	Goodwill reversal (see note 1 on page 53) £'000	Pension restatement (see note 4 on page 53) £'000	Financial derivatives (see note 2 on page 53) £'000	Capitalised software (see note 5 on page 53) £'000	IFRS £'000
Assets						
Non-current assets						
Property, plant and equipment	3,637				(263)	3,374
Intangible assets – Goodwill	2,326					2,326
Intangible assets – Other	829				263	1,092
Investments			843			843
Total non-current assets	6,792		843			7,635
Current assets						
Trade and other receivables	3,577					3,577
Inventories	3,651					3,651
Cash and cash equivalents	23,860					23,860
Total current assets	31,088					31,088
Total assets	37,880		843			38,723
Liabilities						
Current liabilities						
Trade and other payables	(4,939)					(4,939)
Derivative financial instruments				(39)		(39)
Total current liabilities	(4,939)			(39)		(4,978)
Net current assets	26,149			(39)		26,110
Non current liabilities						
Retirement benefit obligation	–		(2,210)			(2,210)
Long term provisions	(239)					(239)
Total non current liabilities	(239)		(2,210)			(2,449)
Total liabilities	(5,178)		(2,210)	(39)		(7,427)
Net assets	**32,702**		**(1,367)**	**(39)**		**31,296**
Equity						
Capital and reserves						
Issued capital	92					92
Share premium	33,173					33,173
Merger reserve – shares issued by subsidiary	40,128					40,128
Reserve – shares held by EBT	(60)					(60)
Reserve – share based payments	306					306
Revaluation reserve	–		63			63
Retained earnings	(40,937)		(1,430)	(39)		(42,406)
Total equity	**32,702**		**(1,367)**	**(39)**		**31,296**

Merger reserve – shares issued by subsidiary relates to the share premium of Allergy Therapeutics (Holdings) Ltd.

Notes to the Financial Statements continued

33. Transition to IFRS continued

Reconciliation of equity as at 30 June 2007

Balance sheet

	UK GAAP £'000	Goodwill reversal (see note 1 on page 53) £'000	Financial derivatives (see note 4 on page 53) £'000	Software development (see note 5 on page 53) £'000	Holiday pay accrual (see note 6 on page 53) £'000	IFRS Foreign Exchange Reserve (see note 3 on page 53) £'000	IFRS £'000
Assets							
Non-current assets							
Property, plant and equipment	5,931			(445)			5,486
Intangible assets – Goodwill	1,967	328					2,295
Intangible assets – Other	714			445			1,159
Investments	1,011						1,011
Total non-current assets	9,623	328		–			9,951
Current assets							
Trade and other receivables	3,373						3,373
Derivative financial instruments			63				63
Inventories	4,911						4,911
Cash and cash equivalents	5,696						5,696
Total current assets	13,980		63				14,043
Total assets	23,603	328	63				23,994
Liabilities							
Current liabilities							
Trade and other payables	(10,714)				(88)		(10,802)
Derivative financial instruments			(62)				(62)
Total current liabilities	(10,714)		(62)		(88)		(10,864)
Net current assets	3,266		1		(88)		3,179
Non current liabilities							
Retirement benefit obligation	(2,182)						(2,182)
Long term borrowings	(2,161)						(2,161)
Long term provisions	(191)						(191)
Total non current liabilities	(4,534)						(4,534)
Total liabilities	(15,248)		(62)		(88)		(15,398)
Net assets	**8,355**	**328**	**1**		**(88)**	**0**	**8,596**
Equity							
Capital and reserves							
Issued capital	92						92
Share premium	33,173						33,173
Merger reserve – shares issued by subsidiary	40,128						40,128
Reserve – shares held by EBT	(36)						(36)
Reserve – share based payments	675						675
Revaluation reserve	226						226
Foreign exchange reserve						(133)	(133)
Retained earnings	(65,903)	328	1		(88)	133	(65,529)
Total equity	**8,355**	**328**	**1**		**(88)**	**0**	**8,596**

Merger reserve – shares issued by subsidiary relates to the share premium of Allergy Therapeutics (Holdings) Ltd.

