Epistem Holdings Plc
Annual Report 2015

2015 Highlights

The 2014/15 financial year saw excellent progress with Genedrive®, our novel Point of Care PCR instrument. In May, we announced the landmark Indian regulatory approval. We have made very good progress with the development of Genedrive® tests for Hepatitis C diagnosis and pharmacogenomic applications and we have initiated new projects in the fields of human pathogen detection and animal disease testing. The 2014/15 financial year saw the Company experience a difficult year in its established services operations. During the year, Dr Ian Gilham took over the role of Chairman from David Evans and was then appointed Interim CEO in August 2015 when it was announced that Matthew Walls would be leaving that position. Matthew resigned as a Director on 23 October 2015.

Operating

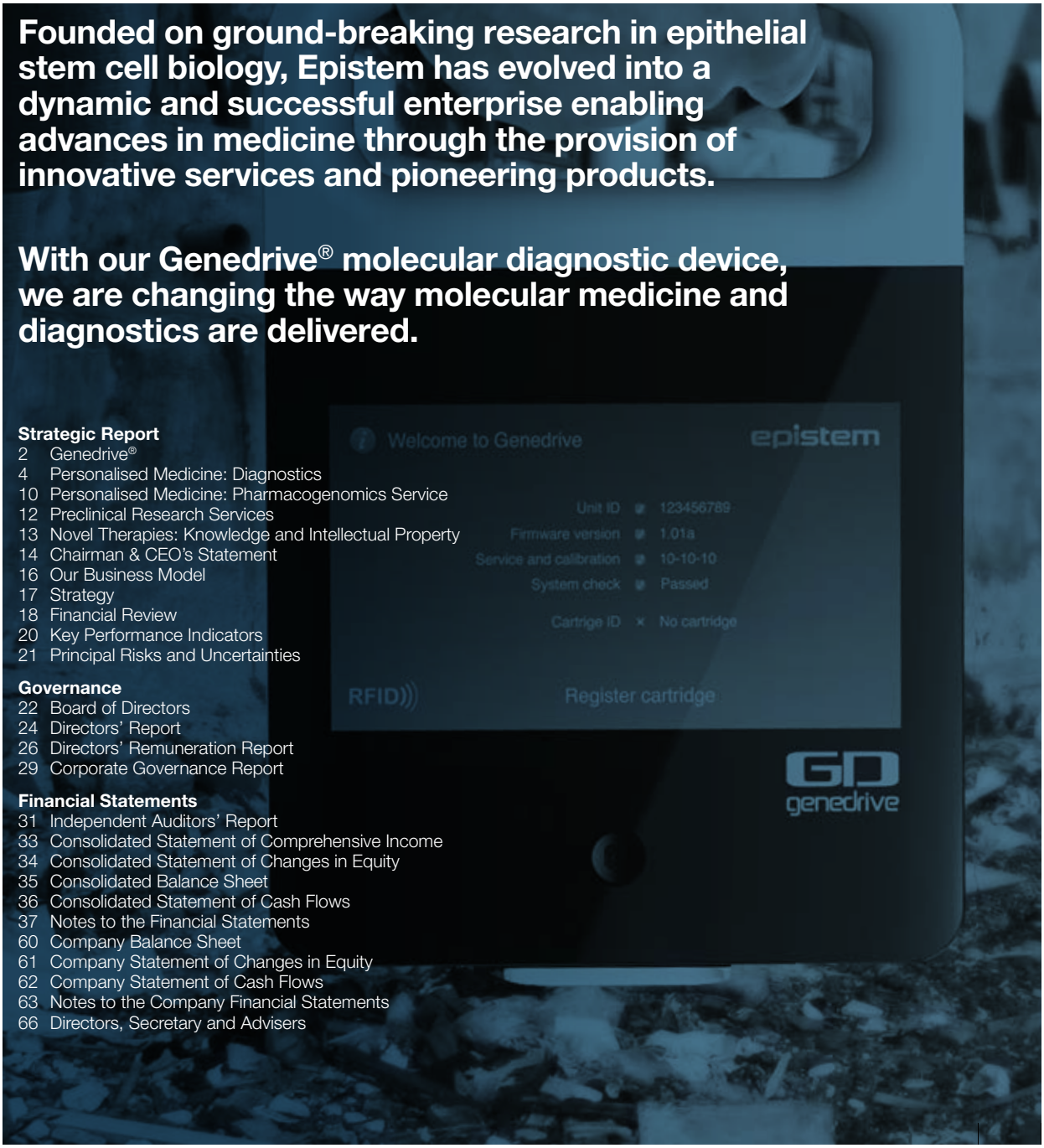
- The award by The Drug Controller General of India (DCGI) to our Indian distribution partner, Xcelris Labs, of an import licence in respect of our TB and associated antibiotic resistance test for use on the Genedrive® instrument.
- Invoicing of the first Genedrive® product sales in advance of the programme of placing units and TB tests with Indian KOL's in preparation for the phased launch of the TB test.
- Excellent progress with the development of the Genedrive® 'Hepatitis C' (HCV) blood test. The programme continues to meet internal milestones with clinical trials anticipated to commence in 2015/16.
- The commencement of clinical trials in collaboration with INSERM (Institute National de la Santé et de la Recherche Médicale) and The Pasteur Institute of the IL28b pharmacogenomic test using the Genedrive® platform. The IL28b project represents a significant proof of principle for Genedrive® in "patient stratification"/"therapy selection" applications.
- Confirmation of £0.4m funding for the development of the Genedrive® platform in an aquaculture application, in collaboration with the Centre for Environment, Fisheries and Aquaculture Science (CEFAS).

Financial

- Total income broadly in line with expectations of £4.5m (2014: £5.8m) following a challenging year for the services operations.
- Preclinical Research Services sales of £2.3m (2014: £2.9m). The US NIH/NIAID collaborative contract with the University of Baltimore (UMB) due for completion in September 2015.
- The successful conclusion of the US Department of Defence assessment of Genedrive® for use in the detection of harmful human pathogens, followed by the announcement in August 2015 of funding of up to $7.8m (c.£5.0m) over five years, the first $2.4m (£1.5m) stage of which is due for completion during calendar year 2016.
- Following the high levels of investment made in our Genedrive® technology, the Company reports an Operating loss of £4.0m (2014: £2.3m Operating loss).
- $8m (c.£4.7m) collaborative funding agreement with The Global Health Investment Fund 1, LLC (GHIF) to support the development and use of Genedrive® applications as part of the Global Access Programme.
- Cash reserves at 30 June 2015 of £4.9m (2014: £4.2m).

Founded on ground-breaking research in epithelial stem cell biology, Epistem has evolved into a dynamic and successful enterprise enabling advances in medicine through the provision of innovative services and pioneering products.

With our Genedrive® molecular diagnostic device, we are changing the way molecular medicine and diagnostics are delivered.



Genedrive®

Changing the way molecular diagnostics and Personalised Medicine are delivered

Genedrive® is rapidly reconfigurable for specific assays and is suitable for use in a 'Point of Care' setting. Genedrive® analyses nucleic acids from fresh or stored samples in clinical and remote settings to provide near-patient diagnostics.

At the heart of the Genedrive® technology is the plug-in assay cartridge, which allows the device to work across the following areas:

Diagnostics:

Rapid and accurate diagnosis of infectious disease facilitating immediate therapeutic treatment

Pharmacogenomics:

Allowing medicine to be personalised around an individual patient's genotype

Future applications:

Genedrive® is being validated for use in the areas of pathogen detection & forensics, biosurveillance, veterinary science and agriculture/aquaculture

Mobile:
designed as a simple to use, handheld device

Rapid:
results in approximately 45-60 minutes

Accurate:
Molecular diagnostic for viral, bacterial and mutational analysis

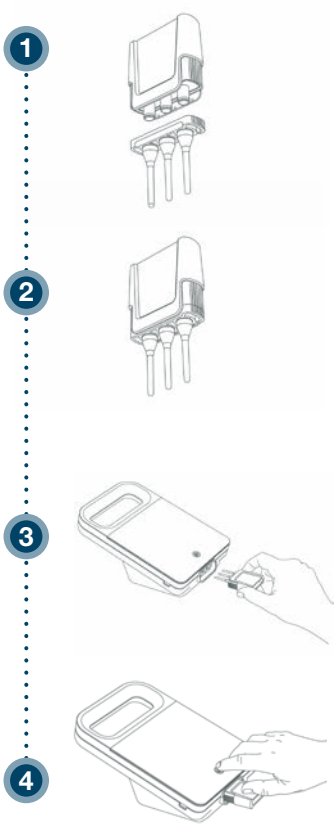
Genedrive® Assay Development
Single use assay cartridges

At the heart of the Genedrive® technology is the plug-in assay cartridge. Genedrive® tests use a simple assay cartridge with RFID capacity to programme the assay metrics into the Genedrive® unit. This significantly simplifies user operation enabling a single button operation.

Personalised Medicine: Diagnostics

Low cost, disruptive, Point of Care molecular testing platform

Genedrive® brings versatility, low cost and simplicity to Point of Care molecular diagnostics. With regulatory approval for TB in India announced in 2015, Epistem has a range of follow-on tests in development targeting infectious diseases using sputum, blood and swabs. The Genedrive® platform is being developed to harness PCR molecular technology to open up Point of Care patient stratification, pathogen detection and animal/ aquaculture capability.

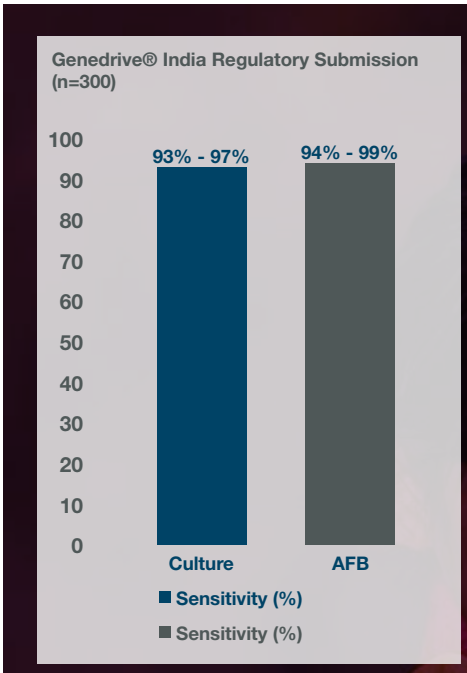


The announcement on 23 April 2015 of Indian regulatory approval for the import into India of the Genedrive® TB test brought a key milestone for the Company foreshadowing the launch of the Genedrive® platform and the commencement of product sales and new income streams.

We are acutely aware that the success of the India launch will impact decisively on the future value of Genedrive® and its adoption for other applications and in other markets. A careful strategy has been adopted to ensure that the TB test will be brought to market on the basis of substantive endorsement by Key Opinion Leaders, a process which has extended further than anticipated a year ago but which we anticipate will underpin a build-up of sales in 2016.

The first phase of that strategy has been to build on the experience gained from trials undertaken using the Genedrive® TB test. The feedback from our Brazil and Africa trials of earlier protocols for Genedrive® highlighted levels of sensitivity lower than we had experienced in other trials. The variations can partially be accounted for by different levels of co-infection experienced in the different patient population groups. Data further pointed to variations in operator practice in different market conditions. We have paused our Africa trials, part of a programme towards WHO approval, whilst this programme of analysis has been undertaken.

The increasing feedback from our product testing has allowed the steady compilation of data to support our test's claims for the diagnosis of bacterial resistance to the first line antibiotic Rifampicin. We anticipate that a full body of field data to support this important product claim will be available during 2016.



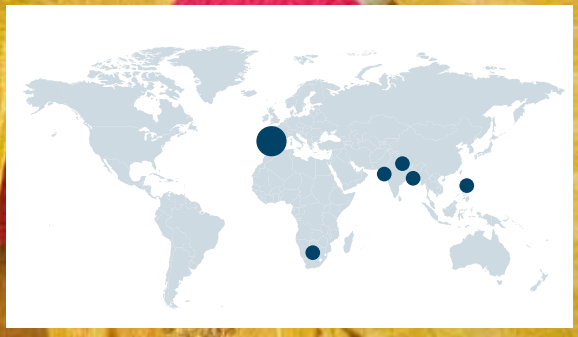
Eradicate TB by 2020

The World Health Organisation through its Stop TB initiative, has provided the world with this vision

$2.62 billion

The global TB testing market is expected to reach USD $2.62 billion by 2020

TB (Mycobacterium tuberculosis)



Ahmedabad, India
(n=300 raw clinical sputa samples)

Data represents 300 clinical samples processed independently as part of Indian clinical evaluation/regulatory study.

Genedrive® POC 'instructions for use', training provided locally. Testing undertaken in a laboratory setting.

Personalised Medicine: Diagnostics (continued)

TB (Mycobacterium tuberculosis) test accessory pack

We have developed fresh sputum sample collection protocols to allow for different testing environments. The final stage of the development process undertaken during this financial year has allowed us to position Genedrive® towards the decentralised testing environment which capitalises on the platform's low cost, ease of use and speed to result. Our development also allows Genedrive® to be positioned in laboratory settings offering users access to high quality but low cost molecular TB testing.

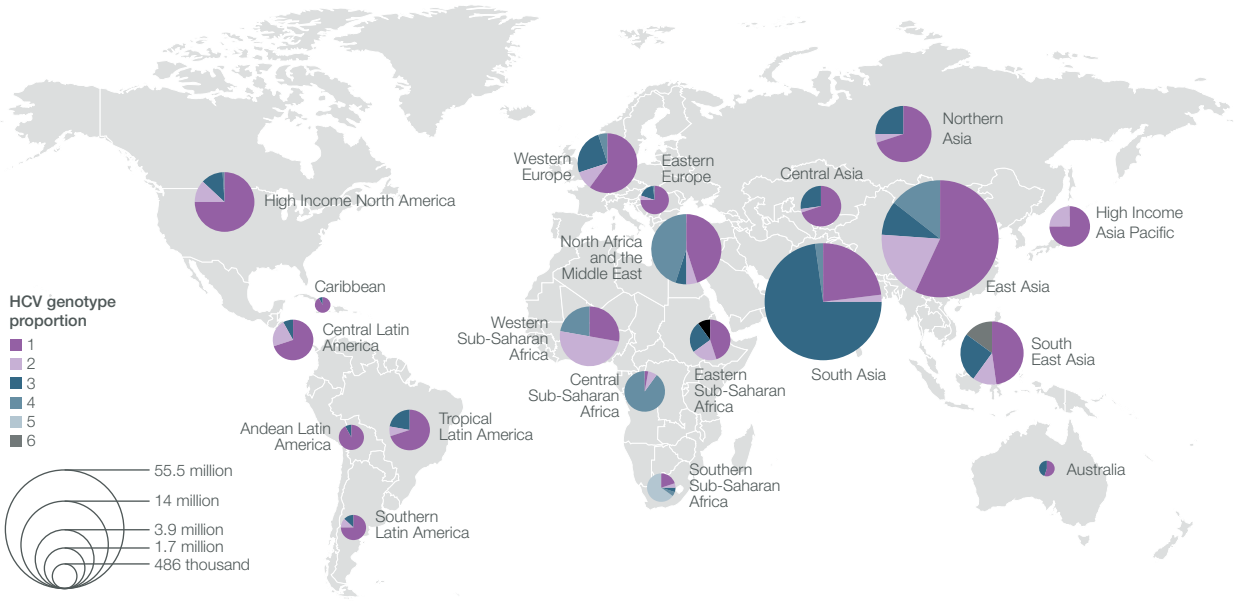
Genedrive® units and assays will be deployed in India as part of a rollout programme with KOL's which we expect to facilitate KOL endorsement and deliver growing demand for Genedrive® units and TB tests and underscore the value of the Genedrive® platform.

