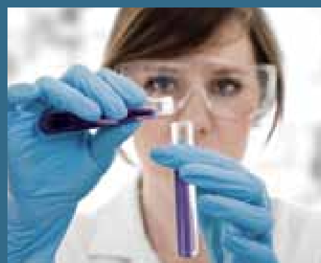
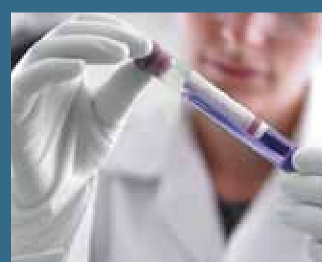
Controlling life-long tissue renewal

Strength in Diversity





Annual Report and Accounts 2011

What We Do

Epistem is changing the way molecular medicine and diagnostics are delivered. Epistem is a biotechnology and personalised medicine company commercialising its expertise in epithelial stem cells and pharmacogenomics across the areas of oncology, gastrointestinal disease, dermatology and infectious disease.

Epistem continues to build on its scientific and technical strengths as it transforms into a diverse, technology-leading and profitable biotechnology and personalised medicine group.

Highlights

- ➜ Sales of £5.8m with strong underlying programme growth
- ➜ 19% sales growth in Preclinical Services
- ➜ Third consecutive year of growth in profit
- ➜ Announcement of significant Biomarker oncology collaboration
- ➜ Development and first sales of Genedrive™
- ➜ Discussions ongoing around Novel Therapies programmes
- ➜ Strengthening trading outlook

Contract Research Services
(page 02)

Personalised Medicine Biomarkers
(page 04)

Personalised Medicine Diagnostics
(page 06)

Novel Therapies
(page 08)

The Contract Research Services division provides preclinical efficacy testing, advanced immunohistochemistry services and cell biology expertise in the areas of oncology, oncology supportive care (mucositis), inflammatory bowel disease and dermatology.

Our Biomarker division provides highly sensitive molecular measures of biological processes that improve the precision to guide drug development and disease treatment. The group provides a broad technology offering to discover, develop and translate biomarkers for clinical drug development.

Our Molecular Diagnostic division is changing the way healthcare and personalised medicine are delivered at the point of care. We are also developing advanced approaches to provide molecular measures of identification outside of healthcare at 'point of need' settings.

The Novel Therapies division is discovering the body's own key regulators of epithelial stem cells and tissues. Based on our highly sensitive molecular techniques and core cell biology expertise, we discover and develop our own novel drug agents.

55
employees

£0.4m
profit

Over £5.8m sales in the year

>600% growth in revenue since April 2007 admission

Contract Research Services

Growth
- ➜ Renewal of five year contract with US government biodefence programme for efficacy testing of drug candidates
- ➜ Excellent year-on-year growth and strong operating margin
- ➜ Established and expanding international track record

The Contract Research Services division provides preclinical efficacy testing, advanced immunohistochemistry services and cell biology expertise in the areas of oncology, oncology supportive care (mucositis), inflammatory bowel disease and dermatology.

Divisional revenue over the year was up 19%, with the quality of business strengthening significantly to deliver operating margins up by 34% year-on-year. This improvement was based on an improved mix of high margin service business.

Strengthening partnerships
Divisional revenues advanced over the year supported by increases in average contract values and its customer base alongside an enhanced service offering. The division is focused on developing key client relationships with large pharmaceutical groups to generate a solid foundation for growth.

Biodefence
Our collaboration with the US National Institutes of Health (NIH) was confirmed and extended for a further five years during the year with work expanding around the testing for efficacy of agents under the MCART (Medical Countermeasures Against Radiological Threats) programme designed to address exposure to radiation or nuclear attack. We anticipate that growth and development of our relationship with the US NIH and NIAID (National Institute of Allergy and Infectious Diseases) will continue further over the coming year.

Immunohistochemistry and inflammatory models
Our hair immunohistochemistry (IHC) and inflammatory bowel disease models continued to develop over the year with our advanced techniques, helping to secure several important new contracts. We will continue to invest in and develop these areas over the coming year.

Outlook
We continue to build and strengthen our models and services by enhancing our existing tests and also through extending into new complementary areas such as MRI and CAT imaging. We continue to nurture our key customer relationships in our core territories through new business development and distributor opportunities. Through increasing recognition of our core cell biology expertise and the planned expansion of our service offerings, we anticipate that the division will continue to strengthen and grow over the coming year.

19%
growth in sales

US Biodefence
Renewal of 5 year contract with US government biodefence programme for efficacy testing of drug candidates. Epistem now classified by US regulators as Subject Material Experts (SMEs) in radiation treatment.

34%
growth in operating margin

25
divisional Contract Research Services staff

Personalised Medicine

1 Biomarkers

Growth

- Step up in revenue growth of 41% year-on-year
- Announcement of the Sanofi-Aventis oncology biomarker collaboration
- Strong biomarker collaborative growth anticipated over year ahead

Our Biomarker division provides highly sensitive molecular measures of biological processes that improve the precision with which we guide drug development and disease treatment.

Over the year our Biomarker division advanced the development and profile of its technology through partnerships with top tier pharmaceutical partners. Alongside its smaller collaborative relationships, the division announced its first significant collaboration with Sanofi-Aventis. The collaboration enables Epistem to provide novel discovery and translational biomarker development and to support Sanofi-Aventis's preclinical and clinical oncology drug programmes. The programme targets the discovery of drug biomarkers and translates these through the clinic as companion biomarkers of drug effect.

Revenues stepped up to £1.1m over the year driven by new customer relationships, with the division primarily providing its technology to big pharmaceutical partners.

The Biomarker division provides a comprehensive pharmacodynamic assessment of new drugs and disease targets based on our highly sensitive amplification technology. Coupled with our GcLP laboratory status and expanding expertise, the division provides an advanced platform for growth alongside our pharmaceutical partner collaborations. The development of our RNA Amp™ 'single cell' amplification techniques and oncology pathway understanding will provide further acceleration in biomarker growth over the year ahead.

Outlook

We anticipate a further growth and development of our biomarker business division over the coming year based on new collaborations and the extension of our existing partner relationships.

41%

year-on-year growth

Sanofi-Aventis collaboration
Our advanced biomarker technologies now provide biomarker support to Sanofi-Aventis across its preclinical and clinical oncology programmes.

41%
year-on-year growth

9
divisional Biomarker staff

Personalised Medicine

2 Diagnostics

Growth

- First sales of Genedrive™
- Collaborative discussions ongoing
- Wide industry applications

Our Molecular Diagnostic group is changing the way healthcare and personalised medicine are delivered at the point of care. We are also developing advanced approaches to provide molecular measures of identification outside of healthcare in 'point of need' settings.

Genedrive™

Genedrive™ is a 'point of care' (POC) molecular diagnostic device which promises to change the way healthcare and future medicines are delivered. With the ever increasing requirement for more effective patient treatment, increasing regulation and the need for rapid, low cost and sensitive diagnostic testing, Genedrive™ provides a new technological and cost effective approach to the diagnosis of bacterial, viral, fungal and gene mutations. Genedrive™ has been positioned to capitalise on the increasing demand for diagnosis in settings such as hospitals, clinics and smaller labs as well as to provide the 'gold standard' of biological testing in other industrial 'point of need' areas such as biosurveillance, forensics, veterinary, food and agriculture.

Genedrive™ is now undergoing clinical trials in oncology, sexually transmitted diseases, tuberculosis and forensics with results from these studies expected over the coming months. Trends show that hospital testing is expected to decrease as POC tests become the preferred choice of diagnostic testing 'near patient' and in the community.

Outlook

Genedrive™ is a 'first to market' proprietary and disruptive technology positioned to provide a new paradigm in personalised medicine and point of care diagnostics. It builds on our Biomarker technology and existing assay expertise to provide a novel, simple to use and cost effective platform that will diagnose a range of bacterial infections, pathogens and gene mutations in less than 30 minutes. We anticipate significant growth in Genedrive™ over the coming year.

Genedrive™

Genedrive™ is now being tested in the clinic for diagnosis of sexually transmitted diseases (STD), oncology mutations, tuberculosis and for forensic applications.

<30

minutes for Genedrive™ molecular (PCR) diagnosis

Novel Therapies

Developments
- ➜ Completion of the research phase of the Novartis collaboration
- ➜ Ongoing development of over 40 hits/leads
- ➜ Discussions ongoing with new collaborative partners

The Novel Therapies division is discovering the body's own key regulators of epithelial stem cells and tissues. Based on our highly sensitive molecular techniques and core cell biology expertise, we discover and develop our own novel drug agents.

These key regulators are responsible for restoring damaged tissue and for maintaining 'life-long tissue renewal'. The Novel Therapies division is focused on identifying the key regulators of cells in the disease areas of cancer (based on 80% of cancer originating from epithelial tissue), gastrointestinal disease, wound healing and ageing.