33. Transition to IFRS continued

Reconciliation of loss for the year ended 30 June 2007

	UK GAAP £'000	Goodwill Reversal (see note 1) £'000	Pension Restatement (see note 2) £'000	Financial derivatives (see note 4) £'000	Holiday pay accrual (see note 6) £'000	IFRS £'000
Revenue	25,742					25,742
Cost of sales	(10,068)					(10,068)
Gross profit	15,674					15,674
Distribution costs	(11,312)					(11,312)
Administration expenses – other	(5,887)	328	281	40	(88)	(5,326)
Research and development costs	(25,343)					(25,343)
Administration expenses	(31,230)	328	281	40	(88)	(30,669)
Other income	32					32
Finance income	647					647
Finance expense	(131)					(131)
Loss before tax	(26,320)	328	281	40	(88)	(25,759)
Income tax	2,503					2,503
Loss for the period	**(23,817)**	**328**	**281**	**40**	**(88)**	**(23,256)**

Notes to transition statements:

1) Goodwill recognised by the Group on acquisition of Allergy Therapeutics (UK) Ltd and Bencard Allergie GmbH under UK GAAP was amortised over a period of 15 years. Under IFRS goodwill is not amortised, but tested annually for impairment. The goodwill amortisation charge recognised in accordance with UK GAAP in 2006/7 was written back. The result of these adjustments is to decrease the amortisation charge in the income statement for the year ended 30 June 2007 by £328,000 and increase the carrying value of those intangible assets by the same amounts.

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

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

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

4) Under IAS 39 all financial instruments are recorded at fair value or amortised cost dependent on the nature of the financial asset or liability. Derivatives are always measured at fair value with changes in value arising from fluctuations in interest rates or foreign exchange rates. Under UK GAAP these are not initially measured on the balance sheet and any related gains or losses arising are deferred until the underlying item impacts on the financial statements.

   From 1 July 2006 the Group has accounted for all of its derivatives in accordance with IAS 39 whereby all gains and losses arising from the fluctuations in the year are charged to the profit and loss account at the balance sheet date.

5) In accordance with UK GAAP, the Group previously included all capitalised computer software within tangible fixed assets. IFRS requires that only computer software which is integral to the hardware item to which it relates should be included within tangible fixed assets. All other software should be classified as an intangible fixed asset. Hence, the Group has reclassified computer software from tangible fixed assets to intangible fixed assets. There has been no impact on the income statement.

6) At 30 June 2008 the Group's employees had on average 2.5 days of holiday accrued. IAS 19 requires a liability to be recorded for this entitlement.

Notes to the Financial Statements continued

33. Transition to IFRS continued

Cashflow

As a result of the transition to IFRS the following changes have been reflected in the cashflow statement.

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

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

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

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

We have audited the parent Company financial statements of Allergy Therapeutics plc for the year ended 30 June 2008 which comprise the parent Company balance sheet and notes 1 to 11. These parent Company financial statements have been prepared under the accounting policies set out therein.

We have reported separately on the Group financial statements of Allergy Therapeutics plc for the year ended 30 June 2008.

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 parent Company 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 parent Company 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 parent Company financial statements give a true and fair view and whether the parent Company financial statements have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Report of Directors is consistent with the financial statements. The information given in the Report of Directors includes that specific information presented in the Chairman's Report, Chief Executive's Review, and the Financial Review that is cross referred from the Business Development and Performance section of the Report of the Directors.

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 Company financial statements. The other information comprises only the Chairman's Report, Chief Executive's Review, Financial Review, Report of the Directors 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 Company 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 parent Company financial statements. It also includes an assessment of the significant estimates and judgments made by the Directors in the preparation of the parent Company financial statements, and of whether the accounting policies are appropriate to the 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 parent Company 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 parent Company financial statements.

Opinion

In our opinion:

- the parent Company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 30 June 2008;
- the parent Company financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Report of the Directors is consistent with the financial statements.