In all of this planning, we have worked closely with our India distribution partner, Xcelris Labs. Xcelris Labs placed their first order for Genedrive® units during the period, enabling us to book our first product sales before the year end. Whilst this does not at present signify a level of customer demand, it has initiated the start of our product sales and is encouraging.

We continue to test the robustness of the Genedrive® supply chain and prepare for the scale up of manufacture as demand permits.


EME
(US, EU, Japan,
Australia/NZ) = US$707m
339m
366m
2m
Rest of World = US$327m
2m
14m
311m
TB Detection and monitoring
Drug susceptibility
Detection of latent tuberculosis

Personalised Medicine: Diagnostics (continued)



~150-200m

(known) cases globally

4m

infected each year

350,000

deaths / year

Urgent requirement for PoC based HCV NAT Dx for resource limited settings

The collaboration with INSERM, the French National Institute of Health and Medical Research, to develop a Hepatitis C diagnostic for use on Genedrive® is progressing well. The collaboration involved the development of our genotyping IL28b oral (buccal) swab test to confirm patients' responsiveness to the drugs targeting Hepatitis C. The collaboration further involves the development of a blood based test for Hepatitis C infection.

We will report more fully on the background to our Hepatitis C test during the year but progress with the development of the test has been positive with internal testing indicating conformity with health agency target profiles. We expect to commence independent validation of the Hepatitis C test in collaboration with the Pasteur Institute in 2015/16.

Crucially, the Hepatitis C test, which is qualitative to viral load, has been developed on a blood based platform. This platform may reasonably be expected to be adapted to the development of a test for the Hepatitis B and dengue viruses and HIV.

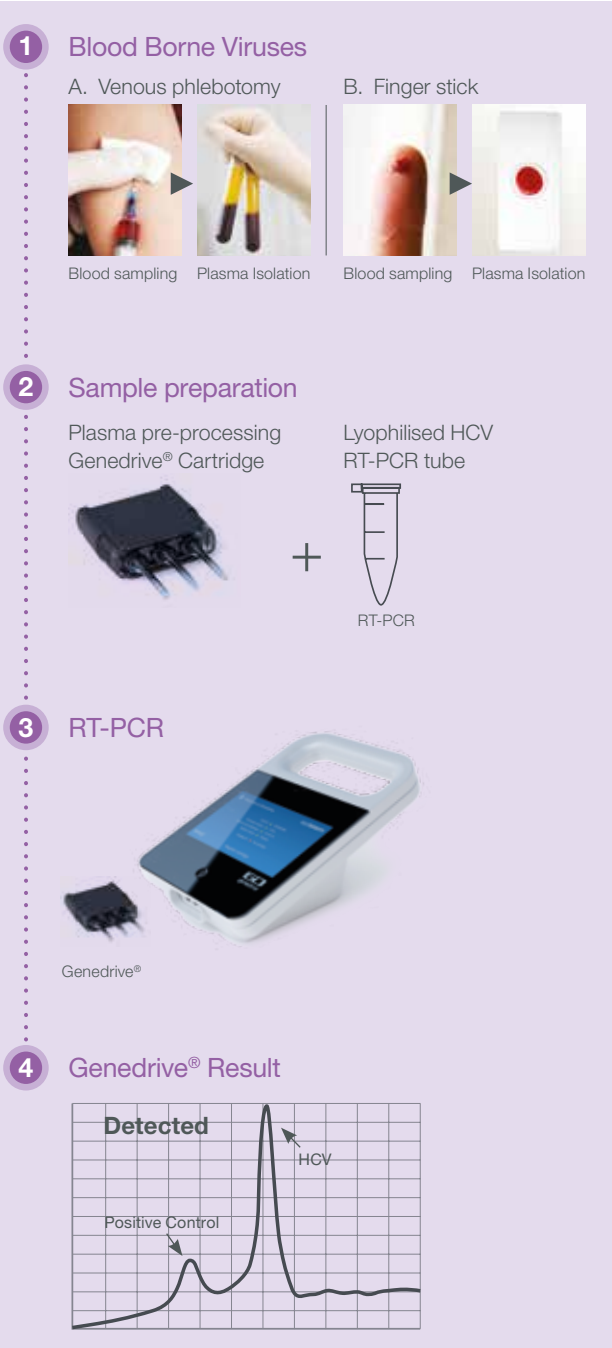
We report that the IL28b test has entered clinical trials with The Pasteur Institute. Whilst the results will be unblinded in 2016, the test appears robust to date. Importantly, the IL28b test represents proof of principle of our ability to rapidly develop genotyping tests for operation on Genedrive® using buccal swab samples. We believe that this platform offers excellent scope for collaboration with drug development partners seeking to identify certain characteristics within patient populations (patient stratification) in planned clinical trials with potential for full clinical use in some instances.

Important validation of Genedrive® has been secured during our work with the US Department of Defense which has assessed the use of Genedrive® in the detection of human pathogens in a variety of non-clinical sample types. During the financial year, the first phase bioplex detection assay (3 pathogens) successfully passed through its initial performance assessment. In our Pre-Close Trading update, we announced agreement with the US Department of Defense for the programme to be extended with work to a value of $2.4m (c.£1.5m) scheduled for completion in calendar 2016. The progress is difficult to position in terms of future product sales but we are pleased with the independent validation of Genedrive® versus other potential suppliers for this programme, as well as the profile given to Genedrive® within the US Government procurement infrastructure.

During the year, approval was granted for £0.4m funding for a collaboration with the Centre for Environment, Fisheries and Aquaculture Science (CEFAS) to develop a Point of Need aquaculture test for the diagnosis of pathogens (White Spot Syndrome Virus, in particular) found to be harmful to shrimps and causing great damage to fish farms. As with the US Department of Defense collaboration, whilst it is difficult to assess the potential for future product sales, we do welcome the exposure which this programme gives to Genedrive®.

In our view, both the US Department of Defense programme and the CEFAS project demonstrate the versatility of Genedrive® as a broadly applicable rapid Point of Care molecular testing system. We are encouraged that in both cases Genedrive® was selected from a range of possible competitive suppliers for these programmes and we remain confident of the very broad applicability of Genedrive® in a wide range of testing environments going forward.

Diagnostics revenues for the year were £0.4m (2014: £0.5m) including £0.1m of maiden Genedrive® sales.



Personalised Medicine: Pharmacogenomics Service

Our pharmacogenomics services offering provides highly sensitive molecular measures of biological processes which improve the understanding of patient response to drug therapies and assists validating new drug targets

The Pharmacogenomics team engage the application of molecular expertise towards collaborative projects for pharmaceutical and biotechnology organisations engaged in drug development and the discovery of new biomarker targets. Our business model seeks to engage the client in a level of FTE based service commitment, supplemented with the potential for milestone income or the opportunity to deliver tests to patient populations in clinical trials and, if ultimately successful, as a companion diagnostic for a drug once approved.

The team has built a significant expertise in laser capture microscopy (LCM) and is working to establish future collaborations with client partners for this expertise. Projects are largely dependent on the success of the drug development projects with which they are involved.

During the year we continued to work closely with a key international pharma company on the clinical expansion of our oncogene test from blood myeloproliferative disorders. The testing programme continues to be well received and we anticipate the extension of our work as clinical trials for the drug are further rolled out.

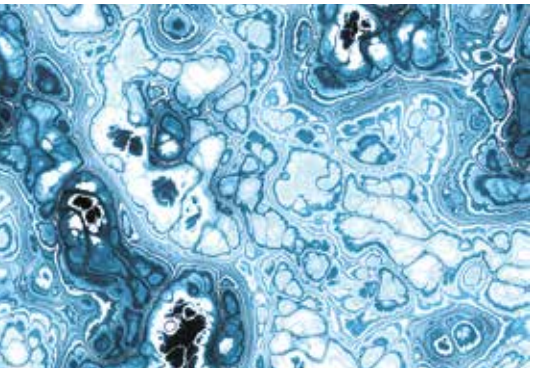
Revenues during the year amounted to £1.8m (2014: £2.4m). The outturn resulted from an unexpected project cancellation caused by factors unrelated to the data generated within the project.

The pharmacogenomics platform builds on Epistem's proprietary RNA and DNA amplification technology and high sensitivity amplification kits to offer multi system transcriptional profiling working with major pharmaceutical and biotech business groups in developing preclinical and clinical biomarkers to measure the effect of a drug on targeted tissue. The focused understanding of differing patient groups' response to a drug treatment enable drug regimens to be personalised to a patient's needs and enhances the successful outcome of a drug in trials.

During the year we have continued to invest in our niche small tissue expertise and our LCM capability. This has allowed us to collaborate in target discovery programmes. At the same time, we continue to build up our service offering in oncogene detection from whole blood, with the prospect of developing a diagnostic for an oncogene therapy.

Preclinical Research Services

The Preclinical Research Services division comprises an internationally recognised team of scientists skilled in preclinical efficacy testing in the areas of oncology, oncology supportive care, inflammatory bowel disease, rheumatoid arthritis and dermatology



Preclinical Research Services generated revenues of £2.3m (2014: £2.9m).

Whilst this was not a positive outcome, a full review and reorganisation of our business development focus has been undertaken. New processes have been established with improved quote levels now being evidenced.

During the year, we learned that the NIH/NIAID will not be extending their funding to the University of Maryland Baltimore (UMB) beyond September 2015. With the contract having generated c.£1m annual revenues in recent years for the Company, this news represents a significant disappointment. However, our international reputation in the field of radiation sickness is anticipated to offer additional sub-contracting opportunities and, overall, we expect the net negative impact to be modest.

The division delivers bespoke preclinical (and early clinical) services testing efficacy and specificity of client drugs.

The team offers internally developed models and assays in the disease areas of oncology, oncology supportive care (mucositis), inflammatory bowel disease, rheumatoid arthritis and dermatology. Each disease area is served by specialist core technologies (imaging, FACS analysis, histopathology, immunohistochemistry and multiplexing) to support drug, target and protein biomarker validation.

Internationally recognised expertise in evaluating treatments for gastrointestinal damage

Preclinical Research Services delivers successful but niche services to international drug development and Biotech companies. Whilst there have been setbacks during the year, the reputation of the team within the drug development industry remains strong, with key repeat business from large pharma, and there continues to be present good opportunities for useful synergies and business development going forward.

The Division maintains a commitment to the development of its models with particular focus on its orthotopic oncology and rheumatoid arthritis models.

Novel Therapies: Knowledge and Intellectual Property

Expertise and intellectual property from research into the body's own key regulators of epithelial stem cells and tissues

We continue to retain the expertise and intellectual property of the Novel Therapies division. Although we have not incurred any fresh investment in the Novel Therapies division, we will continue to review our position in the light of growth in our core business.

Chairman & CEO's Statement

The year represented a decisive period of transition for Epistem with key steps in the development and launch of Genedrive®

The year represented a decisive period of transition for Epistem with key steps in the development and launch of Genedrive®, our novel, versatile and rapid Point of Care molecular testing platform for use in diagnosing infectious diseases, patient stratification and other molecular diagnostic applications. The excellent progress with Genedrive® has, however, been partly tempered by reduced turnover in the established services business divisions of the Company, which to date has represented the majority of our revenues.

The transition of the Company towards an increasing focus on the Genedrive® diagnostics system was the driving factor behind my becoming a director of Epistem and in May it became my privilege to have accepted the role as Chairman of the Company. The diagnostics industry has long sought simple, Point of Care, molecular testing capability to enable both qualitative and quantitative testing for infectious diseases which represent key unmet healthcare challenges and which allows more rapid and more accurate targeting of therapies for patients. In meeting this need, Genedrive® represents a significant breakthrough in low cost molecular testing technology, and design, and offers the prospect of a substantial and disruptive entry to the market for diagnostic devices. As shareholders are aware, the Company has taken time to develop this technology platform and has invested heavily but judiciously in developing its technical expertise, allowing us to address the challenges of delivering molecular testing results from small tissue samples where there is limited access to laboratory equipment. The first Genedrive® regulatory approval in India for the TB test, together with an expanding range of tests, particularly in Hepatitis C (and in due course Hepatitis B and HIV) will, in my view, secure for Genedrive® a key position in low cost Point of Care testing and the creation of substantial returns to shareholders given the opportunities we see in infectious diseases, patient stratification and other molecular diagnostic applications. It is our aim to build a significant global base of installed instruments offering a pipeline of high-value tests. In order to drive our commercial plans, we have recruited Gordon Powell, as our Global Commercial Director for Genedrive®. Gordon was formerly Global Commercial Director at Axis-Shield where he implemented the commercial strategy for the highly successful Afinion Point of Care testing instrument.

During the year, the Company entered into a collaboration and $8m (£4.7m) funding agreement with the Global Health Investment Fund (GHIF) which is supported by the Bill and Melinda Gates Foundation. The issue of $8m (£4.7m) Convertible Bonds not only represents a significant financial step for the Company but also offers potential for collaboration with the GHIF's significant support network.

Operating Review

The Personalised Medicine division is harnessing advances in molecular technology to identify and develop new diagnostic tests and biomarkers for use either on Epistem's proprietary Genedrive® diagnostic platform or in collaboration with drug development partners.

Molecular testing is crucial for diagnosing specific disease mutations including antibiotic resistance as well as identifying patient-specific variations. This in turn allows for selection of treatment regimens targeting the specific disease characteristics or which take into account a patient's expected response to a drug. This drug orientated companion diagnostic testing and patient stratification is seen as key to the evolution of successful and efficient patient treatment now and in the future.

Genedrive® represents a substantive breakthrough in molecular diagnostics technology. It allows rapid, low cost testing in near patient locations not presently available in the market. Within the division, the Diagnostics team is bringing Genedrive® to market initially for use with its test for the detection of TB and, in the future, across a broad spectrum of viral, bacterial, fungal, genomic genotypes and somatic mutations either independently, in partnerships or within grant funded collaborations, with a view to delivering a flow of instrument and test cartridge sales.

The Pharmacogenomics team deploys its molecular expertise in a serviced based model aiming to collaborate with major pharmaceutical and biotechnology companies to develop biomarker and target discovery projects to deliver collaborative income and milestone payments.

Management Changes

As noted earlier, I was appointed Chairman May 2015, taking over from David Evans. David is a highly experienced and successful business leader, playing a key role in the development of the Company since his appointment in 2005.

In August 2015 we announced that Matthew Walls would be leaving his position as CEO and his resignation was confirmed on 23 October 2015. Matthew had been CEO since 2007 when the Company was listed on AIM. His period of office has been characterised by an outstanding work ethic together with an ability to initiate key developments for the Company. On behalf of the Company, I would like to thank both David and Matthew for their huge contribution in developing Epistem as a public company.