Novartis collaboration

The discovery and development collaboration with Swiss based Novartis AG has now completed the research phase of its regenerative medicine discovery programme and we are continuing to develop our prioritised hits/leads discovered under the collaboration. With 40+ hits/leads in development we are positioning ourselves to create a pipeline of early stage development targets based on our discovery programme and the mapping of cell regulators which control the activity of cells and stem cells.

Partnerships

We have extended our in-house expertise in signalling pathway bioinformatics and protein production to firmly establish our discovery position in both regenerative medicine and oncology. This broadened offering has led to ongoing discussions around our oncology discovery programme and we expect these discussions to lead to further collaborative opportunities. We continue to evaluate other drug discovery opportunities with major industry players and we are advancing our small-molecule programme to identify our own proprietary leads for cell receptor regulation.

Outlook

We are committed to understanding the body's key regulators and identifying the genes and pathways involved in cell regulation. We look forward to broadening our collaborative progress with other partnerships based on our emerging hits/leads pipeline.

Over 40
hits/leads in development

Oncology developments
Epistem has now expanded its epithelial drug discovery alongside regenerative agents to identify oncology targets based on its normal to tumour in-vitro models.

Over 80%

of cancers originate from epithelial tissue

Our Business and Strategy

Our strengthening business model is based on sustaining future growth. Epistem has an unrivalled knowledge of the behaviour of epithelial tissue which together with our proprietary amplification technologies for use in pharmacogenomics and molecular diagnostics will further strengthen our position in personalised medicine and disease diagnostics.

Division	Field	Area of Income	Discovery	Preclinical	Phase 1	Phase 2	Phase 3	Market
Contract Research Services	Inflammatory bowel disease, dermatology, oncology, mucositis	Fee for service						
Novel Therapies	Discovery hits/leads and early stage development	Partnering and licensing						
Personalised Medicine	Preclinical, clinical and market programmes	Fee for service, partnering, licensing, product sales						

Discovery	Preclinical	Phase 1	Phase 2	Phase 3	Market
RNA Amp™ and Pathway Direct™			**Genedrive™**		
Gene target identification and validation					Gene marker monitoring
	PD/PK marker		Clinical effect marker	Patient stratification	Treatment effect marker
Identify gene targets	Establish gene set	HNV and initial clinical translation	Confirm gene set against drug induced response		
				Identify patient responders/ non-responders (pattern recognition)	Therapeutic biomarker (health monitoring)
					Screening biomarker for predisposition to drug/class of drug

Combined business model
Epistem's combined business model is now yielding a profitable and growing business supported by our three core business divisions. The Contract Research Services business has established itself across the pharmaceutical and biotechnology industry as an expert provider of epithelial cell biology services. Our industry relationships and growing technology position has also provided the basis for partnering strategies for our emerging Novel Therapies and Personalised Medicine divisions.

Partnering programme
We continue to work closely with our partners and customers to build strong business relationships based on leading scientific discovery and development. In addition to our first major collaboration with Novartis, we are now nurturing other relationships to advance our emerging hits/leads.

Licensing opportunities
The strength of our discovery platform underpinning the Company's Novel Therapies division continues to grow and this is partly reflected in the number of potential drug candidates which the Company has now identified. These candidates are undergoing development to drive Epistem's emerging drug development pipeline. We will continue to maintain our strong intellectual property position in this area and develop our deepening understanding of drug effect biomarkers and disease diagnosis.

Personalised Medicine and Disease Diagnostics
Epistem's Personalised Medicine division is now beginning to advance its amplification technologies into the pharmacogenomics, infectious disease and wider 'point of need' settings. The combination of our proprietary and disruptive technologies in this area will enable us to set out a new approach to companion diagnostics for effective therapeutic treatment and for rapid diagnosis of infectious disease.

Strategic Goals:

Growth:
We expect to deliver sustained revenue growth and increased visibility and awareness of the Company and its achievements over the forthcoming year.

Technical:
We will continue to exploit our core stem cell expertise alongside strengthening our industry presence in personalised medicine and disease diagnostics.

Financial:
Continued revenue growth over the coming year is anticipated with accelerated commercial delivery across all of our divisions. Our combined business model will continue to strengthen and our portfolio will enable us to accelerate investment across the Group and consider acquisition opportunities where appropriate.

Investor:
Continued development across each of our business divisions offers an increasingly attractive investment opportunity for both our existing and new investors. The impressive revenue growth across each of our divisions alongside increasing forecast revenues and growing profitability demarks Epistem as an exciting growth stock with significant potential upside.

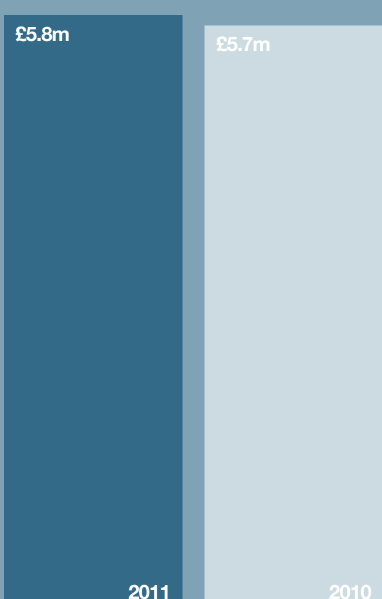
Strength in Diversity

Highlights
- ➜ Sales of £5.8m with strong underlying programme growth
- ➜ 19% sales growth in Preclinical Services
- ➜ Third consecutive year of growth in profit
- ➜ Announcement of significant Biomarker oncology collaboration
- ➜ Development and first sales of Genedrive™
- ➜ Discussions ongoing around Novel Therapies programmes
- ➜ Strong cash balances

Epistem continues to expand and strengthen its technology offering to underpin its growth and profitability. The 2010/11 financial year saw Epistem advance its core company programmes, revenues and earnings growth.

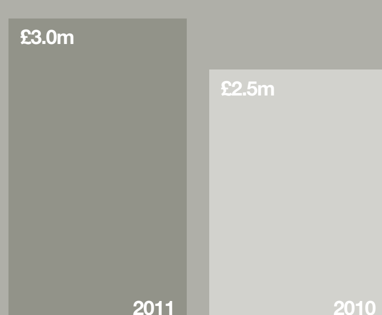
Group revenues

Against a backdrop of weakening home revenues and challenging international markets, the Group recorded sales of £5.8m. Territory revenues were split:
US 68%
EU/ROW 27%
UK 5%



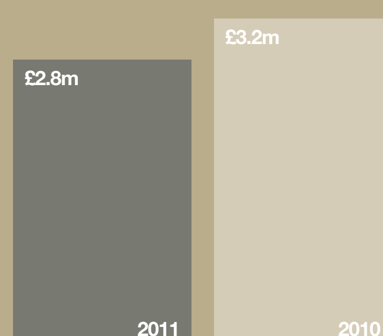
Contract Research Services revenues

Growth in Preclinical Services Revenue showed a 19% increase over the prior year. Our new immunohistochemistry models advanced well with inflammatory bowel disease testing also performing strongly. During the year the US NIH biodefence contract was renewed.



Personalised Medicine and Novel Therapies revenue

A step up in growth in our Personalised Medicine revenues driven by the Sanofi-Aventis collaboration and our Biomarker technology helped offset the reduced revenues generated from the Novel Therapies Novartis collaboration. The first Genedrive™ revenues were also generated towards the end of the financial year.



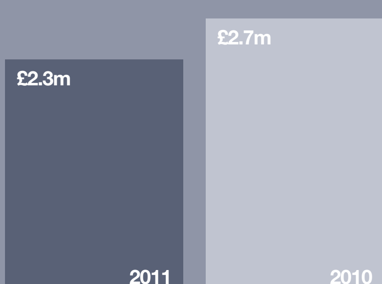
£5.8m
turnover

£0.4m
profit

Genedrive™ molecular diagnostic
Epistem's new point of care diagnostic recently announced the successful first stage trials in India of its new device and assay for the rapid diagnosis of tuberculosis.

Discovery, development and admin cost

We continued to build and develop our Novel Therapies drug discovery programme which coupled with our Genedrive™ developments will provide the prime accelerators of growth over the coming years. Central business overheads remained steady at £1.3m.

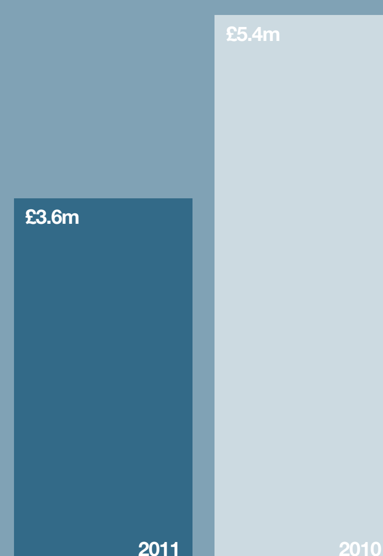


Profit after tax

Growth in profit after tax was maintained with a year-on-year increase of 33%.

