Circassia

Registered number 05822706

Circassia Holdings Limited
Annual Report and Financial Statements
for the year ended 31 December 2009

Circassia Holdings Limited
Year ended 31 December 2009

Annual report and financial statements for the year ended 31 December 2009

Circassia Holdings Limited
Year ended 31 December 2009

Executive directors and advisors

Executive directors

Steven Harris
Chief Executive Officer

Charles Swingland
Deputy Chairman and Company Secretary

Rod Hafner
Vice President R&D

Independent auditors
PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
1 Embankment Place
London
WC2N 6RH

Registered office
The Magdalen Centre
Robert Robinson Avenue
The Oxford Science Park
Oxford
OX4 4GA

Bankers
Lloyds TSB Bank plc
PO Box 1000
BX1 1LT

Solicitors
Morrison & Foerster (UK) LLP
CityPoint
One Ropemaker Street
London
EC2Y 9AW

Directors' report for the year ended 31 December 2009

The directors present their annual report and the audited consolidated financial statements of the group for the year ended 31 December 2009 The directors' report has been prepared taking advantage of the small companies exemption in section 415A of the Companies Act 2006

Principal activity

Circassia Holdings Limited and its subsidiaries are clinical-stage specialty biopharmaceutical companies focused on developing medicines designed to control immune system responses

The group's initial focus is on the development and commercialisation of a range of allergy therapeutics, based on its proprietary technology, which have the potential to transform current treatment With its portfolio of allergy products progressing through development, the group is broadening its pipeline into other areas where immune system control is essential The first of these is transplant rejection

At 31 December 2009 the group had 9 (2008 7) employees at its facilities in Oxford

Circassia Holdings Limited is a limited company incorporated in England and Wales The company is resident in England and the registered office is Magdalen Centre, The Oxford Science Park, Oxford, OX4 4GA

Review of business and future developments

The statement of comprehensive income for the year is set out on page 7 The level of research and development expenditure has grown throughout the year as more and larger clinical trials have been conducted In addition, administrative expenses were increased due to costs associated with increasing the headcount and infrastructure to increase the capacity of the group to develop products The net loss for the year was £7,197k (2008 £5,343k) The directors expect that the level of activity will increase for the coming year

The group is engaged in innovative and unique research and development programmes, and there are significant risks and uncertainties that could have a dramatic impact on the group in the future Although trial results to date have been extremely encouraging, there can be no certainty that similar results will be achieved in Phase II and III clinical trials, and that the group's products will be approved for use The directors expect to make significant financial returns from the commercialisation of products, but there can be no certainty that the products will deliver the anticipated returns The group's financial risk management policies are detailed in Note 2 to the financial statements

Research and development activities

During the year the group incurred expenditure of £5,555k (2008 £4,267k) on research and development, all of which was written off in the statement of comprehensive income

During the year the group entered into a joint venture agreement with McMaster University for the development of certain technologies in the area of immunology

Dividend

The directors do not recommend payment of a dividend (2008 £nil)

Circassia Holdings Limited
Year ended 31 December 2009

Directors
The directors of the company during the year and up to the date of signing the financial statement were as follows

Sir Richard Sykes	Non-executive	
Charles Swingland	Executive	
Steven Harris	Executive	
Rod Hafner	Executive	
Timothy Corn	Non-executive	
Russ Cummings	Non-executive	
Cathrin Petty	Non-executive	(appointed 8th March 2010)

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

Company law requires the directors to prepare financial statements for each financial year Under that law the directors have elected to prepare the group and parent company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union In preparing these financial statements, the directors have also elected to comply with IFRSs, issued by the International Accounting Standards Board (IASB) Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and the company and of the profit or loss of the group for that period In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and accounting estimates that are reasonable and prudent,
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and the group and enable them to ensure that the financial statements comply with the Companies Act 2006 They are also responsible for safeguarding the assets of the company and the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

Statement as to disclosure of information to auditors
So far as the Directors are aware, there is no relevant audit information (that is, information needed by the Group's auditors in connection with preparing their report) of which the Group's auditors are unaware Furthermore, they have taken all the steps that they ought to have taken as Directors in order to make themselves aware of any relevant audit information and to establish that the Group's auditors are aware of that information

By order of the Board

Company Secretary
10th May 2010

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF CIRCASSIA HOLDINGS LIMITED

We have audited the group and parent company financial statements (the "financial statements") of Circassia Holdings Limited for the year ended 31 December 2009 which comprise the Consolidated Statement of Comprehensive Income, the Consolidated Balance Sheet, the Group and Parent Company Statement of Cash Flows, the Group and Parent Company Statement of Changes in Equity, the Company Balance Sheet and the related notes The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006

Respective responsibilities of directors and auditors
As explained more fully in the Directors' Responsibilities Statement set out on page 4, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing

Scope of the audit of the financial statements
An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error This includes an assessment of whether the accounting policies are appropriate to the group's and parent company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements

Opinion on financial statements

In our opinion

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2009 and of the group's loss and group's and parent company's cash flows for the year then ended,
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union,
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006, and

- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matter prescribed by the Companies Act 2006
In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements

Matters on which we are required to report by exception
We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us, or
- the parent company financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit

Bowker Andrews (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
10th May 2010

Circassia Holdings Limited
Year ended 31 December 2009

Consolidated statement of comprehensive income
for the year ended 31 December 2009