I will continue to act as CEO in an interim capacity. The search for a new CEO is progressing well and I am committed to staying with the business as Non-executive Chairman once a new CEO is appointed.

Outlook

In Genedrive®, I believe that Epistem has created a significant new diagnostic platform targeting the exciting area of Point of Care diagnostics. This development has been achieved with very modest resources in comparison to peer developments and, whilst we have experienced delays, we have in the coming months the opportunity to redress the balance with the important launch of the TB test in India. In conjunction with developing our India distribution partners, we have to establish a strong and successful diagnostics commercial capability to match our existing development profile. We will not seek to raise external expectations until a track record of sales is established but anticipate updating shareholders at the announcement of the next Interim Results.

Successful validation of our TB test will allow us to reactivate programmes with various support agencies which have expressed strong interest in Genedrive®. In particular, we look forward to working with the GHIF and its support network in addressing global health challenges.

Beyond launching our TB test, we have substantial development opportunities to progress, notably with Hepatitis C in collaboration with the Pasteur Institute and pathogen detection with the US Department of Defense.

Our services operations require careful nurturing. With sensible management, we are optimistic that the net loss of revenues resulting from the loss of our UMB contract in the current period will be limited and that our ability to generate substantial returns from our niche services will in future periods be re-established.

I would like to thank our investors, Board, management and employees for their help and solid support over the past year and I look forward to updating our investors on our progress over the coming weeks and months.

Dr Ian Gilham

Our Business and Strategy

Our strengthening business model is based on sustaining future growth. Alongside our heritage 'fee for service' business we are preparing for the launch of our first diagnostic product. Our unrivalled knowledge of the behaviour of epithelial cells together with our proprietary amplification technologies will further strengthen our position in personalised medicine and disease diagnostics.

Division	Field	Area of Income	Discovery	Pre-clinical	Phase 1	Phase 2	Phase 3	Market
Product Launch								Genedrive®
Personalised Medicine	Market and pre-clinical & clinical programmes	Product sales, fee for service, partnering and licensing						Global Diagnostics Tuberculosis Hepatitis C Pharmacogenomics Patient stratification for personalised medicine Other Applications Pathogen detection Aquaculture
Preclinical Research Services	Inflammatory bowel disease, dermatology, oncology, mucositis	Fee for service						
Novel Therapies	Expertise and intertectual property	Partnering and licensing						

Strategy

Operational

Integrated business model
Epistem's complementary portfolio of divisions derives from a focus on scientific & technical know-how and strong intellectual property. Our strategy aims to ensure strong financial growth in each of our independent divisions to deliver new product sales as well as secure service and collaborative income.

Partnering Programme
Our key business processes will be developed with collaborative partners and major industry groups to ensure rapid access to global markets, security and flexibility of supply of products to our customers. We remain committed to developing and enhancing our scientific relationships to unlock the potential for our technologies.

Internationally respected technology and expertise
Our investments in technology and expertise are targeted at meeting the demands and aspirations of the market as well as addressing key global healthcare challenges. Our investment in technology remains a mainstay underpinning growth in all our divisions.

Product focus
Successful product launch of Genedrive® is central to our near-term strategy with resources to be deployed accordingly. Genedrive® has brought a new dimension to our profile and business model with applications across multiple aspects of the healthcare environment impacting on our management team, operational infrastructure and business partners.

Strategic Goals

Delivery
We aim to secure a strong market profile for Genedrive® based on reliability, quality and affordability. We will invest to support Key Opinion Leaders in India to establish for Genedrive® a key niche in the market for Point of Care testing of tuberculosis and support our distribution partner in a roll out programme. We aim, thereafter, to move rapidly to secure distribution in follow on markets and launch new tests.

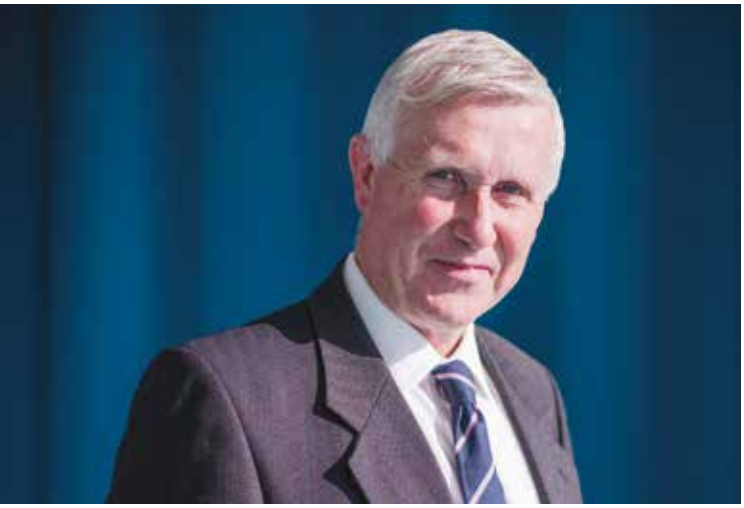
Technical reputation
We aim to establish Genedrive® as the global leader in Point of Care molecular diagnostic testing.

Epistem's leading industry presence in epithelial stem cells, personalised medicine and disease diagnostics will be developed by on-going investment in our core technologies of cell and molecular biology.

Financial
The Company will pursue its goal of establishing sustainable and growing income streams whilst increasing the potential for substantial returns from its invested technologies.

Investor
The delivery of our Company objectives will establish Epistem as an attractive investment opportunity for both our existing and new investors. Demonstration of progress in delivering substantial and growing income streams will signal Epistem as a company with significant upside potential.

Financial Review



As a personalised medicine and biotechnology Company, Epistem retains a mix of services operations supporting drug development organisations. As previously reported, the activities of the Company are detailed within three divisions, Personalised Medicine, Preclinical Research Services and Novel Therapies.

The financial results for the Group presented in this statement reflect the Group's trading for the year to 30 June 2015 and the comparative period to 30 June 2014.

The Company reports turnover of £4.5m (2014: £5.8m). Within the divisions, Personalised Medicine delivered income of £2.2m (2014: £2.9m) and Preclinical Research Services income of £2.3m (2014: £2.9m) with Novel Therapies reporting no sales over the period (2014: £nil).

The Income results for the Group reflect a weakness in demand for our Personalised Medicine and Preclinical Research Services, especially, for the latter, in UK/Europe. Validation of the Genedrive® platform is anticipated to be the engine generating growth income for Personalised Medicine, in the form of both Genedrive® product sales and collaborative income. Preclinical Research Services has reorganised its sales activities to address weaknesses experienced in the year in Europe and also, in the US to replace the fall off in income which will follow the ending of our collaboration with University of Maryland Baltimore (UMB) in Radiation Biodefence, on the completion of the existing five year contract in September 2015. During the year, the contract with UMB accounted for £0.9m (2014 £1.1m). Novel Therapies, for which we retain the portfolio of drug discovery IP, reported no sales for the period (2014: £nil).

Consolidated geographical revenues were split US 45% (2014: 44%), EU 24% (2014: 20%), UK 20% (2014: 32%) and ROW 11% (2014: 4%). Preclinical Research Services reported a contribution of £0.1m (2014: £0.5m) reflecting the reduced turnover of the division. Personalised Medicine increased its investment in the development of the Genedrive® platform and reported a loss of £2.4m (2014: £0.7m loss). No development expenditure was incurred by the Novel Therapies division in the period. The headcount of Group at the year end was 71 (2014: 70). Central administration costs increased to £1.7m (2014: £1.5m) giving rise to an overall Operating loss for the year of £4.0m (2014: £2.3m).

On 21 July 2014, Epistem entered a Collaboration and Convertible Bond Purchase Agreement with Global Health Investment Fund 1 LLC (GHIF).

Under the terms of the agreement, Epistem issued to GHIF a five year convertible bond raising $8m (c.£4.7m) for the Company before costs of £0.1m and with a coupon of 5% per annum. The GHIF agreement contains provisions which allow the bond to be converted into ordinary Epistem shares using a fixed exchange rate and a fixed conversion price of 489p per share. As part of the collaborative funding agreement, the GHIF and Epistem have made global access commitments to mutually support and facilitate the introduction, distribution and sale of the Genedrive® platform and our expanding menu of infectious disease assays under development for low-and middle-income countries.

The purpose of the agreement has been to provide funding to support the rollout of Genedrive® as the Company prepares for the launch of the TB assay whilst also supporting the development of new diagnostic tests aimed at tackling diseases which represent global health challenges such as TB and Hepatitis C.

Financing income for the year which is detailed in the note amounted to £0.6m (2014: £0.1m loss). The surplus arises largely because under International Financial Reporting Standards the Convertible Bond is required to be treated as a derivative to be revalued at each accounts date. After tax credits for the year amounting to £0.4m (2014: £0.7m), the Group reported a loss after tax for the year of £3.0m (2014: £1.7m loss).

The reported loss per share was 30.2p (2014: 17.4p loss per share).

Cash balances at 30 June 2015 were £4.9m (2014: £4.2m).

Following receipt of regulatory approval in India in respect of the Genedrive® TB test, the Group issued 491,228 ordinary shares of £0.015 each to the vendors of Visible Genomics Limited, in settlement of deferred consideration. The terms relating to the acquisition of Visible Genomics Limited were detailed in the 2014 Annual Report.

The Company's annual audit was undertaken in October 2015 by Haines Watts Chartered Accountants and their audit report is included with the 2015 Annual Report.

John Rylands

Key Performance Indicators

Epistem reports continued increased investment in its diagnostic platform, Genedrive®. Revenue generation in preclinical services and personalised medicine weakened in the period. Underlying financial resources were strengthened with the issue of £4.7m ($8.0m) convertible bond

Group Revenue

45%
United States

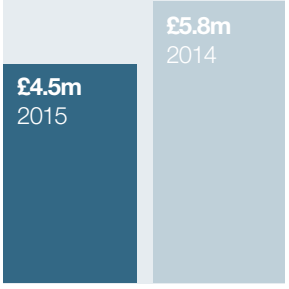
24%
Europe

20%
United Kingdom

11%
Rest of World

Group Revenues

Weak outturn from our services divisions



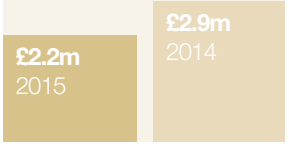
Preclinical Research Services Revenues

Preclinical Research Services delivered £2.3m revenue

Personalised Medicine & Novel Therapies Revenue

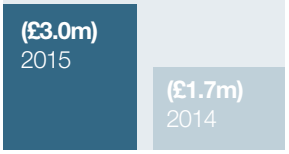
Personalised Medicine delivered £2.2m revenue

Novel Therapies produced £nil revenue in 2015



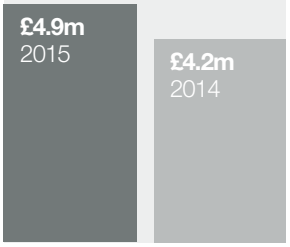
Results After Tax

After tax, Development and Admin Costs exceeded contribution from sales to report a loss of £3.0m



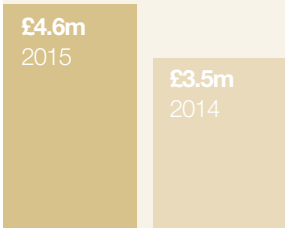
Cash Reserves

Following the issue of the convertible bond, cash reserves at year end were £4.9m



Discovery, Development and Admin Costs

Discovery and Development costs charged to the P&L grew strongly in 2015 to £2.9m. Admin costs were £1.7m



Principal Risks and Uncertainties

For the year ended 30 June 2015

The Board meets regularly to review operations and to discuss risk areas. Details of the financial risks are disclosed in Note 21 to the financial statements. The Directors regularly assess and monitor the business risks faced by the Group. Risk is an inherent feature of business and set out below are some key risks, together with associated mitigating factors. This list does not purport to be exhaustive.

Development risk

The Group undertakes significant activity with the aim of launching new products, therapies and services. There can be no guarantee that the development activity will enable the programmes to meet the technical and intellectual property hurdles required for a commercial launch to be undertaken. The Group seeks to mitigate this risk by ensuring that development programmes are planned and undertaken by staff with the requisite skills. The Group monitors industry trends and customer needs to ensure that its development targets remain relevant. The Group's services to clients relate to projects which are also subject to development risk. The Board regularly monitors the client profile and seeks to broaden the client base where possible. Further information on significant clients is detailed in Note 2 the Financial Statements.

Financing risk

In the forthcoming period, the Board anticipates that the Group's investment in its development activities described above is likely to require additional equity investment into the Group. The Board maintains close dialogue with the Group's advisers to monitor shareholder support for its investment programme and the Board is satisfied that it may reasonably expect to raise appropriate equity finance. However, there remains a risk that further equity fundraising will not be possible and, in this event, the Board will review the funding options available to the Group and the scope of its investment activities.

Quality Assurance and Regulatory risk

The Group operates in a regulated industry and maintains significant investment in its Quality Assurance systems. In respect of its services the Group is accredited with GCLP Certification. In respect of its products, the Group is registered to ISO 13485 Certification and has secured regulatory approval in India. There can be no guarantee that the Group's products or services will be able to obtain or maintain the necessary approval for the orderly conduct of its business. Approvals can require evaluation of data relating to safety, quality and efficacy standards. The Group seeks to mitigate regulatory risk by conducting its operations within recognised quality assurance standards and by undergoing external assessment.

Manufacturing risk

On commencement of the supply of products, (Genedrive® units and assays) the Group will be dependent on two key suppliers for the timely delivery of product at consistent quality and prices. One key supplier is based in the Far East and one key supplier is based in the UK. It is unlikely that dual sourcing of supply will be achievable in the short term.

Management & Employees

The Group's future success is dependent on its management team and staff. There is an on-going risk that staff will leave to join competitor companies. The Group seeks to mitigate this risk by establishing effective management organisation and leading staff incentive schemes.

Economic risk

The Group's programmes are targeted to meet the commercial requirements of its clients. In the current economic climate, clients' plans may be subject to changes which may adversely affect the financial performance of the Group. The Group seeks to mitigate this risk by operating a diversified business model across various technologies and territories.

Board of Directors

1. Ian Gilham, Ph.D.
Non-executive Chairman

Ian was appointed on 24 November 2014, Non-executive Chairman on 11 May 2015 and as Interim CEO on 4 August 2015. He is currently non-executive chairman of three life sciences companies including AIM quoted Horizon Discovery Group plc, which provides gene-editing tools to support translational genomics and the development of personalised medicine, Multiplicom NV focused on the development and commercialisation of next generation DNA sequencing products and Biosurfit SA, focused on development and commercialisation of point-of-care diagnostic products. Dr Gilham was formerly Chief Executive Officer of Axis-Shield plc.

2. John Rylands
Finance Director

John originally joined Epistem as an investor and Non-executive Director, and in 2005, he took over his current role. John provided corporate finance advice to private companies before joining Epistem. Prior to 1999 he was an investor in and consultant to the SDS group of companies. John holds a degree in Economics and Accountancy from Manchester University and is a Fellow of ICAEW.