Cash reserves

Cash reserves remain strong and growth over the coming year is expected to strengthen this position.



David Evans
Non-executive Chairman's Statement

➜ Diverse
Epistem continues to build on its scientific and technical strengths as it transforms into a diverse, technology leading and profitable biotechnology and personalised medicine group with the prospect of strong revenue growth.

I am pleased to report a strengthening in the Company's core programmes of development and ongoing improvement in Epistem's results for the year ended 30 June 2011. Whilst market and general economic conditions remain volatile across many areas of the economy, Epistem continues to differentiate itself through its growth, advancing technologies and firm commitment to growing investor returns.

Results

Further details of the results for the period are covered in the Chief Executive Officer's review, but financially the year to 30 June 2011 saw the Company deliver revenues of £5.8m (2010: £5.7m). Based on this trading performance the Company generated an after tax profit of £0.4m (2010: £0.3m). Cash reserves at the end of the period were £3.6m (2010: £5.4m) with the cash reduction reflecting continued investment in our Novel Therapies and Personalised Medicine portfolio.

During the year the Company made good progress across each of its three divisions:

- Contract Research Services revenues grew by 19% to £3.0m (2010: £2.5m). The extension of our service offerings and renewal of the US government biodefence contract enabled the division to deliver a solid performance over the year. Despite continuing market uncertainties, the division continues to build on and extend its core scientific strengths to provide a firm platform for future growth.

- Personalised Medicine revenue growth increased 39% over the year to £1.1m (2010: £0.8m), largely driven by the announcement of the three year Sanofi-Aventis oncology biomarker collaboration announced in March 2011.

- The development of our Genedrive™ molecular diagnostic device continues to make excellent progress with clinical trials now underway across a number of diagnostic areas, including pharmacogenomics, infectious disease and biodefence. Genedrive™ recorded its maiden sales revenues at the end of the financial year and we are very encouraged by the level of interest in the device and its broad range of applications.
- Novel Therapies's drug development programme continues to advance. The funded research phase of the Novartis collaboration was completed at the end of February 2011 generating £1.6m over the year (2010: £2.4m). Internal development continues around leads emerging from the Novartis collaboration. Collaborative discussions are also being progressed with other potential partners in the areas of regenerative medicine and oncology. The timings of license opportunities and future development funding remains difficult to accurately predict.
- The Company now reports its third consecutive year of profit generation and growth in earnings per share to 4.9p (2010: 3.8p).

Outlook
Epistem continues to build on its scientific and technical strengths as it transforms into a diverse, technology leading and profitable biotechnology and personalised medicine group with the prospect of strong revenue growth. Against a backdrop of market uncertainty, Epistem remains vigilant, whilst increasingly positive about its future growth and development.

Despite the challenging market conditions, each division continues to strengthen its technology and expertise. The Contract Research Services division is building an international profile and reputation for its proprietary models and continues to enhance its relationship with the NIH under our US biodefence contract. We expect further growth from the division over the coming year.

The Personalised Medicine division has seen improved growth over the past year, which coupled with our rapidly advancing molecular diagnostic system Genedrive™, will accelerate the growth of the division. The Novel Therapies drug discovery collaboration with Novartis has now completed its funding stage and the ongoing development of hits/leads emerging from the research funding stage continues. Whilst the timing of license and development opportunities remains difficult to judge, we remain optimistic about the strength of our hits/lead programme. We are currently in discussions with a number of other collaborative partners in relation to our regenerative medicine and oncology hits/leads portfolio. Epistem continues to refine its discovery and development technology to position itself as a world leader in therapeutic discovery in the field of epithelial stem cell regulation.

With the profile and visibility of each of our business divisions increasing, we expect to see the Company further strengthen its financial performance over the coming year.

I would like to thank the CEO for his support and leadership, the Board and our employees for their effort and commitment in driving Epistem's progress over the past year, as well as our investors whose valued support has provided a stable platform for our continued growth.

David Evans
Non-executive Chairman
10 October 2011

➜ Leader
Epistem continues to refine its discovery and development technology to position itself as a world leader in therapeutic discovery in the field of epithelial stem cell regulation.

Matthew Walls
Chief Executive's Review

➜ Growth
Strengthening Contract Research Services sales helped the division deliver a 34% increase in year-on-year operating profit of £1.0m.

Epistem continues to make strong progress in building itself into an internationally recognised Drug Discovery and Personalised Medicine company. The financial results for the Group presented in this annual report reflect the Group's trading results for the year to 30 June 2011 and for the comparative period to 30 June 2010.

Headline progress over the year included:

- Sales of £5.8m with strong underlying programme growth.
- Third year of profit growth and an increase in earnings per share.
- Announcement of Biomarker oncology collaboration with Sanofi-Aventis.
- 19% sales growth in Preclinical (Contract) Research Services.
- Development and initial sales of Genedrive™ 'point of care' molecular diagnostic device.
- Novel Therapies' discussions ongoing in regenerative medicine and oncology.
- Strengthening trading outlook.

Integrated business model

The Company continues to progress its integrated business model, with each division targeting revenue growth and profitability. The establishment of our independent divisions has created a strong portfolio of growing and profitable business units rarely seen in a biotechnology business model. Epistem provides a financially robust business, whilst offering the potential of significant financial upside from our Novel Therapies, Personalised Medicine and Contract Research Services divisions. We continue to enhance and exploit our integrated core competence in epithelial stem cell biology and personalised medicine, whilst retaining commercial independence across each of our divisions.

Financial review

The Company reports a turnover of £5.8m (2010: £5.7m) for the year ended 30 June 2011. Revenues were underpinned by the Contract Research Services division, which delivered sales of £3.0m (2010: £2.5m) a 19% year-on-year increase. The Personalised Medicine division saw sales increase to £1.1m (2010: £0.8m), with the Novel Therapies division reporting sales of £1.6m (2010: £2.4m).

Consolidated territory revenues were split US 68% (2010: 79%), EU/ROW 27% (2010: 14%) and UK 5% (2010: 7%). The percentage split in revenues reflect the strong growth in EU sales offsetting the reduced US revenue position over the year.

Strengthening Contract Research Services sales helped the division deliver a 34% increase in year-on-year operating profit of £1.0m (2010 £0.7m). Growth in the Personalised Medicine division helped by the announcement of the Sanofi-Aventis collaboration offset our ongoing investment in the development of our Biomarker (RNA Amp™) and Diagnostics (Genedrive™) technologies to record its first substantive operating profit of £0.1m (2010 loss £0.1m). Novel Therapies reported a reduced year-on-year operating profit position of £0.6m (2010 £1.0m), reflecting the completion of the research funding from the Novartis collaboration in February 2011. Central administration cost remained steady at £1.3m (2010: £1.3m).

The Group reported profit after tax for the year was £0.4m (2010: £0.3m) with headcount in the company at 55 (2010: 51).

Cash reserves at the end of the year were £3.6m (2010: £5.4m). The underlying reduction in cash over the year primarily relates to investments made in our Novel Therapies and Personalised Medicine divisional developments with the growth in trade debtors from our US biodefence and Sanofi-Aventis collaborations.

Earnings per share increased to 4.9p per share (2010: 3.8p).

Operating review

Contract Research Services

Contract Research Services delivered a 19% year-on-year growth in revenue. Whilst market and industry conditions remain challenging, our specialist preclinical services maintained solid growth with its larger pharmaceutical clients.

Territory sales increases were reported across our major US and EU markets, with the UK market accounting for only 5% of our consolidated divisional sales. EU growth was underpinned by a growing bias towards collaborative business with the larger pharmaceutical and biotechnology groups. We continue to develop and enhance our core expertise and proprietary preclinical offering with our inflammatory bowel disease and immunohistochemistry models showing strongest growth over the year. New client relationships and aggregate contract values also continued their trend of year-on-year increase.

During the year we announced the renewal of our role within the US National Institutes of Health's biodefence programme. We have worked closely with the US biodefence group over the past five years and the renewal over the next five years provides solid support for our recognition by the US NIH and FDA groups as 'Subject Material Experts' (SME) in radiation treatment. We made good progress throughout the year in expanding the programme of test agents targeting treatment of radiation sickness following a nuclear incident.

The new financial year promises to build on last year with the advent of new product developments in oncology (imaging), hair immunohistochemistry and advanced inflammation models from which we anticipate further growth.

➜ Stability
Epistem provides a financially robust business, whilst offering the potential for significant financial upside from our Novel Therapies, Personalised Medicine and Contract Research Services divisions.