	Notes	2009 £'000	2008 £'000
Research and development costs		(5,555)	(4,267)
Administrative expenses		(2,141)	(1,824)
Exceptional item – impairment loss		-	(138)
Operating loss	6	(7,696)	(6,229)
Finance costs	5	(16)	(94)
Finance income	5	79	648
Finance income - net		63	554
Share of profit of associate	10	18	-
Loss before tax		(7,615)	(5,675)
Taxation	7	418	332
Loss for the financial year		(7,197)	(5,343)
Other comprehensive income		-	-
Total comprehensive income for the year		(7,197)	(5,343)

The results for the financial years above are derived entirely from continuing operations

There is no difference between the loss before tax and the loss for the financial years stated above, and their historical cost equivalents

Consolidated balance sheet
as at 31 December 2009

	Notes	2009 £'000	2008 £'000
Assets			
Non-current assets			
Intangible assets	8	1,987	1,987
Investment in associates	10	18	-
		2,005	1,987
Current assets			
Trade and other receivables	11	102	100
Current tax assets		418	332
Cash and cash equivalents	12	18,050	10,482
		18,570	10,914
Current liabilities			
Trade and other payables	13	(1,010)	(1,075)
Net current assets		17,560	9,839
Non-current liabilities			
Financial liabilities	14	(1,966)	(1,953)
Net assets		17,599	9,873

Shareholders' equity			
Ordinary shares	17	11	11
Preference shares	17	22	15
Share premium account	19	32,228	17,312
Deficit on reserves	20	(14,662)	(7,465)
Total equity		17,599	9,873

The financial statements on pages 2 to 30 were approved by the Board of Directors on 10th May 2010 and were signed on its behalf by

Steven Harris
Chief Executive Officer

Circassia Holdings Limited
Registered number 05822706

Group and parent company statement of cash flow for the year ended 31 December 2009

	Note	Group 2009 £'000	Group 2008 £'000	Company 2009 £'000	Company 2008 £'000
Cash flows from operating activities					
Cash used in operations	21	(7,762)	(5,609)	(7,438)	(5,683)
Interest received		79	647	79	641
Interest paid		(4)	(4)	-	-
Tax credit received		332	230	-	-
Net cash from operating activities		(7,355)	(4,736)	(7,359)	(5,042)
Cash flows from investing activities					
Purchases of intangible assets		-	(148)	-	-
Net cash used in investing activities		-	(148)	-	-
Cash flows from financing activities					
Proceeds from issue of preference shares		14,923	10,827	14,923	10,827
Net cash from financing activities		14,923	10,827	14,923	10,827
Net increase in cash and cash equivalents		7,568	5,943	7,564	5,785
Cash and cash equivalents 1 January	12	10,482	4,539	10,309	4,524
Cash and cash equivalents at 31 December	12	18,050	10,482	17,873	10,309

Circassia Holdings Limited
Year ended 31 December 2009

Group and parent company statement of changes in equity
for the year ended 31 December 2009

Group	Note	Share Capital £'000	Share Premium £'000	Deficit £'000	Total £'000
At 1 January 2008		19	6,492	(2,122)	4,389
Total comprehensive income		-	-	(5,343)	(5,343)
Transactions with owners					
Issue of preference shares		7	10,820	-	10,827
At 1 January 2009	17, 19, 20	26	17,312	(7,465)	9,873
Total comprehensive income		-	-	(7,197)	(7,197)
Transactions with owners					
Issue of preference shares	17	7	14,916	-	14,923
At 31 December 2009	17, 19, 20	33	32,228	(14,662)	17,599

Company	Note	Share Capital £'000	Share Premium £'000	Retained Earnings £'000	Total £'000
At 1 January 2008		19	6,492	(42)	6,469
Total comprehensive income		-	-	523	523
Transactions with owners					
Issue of preference shares		7	10,820	-	10,827
At 1 January 2009	17, 19, 20	26	17,312	481	17,819
Total comprehensive income		-	-	33	33
Transactions with owners					
Issue of preference shares	17	7	14,916	-	14,923
At 31 December 2009	17, 19, 20	33	32,228	514	32,775

Company balance sheet
as at 31 December 2009

	Notes	2009 £'000	2008 £'000
Assets			
Non-current assets			
Investments in subsidiaries	9	1,725	1,725
		1,725	1,725
Current assets			
Trade and other receivables	11	15,196	7,738
Cash and cash equivalents	12	17,873	10,309
		33,069	18,047
Current liabilities			
Trade and other payables	13	(53)	-
Net current assets		33,016	18,047
Non-current liabilities			
Financial liabilities	14	(1,966)	(1,953)
Net assets		32,775	17,819
Shareholders' equity			
Ordinary shares	17	11	11
Preference shares	17	22	15
Share premium account	19	32,228	17,312
Retained earnings	20	514	481
Total equity		32,775	17,819

The financial statements on pages 2 to 30 were approved by the Board of Directors on 10th May 2010 and were signed on its behalf by

Steven Harris
Chief Executive Officer

Circassia Holdings Limited
Registered number 05822706

Circassia Holdings Limited
Year ended 31 December 2009

Notes to the financial statements
for the year ended 31 December 2009

1. Accounting policies

The principal accounting policies adopted in the preparation of these financial statements are set out below These policies have been consistently applied to all the financial years presented, unless otherwise stated

The accounting policies are extensive and take account of the planned future growth of the group

Basis of preparation
The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRS') as adopted by the European Union and International Financial Reporting Interpretations Committee ('IFRIC') interpretations endorsed by the European Union and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS The financial statements are prepared on the going concern basis and in accordance with the historical cost convention as modified by revaluation of available for sale investments Under s408 of the Companies Act 2006, the parent company is exempt from disclosing its income statement