3. Allan Brown, Ph.D.
Chief Operating Officer, Diagnostics

Allan has spent his career in the Life Sciences/diagnostics industry. During a seventeen year period with Tepnel Life Sciences plc, latterly as Divisional Managing Director, Allan's technical management roles covered product development through to commercial product launch; his commercial management roles covered sales and business development and M&A. Allan left Tepnel in 2010 following its recommended US$132m cash offer by Gen-Probe Inc. in 2009. At the time of the offer by Gen-Probe Inc. Tepnel employed over 200 employees and had operations in the UK, US, Belgium and France. After leaving Tepnel/Gen-Probe, Allan joined the leading Sample & Assay Technologies company, QIAGEN N.V., in Manchester and managed the final development and launch of the company's first US FDA approved products, helping secure the site as QIAGEN's Global Centre of Excellence for molecular diagnostic product development. Allan was appointed to the Board on 1st February, 2014.

4. Catherine Booth, Ph.D.
Managing Director, Contract Research Services Officer

Catherine is a co-founder of Epistem and prior to starting Epistem she worked for ten years with Prof. Chris Potten at the Paterson Institute. Whilst at the Paterson Institute, she developed many pre-clinical assays. This knowledge is at the core the Epistem contract Research Service. Catherine received her Ph.D. from Emmanuel College, University of Cambridge.

5. Robert Nolan, Ph.D.
Non-executive Director

Robert has been a Non-executive Director of the Company since 2004. Having gained US post doctoral experience at Dartmouth Medical School and MIT, he joined SANDOZ Forschungsinstitut in Vienna in 1972 to work on mechanism of antibiotic action and was also coopted on to Sandoz global strategic planning group. He joined ICI pharmaceuticals (which became AstraZeneca) in 1979 to head up a natural products discovery programme and subsequently joined their product licensing group. He brings with him a wealth of expertise in partnering and licensing negotiations with both small biotechnology and large pharmaceutical companies. Prior to his retirement he was Director, Global Licensing, at AstraZeneca. He is also a Non-executive Director of Phico Therapeutics Ltd.

6. Roger Lloyd, Ph.D.
Non-executive Director

Roger joined the Board as a Non-executive Director on 1 July 2007. Trained as a biochemist, Roger has 37 years' experience in the healthcare and biotechnology sector, particularly in the areas of strategic planning and business development. International business management with ICI Plc and AstraZeneca Plc included living and working in the United States and Germany, and having territorial responsibilities for Europe, Japan, Korea, Mexico and the Middle East. As Executive Director of Global Licensing at AstraZeneca he personally completed 24 transactions. He operates as a Board Adviser in the Biotech sector.

Directors' Report

For the year ended 30 June 2015

The Directors present their report for Epistem Holdings Plc ('the Company') and its subsidiaries (together 'Epistem' or 'the Group') for the year ended 30 June 2015.

Results and dividends

The trading results for the year and the Group's financial position at the end of the financial year are shown in the financial statements on pages 33 to 36 of this report.

Going concern

After due consideration of the Financing Risk detailed on page 21, the Directors have a reasonable expectation that the Group will have access to adequate resources to continue in operational existence for the foreseeable future. Accordingly, the Directors continue to adopt the going concern basis in preparing the accounts.

Directors and their interests in shares

The Directors of the Company who held office throughout the year, unless otherwise stated, and their interests in the share capital of the Company, including family and pension scheme trust interests, were as follows:

	30 June 2015	1 July 2014
Ian Gilham (appointed 24 November 2014)	**–**	n/a
David Evans (resigned 11 May 2015)	**–**	98,845
Catherine Booth	**987,568**	985,984
Allan Brown	**2,154**	–
Roger Lloyd	**–**	–
Robert Nolan	**5,065**	5,065
John Rylands	**197,466**	195,882
Matthew Walls (resigned 23 October 2015)	**13,213**	11,629

Significant shareholdings

In addition to the Directors' holdings, the Company has been advised of the following interests of over 3% of the issued ordinary shares:

	Percentage holding
ODEY Asset Management	15%
Blackrock funds	9%
River and Mercantile Asset Management	5%
Prudential Plc group of companies	5%
ADM Investor Services	4%
Aerion Fund Management	3%
Henderson Global Investors	3%

Directors' and Officers' liability insurance

Qualifying indemnity insurance cover has been arranged in respect of the personal liabilities which may be incurred by directors and officers of the Group during the course of their service with the Group. This insurance has been in place during the year and on the date of this report.

Research and development

During the year ended 30 June 2015 the Group has incurred research Discovery and development costs of £2,942k (2014: £2,037k).

Expenditure on Intangible assets (relating to research and development activities) was £550k (2014: £3,730k) as detailed in Note 10 to the Financial Statements. Additions to Intangible assets last year included research and development expenditure of £2,750k in respect of the recognition of the Visible Genomics Limited earnout consideration which is detailed on Page 63 of the Annual Report.

A review of our Research and Development investment is included within the Strategic Report on pages 2 to 21.

Statement of Directors' responsibilities

The Directors are responsible for preparing the Annual Report, the Directors' Remuneration 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 prepared the Group Financial Statements in accordance with International Reporting Standards (IFRSs) as adopted by the European Union.

In preparing those Financial Statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make suitable judgements and estimates that are reasonable and prudent;
- state that the Financial Statements comply with IFRSs as adopted by the European Union, subject to any material departures being adequately disclosed and explained;
- prepare the Financial Statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The Directors confirm that they have complied with the above requirements in preparing the financial statements.

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 Group and enable them to ensure that the financial statements comply with the Companies Act 2006 and Article 4 of the IAS Regulation. 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.

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 financial statements may differ from legislation in other jurisdictions.

Provision of information to auditors

The Directors who were members of the Board at the time of approving the Directors' Report are listed on page 23. Having made enquiries of fellow Directors and of the Group's auditors, each of these Directors confirms that:

- to the best of each Director's knowledge and belief, there is no information (that is, information needed by the Group's auditors in connection with preparing their report) of which the Group's auditors are unaware; and
- each Director has taken all the steps that a Director might reasonably be expected to be taken to be aware of relevant audit information and to establish that the Group's auditors are aware of that information.

Approved by the Board

H J J Rylands
Company Secretary
18 November 2015

Directors' Remuneration Report

For the year ended 30 June 2015

Introduction

This report has been prepared in accordance with the requirements of Schedule 2 Part 1 to the Companies Act 2006 ('the Schedule') and also meets the relevant requirements of the Listing Rules of the Financial Services Authority and describes how the Board has applied the Principles of Good Governance relating to Directors' Remuneration. In accordance with Section 439 of the Companies Act 2006 ('the Act'), a resolution to approve the report will be proposed at the Annual General Meeting of the Company at which the financial statements are to be approved.

Section 497 of the Act requires the auditors to report to the Company's members on the 'auditable part' of the Directors' Remuneration Report and to state whether, in their opinion, that part of the report has been properly prepared in accordance with Part 3 of the Schedule. This report has therefore been divided into separate sections for audited and unaudited information.

Unaudited information

Remuneration policy

The Executive Directors have written terms of engagement with no fixed expiry date.

Executive remuneration packages are prudently designed to attract, motivate and retain Directors of the necessary calibre and to reward them for enhancing value to shareholders. The performance measurement of the Executive Directors and key members of senior management and the determination of their annual remuneration package is undertaken by the Remuneration Committee.

Executive Directors' service contracts are subject to 6 months' notice of termination other than Matthew Walls's service contract which was subject to 12 months' notice of termination.

Executive Directors are entitled to accept appointments outside the Company providing the Board's permission is sought.

The remuneration of the Non-executive Directors is determined by the Board within limits set out in the Articles of Association.

Non-executive Directors' terms of engagement

The Non-executive Directors have specific terms of engagement with no fixed expiry date. Their remuneration is determined by the Board. In the event that a Non-executive undertakes additional assignments for the Company, the Non-executive's fee will be agreed by the Company in respect of each assignment.

Audited information

Aggregate Directors' remuneration

	Salary & fees £	Bonus £	Benefits in kind £	Pension £	**2015 Total £**	2014 Total £
Executive						
Catherine Booth	106,107	5,000	394	32,060	**143,561**	134,747
Allan Brown	150,000	5,000	542	3,000	**158,542**	63,429
John Rylands	131,969	5,000	1,249	2,629	**140,847**	134,406
Matthew Walls (resigned 23 October 2015)	321,030	16,200	999	5,962	**344,191**	305,180
Non-executive						
Ian Gilham (appointed 24 November 2014)	40,249	–	–	–	**40,249**	–
David Evans (resigned 11 May 2015)	26,250	–	–	–	**26,250**	35,000
Roger Lloyd	24,000	–	–	–	**24,000**	24,000
Robert Nolan	24,000	–	–	–	**24,000**	24,000
	823,605	31,200	3,184	43,651	**901,640**	774,838

Directors' share options

Details of the options for Directors who served during the year are as follows:

	As at 1 July 2014	Exercised/ Lapsed	Options granted	**As at 30 June 2015**	Exercise price	Earliest exercise date	Expiry date
Executive							
Catherine Booth [2]	15,528	–	–	**15,528**	1.20	Exit	09/01/2016
John Rylands [3]	83,333	–	–	**83,333**	1.20	04/04/2007	09/01/2016
John Rylands [1]	127,847	–	–	**127,847**	1.20	04/04/2007	09/01/2016
Matthew Walls [4] (resigned 23 October 2015)	177,653	–	–	**177,653**	1.24	31/10/2010	04/02/2017
Matthew Walls [5] (resigned 23 October 2015)	80,644	–	–	**80,644**	1.24	31/10/2010	04/02/2017
Matthew Walls [6] (resigned 23 October 2015)	254,631	–	–	**254,631**	3.73	30/09/2013	04/02/2017
Matthew Walls [6] (resigned 23 October 2015)	5,369	–	–	**5,369**	3.60	30/09/2013	04/02/2017
Matthew Walls [6] (resigned 23 October 2015)	23,758	–	–	**23,758**	5.50	23/10/2015	04/02/2017
Allan Brown [2]	200,000	–	–	**200,000**	3.25	25/03/2017	25/03/2024
Non-executive							
David Evans [1] (resigned 11 May 2015)	62,112	62,112	–	**–**	1.20	04/04/2007	09/01/2016
Ian Gilham [6] (appointed 24 November 2014)	–	–	100,000	**100,000**	2.78	17/12/2018	16/12/2025
Roger Lloyd [6]	–	–	30,000	**30,000**	2.78	17/12/2018	16/12/2025
Robert Nolan [1a]	78,000	–	–	**78,000**	1.29	31/05/2005	30/03/2017
Robert Nolan [1]	15,528	–	–	**15,528**	1.20	10/01/2006	09/01/2016

1. Unapproved stand-alone agreement, no performance criteria.
1a. Unapproved stand-alone agreement, no performance criteria (on 30 March 2015 the expiry date was extended by 2 years).
2. EMI Company scheme, no performance criteria.
3. EMI stand-alone scheme, no performance criteria.
4. EMI and Unapproved stand-alone scheme exercisable prior to 4 February 2017.
5. EMI stand-alone scheme exercisable prior to 4 February 2017.
6. 2007 Epistem Share Option Scheme exercisable prior to 4 February 2017.
7. Gain on exercise of Directors' share options. On 11 May 2015, David Evans exercised options of 62,112 shares. The gain of market price over exercise price was £122,677.

Share Investment Plan

The details of the Epistem Share Investment Plan are outlined in Note 20 (B) to the accounts. The Directors' interests in the shares of the Company include shares acquired under the Share Investment Plan as follows:

	Partnership Shares No	Cost of Matching Shares £	Matching Shares No.	Total SIP Shares 30 June 2015 No.	SIP Shares 30 June 2014 No.
Catherine Booth	2,523	19,000	5,045	7,568	5,984
Allan Brown	718	4,250	1,436	2,154	570
John Rylands	2,523	19,000	5,045	7,568	5,984
Matthew Walls (resigned 23 October 2015)	2,523	19,000	5,045	7,568	5,984

Approved by the Board

I Gilham
Chairman
18 November 2015

Corporate Governance Report

For the year ended 30 June 2015

The Group is subject to the continuing requirements of the AIM Rules and is committed to adhering to corporate governance standards appropriate for a company of its size. The Group follows the Quoted Companies Alliance guidelines and has Remuneration, Audit and Nomination committees with written terms of reference and a schedule of matters reserved for the Board, which generally meets each month.

The Board has established an Audit Committee, a Remuneration Committee and a Nomination Committee and membership of these committees and attendance at meetings is as follows:

Non-executive Directors	Audit Committee	Remuneration Committee	Nominations Committee
Ian Gilham (appointed 24 November 2014)	–	3	1
David Evans (resigned 11 May 2015)	2	4	1
Robert Nolan	2	4	1
Roger Lloyd (Remuneration/Nominations Committees)	N/A	4	1

Remuneration Committee

The Remuneration Committee reviews the scale and structure of the Executive Directors' and senior management's remuneration and the terms of their service contracts. The remuneration and terms of appointment of the Non-executive Directors are set by the Board. The Remuneration Committee also approves the issue of share options under schemes approved by the Board.

None of the Committee members have any personal financial interest (other than as shareholders), conflicts of interest arising from cross-directorships, or day-to-day involvement in the running of the business. No Director plays a part in any discussion about his or her own remuneration.

Audit Committee

The Audit Committee has responsibility for receiving accounts and reviewing reports from the management and the Company's auditors, relating to Annual and Interim Accounts and the accounting and internal controls in place throughout the Group. At this stage of the Group's size and development the Committee has decided that an internal audit function is not required as the Group's internal controls system in place is appropriate for its size. The Audit Committee has met twice during the year.

Nomination Committee

The Nomination Committee has responsibility for reviewing the size, structure and composition of the Board, as well as retirements and appointments of replacement and additional Directors, and for making appropriate recommendations to the Board.

Relations with shareholders

The Group recognises the importance of communicating with its shareholders to ensure that its strategy and performance is understood and that it remains accountable to shareholders. The Board as a whole is responsible for ensuring that a satisfactory dialogue with shareholders takes place, while the Chairman and Chief Executive ensure that the views of the shareholders are communicated to the Board as a whole. The Board ensures that the Group's strategic plans have been carefully reviewed in terms of their ability to deliver long-term shareholder value.

Internal controls

The Board acknowledges its responsibility for establishing and maintaining the Group's system of internal controls and will continue to ensure that management keeps these processes under regular review and improves them where appropriate. The system of internal controls is designed to manage, rather than eliminate, the risk of failure to achieve business objectives and can provide only reasonable and not absolute assurance against material misstatement or loss.

Social, environmental and ethical matters
The Board recognises the growing awareness of social, environmental and ethical matters and it endeavours to take into account the interests of the Group's stakeholders, including its investors, employees, suppliers and business partners, when operating the business.

Employment
At a subsidiary level the individual company has established policies which address key corporate objectives in the management of employee relations, communications and employee involvement, training and personal development and equal opportunities.

Health, safety and environmental issues
The Board recognises its legal responsibilities to ensure the well-being, safety and welfare of its employees and to maintain a safe and healthy working environment for them and for its visitors and sub-contractors. Health and Safety is on the agenda for regularly scheduled Board meetings.