Chief Executive's Review
(continued)

Personalised Medicine
Biomarkers
With an increasing industry trend towards individualised patient treatment and increasing regulatory pressures for improved measures of 'personalised' drug effect, Biomarker revenues stepped up to £1.1m (2010: £0.8m) over the year. The reported revenues were buoyed by the Sanofi-Aventis biomarker and commercialisation collaboration announced in March 2011.

The collaboration utilises Epistem's proprietary RNA amplification technologies (RNA Amp™) and oncology bioinformatics to provide biomarker discovery and translational support across the Sanofi-Aventis oncology development programme. We anticipate further expansion in the scope and growth of the collaboration over this financial year. The Biomarker division has also expanded its other transcriptomic offerings to provide a suite of models covering preclinical and clinical pharmacodynamic measures. Our translational model is also expected to unfold across other partner collaborations and disease areas over the coming year. We are also preparing to integrate our identified biomarker panels with our new Genedrive™ system to enable a full discovery, preclinical and clinical translational offering.

Diagnostics
As part of our expanding technology offering in Personalised Medicine, Epistem's new diagnostic device 'Genedrive™' made its first sales at the end of the financial year. We expect to see rapid growth of sales of the device and assays over the current financial year. Genedrive™ is targeting a near patient, low cost and rapid turnaround (less than 30 mins) molecular diagnosis across a broad spectrum of disease areas. Genedrive™ is now in a number of clinical trials and assay development has commenced across a broad number of pharmacogenomic, infectious disease and other biosurveillance based programmes.

Successful clinical studies were recently completed in India for Tuberculosis and we expect to see strong growth in this and other infectious disease areas over the coming year. In the UK we are taking part in National Police Improvements Agency (NPIA) programme to enable crime scene testing for DNA fingerprinting. We will be informing investors about other clinical studies over the coming months and the Board believes that Genedrive™ is expected to be both novel and disruptive in its market position and we anticipate significant revenue growth and interest in our diagnostic strategy over the coming year.

The growth in Personalised Medicine revenues enabled the division to report its first operating profit. Our portfolio of personalised medicine technologies is driven by an increasing medical focus around effective patient treatment, higher regulatory requirements and the need for rapid, low cost and sensitive molecular diagnostic testing. Our proprietary technologies are well positioned to capitalise on this market growth.

Novel Therapies
The Novel Therapies collaboration with Novartis completed the research phase of the collaboration in February 2011 and we are now continuing the development of our novel hits/leads identified under the collaboration. Whilst the collaboration remains ongoing, no further funding payments have been received from Novartis. The timing of a license opportunity and/or ongoing funding support remains difficult to judge, but we remain confident in our development programme and the prospect of future license and funding support.

Hits/leads generated are being developed across both regenerative medicine and oncology and we are making good progress in advancing our selected novel leads. The core cell biology and signalling pathways which regulate the cell/stem cell continue to be validated and better understood as we identify the specific genes and pathways which regulate the characteristics of the cell. Alongside the Novartis collaboration, we are in discussions with other pharmaceutical/biotech groups and we expect to see developments in this area over the next financial period.

We are now beginning to scale up our own proprietary leads and a focused group of small molecules to establish our proprietary portfolio of agents which regulate signalling pathways and cell biology.

We will also continue to evaluate our other drug discovery and development opportunities with major industry players to identify new lead developments and to expand our discovery and early stage development platform.

Current trading and outlook
Epistem has developed a rich portfolio of technology and business opportunities which we expect to maintain our continued profitability and sustain growth. The past year has seen us strengthen our internal expertise across our core divisional programmes and this careful preparation is expected to deliver further growth over the coming year. The business model has traditionally been dependent on service and license based revenues, but with the advent of our first molecular diagnostic product (Genedrive^{TM}), revenues are expected to accelerate quickly over the coming year.

We continue to supplement our management team with world class, innovative individuals who fit with the culture and dynamism of the Company. We will also build on our corporate and board strength and supplement our scientific advisory board and advisory committees as appropriate.

Our shareholder interest and support remains strong and we will ensure that our ongoing investor communications continue to nurture this relationship.

A strengthening operational and financial position confirms our belief that the year ahead will continue to generate substantial increases in our forecast revenues. We remain selective in considering complementary technology, acquisitions and in-licensing, with few opportunities thus far meeting our high expectations. We continue to remain alert in our outlook in these uncertain times.

We remain firmly fixed on building shareholder value by providing a high margin, diverse and rapidly growing portfolio of world class technologies.

I would like to thank the Board, management and employees for their help and support over the past year. I would also like to thank our investors for their continued support and interest in our exciting and rapidly growing Company.

Matthew H Walls
Chief Executive Officer
10 October 2011

➜ Focus
We remain firmly fixed on building shareholder value by providing a high margin, diverse and rapidly growing portfolio of world class technologies.

Board of Directors

1. David Evans (51)
Non-executive Chairman
David joined Epistem as a Non-executive Director in June 2005 and became Executive Chairman in March 2006 until the flotation in April 2007, when he reverted to a Non-executive position. David, a qualified accountant, has many years' experience both as an executive and as a non-executive of publicly listed diagnostic and life science companies. In addition to his chairmanship of Epistem, he is currently Non-executive Chairman of the following AIM listed companies: EKF Diagnostics plc, Omega Diagnostics Group plc and Scancell Holdings Plc.

2. Matthew Walls (47)
Chief Executive Officer
Matthew joined Epistem in February 2007 as Chief Executive Officer. He is an experienced CEO, most recently with Oxford Biosignals Limited, where he led the strategic collaboration with Rolls Royce Plc and Covance Inc. Matthew spent the early part of his career with ICI Plc, progressing through to AstraZeneca Plc prior to its plant crop biotechnology group merger with Novartis to form Syngenta Plc. Matthew has led the growth of several technology and biotechnology companies as CEO, including Internexus Limited and Zylepsis Limited. He holds a non-executive post at Riyada Oxford Investments Limited and is a chartered accountant and a member of CIMA.

3. John Rylands (57)
Financial 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. Until 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 member of ICAEW.

4. Jeffrey Moore, Ph.D. (52)
Managing Director, Novel Therapies
Jeffrey joined Epistem in 2005 in his current role. Prior to joining Epistem he had been at Phylogix, a US biotechnology company which he founded in 1998. Jeffrey has held two postdoctoral fellowships, at DNAX Research Institute of Molecular and Cellular Biology Inc and the Walter and Eliza Hall Institute of Medical Research, following which he joined Imclone Systems Inc. Throughout his career, Jeffrey has kept a strong interest in stem cell regulation and identifying the potential commercial application of these factors. He holds a Ph.D. from George Washington University.

5. Prof. Chris Potten (70)
Chief Scientific Adviser
Chris is a co-founder of Epistem and the Company capitalises on the results of the research that was produced by him and his team at the Paterson Institute over the past three decades. Chris acts as Chief Scientific Adviser to the Company, although he does not participate in the day-to-day management of the Company. Chris retains a strong interest in the progress and success of the Company and prior to Epistem's AIM listing was its biggest individual shareholder.

6. Catherine Booth, Ph.D. (46)
Managing Director, Contract Research Services
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 of the Epistem Contract Research Service Division. Catherine received her Ph.D. from Emmanuel College, University of Cambridge.

7. Robert Nolan, Ph.D. (68)
Non-executive Director
Robert has been a Non-executive Director of the Company since 2004. 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.

8. Roger Lloyd, Ph.D. (63)
Non-executive Director
Roger joined the Board as a Non-executive Director on 1 July 2007. Trained as a biochemist, Roger has 36 years experience in the healthcare and biotechnology sector, particularly in the areas of strategic planning and business development. International business management with ICI and AstraZeneca 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, including strategic alliances with Abgenix and CAT, and acquisitions of KuDOS Pharmaceuticals and CAT. He operates as a Board Adviser in the Biotech sector.

Directors' Report

For the year ended 30 June 2011

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 2011.

Principal activities and review of the business

The principal activity of the Group during the year was the provision of services to the biotechnology and pharmaceutical industries, covering preclinical testing and gene biomarker services and the development of novel therapeutics for partner companies. The trading activities of the Group are currently principally undertaken in the subsidiary undertaking, Epistem Limited, and a detailed overview of these activities is outlined in the Business Overview on the inside front cover to page 11 of this report. The Group operated a US business development office in Cambridge, MA, US, trading through its wholly owned subsidiary Epistem Inc.

A review of the business during the year which summarises overall progress, research and development and Key Performance Indicators, as well as risks and developments, is detailed in the Business Overview and Review of the Year on the inside front cover to page 19 of this report.

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 30–56 of this report.

The Directors do not recommend payment of a final dividend.