(a) Standards, amendments and interpretations effective in 2009

IAS 1 (revised), "Presentation of financial statements" The revised standard prohibits the presentation of items of income and expenses (that is 'non-owner changes in equity') in the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from owner changes in equity All 'non-owner changes in equity' are required to be shown in a performance statement Under the revised standard, entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the income statement and statement of comprehensive income)

IFRS 2, "Share-based payment" (amendment) The amendment deals with vesting conditions and cancellations It clarifies that vesting conditions are service conditions and performance conditions only, other features of a share-based payment are not vesting conditions These features are therefore to be included in the fair value exercise at grant date for transactions with employees and other parties providing similar services, they should not impact the number of awards expected to vest or valuation thereof subsequent to grant date All cancellations, whether by the entity or other parties, are required to receive the same accounting treatment This amendment will not impact the financial statements

IFRS 7, "Financial instruments – Disclosures" (amendment) The amendment requires enhanced disclosures about fair value measurement and liquidity risk In particular, the amendment requires disclosures of fair value measurements by level of fair value measurement hierarchy

IFRS 8, "Operating segments" IFRS 8 replaces IAS 14, "Segment reporting" It requires a 'management approach' to be adopted, under which segment information is presented on the same basis as for internal reporting purposes

There have been a number of minor amendments to IAS 1, "Presentation of financial statements", IAS 16, "Property, plant and equipment", IAS 19, "Employee benefits", IAS 27, "Consolidated and separate financial statements", IAS 28, "Investments in Associates", IAS 36, "Impairment of assets", IAS 38, "Intangible assets", and IAS 39, "Financial instruments Recognition and measurement" which are part of the IASB's annual improvement project published in May 2008

(b) Standards, amendments and interpretations effective in 2009 but not relevant for the group

The following standards, amendments and interpretations are mandatory for the first time for the current accounting period but are not relevant to the group's operations

IAS 23 (amendment), "Borrowing costs"
IAS 32 (amendment), "Financial instruments – Presentation"
IFRS 1 (amendment), "First-time adoption of IFRS"
IFRIC 14, "IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction"
IFRIC 16, "Hedges of a net investment in a foreign operation"
There have been a number of minor amendments to IFRS 5, "Non-current assets held for sale and discontinued operations", IAS 20, "Government grants and assistance", IAS 29, "Financial reporting in hyperinflationary economies" and IAS 40, "Investment property" which are part of the IASB's annual improvement project published in May 2008 but are not considered relevant to the Group and therefore have not been analysed in detail

(c) New standards and interpretations to existing standards that are not yet effective and have not been early adopted by the group

The following new standards and interpretations to existing standards have been published and are mandatory for the group's future accounting periods but which the group has not early adopted

IAS 27 (revised), "Consolidated and separate financial statements" The revision to the standard requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control, and these transactions will no longer result in goodwill or gains and losses being recognised The standard also specifies the accounting treatment to be applied when control over a subsidiary is lost Any remaining interest in the entity is re-measured to fair value, and a gain or loss is recognised in profit or loss

IAS 24 (revised), "Related party disclosures" The revision to the standard includes a revised definition of what constitutes a related party and will be effective from 1 January 2010

IFRS 3 (revised), "Business combinations – Comprehensive revision on applying the acquisition method" (effective from 1 July 2009) The revision will impact the way future acquisitions are reported The group will apply IFRS 3 (revised) from 1 January 2010 with the main changes being that directly attributable costs such as advisers' fees and stamp duty will be charged to the income statement, revisions to contingent cash consideration in the period following the acquisition will be recorded in the income statement and any difference between the fair value of the consideration in the buy out of minority interests and the value of their reported minority interest will be recorded against equity rather than goodwill The financial effect of the adoption of this standard will be dependent on the circumstances surrounding the future transactions to which they apply, that are at present unknown

IFRS 9, "Financial instruments – classification and measurement" IFRS 9 introduces new requirements for classifying and measuring financial assets

There are a number of minor amendments to IFRS 2, "Share-based payment", IFRS 5, "Non-current assets held for sale and discontinued operations", IFRS 8, "Operating segments", IAS 1, "Presentation of financial statements", IAS 7, "Statement of cash flows", IAS 17, "Leases", IAS 36, "Impairment of assets", IAS 38, "Intangible assets", and IAS 39, "Financial instruments - Recognition and measurement" which are part of the IASB's annual improvements project published in April 2009 These amendments are unlikely to have a significant impact on the group's financial statements, and have therefore not been analysed in detail

(d) Interpretations to existing standards that are not yet effective and not relevant for the group's operations
The following interpretations to existing standards have been published and endorsed by the EU and are mandatory for the group's accounting periods beginning on or after 1 January 2010 but are not relevant for the group's operations

IAS 32, "Financial instruments – Presentation" –amendments relating to classification of rights issues
IAS 39, "Financial instruments – Recognition and measurement" – amendments for embedded derivatives when reclassifying financial instruments
IAS 39, "Financial instruments – Recognition and measurement" – amendments for eligible hedged items
IFRS 1 (amendment), "First-time adoption of IFRS"
IFRS 2 (amendment), "Share-based payment"
IFRIC 17, "Distributions of non-cash assets to owners"
IFRIC 18, "Transfers of assets from customers"

Use of estimates and assumptions
The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period Estimates and judgements are continually made and are based on historic experience and other factors, including expectations of future events that are believed to be reasonable in the circumstances

Critical accounting estimates and assumptions
Where the group makes estimates and assumptions concerning the future, the resulting accounting estimates will seldom exactly match actual results Due to the amounts involved, the estimates and assumptions regarding revenue recognition and the amounts accrued for clinical trial costs have a greater risk of causing a material adjustment to the carrying amounts of assets and liabilities