By their nature, the Group's regular operations are judged to have a low environmental impact and are not expected to give rise to any significant, inherent environmental risks over the next 12 months.

The Group is committed to maintaining high standards in implementing appropriate health, safety and environmental protection policies. Waste materials are recycled where possible, and hazardous waste is catalogued and handled by licensed specialist disposal companies.

Independent Auditors' Report to the Members of Epistem Holdings Plc

Year ended 30 June 2015

We have audited the group and parent company financial statements (the 'Financial Statements) of Epistem Holdings Plc for the year ended 30 June 2015 which comprise the consolidated statement of comprehensive income, the consolidated and parent company balance sheets, the consolidated and parent company statement of cash flows, the consolidated and parent company statements of changes in equity 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.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. 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

As explained more fully in the Statement of Directors' responsibilities set out in the Directors Report 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 and express an opinion on 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 (APB's) Ethical Standards for Auditors.

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 the 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. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the group's and the parent company's affairs as at 30 June 2015, and of the group's loss for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- the financial statements have been prepared in accordance with the requirements of Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Independent Auditors' Report to the Members of Epistem Holdings Plc continued

Year ended 30 June 2015

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 and the part of the Directors' Remuneration Report to be audited 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 required for our audit.

Carol Graham FCA
(Senior Statutory Auditor)

For and on behalf of

Haines Watts,
Chartered Accountants & Statutory Auditor
Bridge House
157 Ashley Road
Hale
Altrincham
Cheshire
WA14 2UT

18 November 2015

Consolidated Statement of Comprehensive Income

For the year ended 30 June 2015

	Notes	2015 £'000	2014 £'000
Revenue		**3,703**	4,497
Other income – development grant funding		**814**	1,264
Revenue and other Income	2	**4,517**	5,761
Contract costs		**(3,933)**	(4,489)
Discovery and development costs		**(2,942)**	(2,037)
General administrative costs		**(1,682)**	(1,530)
Operating (loss)	3	**(4,040)**	(2,295)
Finance income and costs	6	**616**	(54)
(Loss) on ordinary activities before taxation		**(3,424)**	(2,349)
Taxation on ordinary activities	7	**399**	656
Total Comprehensive Income for the financial year		**(3,025)**	(1,693)
(Loss) per share (pence)			
– Basic	9	**(30.2)p**	(17.4)p
– Diluted	9	**(30.2)p**	(17.4)p

All of the activities of the Group are classed as continuing.

The Company has taken advantage of section 408 of the Companies Act 2006 not to publish its own Income statement.

Consolidated Statement of Changes in Equity

For the year ended 30 June 2015

	Share capital £'000	Share premium account £'000	Employee share incentive plan reserve £'000	Share options reserve £'000	Other reserves £'000	Retained earnings £'000	Total £'000
Balance at 1 July 2013	146	18,230	(182)	1,013	(2,484)	(4,668)	12,055
Exercise of share options	4	386	–	(139)	–	139	390
Forfeit of share options	–	–	–	(58)	–	–	(58)
Purchase of own shares (SIP)	–	–	(46)	–	–	–	(46)
Recognition of equity-settled share-based payments	–	–	–	216	–	–	216
Total Comprehensive Income for the year	–	–	–	–	–	(1,693)	(1,693)
At 30 June 2014	150	18,616	(228)	1,032	(2,484)	(6,222)	10,864
Balance at 1 July 2014	150	18,616	(228)	1,032	(2,484)	(6,222)	10,864
Allotment of ordinary shares	7	1,393	–	–	–	–	1,400
Purchase of own shares (SIP)	–	–	32	–	–	–	32
Exercise of share options	1	79	–	(29)	–	29	80
Forfeit of share options	–	–	–	(11)	–	–	(11)
Recognition of equity-settled share-based payments	–	–	–	205	–	–	205
Total Comprehensive Income for the year	–	–	–	–	–	(3,025)	(3,025)
At 30 June 2015	**158**	**20,088**	**(196)**	**1,197**	**(2,484)**	**(9,218)**	**9,545**

Consolidated Balance Sheet

As at 30 June 2015

	Notes	2015 £'000	2014 £'000
Non-current assets			
Intangible assets	10	**7,191**	6,785
Plant and equipment	11	**805**	840
Deferred taxation	12	**30**	154
		8,026	7,779
Current assets			
Inventories	13	**163**	–
Trade and other receivables	14	**2,191**	1,125
Tax receivables		**685**	1,474
Cash and cash equivalents	15	**4,928**	4,238
		7,967	6,837
Liabilities			
Current liabilities			
Deferred income	16	**50**	86
Trade and other payables	17	**1,123**	1,016
Deferred consideration payable in shares	18	**1,250**	2,650
		2,423	3,752
Net current assets		**5,544**	3,085
Total assets less current liabilities		**13,570**	10,864
Liabilities payable in 1 – 5 years			
Convertible Bond	19	**4,025**	–
Net assets		**9,545**	10,864
Capital and reserves			
Called-up equity share capital	24	**158**	150
Share premium account	25	**20,088**	18,616
Employee share incentive plan reserve	25	**(196)**	(228)
Share options reserve	25	**1,197**	1,032
Reverse acquisition reserve	25	**(2,484)**	(2,484)
Retained earnings	25	**(9,218)**	(6,222)
Total shareholders' equity		**9,545**	10,864

These financial statements were approved by the Directors and authorised for issue on 18 November 2015 and are signed on their behalf by:

I Gilham
Chairman

H J J Rylands
Finance Director

Epistem Holdings Plc
Company number: 06108621

Consolidated Statement of Cash Flows

For the year ended 30 June 2015

	2015 £'000	2014 £'000
Cash flows from operating activities		
Operating loss for the year	**(4,040)**	(2,295)
Depreciation, amortisation and impairment	**387**	712
Research credits	**(202)**	(211)
Share based payment expense	**194**	158
Operating loss before changes in working capital and provisions	**(3,661)**	(1,636)
(Increase) in inventories	**(163)**	–
(Increase)/decrease in trade and other receivables	**(1,066)**	881
Increase in deferred income	**(36)**	(124)
Increase/(decrease) in trade and other payables	**107**	(791)
Net cash (outflow) from operations	**(4,819)**	(1,670)
Tax received	**1,513**	578
Net cash (outflow) from operating activities	**(3,306)**	(1,092)
Cash flows from investing activities		
Finance income – interest received	**16**	15
Acquisition of non-current assets	**(758)**	(1,482)
Net cash outflow from investing activities	**(742)**	(1,467)
Cash flows from financing activities		
Proceeds from issue of share options	**80**	390
Proceeds from issue of convertible bond	**4,700**	–
Costs of issue of convertible bond	**(100)**	–
Finance costs – interest paid	**(212)**	–
Purchase of own shares	**(22)**	(46)
Net cash inflow from financing activities	**4,446**	344
Net increase/(decrease) in cash equivalents	**398**	(2,215)
Foreign exchange adjustments	**292**	(69)
Cash and cash equivalents at beginning of year	**4,238**	6,522
Cash and cash equivalents at end of year	**4,928**	4,238
Analysis of net funds		
Cash at bank and in hand	**4,928**	4,238
Net funds	**4,928**	4,238

Notes to the Financial Statements

For the year ended 30 June 2015

1. Significant accounting policies

Basis of accounting

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRS') as adopted by the European Union and therefore comply with Article 4 of the EU IAS Regulation, International Financial Reporting Interpretations Committee ('IFRIC') interpretations and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

Epistem Holdings Plc is a company incorporated in the UK.

The consolidated financial statements consolidate those of the Company and its subsidiaries (together referred to as the 'Group'). They are presented in pounds sterling and all values are rounded to the nearest one thousand (£k) except where otherwise indicated.

The consolidated financial statements have been prepared and approved by the Directors in accordance with International Financial Reporting Standards as adopted by the EU.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods represented in these consolidated financial statements.

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, duration of contracts, income & expenses and taxation:

- Determining the value of Deferred income requires an assessment of the duration of the contract to which the deferred income and expenditure relates, which informed decisions as to when to recognise revenue and whether to carry forward costs.
- Determining the value of Intangible assets requires a judgement about the extent to which the relevant asset will be brought into economic use by the Company. The filing of a Patent will generally lead to a judgement that the cost of filing the Patent will have future economic use. Research and Development expenditure will generally be expensed unless associated income can be identified.
- Determining the value of the deferred tax asset requires an estimation of future taxable profits against which the accumulated tax losses may be utilised.
- Determining the market value of the debt component of the Convertible Bond requires the Board to make a judgement about the market rate of interest to apply to an instrument of this nature.
- Determining the value of an equity derivative requires a judgement as to the most appropriate evaluation model to be used. The Board seeks the opinion of experts in making this judgement.

Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Basis of consolidation

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that are currently exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Transactions between Group companies are eliminated on consolidation.

1. Significant accounting policies continued

On 16 March 2007, Epistem Holdings Plc merged with Epistem Limited, and on that date the shareholders of Epistem Limited exchanged their shares for equivalent shares in Epistem Holdings Plc. As Epistem Holdings Plc was newly incorporated at the time of the transaction under the terms of IFRS 3 'Business Combinations', this transaction has been accounted for as a reverse acquisition, on the basis that the shareholders of Epistem Limited gained a controlling interest in the Group. The financial statements therefore represent a continuation of the financial statements of Epistem Limited.

Revenue

Revenue is measured at the fair value of the consideration received or receivable and net of discounts and sales-related taxes.

Revenue recognition

a. Contract revenue

Contract revenue is recognised by reference to the stage of completion of the related transaction at the end of the reporting period.

b. Collaboration and licensing revenue

Contractually agreed upfront payments and similar non-refundable payments in respect of collaboration or licence agreements which are not directly related to on-going research activity are recorded as deferred income and recognised as revenue over the anticipated duration of the agreement. Where the anticipated duration of the agreement is modified, the period over which revenue is recognised is also modified.

Non-refundable milestone and other payments that are linked to the achievement of significant and substantive technological or regulatory hurdles in the research and development process are recognised as revenue upon the achievement of the specified milestone.

Income which is related to on-going research activity is recognised as the research activity is undertaken, in accordance with the contract.

c. Other income – development grant funding

Income receivable in the form of government grants to fund product development is recognised as development grant funding over the periods in which the Group recognises, as expenses, the related eligible costs which the grants are intended to compensate and when there is reasonable assurance that the Group will comply with the conditions attaching to them and that the income will be received. Government grants whose primary condition is that the Group should purchase or otherwise acquire non-current assets are recognised as deferred revenue in the Consolidated Balance Sheet and transferred to the Consolidated Statement of Comprehensive Income on a systematic and rational basis over the useful lives of the related assets.

Segment reporting

A segment is a group of assets, liabilities and operations engaged in providing products or services that are subject to risks and returns that are different from those of other parts of the business.

Research and development

Research expenditure is written off as it is incurred. Development expenditure is written off as it incurred up to the point of technical and commercial validation. Thereafter, costs are carried forward as intangible assets, subject to having met the following criteria – technical feasibility, intention and ability to sell the product or model and the availability of resources to complete the development. All intangible assets are subject to impairment review and amortisation in each financial reporting period. In assessing value in use, the estimated future cash flows are discounted to their net present values using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to that asset.

1. Significant accounting policies continued

Intangible assets

Intangible assets are stated at cost less accumulated amortisation and any accumulated impairment losses. Amortisation is calculated so as to write off the cost of an intangible asset, less its estimated residual value, over the useful economic life of that asset, as follows:

- Acquired intellectual property – the shorter of 5% straight line basis or their estimated useful life
- Developed intellectual property – the shorter of 10% straight line basis or their estimated useful life
- Patents – over the shorter of 17 years or their estimated useful lives on a straight-line basis

No amortisation is charged on those assets which are not yet available for use.

Plant and equipment

Plant and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses. Depreciation is calculated so as to write off the cost of an asset, less its estimated residual value, over the useful economic life of that asset as follows:

Plant & machinery – 25% reducing balance basis
Fixtures & fittings – 25% reducing balance basis
Equipment – 25% reducing balance basis

Operating lease agreements

Rentals applicable to operating leases where substantially all of the benefits and risks of ownership remain with the lessor are charged against profits over the period of the lease.

Foreign currencies

Transactions in foreign currencies are translated at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date. Non-monetary items carried at fair value and denominated in foreign currencies are retranslated at the rates prevailing on the date when fair value is determined. The foreign currency risks relating to assets and liabilities are detailed in Note 19.

Exchange differences arising on the settlement of monetary items and on the retranslation of monetary items are taken to the Consolidated Statement of Comprehensive Income. Exchange differences arising on non-monetary items, carried at fair value, are included in the income statement, except for such non-monetary items in respect of which gains and losses are recorded in equity.

Share-based payments

The Group issues equity-settled share-based payments to certain employees (including Directors). Equity-settled share-based payments are measured at fair value at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight line basis over the vesting period, together with a corresponding increase in equity, based upon the Group's estimate of the shares that will eventually vest.

Fair value is measured using the Black-Scholes pricing model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

Where the terms of an equity settled transaction are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any increase in the value of the transaction as a result of the modification, as measured at the date of modification.

1. Significant accounting policies continued

Where an equity settled transaction is cancelled, it is treated as if it had vested on the date of the cancellation, and any expense not yet recognised for the transaction is recognised immediately. However, if a new transaction is substituted for the cancelled transaction, and designated as a replacement transaction on the date that it is granted, the cancelled and new transactions are treated as if they were a modification of the original transaction, as described in the previous paragraph.

The issuance by the Company of share options to employees of its subsidiary represents additional capital contributions and the fair value of such options and awards is therefore recognised as an increase in the Company's investment in Group undertakings with a corresponding increase in total equity shareholders' funds.

Share Incentive Plan

Matching Shares issued within the Share Incentive Plan have vesting conditions which require participants to remain employed with the Company and retain their investment in Epistem shares for at least three years. The cost of the Matching shares is expensed as and when the vesting conditions have been satisfied.

Pension contributions

Contributions to personal pension plans of employees on a defined contributions basis are charged to the Consolidated Statement of Comprehensive Income in the year in which they are payable.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated on a first in and first out basis and includes bought in cost and, where appropriate, other direct costs and attributable overheads. Net realisable value represents the estimated selling price less applicable selling costs. Where applicable, provision is made for slow-moving and obsolete inventory.

Trade and other receivables

Trade and other debtors are recognised and carried forward at invoiced amounts less provisions for any doubtful debts. Bad debts are written off when identified.

Cash and cash equivalents

Cash and cash equivalents are included in the balance sheet at cost. Cash and cash equivalents comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less.

Interest-bearing loans and borrowings

All loans and borrowings are recognised initially at cost, which is the fair value of the consideration received, net of issue costs associated with the borrowing.

After initial recognition, interest-bearing loans and borrowings are measured at amortised cost using the effective interest method. Gains or losses are recognised in the Consolidated Statement of Comprehensive Income account when liabilities are derecognised or impaired, as well as through the amortisation process.

Investments

Investments in subsidiaries are stated at cost less any provisions for impairment. An impairment is recognised when the recoverable amount of the investment is less than the carrying amount.

1. Significant accounting policies continued

Taxation

Current tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted, or substantially enacted, by the balance sheet date.