Going concern

After due consideration, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, they 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 2011	1 July 2010
David Evans	**80,645**	80,645
Chris Potten	**519,320**	519,320
Catherine Booth	**982,732**	981,538
Gerard Brady (resigned 4 August 2011)	**2,732**	1,538
Roger Lloyd	**–**	–
Jeffrey Moore	**15,057**	16,038
Robert Nolan	**8,065**	8,065
John Rylands	**192,630**	191,436
Matthew Walls	**8,377**	7,183

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:

	Ordinary shares	Percentage holding
Managed by Calculus Capital Ltd	809,877	10%
Helium Special Situations Fund	707,500	9%
BlackRock UK Smaller Companies Fund	478,500	6%
Gartmore Investments Limited	446,033	6%
Generali Finances	395,000	5%

Policy on payments to suppliers

It is the policy of the Company in respect of all of its suppliers, where reasonably practicable, to settle the terms of payment with those suppliers when agreeing the terms of each transaction, to ensure that those suppliers are made aware of the terms of payment, and to abide by those terms. The Group has complied with this policy during the year. The average number of creditor days for the Group was 86 (2010: 83) based on the average daily amount invoiced by suppliers during the year.

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 Financial 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; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The Directors 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.

Principal risks

The Board meets regularly to review operations and to discuss risk areas. The Review of the Year on pages 12–19 reports on the factors which are key to the on-going development of the Company. The Corporate Governance Report contains details of the Group's system of internal control. Details of the financial risks are disclosed in Note 19 to the financial statements.

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 20. 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
10 October 2011

Directors' Remuneration Report

For the year ended 30 June 2011

Introduction

This report has been prepared in accordance with the requirements of Schedule 2 Pt1 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

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

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

Non-executive Directors' terms of engagement

The Non-executive Directors have specific terms of engagement. Their remuneration is determined by the Board. In the event that a Non-executive Director undertakes additional assignments for the Company, the Non-executive Director's fee will be agreed by the Company in respect of each assignment.

Audited information

Aggregate Directors' remuneration

	Salary and fees £	Bonus £	Pension £	**2011 Total £**	2010 Total £
Executive					
Catherine Booth	99,576	20,000	28,678	**148,254**	140,813
Gerard Brady (resigned 4 August 2011)	89,766	–	–	**89,766**	115,000
Jeffrey Moore	125,000	–	–	**125,000**	140,000
John Rylands	115,000	15,000	–	**130,000**	130.000
Matthew Walls	200,000	70,000	–	**270,000**	300,000
Non-executive					
David Evans	35,000	–	–	**35,000**	34,992
Roger Lloyd	24,000	–	–	**24,000**	24,000
Robert Nolan	24,000	–	–	**24,000**	24,000
Chris Potten	24,475	–	–	**24,475**	43,943
	736,817	105,000	28,678	**870,495**	952,748

Directors' share options

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

	As at 1 July 2010	Options granted	As at 30 June 2011	Exercise price	Earliest exercise date	Expiry date
Executive						
Catherine Booth (2)	15,528	–	**15,528**	£1.20	Exit	09/01/2016
Gerard Brady (2) (resigned 4 August 2011)	88,800	–	**88,800**	£0.50	Exit	06/01/2012
Gerard Brady (2) (resigned 4 August 2011)	3,200	–	**3,200**	£0.75	Exit	30/03/2013
Gerard Brady (2) (resigned 4 August 2011)	2,200	–	**2,200**	£0.75	Exit	06/04/2013
Gerard Brady (2) (resigned 4 August 2011)	1,800	–	**1,800**	£0.75	Exit	20/07/2014
Gerard Brady (2) (resigned 4 August 2011)	24,224	–	**24,224**	£1.20	Exit	24/11/2015
Gerard Brady (2) (resigned 4 August 2011)	12,653	–	**12,653**	£1.67	Exit	27/07/2017
Gerard Brady (4) (resigned 4 August 2011)	57,727	–	**57,727**	£1.60	15/10/2010	15/10/2017
Jeffrey Moore (3)	83,333	–	**83,333**	£1.20	04/04/2007	09/01/2016
Jeffrey Moore (1)	100,000	–	**100,000**	£1.20	04/04/2007	09/01/2016
Jeffrey Moore (1)	83,333	–	**83,333**	£1.20	01/09/2007	09/01/2016
Jeffrey Moore (1)	83,333	–	**83,333**	£1.20	01/09/2008	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 (5)	177,653	–	**177,653**	£1.24	31/10/2010	27/03/2017
Matthew Walls (6)	80,644	–	**80,644**	£1.24	31/10/2010	27/03/2017
Matthew Walls (7)	–	254,631	**254,631**	£3.73	30/09/2013	29/03/2021
Matthew Walls (7)	–	5,369	**5,369**	£3.60	30/09/2013	10/05/2021
Non-executive						
David Evans (1)	62,112	–	**62,112**	£1.20	04/04/2007	09/01/2016
Robert Nolan (1)	78,000	–	**78,000**	£1.29	31/05/2005	30/03/2015
Robert Nolan (1)	15,528	–	**15,528**	£1.20	10/01/2006	09/01/2016
Chris Potten (2)	15,528	–	**15,528**	£1.20	Exit	09/01/2016

1. Unapproved stand-alone agreement, no performance criteria.
2. EMI Company scheme, no performance criteria.
3. EMI stand-alone scheme, no performance criteria.
4. EMI and unapproved stand-alone scheme, with performance criteria which require the Board to determine whether certain identified technical developments have been completed.
5. EMI and unapproved stand-alone scheme, with performance criteria which allowed the options to vest (i) when the audited accounts for the year ended 30 June 2010 became available and (ii) when the earnings per share of the financial year were a positive figure.
6. EMI stand-alone scheme, with performance criteria as detailed in (5) above.
7. 2007 Epistem Share Option Scheme, with performance criteria which allow the options to vest when the Remuneration Committee determine that the Company has achieved a compound annual growth in EBITDA of at least 15% for the three year period commencing 1 July 2010.

Directors' Remuneration Report (continued)

For the year ended 30 June 2011

Share Investment Plan

The details of the Epistem Share Investment Plan are outlined in Note 18 (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 £	Total Matching Shares No	**Total SIP Shares 30 June 2011 No**	SIP Shares 30 June 2010 No
Catherine Booth	911	7,000	1,821	**2,732**	1,538
Gerard Brady (resigned 4 August 2011)	911	7,000	1,821	**2,732**	1,538
Jeffrey Moore	911	7,000	1,821	**2,732**	1,538
John Rylands	911	7,000	1,821	**2,732**	1,538
Matthew Walls	911	7,000	1,821	**2,732**	1,538

Approved by the Board

D E Evans
Chairman
10 October 2011

Corporate Governance Report

For the year ended 30 June 2011

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 Nominations 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 Nominations Committee. The membership of these committees and attendance at meetings is as follows:

	Audit Committee	Remuneration Committee	Nominations Committee
David Evans (Non-executive Chairman)	3	3	1
Roger Lloyd (Non-executive Director), Remuneration and Nominations Committee	na	3	1
Robert Nolan (Non-executive Director)	3	3	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 will be set by the Board. The Remuneration Committee will also approve the issue of share options under schemes approved by the Board.

None of the Committee 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 three times during the year.

Nominations Committee

The Nominations 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. The Group has an excellent health and safety record. 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 2011

We have audited the group and parent company financial statements (the 'financial statements') of Epistem Holdings Plc for the year ended 30 June 2011 which comprise the consolidated statement of comprehensive income, the consolidated and parent company balance sheets, the consolidated and parent company statements 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).

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. 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 2011, and of the group's profit for the year then ended;
- the 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 the 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 Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements 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
HW, Chartered Accountants and Statutory Auditor
Bridge House, Ashley Road
Hale, Cheshire WA14 2UT

10 October 2011

Accounts

Consolidated Statement of Comprehensive Income

For the year ended 30 June 2011

	Notes	2011 £'000	2010 £'000
Revenue	2	**5,752**	5,740
Contract costs		**(3,072)**	(2,697)
Discovery and development costs		**(979)**	(1,433)
General administrative costs		**(1,316)**	(1,298)
Operating profit	3	**385**	312
Finance income	6	**18**	40
Finance costs	6	**(46)**	(2)
Profit on ordinary activities before taxation		**357**	350
Taxation on ordinary activities	7	**28**	(60)
Total comprehensive income for the financial year		**385**	290
Earnings per share (pence)			
– Basic	9	**4.9p**	3.8p
– Diluted	9	**4.3p**	3.3p

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 2011

	Share capital £'000	Share premium account £'000	Employee share incentive plan reserve £'000	Share options reserve £'000	Reverse acquisitions reserve £'000	Retained earnings £'000	Total £'000
Balance at 1 July 2009	108	8,467	–	606	(2,484)	(3,937)	2,760
Allotment of ordinary shares	11	2,873	–	–	–	–	2,884
Share issue costs	–	(135)	–	–	–	–	(135)
Purchase of own shares (SIP)	–	–	(43)	–	–	–	(43)
Exercise of options	–	1	–	(1)	–	–	–
Recognition of equity-settled share-based payments	–	–	–	28	–	–	28
Total comprehensive income for the year	–	–	–	–	–	290	290
At 30 June 2010	119	11,206	(43)	633	(2,484)	(3,647)	5,784
Balance at 1 July 2010	119	11,206	(43)	633	(2,484)	(3,647)	5,784
Purchase of own shares (SIP)	–	–	(45)	–	–	–	(45)
Recognition of equity-settled share-based payments	–	–	–	58	–	–	58
Total comprehensive income for the year	–	–	–	–	–	385	385
At 30 June 2011	**119**	**11,206**	**(88)**	**691**	**(2,484)**	**(3,262)**	**6,182**