Consolidation
Subsidiaries are all entities over which the group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one half of the voting rights Subsidiaries are fully consolidated from the date on which control is transferred to the group They are de-consolidated from the date that control ceases

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated Accounting policies of subsidiaries are consistent with the policies adopted by the group

Associates are all entities over which the group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost

The group's share of its associates' post-acquisition profits or losses is recognised in the statement of comprehensive income, and its share of post-acquisition movements in reserves is recognised in reserves The cumulative post-acquisition movements are adjusted against the carrying amount of the investment Accounting policies of associates are consistent with the policies adopted by the group

Revenue
The group generates revenue as a result of product and technology licence transactions Product licence transactions typically have an initial upfront non-refundable payment on execution of the licence, and the potential for further payments conditional on achieving specific milestones, plus royalties on product sales Technology license transactions typically have an initial upfront non-refundable payment on execution of the licence and the potential for further annual maintenance payments for the term specified in the licence Where the initial fee paid is non-refundable and there are no ongoing commitments from the group and the licence has no fixed end date, the group recognises the element received up front as a payment in consideration of the granting of the licence on execution of the contract Amounts receivable in respect of milestone payments are recognised as revenue when specific conditions stipulated in the license agreement have been met Maintenance fees within the contracts are spread over the period to which they relate, usually a year Otherwise, amounts receivable are recognised in the period in which related costs are incurred, or over the estimated period to completion of the relevant phase of development Amounts recognised exclude value added tax Differences between cash received and amounts recognised are included as deferred revenue, where cash received exceeds revenue recognised, and as accrued revenue, where revenue has yet to be billed to the customer

Cost of sales
The group's products and technologies include technology elements that are licensed from third parties Cost of sales is the royalty arising on such third party licenses Where royalty due on revenue has not been paid it is included in accruals Where revenue is spread over a number of accounting periods, the royalty attributable to the deferred revenue is included in prepayments

Segmental reporting
The group has one single business segment, based upon its proprietary technology, operated out of a single geographical location The directors do not consider further segmental analysis to be required

Clinical trial expenses
Where advances are made to clinical trial sites, or stocks of materials for use of clinical trials are purchased and stored, the relevant costs are included in trade and other receivables as prepaid clinical trial expenses Expenses are charged to the income statement as clinical trial services are carried out, or clinical trial materials are used

Financial instruments
The group's financial instruments comprise cash and cash equivalents, debtors and creditors arising directly from operations Cash and cash equivalents comprise cash in hand and short term deposits which have an original maturity of three months or less and are readily convertible into known amounts of cash Bank deposits with maturity of more than three months at the date of inception are included in the classification 'financial

assets available for sale investments', and are carried at their historic purchase price unless there is objective evidence of impairment Such assets are classified as current, where management intend to dispose of the asset within twelve months of the balance sheet date Financial instruments are valued at fair value, subject to review for impairment annually Charges or credits for impairment are passed through the income statement

Other than short term currency options, the group does not enter into derivative transactions, and it is the group's policy not to undertake any trading in financial instruments The group does not have any committed borrowing facilities, as its cash, cash equivalents and available for sale investments are sufficient to finance its current operations Cash balances are mainly held on short and medium term deposits with quality financial institutions, in line with the group's policy to minimise the risk of loss The main risks associated with the group's financial instruments relate to interest rate risk and foreign currency risk The group's policy in relation to interest rate risk is to monitor short and medium term interest rates and to place cash on deposit for periods that optimise the amount of interest earned while maintaining access to sufficient funds to meet day to day cash requirements In relation to foreign currency risk, the group's policy is to hold the majority of its funds in sterling, and to use short term currency purchase options and interest-bearing foreign currency deposits to manage short term fluctuations in exchange rates No other hedging of foreign currency cash outflows is undertaken

Leases
Assets acquired under leases are reviewed to see if they are finance leases or operating leases, based on the following assumptions

- If the leases transfer ownership of the assets at the end of the lease,
- If they have a bargain purchase option,
- If the lease term is for the major part of the economic life of the asset, and
- If the leased assets are specialised for the lease only

The group currently has no operating or finance leases

Property, plant and equipment
Property, plant and equipment is carried at its historical purchase cost, together with any incidental expenses of acquisition, less depreciation

Depreciation is calculated so as to write off the cost of property, plant and equipment less their estimated residual values on a straight line basis over the expected useful economic lives of the assets concerned The principal annual rates used for this purpose are

	%
Short leasehold improvements	20 or the remaining lease term if shorter
Computer equipment	33
Office and laboratory equipment, fixtures and fittings	20

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date

Intangible assets
Intangible fixed assets, relating to goodwill and intellectual property rights acquired through licensing or assigning patents and know-how are carried at historic cost, less accumulated amortisation, where the useful economic life of the asset is finite and the asset will probably generate economic benefits exceeding costs Where a finite useful life of the acquired intangible asset cannot be determined, the asset is tested annually for

impairment by allocating the assets to the cash generating units to which they relate Amortisation would commence when products underpinned by the intellectual property rights became available for commercial use Amortisation would be calculated on a straight line basis over the shorter of the remaining useful life of the intellectual property or the estimated sales life of the products No amortisation has been charged to date, as the products underpinned by the intellectual property rights are not yet available for commercial use

Expenditure on product development is capitalised as an intangible asset and amortised over the expected useful economic life of the product concerned Capitalisation commences from the point at which technical feasibility and commercial viability of the product can be demonstrated and the group is satisfied that it is probable that future economic benefits will result from the product once completed Capitalisation ceases when the product receives regulatory approval for launch No such costs have been capitalised to date