Taxation credits which fall under the category of Above the Line Research & Development credits ('ATL Research credit') as detailed in the Finance Act 2013 are offset against the expenditure to which they relate and, in the Consolidated Statement of Comprehensive Income, are disclosed within Contract costs and Discovery and development costs.

Deferred tax is recognised in respect of all temporary differences identified at the balance sheet date, except to the extent that the deferred tax arises from the initial recognition of goodwill (if amortisation of goodwill is not deductible for tax purposes) or the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither accounting profit nor taxable profit and loss. Temporary differences are differences between the carrying amount of the Group's assets and liabilities and their tax base.

Deferred tax liabilities may be offset against deferred tax assets within the same taxable entity. Any remaining deferred tax asset is recognised only when, on the basis of all available evidence, it can be regarded as probable that there will be suitable taxation profits, within the same jurisdiction, in the foreseeable future against which the deductible temporary difference can be utilised.

Deferred tax is provided on temporary differences arising in subsidiaries, jointly controlled entities and associates, except where the timing of reversal of the temporary difference will not reverse in the foreseeable future. Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the asset is realised or liability settled, based on tax rates and laws that have been enacted or substantially enacted by the balance sheet date. Measurement of deferred tax liabilities and assets reflects the tax consequence expected to fall from the manner in which the asset or liability is recovered or settled.

Financial instruments (including Convertible Bond)

Financial instruments are classified and accounted for, according to the substance of the contractual arrangement, as either financial assets, financial liabilities or equity instruments. An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities.

As disclosed in Note 19, the Company has in issue a Convertible Bond which is a financial instrument comprising a liability component, or debt host, and an equity derivative component, which are detailed as liabilities payable in 1–5 years.

On initial recognition, convertible bonds are recorded at fair value net of issue costs. The initial fair value of the debt host is determined using the market interest rate applied by a market participant for an equivalent non-convertible debt instrument. Subsequent to initial recognition, the debt host is recorded using the effective interest method until extinguished on conversion or maturity of the bonds. The amortisation of the debt host and the interest payable in each accounting period is expensed as a finance cost.

Equity derivatives embedded in the convertible instruments which are required to be recorded as financial liabilities are initially recognised at fair value. At each reporting date, the fair values of the derivative are reassessed by management. Where there is no market for such derivatives, the Company uses option pricing models to measure the fair value.

The amortisation of the Debt host, interest payable in the period and gains or losses on the fair value of the Derivative are disclosed within Finance Income and costs detailed in Note 6.

1. Significant accounting policies continued

Parent Company assets

The assets of the parent Company are subject to impairment review in each financial period.

New standards and interpretations not applied

The International Accounting Standards Board ('IASB') and IFIRC have issued the following standards and interpretations that are not effective for the financial year beginning 1 July 2014 and have not been adopted early:

- IAS 1 Disclosure Initiative – Amendments to IAS 1
- IAS 16 and IAS 38 Clarification of Accountable Methods of Depreciation and Amortisation
- IAS 19 (AIP) Employee Benefits – Discount rate: regional market issue
- IFRS 9 Financial instruments
- IFRS 1 Revenue from Contracts with Customers

The Directors do not anticipate that the adoption of these standards and interpretations will have a material effect on the Company's financial statements in the period of initial application.

2. Segment information

For internal reporting, the Group is organised into operating divisions – Preclinical Research Services, Personalised Medicine and Novel Therapies. Preclinical Research Services provides pre-clinical testing services. Personalised Medicine specialises in molecular measures of biological effect and point of care molecular diagnostic testing. Novel Therapies holds intellectual property arising from investment aimed at discovering key regulators of epithelial stem cells.

The results of the operating divisions of the Company are detailed below.

Business segments

	Preclinical Research Services £'000	Personalised Medicine £'000	Novel Therapies £'000	Unallocated £'000	Total £'000
Twelve months ended 30 June 2015					
Revenue	2,322	2,195	–	–	4,517
Segment trading result	135	(2,204)	–	(1,593)	(3,662)
Add research credits	111	91	–	–	202
less depreciation and amortisation	(163)	(173)	–	(50)	(386)
less equity-settled share-based payments)	(15)	(140)	–	(39)	(194)
Operating profit/(loss)	68	(2,426)	–	(1,682)	(4,040)
Twelve months ended 30 June 2014					
Revenue	2,899	2,862	–	–	5,761
Segment trading result	568	(640)	(216)	(1,349)	(1,637)
Add Research credits	115	96	–	–	211
less depreciation and amortisation	(133)	(109)	(24)	(60)	(326)
Less fixed asset impairment	–	–	(385)	–	(385)
Less equity-settled share-based payments)	(8)	(29)	–	(121)	(158)
Operating profit/(loss)	542	(682)	(625)	(1,530)	(2,295)

Geographical segments

The Group's operations are located in the United Kingdom. The following table provides an analysis of the Group's revenue by geographical market:

	2015 £'000	2014 £'000
United Kingdom	**912**	1,879
Europe	**1,061**	1,157
United States of America	**2,034**	2,555
Asia	**510**	170
	4,517	5,761

2. Segment information continued

***Geographical segments** continued*

Revenues from customers accounting for more than 10% of total revenue are detailed below:

(a) £948k revenue was derived from the University of Maryland on behalf of the US Government with revenue included within Preclinical Research Services (2014: £1,134k);

(b) £454k revenue was derived from international pharmaceutical company, Glaxo SmithKline, with revenue included within Preclinical Research Services (2014: £939k);

(c) £513k revenue was received within Personalised Medicine for FP7 grants (2014: £709k).

3. Operating (loss)

The Group operating loss is stated after charging:

	2015 £'000	2014 £'000
Discovery and development expenditure	**2,942**	2,037
ATL Research Credits (Note 7)	**(202)**	(210)
Amortisation of intangible assets	**144**	101
Depreciation of owned tangible fixed assets	**241**	227
Impairment of tangible and intangible assets	**–**	384
Cost of inventories	**61**	–
Auditors' remuneration		
– as auditors	**35**	25
– for other services	**–**	–
Operating lease costs – property rent	**320**	235

4. Particulars of employees

The average number of staff employed by the Group during the financial year amounted to:

	2015 No	2014 No
Contract services	**39**	45
Research and development	**18**	13
Administrative	**14**	12
	71	70

The aggregate employee costs (including Directors) were:

	2015 £'000	2014 £'000
Wages and salaries	**3,647**	3,492
Social security costs	**374**	396
Equity settled share based payments	**194**	158
Pension payments	**143**	102
Cost of SIP matching shares	**58**	46
	4,416	4,194

5. Directors' remuneration (key management)

Group	2015 £'000	2014 £'000
Remuneration	**858**	722
Pension contribution	**44**	31
Equity-settled share-based payments	**103**	136
Cost of SIP Matching Shares	**12**	12
	1,017	901

Full details of the Directors' remuneration and Directors' options are contained in the Directors' Remuneration Report.

6. Finance income and costs

Group	2015 £'000	2014 £'000
Finance income and costs		
– gain on issue of Convertible Bond (Note 19)	**1,004**	–
– movement in fair value of derivative embedded in Convertible Bond (Note 19)	**73**	–
– finance cost of Convertible Bond including interest payable (Note 19)	**(417)**	–
– foreign exchange movement in Convertible Bond (Note 19)	**(298)**	–
– interest receivable	**16**	15
– foreign exchange surplus/(losses)	**238**	(69)
	616	(54)

7. Taxation on ordinary activities

(a) Recognised in the income statement

Group	2015 £'000	2014 £'000
Current tax:		
Research and development tax credits	**(688)**	(742)
Less recognised as ATL Research Credit	**202**	210
	(486)	(532)
Adjustments in respect of prior periods	**(37)**	(946)
Total current tax	**(523)**	(1,478)
Deferred tax:		
Impact of tax rate change on brought forward deferred tax balances	**–**	2
Prior year tax losses now recognised	**–**	857
Current year tax losses	**133**	(201)
Current year capital allowances in excess of depreciation	**(108)**	125
Movement in provisions	**(4)**	–
In respect of current year share options charges	**32**	100
Tax withheld from ATL Research Credit	**71**	(61)
Total deferred tax	**124**	822
Total tax (credit) for the year	**(399)**	(656)

7. Taxation on ordinary activities continued

(b) Reconciliation of the total tax charge

Group	2015 £'000	2014 £'000
(Loss) before taxation	**(3,424)**	(2,349)
Tax using the UK corporation tax rate of 20.75% (2014: 22.5%)	**(712)**	(528)
Recognised as ATL Research Credit	**202**	210
Tax withheld from ATL Research Credit	**71**	–
Effect of difference in tax rate	**–**	2
Movement in share options	**43**	(2)
Movement in provisions	**(4)**	–
Capital allowances in excess of depreciation	**(102)**	(114)
Item not deductible/chargeable for tax purposes	**6**	19
Adjustments in respect of research and development tax credits	**(462)**	(259)
Tax loss for the year	**595**	105
Adjustment relating to a previous year	**(36)**	(89)
Total tax (credit) in income statement	**399**	(656)

The Group had trading losses, as computed for tax purposes, of approximately £3,917k (2014: £4,297k) available to carry forward to future periods.

In accordance with the provisions of the Finance Act 2000 in respect of research and development allowances, the Group is entitled to claim tax credits for certain research and development expenditure. Where eligible, these credits are disclosed partly as ATL Research Credits within Research and Development Costs. The total Research and development tax credit of the year ended 30 June 2015 is £688k (2014: £742k) which £202k (2014: £210k) was disclosed as ATL Research Credit deducted from Research and Development Costs with the balance of £486k (2014: £532k) disclosed within Taxation on ordinary activities as detailed above.

8. Profit attributable to members of the parent company

The profit dealt with in the accounts of the parent company was £379k (2014: £14k).

9. Earnings per share

The basic earnings per share is calculated by dividing the earnings attributable to ordinary shareholders for the year by the weighted average number of ordinary shares in issue during the year.

The diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares in relation to share options and share warrants and also the weighted average Matching Shares held by the Epistem SIP which are not yet vested. The number of share options has been adjusted to take into account the issue price and the fair value, consistent with IAS 33, "Earnings per share".

Group	**2015 £'000**	2014 £'000
(Loss) for the year after taxation	**(3,025)**	(1,693)

Group	**2015 No.**	2014 No.
Weighted average number of ordinary shares in issue	**10,047,756**	9,757,923
Weighted average number of SIP matching shares not vested	**(36,415)**	(33,399)
Dilutive ordinary shares from options and warrants in issue	**303,103**	805,034
Dilutive weighted average number of ordinary shares	**10,314,444**	10,529,558
(Loss) per share		
– basic	**(30.2)p**	(17.4)p
– diluted	**(30.2)p**	(17.4)p

As detailed in Note 19, the exercise of the Convertible Bond Agreement if exercised in full at the Fixed Rate of Exchange and at the Conversion Price, would lead to the issue of 967,298 ordinary shares of £0.015p. The shares potentially to be issued will not affect the diluted eps.

10. Intangible assets

Group	Patents £'000	Acquired intellectual property £'000	Developed intellectual property £'000	Total £'000
Cost				
At 1st July 2014	552	3,177	3,616	7,345
Additions	165	–	385	550
At 30 June 2015	**717**	**3,177**	**4,001**	**7,895**
Amortisation				
At 1 July 2014	361	46	153	560
Charge for the year	1	39	104	144
At 30 June 2015	**362**	**85**	**257**	**704**
Net book value				
At 30 June 2014	191	3,131	3,463	6,785
At 30 June 2015	**355**	**3,092**	**3,744**	**7,191**
Cost				
At 1st July 2013	382	287	2,946	3,615
Additions	170	2,890	670	3,730
At 30 June 2014	552	3,177	3,616	7,345
Amortisation				
At 1 July 2013	19	42	59	120
Charge for the year	22	4	75	101
Impairment charge	320	–	19	339
At 30 June 2014	361	46	153	560
Net book value				
At 30 June 2013	363	245	2,887	3,495
At 30 June 2014	191	3,131	3,463	6,785

The net book value of Intangible assets principally relates to the Genedrive® unit and assays which have a carrying value of £6,384k (2014 – £6,314k).

During the year to 30 June 2015, the cost of the Company's Patents assessed as not being available for economic use amounted to £nil (2014: £320k).

11. Plant and equipment

Group	Lab equipment £'000	Fixtures & fittings £'000	Other equipment £'000	Total £'000
Cost				
At 1 July 2014	1,908	58	253	2,219
Additions	24	73	111	208
Disposals	(10)	–	–	(10)
At 30 June 2015	**1,922**	**131**	**364**	**2,417**
Depreciation				
At 1 July 2014	1,142	39	198	1,379
Charge for the year	191	11	39	241
Depreciation on disposed assets	(8)	–	–	(8)
At 30 June 2015	**1,325**	**50**	**237**	**1,612**
Net book value				
At 30 June 2014	766	19	55	840
At 30 June 2015	**597**	**81**	**127**	**805**

Group	Lab equipment £'000	Fixtures & fittings £'000	Other equipment £'000	Total £'000
Cost				
At 1 July 2013	1,536	50	231	1,817
Additions	372	8	22	402
Disposals	–	–	–	–
At 30 June 2014	1,908	58	253	2,219
Depreciation				
At 1 July 2013	930	30	147	1,107
Charge for the year	167	9	51	227
Impairment of assets	45	–	–	45
At 30 June 2014	1,142	39	198	1,379
Net book value				
At 30 June 2013	606	20	84	710
At 30 June 2014	766	19	55	840

12. Deferred Taxation

Recognised

Group	2015 £'000	2014 £'000
Tax losses carried forward	**727**	859
Excess of tax allowances over depreciation & amortisation	**(681)**	(788)
Share-based payment transactions	**(20)**	12
Amount retained in respect of ATL Research Credit	**–**	71
Other timing differences	**4**	–
	30	154

Deferred tax assets are recognised to the extent that the Directors, having reviewed expectations of future profitability, consider it is probable that there will be sufficient profit available against which the deferred tax asset may be utilised.

Deferred tax assets include £nil required to be held in respect of the ATL Research Credit (2014 – £71k). This sum is eligible for offset against future taxation payable.

The Group did not recognise deferred tax assets in respect of share-based payment transactions of £1,272k (2014: £1,485k).

13. Inventories

Group	2015 £'000	2014 £'000
Finished goods	**163**	–
	163	–

14. Trade and other receivables

Group	2015 £'000	2014 £'000
Trade receivables	**1,725**	884
Other receivables	**100**	29
Prepayments	**366**	212
	2,191	1,125

Analysis of trade receivables

	2015 £'000	2014 £'000
Neither impaired nor past due	**1,384**	714
Past due but not impaired	**341**	170
Trade receivable	**1,725**	884

Ageing of past due but not impaired trade receivables

There is no other class of financial assets that is past due but not impaired except for trade receivables. The Group's credit period generally ranges up to 60 days. The age analysis of the trade receivables have been considered from the date of the invoice and, net of allowances that are past due, is given below:

	2015 £'000	2014 £'000
Not later than one month	**219**	152
Later than one month but not later than three months	**122**	11
Later than three but not later than six months	**–**	7

15. Cash and cash equivalents

Group	2015 £'000	2014 £'000
Cash at bank and in hand	**1,382**	612
Short term bank deposits	**3,546**	3,626
	4,928	4,238

Cash and cash equivalents comprise current accounts held by the Group with immediate access and short term bank deposits with a maturity of three months or less. Market rates of interest are earned on such deposits. The credit risk on such funds is limited because the counter parties are banks with high credit ratings assigned by international credit rating agencies.