Consolidated Balance Sheet

As at 30 June 2011

	Notes	2011 £'000	2010 £'000
Non-current assets			
Intangible assets	10	**1,075**	135
Plant and equipment	11	**567**	608
Deferred taxation	12	**520**	536
		2,162	1,279
Current assets			
Trade and other receivables	13	**1,910**	1,011
Tax receivables		**117**	150
Cash and cash equivalents	14	**3,620**	5,371
		5,647	6,532
Liabilities			
Current liabilities			
Deferred income	15	**75**	974
Trade and other payables	16	**1,447**	1,014
Obligations under finance leases	17	**–**	37
Corporate taxation		**–**	2
		1,522	2,027
Net current assets		**4,125**	4,505
Total assets less current liabilities		**6,287**	5,784
Non-current liabilities			
Liabilities payable 1–5 years		**(105)**	–
Net assets		**6,182**	5,784
Capital and reserves			
Called-up equity share capital	22	**119**	119
Share premium account	23	**11,206**	11,206
Employee share incentive plan reserve	23	**(88)**	(43)
Share options reserve	23	**691**	633
Reverse acquisition reserve	23	**(2,484)**	(2,484)
Retained earnings	23	**(3,262)**	(3,647)
Total shareholders' equity		**6,182**	5,784

These financial statements were approved by the Directors and authorised for issue on 10 October 2011 and are signed on their behalf by:

D E Evans
Non-executive Chairman

H J J Rylands
Company Secretary

Consolidated Statement of Cash Flows

For the year ended 30 June 2011

	2011 £'000	2010 £'000
Cash flows from operating activities		
Operating profit for the year	**385**	312
Depreciation, amortisation and impairment	**194**	169
Share-based payment expense	**58**	28
Operating profit before changes in working capital and provisions	**637**	509
Increase in trade and other receivables	**(899)**	(191)
Decrease in deferred income	**(899)**	(1,326)
Increase in trade and other payables	**433**	293
Net cash outflow from operations	**(728)**	(715)
Finance costs	**(46)**	–
Interest received	**18**	40
Tax received	**75**	–
	47	40
Net cash outflow from operating activities	**(681)**	(675)
Cash flows from investing activities		
Acquisition of fixed assets	**(1,093)**	(308)
Net cash outflow from investing activities	**(1,093)**	(308)
Cash flows from financing activities		
Proceeds from issue of share capital	**–**	2,884
Expenses of share issue	**–**	(135)
Purchase of own shares	**(45)**	(43)
Increase/(Repayment) of borrowings	**68**	(48)
Net cash inflow from financing activities	**23**	2,658
Net increase/(decrease) in cash equivalents	**(1,751)**	1,675
Cash and cash equivalents at beginning of year	**5,371**	3,696
Cash and cash equivalents at end of year	**3,620**	5,371
Analysis of net funds		
Cash at bank and in hand	**3,620**	5,371
Net funds	**3,620**	5,371

Notes to the Financial Statements

For the year ended 30 June 2011

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, with 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 and expenses and taxation.

- Determining the value of deferred income and expenditure requires an assessment of the duration of the contract to which the deferred income and expenditure relates, and 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.

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.

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 ongoing 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.

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. The Group's primary format for segment reporting is based on business segments.

Research and development

Research expenditure is written off as it is incurred. Development expenditure is written off as it is incurred up to the point of technical and commercial validation. Thereafter, costs are carried forward as intangible assets and subject to impairment review and amortisation.

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 and machinery – 25% reducing balance basis
Fixtures and fittings – 25% reducing balance basis
Equipment – 25% reducing balance basis

Finance lease agreements

Assets held under finance lease agreements are capitalised and disclosed under tangible fixed assets at their fair value. The capital element of the future payments is treated as a liability and the interest is charged to the consolidated income account so as to produce a constant periodic rate of interest on the remaining balance of the liability.

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 income account. Exchange differences arising on non-monetary items, carried at fair value, are included in the income account, 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 and cash-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.

Notes to the Financial Statements (continued)

For the year ended 30 June 2011

1. Significant accounting policies (continued)

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.

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

The Company operates an HMR&C qualifying Share Incentive Plan. Under the scheme, the Company may contribute matching shares to employees who elect to invest in Epistem shares under the scheme.

The matching shares 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 income statement in the year in which they are payable.

Financial instruments

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.

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 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.

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.

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.

New standards and interpretations not applied

The International Accounting Standards Board ('IASB') and IFRIC have issued the following standards and interpretations with an effective date for financial years beginning on or after 1 January 2011:

IAS 24 (revised)	Related party disclosures
IAS 27 (revised)	Separate financial statements
IAS 28 (revised)	Investments in associates and joint ventures
IFRS 7 (revised)	Financial instruments: disclosures
IFRS 9 (revised)	Financial instruments: classification and measurement
IFRS 10	Consolidated financial statements
IFRS 11	Joint arrangements
IFRS 12	Disclosure of interests in other entities
IFRS 13	Fair value measurement
IFRIC 14	Prepayments of a minimum funding requirement

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

Notes to the Financial Statements (continued)

For the year ended 30 June 2011

2. Segment information

The Group's primary reporting format is business segments and the secondary format is geographical segments.

Business segments

	Contract Research Services £'000	Personalised Medicine £'000	Novel Therapies £'000	Unallocated £'000	Total £'000
Twelve months ended 30 June 2011					
Revenue	**3,002**	**1,130**	**1,620**	**–**	**5,752**
Segment trading result	**1,029**	**148**	**716**	**(1,256)**	**637**
less depreciation and amortisation	**(55)**	**(38)**	**(74)**	**(27)**	**(194)**
less equity-settled share-based payments	**(7)**	**(17)**	**(1)**	**(33)**	**(58)**
Operating profit/(loss)	**967**	**93**	**641**	**(1,316)**	**385**
Twelve months ended 30 June 2010					
Revenue	2,519	800	2,421	–	5,740
Segment trading result	759	(51)	1,067	(1,265)	510
less depreciation and amortisation	(31)	(36)	(80)	(22)	(169)
less equity-settled share-based payments	(6)	(12)	–	(11)	(29)
Operating profit/(loss)	722	(99)	987	(1,298)	312
Twelve months ended 30 June 2011					
Segment assets	**1,244**	**1,678**	**492**	**4,395**	**7,809**
Segment capital expenditure	**117**	**859**	**92**	**25**	**1,093**
Twelve months ended 30 June 2010					
Segment assets	739	218	736	6,118	7,811
Segment capital expenditure	60	17	192	39	308

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:

	2011 £'000	2010 £'000
United Kingdom	**273**	411
Europe	**1,452**	781
United States of America	**3,901**	4,526
Asia	**126**	22
	5,752	5,740

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

(a) £1,610k revenue, of which £920k represents recognition of deferred income, was derived from international pharmaceutical company, Novartis, with revenue included in all divisions (2010: £2,880k). No milestone or licensing revenue was receivable (2010: £nil);
(b) £645k revenue was derived from the University of Maryland on behalf of the US Government with revenue included within Contract Research Services (2010: £692k); and
(c) £770k revenue was derived from international pharmaceutical company, Merck KGaA, with revenue included within Contract Research Services (2010: £310k).