Expenditure on research and development activities that do not meet the above criteria, including ongoing costs associated with acquired intellectual property rights and intellectual property rights generated internally by the company, is charged to income statement as incurred Intellectual property and in-process research and development from acquisitions are recognised as intangible assets at fair value Any residual excess of consideration over the fair value of net assets in an acquisition is recognised as goodwill in the financial statements

Impairment of non-financial assets
The carrying value of non-financial assets is reviewed annually for impairment and provision made where appropriate Charges or credits for impairment are passed through the income statement

Financial assets, investments
Financial assets (investments) are carried at cost less any provision made for impairment

Trade receivables
Trade receivables are recognised initially at fair value and subsequently measured at amortised cost, using the effective interest method, less provision for impairment A provision for impairment of trade receivables is established when there is objective evidence that the group will not be able to collect all amounts due according to the original terms of the receivables

Cash and cash equivalents
Cash and cash equivalents include cash in hand, deposits held on call with banks, and other short term highly liquid investments with original maturities of three months or less Bank deposits with original maturities between three months and twelve months are included in current assets and are classified as available for sale financial assets

Provisions
Provisions are measured at the present value of the expenditure expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligations The increase in the provision due to the passage of time is recognised as interest expense

The group recognises dilapidations provisions when property leases have a legal or constructive obligation to reinstate any alternations or to make good dilapidations at the end of the lease, it is probable that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated Dilapidations provisions are discounted using the UK government zero-coupon bond yield applicable to the remaining term of the relevant leases

Share capital
Ordinary shares and preference shares are classified as equity Mandatorily redeemable preference shares would be classified as liabilities Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds

Government and other grants
Income from government and other grants is recognised over the period necessary to match them with the related costs which they are intended to compensate, on a systematic basis Grant income is included as revenue within the income statement, and the related costs are included within research and development costs and administrative expenses Where the purchase of property, plant and equipment is supported by a grant, the relevant asset is included in the balance sheet at its full purchase price, and grant income is recognised over the useful life of the asset The difference between grant income receivable and income recognised is included in accruals and deferred income

Employee benefit costs
The group makes contributions to defined contribution personal pension schemes for its directors and employees The pension cost charge recognised in the period represents amounts payable by the group to the funds

Share based payment
The group's employees participate in Circassia Holdings Limited's share option schemes, and options over Circassia Holdings Limited 10p ordinary shares have been granted to the group's employees Equity settled share-based payments are measured at fair value at the date of grant and expensed on a straight-line basis over the vesting period of the award At each balance sheet date the group revises its estimate of the number of options that are expected to become exercisable The financial consequences of revisions to the original estimates, if any, are recognised in the income statement, with a corresponding adjustment to equity

The fair value of share options is measured using a Black-Scholes option pricing model

Other employee benefits
The expected cost of compensated short term absence (e g holidays) is recognised when employees render services that increased their entitlement An accrual is made for holidays earned but not taken, and prepayments recognised for holidays taken in excess of days earned

Foreign currency translation
Monetary assets and liabilities in foreign currencies are translated into Sterling at the rates of exchange ruling at the end of the financial year Transactions in foreign currencies are translated into Sterling at the rates of exchange ruling at the date of the transaction Foreign exchange differences are taken to the income statement in the year in which they arise

Taxation including deferred tax
The charge for current tax is based on the results for the year, adjusted for items which are non-assessable or disallowed It is calculated using tax rates that have been enacted or substantially enacted at the balance sheet date

Deferred tax is accounted for using the liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit In principle, deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future

Deferred tax is calculated at the average tax rates that are expected to apply to the period when the asset is realised or the liability is settled Deferred tax is charged or credited in the income statement, except when it relates to items credited or charged directly to equity, in which case the deferred tax is also dealt with in equity

2. Financial and capital risk management

Capital risk management

The group's objectives when managing capital are to safeguard the ability to continue as a going concern and ensure that sufficient capital is in place to fund the group's research activities The group's principal method of adjusting the capital available is through issuing new shares The group monitors the availability of capital with regard to its forecast future expenditure on an ongoing basis

Financial risk factors

The group's simple structure, operating from a single location in the United Kingdom, and the lack of external debt financing reduces the range of financial risks to which it is exposed Monitoring of financial risk is part of the Board's ongoing risk management, the effectiveness of which is reviewed annually The group's agreed policies are implemented by the Chief Executive Officer, who submits periodic reports to the Board Other than short term currency options, the group does not use financial derivatives, and it is the group's policy not to undertake any trading in financial instruments

a) Foreign exchange risk

The group currently has no revenue Certain expenditures are payable in Euros, Swiss Francs, Canadian Dollars and United States Dollars The majority of operating costs are denominated in Sterling, Canadian Dollars or Swiss Francs The group uses short term currency purchase options and interest-bearing deposits of Canadian Dollars, Swiss Francs and Euros to manage short term fluctuations in exchange rates

At 31 December 2009, if the Euro had weakened/strengthened by 5% against Sterling with all other variables held constant, the post-tax loss for the year would have been £6 6k (2008 £4 8k) lower/higher, as a result of net foreign exchange gains/losses on translation of Euro-denominated payables The sensitivity to Euro-Sterling exchange rate changes is greater than in 2008 due to the higher level of net Euro-denominated liabilities in 2009 The impact on post-tax loss at 31 December 2009 of a 5% (2008 5%) weakening/strengthening of the US Dollar against Sterling with all other variables held constant would have been a decrease/increase of £7 7k (2008 £4k) The impact on post tax loss at 31 December 2009 of a weakening/ strengthening of the Canadian Dollar against Sterling with all other variables held constant would have been a decrease/increase of £5 5k (2008 £16 1k)

b) Interest rate risk
The group does not have any committed external borrowing facilities, as its cash balances are sufficient to finance its current operations Consequently, there is no material exposure to interest rate risk