16. Deferred Income

The items recorded as Deferred Income are to be recognised over future periods as follows:

Group	2015 £'000	2014 £'000
Amounts to be recognised within 1 year	**50**	86

17. Trade and other payables

Group	2015 £'000	2014 £'000
Trade payables	**696**	522
Accruals	**346**	325
Other payables	**81**	119
Deferred consideration	**–**	50
	1,123	1,016

Deferred consideration of £50k became payable when Epistem made a regulatory submission to the Drugs Controller General (India).

18. Deferred consideration payable in shares

Group	2015 £'000	2014 £'000
Payable in shares	**1,250**	2,650

Deferred consideration relates to the provision of £1,250k in respect of the issue of shares in the Company which is anticipated to be due following the revaluation of the earn-out payable in respect of the acquisition of Visible Genomics Limited in 2010 which is detailed on page 63.

18. Deferred consideration payable in shares continued

During the year, deferred consideration of £1,400k (2014: £nil) became payable on confirmation of receipt from the Drugs Controller General (India) of regulatory approval for the Genedrive® TB test. This liability was settled by the issue on 8 June 2015 of 491,228 ordinary shares of £0.015.

19. Convertible Bond

Group	2015 £'000	2014 £'000
Derivative	**37**	–
Debt host	**3,988**	–
	4,025	–

On 21 July 2014 the Company issued a Convertible Bond. The Convertible Bond has a principal of $8m and interest is payable half yearly at a coupon rate of 5% on the principal amount until the earlier of maturity (21 July 2019) or conversion.

The Convertible Bond may be converted into ordinary shares as outlined below. If the Convertible Bond is converted at the initial conversion price of £4.89 at the fixed rate of Exchange of $1.6913:£1, this would result in the issue of 967,298 shares. The rate of exchange at 30 June 2015 was $1.57:£1.

Whilst the bond holder has the option to convert into a fixed number of ordinary shares, due to the Convertible Bond being denominated in a different currency to the Company's functional currency, IFRS requires the Convertible Bond to be accounted for at a compound instrument, comprising a Debt Host (liability component) and a Derivative (equity component).

The Debt host is required to be recorded initially at fair value. Whilst the coupon is 5%, IFRS requires that the fair value is calculated based on the rate of interest which a market participant would lend to the Company. Given the nature of the Company's activities, the Company has used a rate of 12% in calculating this liability. The fair value of the Debt host at the date of issue was £3,494k ($5,939k) which after taking into account value on issue of the Derivative detailed below of £102k ($173k) and transaction costs on £100k ($160k) gave rise to an initial gain of £1,004k ($1,727k) which IFRS requires is disclosed in the profit and loss account as detailed in Note 6.

The Derivative has been valued using a Quanto Option Valuation model which takes account of the multicurrency aspects of the Convertible Bond. The variable used in running model are as follows:

Volatility of the Company's Share at 21 July 2014	19%
Volatility of the Company's Share Price at 30 June 2015	21%
Expected life of the Derivative	4.82 years
Expected life of the Derivative at 30th June 2015	3.88 years
Risk free interest rate at 21st July 2015	2.11%
Risk free interest rate at 30 June 2015	1.53%
Dividend yield	0%

	Debt Host £'000	Derivative £'000	Convertible Bond £'000
Fair value on issue	3,494	102	3,596
Increase/(decrease) in fair value	204	(73)	131
Increase in liability caused by Foreign exchange movements	290	8	298
	3,988	37	4,025

Outline of Convertible Bond Agreement

On 21 July 2014, the Company entered into a Collaboration and Convertible Bond Purchase Agreement ('Agreement') with the Global Health Investment Fund 1 LLC ('GHIF' or the 'bond holder'). Under the terms of the Agreement, the Company has issued to GHIF a five-year Convertible Bond totalling $8.0m (£4.7m). Further, as part of the Agreement, GHIF and the Company entered into a Global Access Commitment. The purpose of the Agreement is to fund the Company's development, production and commercialisation of Genedrive® to address Global Health Challenges and achieve Global Health Objectives. An outline (only) of the terms of the Agreement is detailed below:

Unless previously converted or redeemed, the Convertible Bond will mature on 21 July 2019 and interest will be payable half yearly at the rate of 5% per annum.

During a Purchaser Optional Conversion Period which runs from 15 January 2015 to 15 May 2019 (or earlier in the event of a change of control of the Company) the bond holder has the option to convert all (but not part only) of the Convertible Bond at the Conversion Price, initially £4.89 per Epistem Ordinary Share at the Fixed Rate of Exchange of $1.6913: £1. (The Conversion Price may be adjusted to take account of changes by the Company of its capital structure or payment of dividends etc.)

The Company has an option conversion period running from 22 January 2015 to 08 July 2019, during which the Company may convert all (but not part only) of the Convertible Bond into Epistem Ordinary Shares at the Conversion Price, initially £4.89 per Epistem Ordinary Share at the Fixed Rate of Exchange of $1.6913:£1 if the current market prices equals or exceeds 1.2 times the Conversion Price. (The Conversion Price may be adjusted to take account of changes by the Company of its capital structure or payment of dividends etc.)

The Company may redeem the whole of the Convertible Bond on any interest payment date from 22 July 2016. In this event, the bond holder may elect to receive full payment in Epistem Ordinary Shares based on a conversion ratio calculated as a function of the market price at the time of notice of Redemption. Without such an election, the bond will be redeemed at par in US dollars.

Global Access Commitment

Under the Global Access Agreement, the Company will undertake appropriate regulatory strategic steps and registrations to secure access for Genedrive® in developing countries in tuberculosis, malaria or other infectious diseases as agreed between the parties.

The Company will establish a tiered pricing framework that is commercially reasonable and reflects the needs of poor patients in developing countries. The Company will, taking into account its profitability and other commercial interests, allocate sufficient capacity and product distribution to make Genedrive® and its assays accessible to people most in need in developing countries.

19. Convertible Bond continued

GHIF will use commercially reasonable efforts through its global access network to ensure support for the Company in placing Genedrive® and its assays in global territories to reflect the needs and price sensitivity of poor patients in the developing world.

Notwithstanding any early Conversion, Redemption or Termination of the agreement, the Global Access Commitment shall endure for 5 years from 22 July 2014.

General Undertakings

During the period of the Agreement, the Company has entered into undertakings commensurate with a Convertible Bond Agreement. These include:

- Undertakings relating to incurring financial indebtedness & financial default;
- Undertakings relating to maintenance of appropriate records;
- Undertakings relating to standards of social responsibility and ethical behaviour.

20. Share-based payments

(A) Share options outstanding at 30 June 2015

Prior to 28 November 2007, the Company operated a number of HMR&C approved and unapproved share option schemes for employees (including Directors). The original options were granted by Epistem Limited but, following the acquisition by Epistem Holdings Plc, these were released in exchange for equivalent options over the ordinary shares of Epistem Holdings Plc. On 28 November 2007, the Company established the 2007 Epistem Share Option Scheme.

Share options

Award	Number of awards	Exercise price £	Period within which options are exercisable	Fair value per option	Fair value £
Share Warrants (Note 24)	198,554	1.61	16 Mar 2005 to 21 Sep 2015	£0.56p	111,389
EMI – Unapproved	78,000	1.292	31 Mar 2005 to 30 Mar 2017	£0.45p	35,022
EMI – Approved	29,824	1.203	25 Nov 2005 to 24 Nov 2015	£0.43p	13,168
EMI – Unapproved	143,375	1.20	10 Jan 2006 to 09 Jan 2016	£0.43p	88,359
EMI – Approved	98,861	1.20	10 Jan 2006 to 09 Jan 2016	£0.43p	42,510
EMI – Approved	8,200	1.20	29 Sep 2006 to 28 Sep 2016	£0.43p	3,526
EMI – Approved	80,644	1.24	28 Mar 2007 to 27 Mar 2017	£0.42p	33.870
EMI – Unapproved	177,653	1.24	28 Mar 2007 to 27 Mar 2017	£0.42p	74,615
EMI – Approved	23,103	1.67	27 Jul 2007 to 26 Jul 2017	£0.39p	9,010
EMI – Unapproved	57,727	1.60	15 Oct 2007 to 14 Oct 2017	£0.36p	20,782
2007 Epistem Share Option Scheme	16,050	1.77	31 Jul 2011 to 30 Jul 2018	£0.37p	6,308
2007 Epistem Share Option Scheme	38,750	4.03	10 Dec 2013 to 09 Dec 2020	£1.64p	64,534
2007 Epistem Share Option Scheme	30,000	3.60	10 May 2014 to 09 May 2021	£1.46p	43,800
2007 Epistem Share Option Scheme	254,631	3.73	29 Mar 2014 to 28 Mar 2021	£1.51p	384,492
2007 Epistem Share Option Scheme	5,369	3.60	10 May 2013 to 09 May 2021	£1.51p	8,107
2007 Epistem Share Option Scheme	10,750	3.60	10 Feb 2015 to 09 Feb 2022	£1.46p	16,717
2007 Epistem Share Option Scheme	24,153	5.50	28 Mar 2016 to 27 Mar 2023	£2.23p	58,350
2007 Epistem Share Option Scheme	23,758	5.50	26 Mar 2016 to 25 Mar 2023	£2.23p	52,980
2007 Epistem Share Option Scheme	83,350	3.22	29 Jan 2017 to 28 Jan 2024	£1.21p	104,483
2007 Epistem Share Option Scheme	50,000	3.20	27 Jan 2017 to 26 Jan 2024	£1.21p	60,600
2007 Epistem Share Option Scheme	200,000	3.25	25 Mar 2017 to 24 Mar 2024	£1.21p	242,000
2007 Epistem Share Option Scheme	38,500	3.25	12 Aug 2018 to 11 Mar 2025	£0.60p	23,100
2007 Epistem Share Option Scheme	20,000	3.25	20 Sep 2018 to 19 Sep 2025	£0.60p	12,000
2007 Epistem Share Option Scheme	130,000	2.78	17 Dec 2018 to 16 Dec 2025	£1.21p	157,300

Option valuations

The options were valued using the Black-Scholes option-pricing model. Where appropriate, performance conditions were included in the fair value calculations. The fair value per option granted and the assumptions used in the calculations are in the table below. The Group's effective date for IFRS 2, ('Share Based Payments') implementation is 1 July 2006 and the IFRS has been applied to all options granted after 7 November 2002 which have not been vested by this effective date.

Award	Grant date	Expected term (Note a)	Expected dividend yield % (Note b)	Expected volatility % (Note c)	Risk % rate (Note d)	Performance condition
Share Warrants	16 Mar 2005	5 years	0	60	4.75	None
EMI – Unapproved	31 Mar 2005	5 years	0	60	4.75	None
EMI – Approved	25 Nov 2005	5 years	0	60	4.50	None
EMI – Unapproved	10 Jan 2006	5 years	0	60	4.50	Note [e]
EMI – Approved	10 Jan 2006	5 years	0	60	4.50	None
EMI – Approved	29 Sept 2006	5 years	0	60	4.50	None
EMI – Approved	28 Mar 2007	5 years	0	60	5.25	Note [f]
EMI – Unapproved	28 Mar 2007	5 years	0	60	5.25	Note [f]
EMI – Approved	27 Jul 2007	5 years	0	45	5.50	None
EMI – Unapproved	15 Oct 2007	5 years	0	45	5.75	Note [g]
2007 Epistem Share Option Scheme	31 Jul 2008	5 years	0	40	5.00	Note [h]
2007 Epistem Share Option Scheme	10 Dec 2010	5 years	0	50	0.50	Note [h]
2007 Epistem Share Option Scheme	10 May 2011	5 years	0	50	0.50	Note [h]
2007 Epistem Share Option Scheme	29 Mar 2011	5 years	0	50	0.50	Note [i]
2007 Epistem Share Option Scheme	10 May 2011	5 years	0	50	0.50	Note [h]
2007 Epistem Share Option Scheme	10 Feb 2012	5 years	0	50	0.50	Note [h]
2007 Epistem Share Option Scheme	28 Mar 2013	5 years	0	50	0.50	Note [h]
2007 Epistem Share Option Scheme	26 Mar 2013	5 years	0	50	0.50	Note [j]
2007 Epistem Share Option Scheme	29 Jan 2014	5 years	0	43	0.50	Note [h]
2007 Epistem Share Option Scheme	27 Jan 2014	5 years	0	43	0.50	Note [g]
2007 Epistem Share Option Scheme	25 Mar 2014	5 years	0	43	0.50	Note [h]
2007 Epistem Share Option Scheme	12 Aug 2014	5 years	0	43	0.50	Note [h]
2007 Epistem Share Option Scheme	20 Sep 2014	5 years	0	43	0.50	Note [g]
2007 Epistem Share Option Scheme	17 Dec 2014	5 years	0	43	0.50	Note [h]

(a) The expected term used in the model is five years and is based upon the Directors' best estimates for the effects of exercise restrictions and behavioural considerations.
(b) The dividend yield of 0% reflects the absence of a history of paying dividends and a clear dividend policy at the relevant grant dates.
(c) Prior to 2011, the expected volatility was estimated by the Directors after inspection of the financial statements of comparable businesses in the same business sector as the Group. Thereafter, the expected volatility has been calculated by reference to the historic share price of the Company.
(d) The risk free rate used is based upon the prevailing UK bank base rate at the date of the grant.
(e) These options vest on dates dependant on anniversaries of commencing employment with the Group which commenced 1 September 2005 with the final tranche vesting on 1 September 2008.
(f) The performance conditions for these options to vest were satisfied in 2010.
(g) These options are subject to performance criteria which are appropriate to the option holders' role within the Company and which are assessed by the Remuneration Committee.
(h) These options may be exercised following the third anniversary of grant and are subject to performance criteria which are appropriate to the option holders' role within the Company and which are assessed by the Remuneration Committee.
(i) These options became exercisable when the Remuneration Committee determined that the Company had achieved regulatory approval in India for the Genedrive® TB test.
(j) These options may be exercised on achievement of performance criteria determined by the Remuneration committee which correlate to shareholder value.

20. Share-based payments continued

The number of options and their weighted average exercise prices are as follows:

Group	Number		Weighted average exercise price		Weighted average remaining contracted life – Years	
	2015	2014	**2015**	2014	**2015**	2014
Outstanding as at 1 July	**1,707,377**	1,820,570	**2.04**	£1.82		
Granted during the year	**190,500**	336,350	**2.91**	3.23		
Exercised during the year	**(68,312)**	(324,099)	**1.18**	1.20		
Lapsed during the year	**(8,313)**	(125,444)	**3.86**	1.82		
Outstanding as at 30 June	**1,821,252**	1,707,377	**2.27**	2.04	**4.41**	4.26
Options exercisable at 30 June	**1,251,491**	1,270,303	**1.18**	1.87	**2.00**	2.87

The weighted average share price of options exercised at the exercise dates was £3.18 (2014: £3.28).