3. Operating profit

The Group operating profit is stated after charging:

	2011 £'000	2010 £'000
Discovery and development expenditure	**979**	1,433
Amortisation of intangible assets	**8**	4
Depreciation of owned tangible fixed assets	**186**	165
Auditors' remuneration		
– as auditors	**23**	23
– for other services	**–**	–
Operating lease costs – property rent	**189**	173

4. Particulars of employees

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

	2011 Number	2010 Number
Contract services	**34**	29
Research and development	**9**	12
Administrative	**7**	6
	50	47

The aggregate employee costs (including Directors) were:

	2011 £'000	2010 £'000
Wages and salaries	**2,490**	2,144
Social security costs	**256**	250
Equity-settled share-based payments	**58**	28
Pension payments	**53**	13
	2,857	2,435

5. Directors' remuneration

Group	2011 £'000	2010 £'000
Remuneration	**841**	946
Pension contribution	**29**	7
Equity-settled share-based payments	**32**	11
	902	964

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

Notes to the Financial Statements (continued)

For the year ended 30 June 2011

6. Finance income and costs

Group	2011 £'000	2010 £'000
Finance income		
– interest receivable	**18**	8
– foreign exchange surpluses	**–**	32
	18	40
Finance costs		
– finance leases	**(4)**	(2)
– foreign exchange losses	**(42)**	–
	(46)	(2)

7. Taxation on ordinary activities

(a) Recognised in the income statement

Group	2011 £'000	2010 £'000
Current tax:		
UK corporation tax on profits for the period	**–**	2
Adjustment relating to a previous period	**(44)**	–
Total current tax	**(44)**	2
Deferred tax:		
Impact of tax rate change on brought forward deferred tax balances	**39**	–
Prior year tax losses now recognised	**(22)**	(8)
Current year tax losses	**16**	20
Current year capital allowances in excess of depreciation	**(2)**	52
In respect of current year share options charges	**(15)**	(6)
Total deferred tax	**16**	58
Total tax charge/(credit) for the year	**(28)**	60

(b) Reconciliation of the total tax charge

Group	2011 £'000	2010 £'000
Profit before taxation	**357**	350
Tax using the UK corporation tax rate of 27.5% (2009: 28%)	**98**	98
Effect of difference in tax rate	**39**	–
Expenditure not deductible for tax purposes	**4**	5
Adjustments in respect of research and development tax credits	**(105)**	(35)
Adjustment relating to a previous year	**(64)**	(8)
Total tax in income statement	**(28)**	60

The Group had losses, as computed for tax purposes, of approximately £1,770k (2010: £1,749k) 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. The amount included in the financial statements in respect of the year ended 30 June 2011 is £nil (2010: £nil).

8. Profit attributable to members of the parent company

The profit dealt with in the accounts of the parent company was £18k (2010: £6k).

9. Earnings per share

The basic profit 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	2011 £'000	2010 £'000
Profit for the year after taxation	**385**	290

Group	2011 Number	2010 Number
Weighted average number of ordinary shares in issue	**7,933,983**	7,649,732
Dilutive ordinary shares from options and warrants in issue	**1,038,774**	1,075,938
Dilutive weighted average number of ordinary shares	**8,972,757**	8,725,670
Earnings per share		
– basic	**4.9p**	3.8p
– diluted	**4.3p**	3.3p

Notes to the Financial Statements (continued)

For the year ended 30 June 2011

10. Intangible assets

Group	Patents £'000	Acquired intellectual property £'000	Developed intellectual property £'000	Total £'000
Cost				
At 1 July 2010	88	77	–	165
Additions	111	210	627	948
At 30 June 2011	**199**	**287**	**627**	**1,113**
Amortisation				
At 1 July 2010	–	30	–	30
Charge for the year	4	4	–	8
At 30 June 2011	**4**	**34**	**–**	**38**
Net book value				
At 30 June 2010	88	47	–	135
At 30 June 2011	**195**	**253**	**627**	**1,075**
Cost				
At 1 July 2009	88	77	–	165
Additions	–	–	–	–
At 30 June 2010	88	77	–	165
Amortisation				
At 1 July 2009	–	26	–	26
Charge for the year	–	4	–	4
At 30 June 2010	–	30	–	30
Net book value				
At 30 June 2009	88	51	–	139
At 30 June 2010	88	47	–	135

During the year to 30 June 2011, the cost of the Company's Patents assessed as not being available for economic use amounted to £156k (2010: £88k).

11. Plant and equipment

Group	Lab equipment £'000	Fixtures and fittings £'000	Other equipment £'000	Total £'000
Cost				
At 1 July 2010	1,154	30	138	1,322
Additions	120	–	25	145
At 30 June 2011	**1,274**	**30**	**163**	**1,467**
Depreciation				
At 1 July 2010	625	16	73	714
Charge for the year	158	4	24	186
At 30 June 2011	**783**	**20**	**97**	**900**
Net book value				
At 30 June 2010	529	14	65	608
At 30 June 2011	**491**	**10**	**66**	**567**
Cost				
At 1 July 2009	885	19	110	1,014
Additions	269	11	28	308
At 30 June 2010	1,154	30	138	1,322
Depreciation				
At 1 July 2009	482	12	55	549
Charge for the year	143	4	18	165
At 30 June 2010	625	16	73	714
Net book value				
At 30 June 2009	403	7	55	465
At 30 June 2010	529	14	65	608

Obligations under finance leases

Included within the net book value of lab equipment is £nil (2010: £67k) relating to assets held under finance lease agreements. The depreciation charged to the financial statements in the year in respect of such assets amounted to £nil (2010: £22k).

Capital commitments

Group	**2011 £'000**	2010 £'000
Contracted but not provided for in the financial statements	**Nil**	Nil

Notes to the Financial Statements (continued)

For the year ended 30 June 2011

12. Deferred taxation

Recognised

Group	2011 £'000	2010 £'000
Tax losses carried forward	**460**	490
Excess of tax allowances over depreciation	**(114)**	(124)
Share-based payment transactions	**173**	170
Other timing differences	**1**	–
	520	536

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.

The Group did not recognise deferred tax assets in respect of share-based payment transactions of £3,018k (2010: £2,963k).

13. Trade and other receivables

Group	2011 £'000	2010 £'000
Trade receivables	**1,119**	662
Other receivables	**151**	114
Prepayments and accrued income	**100**	46
Accrued income	**540**	189
	1,910	1,011

Analysis of trade receivables

	2011 £'000	2010 £'000
Neither impaired nor past due	**779**	611
Past due but not impaired	**340**	51
Trade receivables	**1,119**	662

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 of the trade receivables has been considered from the date of the invoice and, net of allowances that are past due, is given below:

	2011 £'000	2010 £'000
Not later than one month	**78**	15
Later than one month but not later than three months	**152**	36
Later than three but not later than six months	**110**	–
Past due but not impaired	**340**	51

14. Cash and cash equivalents

Group	2011 £'000	2010 £'000
Cash at bank and in hand	**82**	371
Short-term bank deposits	**3,538**	5,000
	3,620	5,371

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 counterparties are banks with high credit ratings assigned by international credit rating agencies.

15. Deferred income

The items recorded as deferred income are to be recognised over future periods as follows:

Group	2011 £'000	2010 £'000
Amounts to be recognised within one year	**75**	974

16. Trade and other payables

Group	2011 £'000	2010 £'000
Trade payables	**772**	457
Other payables	**203**	213
Accruals and deferred income	**472**	344
	1,447	1,014

17. Obligations under finance leases

Future commitments under finance lease agreements are as follows:

Group	2011 £'000	2010 £'000
Due within 1 year	**–**	41
	–	41
Less: future finance charges	**–**	4
Present value of finance lease obligations	**–**	37
Current obligations	**–**	37
Non-current obligations	**–**	–
Total obligations under finance leases	**–**	37

Notes to the Financial Statements (continued)

For the year ended 30 June 2011

18. Share-based payments

(a) Share options outstanding at 30 June 2011

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 £
EMI – Approved	88,800	£0.50	07 Jan 2002 to 06 Jan 2012	See note overleaf	
EMI – Approved	11,200	£0.75	31 Mar 2003 to 30 Mar 2013	£0.28p	3,158
EMI – Approved	9,000	£0.75	07 Apr 2003 to 06 Apr 2013	£0.28p	2,538
EMI – Approved	10,200	£0.75	21 Jul 2004 to 20 Jul 2014	£0.27p	2,713
Share Warrants (see Note 22)	198,554	£1.61	18 Mar 2005 to 17 Mar 2015	£0.56p	111,389
EMI – Unapproved	78,000	£1.29	31 Mar 2005 to 30 Mar 2015	£0.45p	35,022
EMI – Approved	31,824	£1.20	25 Nov 2005 to 24 Nov 2015	£0.43p	13,557
EMI – Unapproved	472,153	£1.20	10 Jan 2006 to 09 Jan 2016	£0.43p	201,137
EMI – Approved	197,722	£1.20	10 Jan 2006 to 09 Jan 2016	£0.43p	84,230
EMI – Approved	9,400	£1.20	29 Sept 2006 to 28 Sept 2016	£0.43p	3,910
EMI – Approved	80,644	£1.24	28 Mar 2007 to 27 Mar 2017	£0.43p	34,354
EMI – Unapproved	177,653	£1.24	28 Mar 2007 to 27 Mar 2017	£0.43p	75,680
EMI – Approved	25,903	£1.67	27 Jul 2007 to 26 Jul 2017	£0.39p	10,076
EMI – Unapproved	57,727	£1.60	15 Oct 2007 to 14 Oct 2017	£0.36p	20,782
2007 Epistem Share Option Scheme	71,918	£1.53	03 Mar 2011 to 02 Mar 2018	£0.36p	25,890
2007 Epistem Share Option Scheme	65,800	£1.77	31 Jul 2011 to 30 Jul 2018	£0.37p	24,346
2007 Epistem Share Option Scheme	42,050	£4.03	02 Dec 2013 to 01 Dec 2020	£1.64p	68,479
2007 Epistem Share Option Scheme	30,000	£3.60	09 May 2014 to 10 May 2021	£1.46p	43,800
2007 Epistem Share Option Scheme	254,631	£3.73	30 Sept 2013 to 29 Mar 2021	£1.51p	384,492
2007 Epistem Share Option Scheme	5,369	£3.60	30 Sept 2013 to 10 May 2021	£1.51p	8,107

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
EMI – Approved	31 Mar 2003	5 years	0	60	3.75	None
EMI – Approved	07 Apr 2003	5 years	0	60	3.75	None
EMI – Approved	21 Jul 2004	5 years	0	60	4.50	None
Share Warrants	18 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 – Approved	09 Oct 2007	5 years	0	45	5.75	Note (g)
EMI – Unapproved	15 Oct 2007	5 years	0	45	5.75	Note (g)
2007 Epistem Share Option Scheme	03 Mar 2008	5 years	0	45	5.25	Note (h)
2007 Epistem Share Option Scheme	31 Jul 2008	5 years	0	40	5.00	Note (h)
2007 Epistem Share Option Scheme	01 Dec 2010	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)

(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) The expected volatility has been estimated by the Directors after inspection of the financial statements of comparable businesses in the same business sector as the Group.