If interest rates had been 10 basis points higher/lower the impact on net loss in 2009 would have been decrease/increase of £7 5k (2008 £12 9k) due to changes in the amount of interest receivable

c) Credit risks
The group's policy is to place funds with financial institutions rated at least A During 2009 the group placed funds on deposit with four banks (2008 six bank) The group does not allocate a quota to individual institutions but seeks to diversify its investments, where this is consistent with achieving competitive rates of return The group has no significant credit risk

d) Cash flow and liquidity risk
Funds are generally placed on deposit, and day to day spending commitments are met out of invested funds The maturity profile of investments is structured to ensure that sufficient liquid funds are available to meet operating requirements The Directors do not consider that there is presently a material cash flow or liquidity risk

e) Pricing risk
Currently the group has no revenue and there is no pricing risk

Derivative financial instruments and hedging
There were no derivatives at 31 December 2009 or 31 December 2008, and hedge accounting has not been used

Fair value estimates
The fair value of short term deposits with a maturity of one year or less is assumed to be the book value

3. Segmental analysis

The group's loss on ordinary activities before taxation is derived entirely from its one business segment, pharmaceutical research and development, which is carried out at a single site All costs of acquisition of property, plant and equipment and intangible assets, as well as depreciation expense borne by the group, relate to this one segment In addition, all other non-cash expenses incurred by the group relate to this one segment The directors do not consider that further segmental reporting is required

4. Employees and directors

The average monthly number of persons (including executive directors) employed by the group during the year was

By activity	2009 Number	2008 Number
Office and management	3	3
Research and development	6	4
Total	**9**	**7**

Employee benefit costs	2009 £'000	2008 £'000
Wages and salaries	911	727
Social security costs	110	87
Other pension costs	267	213
Total employee benefit costs	**1,288**	**1,027**

The emoluments of the directors are set out below

	2009 £'000	2008 £'000
Aggregate emoluments	508	501
Pension contributions to money purchase schemes	246	207

No directors exercised share options during the year (2008 nil) No shares were received by directors under long-term incentive schemes (2008 nil) Retirement benefits are paid into directors personal pension schemes and are accruing to 3 directors (2008 3 directors)

The emoluments of the highest paid director are set out below

	2009 £'000	2008 £'000
Emoluments	186	185
Pension contributions to money purchase schemes	120	107

5. Finance income and costs

	2009 £'000	2008 £'000
Finance expense:		
Bank interest payable	(3)	(4)
Interest payable on loan notes	(13)	(90)
Total finance expense	**(16)**	**(94)**
Finance income:		
Bank interest receivable	79	648
Total finance income	**79**	**648**
Net finance income	**63**	**554**

6. Operating loss

	2009 £'000	2008 £'000
Employee benefit costs (note 4)	1,288	1,027
Consultants and subcontracted research	82	362
Externally contracted clinical and preclinical development	2,957	2,096
Externally contracted manufacturing	2,273	1,535
Externally contracted formulation and analytical	344	291
Legal and professional fees including patent costs	354	244
Net gain on foreign exchange	(44)	(23)
Other expenses	442	559
Total research and development and administrative expenses	**7,696**	**6,091**

Services provided by the company's auditor

During the year the company and group obtained services from the auditor as detailed below

	2009 £'000	2008 £'000
Audit services		
Statutory audit	12	12
Non-audit services		
Taxation	5	5
Total	**17**	**17**

7. Taxation

The group is entitled to claim tax credits in the United Kingdom for certain research and development expenditure The amount included in the financial statements for the year ended 31 December 2009 represents the credit receivable by the group for the year and adjustments to prior periods These amounts have not yet been agreed with the relevant tax authorities

Continuing operations	2009 £'000	2008 £'000
Current tax		
United Kingdom corporation tax research and development credit	(418)	(332)
Total current tax	(418)	(332)

The tax credit for the year is lower (2008 lower) than the standard rate of corporation tax in the UK of 28% (2008 28 5% due to rate change) The differences are explained below

	2009 £'000	2008 £'000
Loss on ordinary activities before tax	**(7,634)**	**(5,675)**
Loss on ordinary activities before tax multiplied by the standard rate of corporation tax in the UK of 28% (2008 28 5%)	(2,137)	(1,617)
Expenses not deductible for tax purposes (permanent differences)	-	9
Short term timing differences	56	(1)
Research & development relief 50% mark-up on expenses	(1,067)	(510)
Surrender of losses for research & development tax credit refund	418	292
Tax losses carried forward to future periods	2,312	1,495
Utilisation of tax losses and other deductions	-	-
Current tax credit for the year	(418)	(332)

At 31 December 2009, the Group had tax losses to be carried forward of approximately £14,915,000 (2008 £6,530,000)

There is no deferred tax recognised

8. Intangible assets

	Goodwill £'000	Intellectual Property Rights £'000	Total £'000
Cost			
At 1 January 2009	**1,835**	**290**	**2,125**
Additions	-	-	-
At 31 December	**1,835**	**290**	**2,215**
Accumulated amortisation and impairment at 1 January and 31 December	-	**(138)**	**(138)**
Net book amount 31 December 2009	**1,835**	**152**	**1,987**
Net book amount 31 December 2008	1,835	152	1,987

Impairment charges are included within research and development costs in the income statement An impairment test is performed annually based on the value in use of the intangible assets