(B) Share Investment Plan

The Company operates a share investment plan, SIP, (The Epistem Share Investment Plan) which is open to Directors and employees in accordance with Inland Revenue approved rules. Under the terms of the SIP, Directors and employees may invest up to £125 per month to be invested in ordinary shares ('Partnership Shares') in the Company at the prevailing market price. At the same time as each monthly subscription, a maximum of two Matching Shares for each Partnership Share will be acquired on behalf of the SIP's participants. Both the Partnership and the Matching Shares are purchased on behalf of the scheme's participants by Epistem SIP Trustee Limited, a wholly owned subsidiary of the Company. Participants, who must be employed by the Company may withdraw their Matching Shares once their associated Partnership Shares have been held for three years. The cost of the Matching Shares is expensed as and when this vesting condition is met.

	2015	2014
Partnership shares held at 30 June	**33,858**	27,528
Matching Shares held at 30 June	**67,713**	55,054

Group	**2015 £'000**	2014 £'000
Unamortised cost of Matching shares (Comprising Employee SIP reserve)	**196**	227

21. Financial risk management objectives and policies

The Group holds or issues financial instruments in order to achieve two main objectives, being:
(a) to finance its operations;
(b) to manage its exposure to interest and currency risks arising from its operations and from its sources of finance.

In addition, various financial instruments (e.g. trade receivables, trade payables, accruals and prepayments) arise directly from the Group's and the Company's operations.

Transactions in financial instruments result in the Group assuming or transferring to another party one or more of the financial risks described below.

Interest rate risk

The Group currently finances its operations through reserves of cash and liquid resources and does not have a borrowing requirement. Surplus cash at bank is placed on deposits at variable rates. The Board monitors the financial markets and the Group's own requirements to ensure that the policies are exercised in the Group's best interests.

The following table demonstrates the sensitivity to a possible change in interest rates on the Group's profit before tax through the impact of floating rate cash balances.

	Decrease in the basis points	Effect on loss before tax and equity £'000
2015		
Cash and cash equivalents	**25**	**5**
2014		
Cash and cash equivalents	25	5

An increase in 25 basis points would have a similar opposite effect.

Credit risk

The Group monitors credit risk closely and considers that its current policies of credit checks meet its objectives of managing exposure to credit risk.

The Group has no significant concentrations of credit risk. Amounts shown in the balance sheet best represent the maximum credit risk exposure in the event that other parties fail to perform their obligations under financial instruments.

Liquidity risk

The Board's policy aims to ensure that sufficient funds are held on a short-term basis in order to meet operational needs.

Currency risk

The Group's functional currency is sterling. The exposure to currency risk relates to licence income and those short-term trade receivables which are not invoiced in sterling. There are no significant costs incurred that involve payments in foreign currency.

The Group has no forward contracts at the year end (2014: £nil) to manage foreign currency risk.

21. Financial risk management objectives and policies continued

***Currency risk** continued*

Balances which are denominated in US Dollars are detailed below:

Group	2015 £'000	2014 £'000
Trade and other receivables	**383**	119
Cash and cash equivalents	**462**	2,233
Less Convertible Bond	**(4,065)**	–
	(3,220)	2,352

The following table demonstrates the sensitivity to a possible change in currency rates on the Group's loss before tax through the impact of sterling weakening against the US dollar.

	Increase in the currency rate	Effect on loss before tax and equity £'000
2015		
Trade and other receivables	**5%**	**19**
Cash and cash equivalents	**5%**	**23**
Convertible Bond	**5%**	**(203)**
2014		
Trade and other receivables	5%	6
Cash and cash equivalents	5%	112

An increase in currency rate of 5% would have a similar opposite effect.

Fair values of financial assets and liabilities

The Convertible Bond is stated at fair value as detailed in Note 19. There is no material difference between the book value and the fair value of the Group's financial assets or liabilities.

22. Commitments under operating leases

At 30 June 2015 the Group had annual commitments under non-cancellable operating leases as set out below.

	Land and buildings	
Group	2015 £'000	2014 £'000
Operating leases which expire:		
Within 1 year	**–**	199
1 year – 2 years	**232**	–

The operating leases are in respect of the Company's office and laboratories are held under short term leases.

23. Related party transactions

At the balance sheet date, Other receivables included an amount of £24k (2014: £nil) due from former Director, M Walls. This is anticipated to be offset against amounts payable to M Walls in November 2015.

24. Share capital

Allotted and called up:

	2015		2014	
	No	**£'000**	No	£'000
Brought forward at 1 July	**10,004,906**	**150**	9,680,807	146
Deferred Consideration shares	**491,228**	**7**	-	-
Exercise of options	**68,312**	**1**	324,099	4
Ordinary shares of £0.015 each	**10,564,446**	**158**	10,004,906	150

A schedule of options and warrants potentially leading to the issue of 1,821,252 shares (2014: 1,707,377) is detailed in Note 20. 198,554 warrants potentially exercisable on 21 September 2015 were not exercised.

Note 19 details the terms of the Convertible Bond Agreement entered into on 21 July 2014. Under the terms of this agreement, if conversion occurs at the initial conversion price of £4.89 per ordinary share at the fixed rate of exchange of $1.6913:£1, this would result in the issue of 967,298 shares (2014: nil).

25. Reserves

	Employee share incentive plan reserve £'000	Share premium account £'000	Share options reserve £'000	Reverse acquisition reserve £'000	Retained Earnings £'000
Balance as at 1 July 2013	(182)	18,230	1,013	(2,484)	(4,668)
Comprehensive income for the year	–	–	–	–	(1,693)
Unamortised cost of Matching Shares	(46)	–	–	–	–
Exercise of options	–	386	(139)	–	139
Forfeit of options	–	–	(58)	–	–
Recognition of equity settled share-based payments in the year	–	–	216	–	–
Balance at 30 June 2014	(228)	18,616	1,032	(2,484)	(6222)
Balance as at 1 July 2014	(228)	18,616	1,032	(2,484)	(6,222)
Comprehensive income for the year	–	–	–	–	(3,025)
Allotment of ordinary shares	–	1,393	–	–	–
Amortised cost of Matching Shares	32	–	–	–	–
Exercise of options	–	79	(29)	–	29
Forfeit of options	–	–	(11)	–	–
Recognition of equity settled share-based payments in the year	–	–	205	–	–
Balance at 30 June 2015	**(196)**	**20,088**	**1,197**	**(2,484)**	**(9,218)**

The reverse acquisition reserve arises as a difference on consolidation under merger accounting principles and is solely in respect of the merger of the Company and Epistem Limited.

The employee share incentive plan reserve represents 67,713 shares in Epistem Holdings Plc (2014: 55,054 shares) all of which are held by Epistem SIP Trustee Limited. These shares are listed on the Alternative Investment Market and their market value at 30 June 2015 was £186k (2014: £186k). The nominal value held at 30 June 2015 was £1,015 (2014: £825).

Company Balance Sheet

As at 30 June 2015

	Notes	2015 £'000	2014 £'000
Non-current assets			
Investments	a	**6,398**	6,228
Current assets			
Amounts receivable from Group undertakings and other receivables	b	**17,516**	14,627
Cash and cash equivalents	c	**3,707**	2,042
		21,223	16,669
Current liabilities			
Other payables		**99**	3
Deferred consideration payable in cash	a	**–**	50
Deferred consideration payable in shares	a	**1,250**	2,650
		1,349	2,703
Net current assets		**19,874**	13,966
Total assets less current liabilities		**26,272**	20,194
Non-current liabilities			
Convertible Bond	19	**4,025**	–
Net assets		**22,247**	20,194
Capital and reserves			
Called-up equity share capital	24	**158**	150
Share premium account	25	**20,088**	18,616
Share options reserve	25	**1,365**	1,171
Retained Earnings		**636**	257
Total shareholders' funds equity		**22,247**	20,194

These financial statements were approved by the Directors and authorised for issue on 18 November 2015 and are signed on their behalf by:

I Gilham
Chairman

H J J Rylands
Finance Director

Epistem Holdings Plc
Company number: 06108621

Company Statement of Changes in Equity

For the year ended 30 June 2015

	Share capital £'000	Share premium account £'000	Share options reserve £'000	Retained earnings £'000	Total £'000
At 1 July 2013	146	18,230	1,013	243	19,632
Allotment of ordinary shares	4	386	–	–	390
Recognition of equity settled share based payments	–	–	216	–	216
Forfeit of options	–	–	(58)	–	(58)
Profit for the year	–	–	–	14	14
At 30 June 2014	150	18,616	1,171	257	20,194
Issue of ordinary shares	7	1,393	–	–	1,400
Recognition of equity settled share based payments	–	–	205	–	205
Exercise of share options	1	79	–	–	80
Forfeit of share options	–	–	(11)	–	(11)
Profit for the year	–	–	–	379	379
At 30 June 2015	**158**	**20,088**	**1,365**	**636**	**22,247**

Company Statement of Cash Flows

For the year ended 30 June 2015

	2015 £'000	2014 £'000
Cash flows from operating activities		
Profit for the year	**–**	–
Operating profit before changes in working capital and provisions	**–**	–
(Increase) in amount receivable from Group companies	**(2,889)**	(5,129)
(Decrease)/increase in trade and other payables	**46**	2,703
Cash (outflow) from operations	**(2,843)**	(2,426)
Cash flows from financing activities		
Proceeds from issue of share capital	**80**	390
Proceeds from issue of Convertible Bond	**4,700**	–
Costs of convertible Bond	**(76)**	–
Interest received	**16**	14
Interest paid	**(212)**	–
Net cash inflow from financing activities	**4,508**	404
Net (decrease)/increase in cash equivalents	**1,665**	(2,022)
Cash and cash equivalents at beginning of year	**2,042**	4,064
Cash and cash equivalents at end of year	**3,707**	2,042
Analysis of net funds		
Cash at bank and in hand	**3,707**	2,042
Net funds	**3,707**	2,042

Notes to the Company Financial Statements

For the year ended 30 June 2015

a. Investments

Company

The Company is the holding company of the Group.

The Company owns 100% of the issued share capital of Epistem Limited, Epistem SIP Trustees Limited and Visible Genomics Limited (companies registered in England and Wales) and Epistem Inc. incorporated in the United States of America. The principal activities of the subsidiary companies are:

- Epistem Limited and Epistem Inc. - the provision of services to the biotechnology and pharmaceutical industries;
- Epistem SIP Trustees Limited - to act as trustee to the Epistem Share Incentive Plan.

On 28 July 2010, Epistem Holdings Plc acquired 100% of the share capital of Visible Genomics Limited, whose principal activity had been the development of diagnostic assays and equipment, The assets of Visible Genomics Limited on 27 July 2010 are summarised below:

	£'000
Acquired intangible assets	100
Short term liabilities	(25)
Long term liabilities	(75)
	–

On 28 July 2010, the above assets and liabilities were hived into Epistem Limited and Visible Genomics Limited ceased to trade. Following a variation of Purchase and Sales agreement agreed with the vendor of Visible Genomics Limited on 5 March, 2014, the following earnout deferred consideration payable to the vendors of Visible Genomics Limited remained outstanding:

Group	**2015 £'000**	2014 £'000
(a) Deferred consideration payable in cash		
• Following events relating to submission of Epistem products for regulatory approval	**–**	50
(b) Deferred consideration payable in shares		
• Following receipt of regulatory approval for Genedrive®	**–**	1,400
• Achievement of commercial milestones relating to Genedrive® sales	**1,250**	1,250
	1,250	2,700

The commercial milestones amounting to £1,250k detailed above and outstanding at 30 June 2015 (2014: £1,250k) require the recognition of £5m of Genedrive® related income or contractual income commitments of a minimum combined value of £5m from any of a list of 16 IVD companies.

The value at which Consideration shares are to be issued is to be calculated by reference to LSE daily share price over a 5 day period commencing 30 days after the date that the achievement of the milestone is announced. The Consideration shares are subject to a "lock-in" provision, under which the Vendor covenants not to sell Consideration shares for a period of up to 24 months without the consent of the Company, except in the event that an offer for the whole of the issued share capital of the Company is received and which is either recommended by the Board or becomes unconditional as to acceptances.

Deferred consideration of £50k was paid in cash on submission of Epistem products for regulatory approval. Deferred consideration of £1,400k was paid by the issue of 491,228 ordinary shares at £0.015 following granting by Drug Controller General (India) of regulatory approval of Epistem products.

a. Investments continued

Company *continued*

In the event that an offer for the whole of the issued share capital of the Company or for the Genedrive® business is received and which is either recommended by the Board or is declared unconditional as to acceptances, then, the Vendor will become entitled to be allotted shares in the Company up to a maximum value of £2.65m, save to the extent that Consideration shares, as detailed above, have already been issued. The value at which these shares are issued will be the relevant offer price.

The Board is of the opinion that, as at 30 June 2015, the value of further consideration of £1.25m (2014: £2.65m) was capable of assessment and provision for this liability has been made in these accounts. Based on the share price of 275p at 30 June 2015, this would result in the issue of 454,545 shares.

Year ended 30 June 2015	Investment in subsidiaries £'000
Cost	
At 1 July 2014	6,228
Additions	170
At 30 June 2015	6,398
Net book value	
At 30 June 2015	6,398
At 30 June 2014	6,228

Year ended 30 June 2014	Investment in subsidiaries £'000
Cost	
At 1 July 2013	6,070
Additions	158
At 30 June 2014	6,228
Net book value	
At 30 June 2014	6,228
At 30 June 2013	6,070

Additions in the year ended 30 June 2015 comprised the fair value of the share options issued to employees of the subsidiary undertaking during the year of £170k (2014: £158k). Full details of the share options issued are set out in Note 20 to the consolidated financial statements.

b. Amounts receivable from Group undertaking and other receivables

Company	2015 £'000	2014 £'000
Amounts receivable from Group undertakings	**17,516**	14,627
	17,516	14,627

c. Cash and cash equivalents

Company	2015 £'000	2014 £'000
Cash at bank and in hand	**161**	242
Short term bank deposits	**3,546**	1,800
	3,707	2,042

Cash and cash equivalents comprise current accounts held by the Group with immediate access and short term bank deposits with a maturity of three months or less. Market rates of interest are earned on such deposits. The credit risk on such funds is limited because the counter parties are banks with high credit ratings assigned by international credit rating agencies.

d. Related party transactions

During the course of the year, Epistem SIP Trustee acquired 6,178 (2014: 17,851) shares in Epistem Holdings Plc on behalf of the Epistem Share Investment Plan at a cost of £21k (2014: £67k).

e. Impairment review

The carrying value of Investments and Amounts Receivable are subject to an annual impairment review. In the view of the Directors, no impairment provision has been required during the year (2014 – £nil).

Directors, Secretary and Advisers

Directors
Ian Gilham (appointed 24 November 2014)
Catherine Booth
Allan Brown
Roger Lloyd
Robert Nolan
John Rylands
David Evans (Resigned 11 May 2015)
Matthew Walls (Resigned 23 October 2015)

Company Secretary
John Rylands

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Notes

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