Grant Thornton UK LLP
Registered Auditor
Chartered Accountants
Gatwick
22 September 2008

Company Balance Sheet

	Note	30 June 2008 £'000	30 June 2007 £'000
Fixed Assets			
Investments	3	**51**	51
Current assets			
Debtors: amounts falling due within one year	4	**121**	203
Current liabilities			
Creditors: amounts falling due within one year	5	**(117)**	(76)
Net current assets		**4**	127
Total assets less current liabilities		**55**	178
Net assets		**55**	178
Capital and reserves			
Called up share capital	6	**92**	92
Share premium	7	**33,173**	33,173
Other reserves – shares held by EBT	7	**(1)**	(36)
Other reserves – share based payments	7	**1,031**	675
Profit and loss account	7	**(34,240)**	(33,726)
Total equity		**55**	178

These financial statements were approved by the Board of Directors on 22nd September 2008 and were signed on its behalf by:

K Carter
Chief Executive Officer

I Postlethwaite
Finance Director

Notes to the Company Balance Sheet

1. Accounting policies

Basis of preparation

The separate financial statements of the Company are presented as required by the Companies Act 1985. As permitted by that Act, the separate financial statements have been prepared in accordance with applicable United Kingdom accounting standards and under the historical cost convention.

The Group incurred losses for the financial years ended 30 June 2007 and 2008 primarily as a consequence of its investment in research and development activities; these losses have been funded by equity issues, debt facilities and cash generated by the operating business.

The Group has prepared detailed budgets, including cash flow projections, for the periods ending 30 June 2009 to 30 June 2011. These projections include assumptions on the trading performance of the operating business and the continued availability of the existing debt facilities. 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 and other sensitivities on the Company's funding plans, the Directors continue to believe that the Group and Company 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 considered and prioritised the actions that could be taken to offset the impact of any shortfall in operating performance.

Investments

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

Foreign currencies

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

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.

Employee Benefit Trust (EBT)

The financial statements include the assets and liabilities of a trust, set up for the benefit of the Company'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

Share based payments

The Company 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 Plan.

The Company 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.

Notes to the Company Balance Sheet continued

2. Loss for the financial period

The Company has taken advantage of s.230 of the Companies Act 1985 and has not included its own profit and loss account in these financial statements. The Company's loss for the period was £514,000.

3. Investments

	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 2008	**51**

At 30 June 2008 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 (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.

4. Debtors

	30 June 2008 £'000	30 June 2007 £'000
Amounts falling due within one year		
Amounts owed by subsidiary undertakings	**117**	199
Other debtors	**4**	4
	121	203

5 Creditors – amounts falling due within one year

	30 June 2008 £'000	30 June 2007 £'000
Taxation and social security	**117**	66
Accruals and deferred income	**–**	10
	117	76

6. Called up share capital

Full details of the Company's share capital are set out in Note 26 of the consolidated financial statements.

7. Reserves

Profit and loss account

	£'000
At 30 June 2007	(33,726)
Retained loss for the year	(514)
At 30 June 2008	**(34,240)**

Share premium account

	£'000
At 30 June 2007	33,173
At 30 June 2008	**33,173**

Other reserve – share based payments

	£'000
At 30 June 2007	675
Provision in year for share based payments	356
At 30 June 2008	**1,031**

Other reserve – EBT

	£'000
At 30 June 2007	(36)
Sale of shares by EBT	35
At 30 June 2008	**(1)**

8. Share based payments

Full details of the Company's share based payments are set out in Note 27 of the consolidated financial statements.

9. Director's emoluments

Full details of the Company's Directors' emoluments are set out in the Directors' Remuneration Report in the Report of the Directors.

10. Reconciliation of movement in shareholders' funds

	Year to 30 June 2008 £'000	Year to 30 June 2007 £'000
(Loss)/profit for the financial year	**(514)**	32
Issue of shares from EBT	**35**	24
Share based payments	**356**	369
Net (deduction from)/addition to shareholders' funds	**(123)**	425
Opening shareholders' funds	**178**	(247)
Closing shareholders' funds	**55**	178

11. Contingent Liabilities

Full details of the Company's contingent liabilities are set out in Note 29 of the consolidated financial statements.

Shareholder Information

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