9. Investments in subsidiaries

	2009 £'000	2008 £'000
Investments in subsidiaries at 1 January and 31 December	1,725	1,725

Details of the company's subsidiaries are provided below All subsidiaries are included in the consolidation and the directors believe that the value in use of all subsidiaries exceeds their carrying values

Name	**Country of Incorporation**	**Nature of business**	**Percentage held**
Circassia Limited	UK	Pharmaceutical research	100%
Circassia Pharma Limited	UK	Pharmaceutical research	100%

10. Investment in associates

	2009 £'000	2008 £'000
At 1 January	-	-
Acquisition of investment	-	-
Share of profit	18	-
At 31 December	**18**	**-**

The group's share of the results of its unlisted associate and its aggregated assets and liabilities are as follows

Name	**Country of Incorporation**	**Assets £'000**	**Liabilities £'000**	**Revenues £'000**	**Profit £'000**	**% Held**
Adiga Life Sciences	Canada	76	58	802	18	50

11. Trade and other receivables - current

	Group		Company	
	2009 £'000	2008 £'000	2009 £'000	2008 £'000
Other receivables	87	84	51	-
Prepayments	15	16	-	-
Receivables from related parties	-	-	15,145	7,738
Total trade and other receivables – current	**102**	**100**	**15,196**	**7,738**

The fair value of trade and other receivables are the current book values

At 31 December 2009 and 31 December 2008 none of the trade receivables were aged over three months No receivables were impaired

12. Cash and cash equivalents

	Group		Company	
	2009 £'000	2008 £'000	2009 £'000	2008 £'000
Cash at bank and in hand	**18,050**	**10,482**	**17,873**	**10,309**

13. Trade and other payables – current

	Group		Company	
	2009	2008	2009	2008
	£'000	£'000	£'000	£'000
Trade payables	426	743	53	-
Other payables	32	30	-	-
Accruals	552	302	-	-
Total trade and other payables – current	**1,010**	**1,075**	**53**	**-**

14. Financial liabilities

	Group		Company	
	2009	2008	2009	2008
	£'000	£'000	£'000	£'000
Convertible loan notes	1,966	1,953	1,966	1,953
Financial liabilities	**1,966**	**1,953**	**1,966**	**1,953**

The group has in issue a number of convertible loan notes which accrue interest at the daily Libor rate The loan notes are convertible into 50 fully paid ordinary shares at any time The loan notes will be redeemed, if they have not previously been converted, on 31 March 2016 for £15,000 plus interest each

15. Financial instruments

The group's financial instruments comprise cash and cash equivalents, available for sale investments, trade and other receivables, trade and other payables and financial liabilities Additional disclosures are set out in the accounting policies relating to risk management

The group had the following financial instruments at 31 December each year

	Assets		**Liabilities**	
	2009	2008	2009	2008
	£'000	£'000	£'000	£'000
Cash and cash equivalents	18,050	10,482	-	-
Trade and other receivables	520	432	-	-
Trade and other payables - current	-	-	1,010	1,075
Financial liabilities	-	-	1,966	1,953
	18,570	10,914	2,976	3,028

Cash balances comprise a mixture of floating rate instant access deposits earning interest at prevailing bank rates and money market deposits bearing interest at fixed rates

In accordance with IAS 39 'Financial instruments Recognition and Measurement' the group has reviewed all contracts for embedded derivatives that are required to be separately accounted for if they do not meet certain requirements set out in the standard There were no such derivatives identified at 31 December 2009 or 31 December 2008

Fair value
The directors consider that the fair values of the group's financial instruments do not differ significantly from their book values

16. Deferred taxation

The Company has no recognised or unrecognised deferred tax assets or liabilities at 31 December 2009 (2008 £nil) The Group has an unrecognised deferred tax asset of £4,176,000 (2008 £1,829,000) in respect of losses In light of the continuing losses, recovery of the deferred tax asset is not sufficiently certain, and therefore no asset has been recognised

17. Called-up share capital

Authorised	2009 £'000	2008 £'000
1,000,000 (2008 1,000,000) Ordinary shares of 10p each	100	100
147,932 A Preference shares of 10p each (2008 147,932)	15	15
70,345 B Preference shares of 10p each (2008 Nil)	7	-

Issued and fully paid	2009 £'000	2008 £'000
108,093 Ordinary shares of 10p (2008 108,093)	11	11
Total ordinary share capital	**11**	**11**
147,932 A Preference shares of 10p each (2008 147,932)	15	15
70,345 B Preference shares of 10p each (2008 Nil)	7	-
Total preference share capital	**22**	**15**
Total share capital	**33**	**26**

The 'A' Preferred Shares have the same voting rights as the Ordinary Shares but carry a liquidation preference of 1 times their subscription price They accordingly receive repayment of their subscription price upon a 'Sale' (as defined in the Articles), or upon any return of assets to shareholders, in priority to the rights of the Ordinary Shares, and then participate alongside the Ordinary Shares in any balance of consideration on Sale

The 'B' Preferred Shares have the same rights and rank pari passu with the existing 'A' Preferred Shares save that they have a right to a liquidation preference on Sale of 1 25 times their subscription price in priority to the rights of the existing Preferred Shares and the Ordinary Shares No interest accrues on either class of preference share

On 10th December 2010, 70,345 B preference shares of 10p each were issued for total consideration of £15,250k, giving rise to a share premium of £15,243k

21,250 ordinary shares are reserved for issuance or have been issued under the group's share option schemes

18. Share based payments

All employees of the group are eligible for options over 10p ordinary shares in the company Options have been awarded under the Circassia EMI Share Option Scheme ("the EMI Scheme") and the Circassia Unapproved Share Option Scheme ("the Unapproved Scheme") It is the group's policy to make annual grants of options to employees

Options granted under the EMI Scheme have a fixed exercise price based on the market price at the date of grant The contractual life of the options is 10 years Options cannot normally be exercised before the third anniversary of the date of grant

Options granted under the Unapproved Scheme also have a fixed exercise price based on the market price at the time of grant The contractual life of the options is ten years Options cannot normally be exercised before the third anniversary of the date of grant

Options were valued using the Black-Scholes option pricing model For each relevant option grant, individual valuation assumptions were assessed based upon conditions at the date of grant The range of assumptions in the calculation of share based payment in 2009 is as follows

	Share Options	**Share Options**
Grant dates	18th March 2009	3rd July 2008
Share price at grant date	10p	10p
Exercise price	10p	10p
Vesting period	3 years	3 years
Total number of shares	1,700	3,250
Expected volatility (average)	26	26
Expected life (years, average)	5	5
Risk free rate (average)	4 5%	4 5%
Expected dividend	Nil	Nil
Expected rate of forfeit before vesting (average)	Nil	Nil
Expectation of meeting performance criteria	100%	100%
Fair value per option	14 8p	14 8p

Expected volatility is based on historical volatility for a period the same length as the expected option life ending on the date of grant The risk-free rate of return is the yield on zero-coupon UK government bonds of a term consistent with the expected option life

The weighted average exercise price for options outstanding at year end was 10p The total charge for the year relating to employee share based payment plans was £82 (2008 £157) all of which related to equity-settled share based payment transactions A reconciliation of movements in all options held by employees of Circassia Holdings Limited over the year to 31 December 2009, and an analysis of outstanding options are shown below There were 11,158 options outstanding as at 31 December 2008

	2009 Number	Weighted average exercise price
Outstanding at 1 January	11,158	10p
Granted	1,700	10p
Expired	Nil	n/a
Forfeited	Nil	n/a
Exercised	Nil	n/a
Outstanding at 31 December	12,858	10p
Exercisable at 31 December	Nil	n/a
Exercisable and where market price exceeds exercise price at 31 December	Nil	n/a

19. Share premium account

Group and company	2009 £'000	2008 £'000
At 1 January	17,312	6,492
Issue of preference shares	15,243	10,993
Expenses relating to share issue	(327)	(173)
At 31 December	**32,228**	**17,312**

20. Deficit/surplus on reserves

Group	2009 £'000	2008 £'000
At 1 January (deficit)	(7,465)	(2,122)
Loss for the year	(7,197)	(5,343)
At 31 December (deficit)	**(14,662)**	**(7,465)**

Company	2009 £'000	2008 £'000
At 1 January	481	(42)
Profit for the year	33	523
At 31 December	**514**	**481**

21. Cash flow from operating activities
Reconciliation of loss before tax to net cash from operations

	2009 £'000	2008 £'000
Continuing operations		
Loss before tax	(7,615)	(5,675)
Adjustment for		
Interest income	(79)	(648)
Interest expense	16	94
Impairment of intangible asset	-	138
Changes in working capital		
Share of associates operating profit	(19)	-
Decrease/(Increase) in trade and other receivables	(3)	57
(Decrease)/Increase in trade and other payables	(62)	425
Net cash from operations	**(7,762)**	**(5,609)**

22. Pension commitments

The group contributes to defined contribution pension schemes for its directors and employees The pension cost charge of £267k (2008 £213k) represents amounts payable by the group to funds Contributions of £196k (included in creditors) were payable to the funds at the year-end (2008 £158k)

23. Contingent liabilities and capital commitments

There were no contingent liabilities at 31 December 2009 or at 31 December 2008

24. Related party transactions

There is no ultimate controlling party of the group as ownership is split between the company's shareholders The most significant shareholders are as follows Charles Swingland (15% of total voting rights), Steven Harris (15% of total voting rights), Imperial Innovations Businesses LLP (15% of total voting rights), Lansdowne UK Equity Fund Limited (17% of total voting rights), Invesco Perpetual Income Fund (13% of total voting rights)

Transactions with related parties during the year and balances with related parties at 31 December are as follows

Related party	2009 Sales £'000	2009 Purchases £'000	2009 Interest £'000	2009 Receivables £'000	2009 Payables £'000
Adiga Life Sciences (Joint venture)	-	1,539	-	-	29
Tim Corn (Director)	-	5	-	-	-
Imperial Innovations Businesses LLP	-	-	10	-	1,453
Steven Harris (Director)	-	-	2	-	256
Charles Swingland (Director)	-	-	2	-	256

Related party	2008 Sales £'000	2008 Purchases £'000	2008 Interest £'000	2008 Receivables £'000	2008 Payables £'000
Agida Life Sciences (Joint venture)	-	-	-	-	-
Tim Corn (Director)	-	7	-	-	-
Imperial Innovations Businesses LLP	-	-	66	-	1,443
Steven Harris (Director)	-	-	12	-	254
Charles Swingland (Director)	-	-	12	-	254

All transactions with related parties detailed above are on normal commercial terms

The group has no key management other than the directors, so no further analysis of key management compensation is provided

The company makes no sales or purchases with its subsidiaries, but provides funding to Circassia Limited which carries out the group strategy, employs all the UK staff including the directors, and owns and manages all of the group's intellectual property The proceeds of the shares issued by Circassia Holdings Limited are passed from Circassia Holdings Limited to Circassia Limited as a payable as funds are required

Balances with subsidiary companies	2009 £'000	2008 £'000
Payable:		
Circassia Limited	15,145	7,738

The payable is unsecured, interest free and has no fixed date of repayment