(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 main conditions for these options to vest were the later of (i) when the audited accounts for the year ended 30 June 2010 became available and (ii) when the earnings per share of the financial year were a positive figure.

(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 may be exercised when the Remuneration Committee determine that the Company has achieved a compound annual growth in EBITDA of at least 15% for the three year period commencing 1 July 2010.

Notes to the Financial Statements (continued)

For the year ended 30 June 2011

18. Share-based payments (continued)

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

Group	Weighted average remaining contracted life – years 2011	2010	Weighted average exercise price – number 2011	2010	2011	2010
Outstanding as at 1 July	1,586,498	1,590,148	£1.28	£1.28	–	–
Granted during the year	332,050	–	£3.75	–	–	–
Exercised during the year	–	(2,900)	–	£1.21	–	–
Lapsed during the year	–	(750)	–	£1.76	–	–
Outstanding as at 30 June	**1,918,548**	1,586,498	**1.41**	£1.28	**5.50**	5.62
Options exercisable at 30 June	**1,448,780**	1,190,483	**1.24**	£1.24	**4.40**	5.11

There was no weighted average share price at the exercise dates as no options were exercised in the period (2010: £3.23)

(b) Share Investment Plan

During the year, the Company operated the Epistem Share Investment Plan, SIP, which is open to Directors and employees in accordance with HMR&C 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.

	2011	2010
Partnership Shares held at 30 June	**11,522**	5,852
Matching Shares held at 30 June	**22,841**	11,694
Unamortised cost of Matching Shares		
(Comprising Employee SIP reserve)	**£88k**	£43k

19. 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
2011		
Cash and cash equivalents	**25**	**3**
2010		
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 (2010: nil) to manage foreign currency risk.

Balances which are denominated in US dollars are detailed below:

Group	**2011 £'000**	2010 £'000
Trade and other receivables	**961**	325
Cash and cash equivalents	**40**	340
	1,001	665

Notes to the Financial Statements (continued)

For the year ended 30 June 2011

19. Financial risk management objectives and policies (continued)

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.

	Decrease in the currency rate	Effect on loss before tax and equity £'000
2011		
Trade and other receivables	**5%**	**48**
Cash and cash equivalents	**5%**	**2**
2010		
Trade and other receivables	5%	16
Cash and cash equivalents	5%	17

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

Fair values of financial assets and liabilities

There is no material difference between the book value and the fair value of the Group's financial assets or liabilities.

20. Commitments under operating leases

At 30 June 2011 the Group had annual commitments under non-cancellable operating leases as set out below.

	Land and buildings	
	2011	2010
Group	**£'000**	£'000
Operating leases which expire:		
Within one year	**157**	148

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

21. Related party transactions

At the balance sheet date, the amounts owed to Directors Prof. C Potten, D Evans and R Nolan were £2k, £6k and £2k respectively (2010: £3k, £8k and £nil). The transactions during the year with these related parties relate entirely to Directors' remuneration for the year and the amounts for each are detailed in the Directors' Remuneration Report.

22. Share capital

Authorised share capital:

	2011 £'000	2010 £'000
10,000,000 ordinary shares of £0.015 each	**150**	150

Allotted and called up:

	2011 Number	2011 £'000	2010 Number	2010 £'000
At 1 July	**7,933,983**	**119**	7,211,083	108
Private placing	**–**	**–**	720,000	10
Exercise of options	**–**	**–**	2,900	1
Ordinary shares of £0.015 each	**7,933,983**	**119**	7,933,983	119

On 16 March 2007, the Company entered into a warrant instrument in respect of the subscription for up to 198,554 ordinary shares of £0.015 each in Epistem Holdings Plc. This warrant instrument replaced a previous warrant instrument created by Epistem Limited on 18 March 2005. Each warrant confers the right to subscribe for one ordinary share at a subscription price of £1.61 per ordinary share. The subscription rights under the warrants may be exercised up to 21 September 2015.

23. 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 2009	–	8,467	606	(2,484)	(3,937)
Profit for the year	–	–	–	–	290
Allotment of ordinary shares	–	2,873	–	–	–
Share issue costs	–	(135)	–	–	–
Unamortised cost of Matching Shares	(43)	–	–	–	–
Exercise of options	–	1	(1)	–	
Recognition of equity-settled share-based payments in the year	–	–	28	–	–
Balance at 30 June 2010	(43)	11,206	633	(2,484)	(3,647)
Balance as at 1 July 2010	(43)	11,206	633	(2,484)	(3,647)
Profit for the year	–	–	–	–	385
Allotment of ordinary shares	–	–	–	–	–
Share issue costs	–	–	–	–	–
Unamortised cost of Matching Shares	(45)	–	–	–	–
Exercise of options	–	–	–	–	–
Recognition of equity-settled share-based payments in the year	–	–	58	–	–
Balance at 30 June 2011	**(88)**	**11,206**	**691**	**(2,484)**	**(3,262)**

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 22,841 shares in Epistem Holdings Plc (2010: 10,843 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 2011 was £86k (2010: £38k). The nominal value held at 30 June 2011 was £343 (2010: £163).

Company Balance Sheet

As at 30 June 2011

	Notes	2011 £'000	2010 £'000
Non-current assets			
Investments	a	**5,721**	5,663
Current assets			
Amounts receivable from Group undertaking and other receivables	b	**4,068**	1,492
Cash and cash equivalents	c	**2,442**	5,001
		6,510	6,493
Current liabilities			
Corporate taxation		**–**	(2)
Net current assets		**6,510**	6,491
Total assets less current liabilities		**12,231**	12,154
Capital and reserves			
Called-up equity share capital	22	**119**	119
Share premium account	23	**11,206**	11,206
Share options reserve		**691**	633
Retained earnings		**215**	196
Total shareholders' equity		**12,231**	12,154

These financial statements were approved by the Directors and authorised for issue on 10 October 2010 and are signed on their behalf by:

D E Evans
Non-executive Chairman

H J J Rylands
Company Secretary

Company Statement of Changes in Equity

For the year ended 30 June 2011

	Share capital £'000	Share premium account £'000	Share options reserve £'000	Retained earnings £'000	Total £'000
At 1 July 2009	108	8,467	606	190	9,371
Allotment of ordinary shares	11	2,873	–	–	2,884
Share issue costs	–	(135)	–	–	(135)
Recognition of equity-settled share-based payments	–	–	28	–	28
Exercise of options	–	1	(1)	–	–
Profit for the year	–	–	–	6	6
At 30 June 2010	119	11,206	633	196	12,154
Allotment of ordinary shares					
Share issue costs	–	–	–	–	–
Recognition of equity-settled share-based payments	–	–	–	–	–
Exercise of options	–	–	58	–	58
Profit for the year	–	–	–	19	19
At 30 June 2011	**119**	**11,206**	**691**	**215**	**12,231**

Company Statement of Cash Flows

For the year ended 30 June 2011

	2011 £'000	2010 £'000
Cash flows from operating activities		
Profit for the year	**–**	–
Operating profit before changes in working capital and provisions	**–**	–
Increase in trade and other receivables	**(2,576)**	(757)
Decrease in trade and other payables	**(2)**	–
Cash outflow from operations	**(2,578)**	(757)
Interest received	**19**	8
Tax (paid)/received	**–**	–
	19	8
Net cash outflow from operating activities	**(2,559)**	(749)
Cash flows from financing activities		
Proceeds from issue of share capital	**–**	2,884
Expenses of share issue	**–**	(135)
Net cash inflow from financing activities	**–**	2,749
Net (decrease)/increase in cash equivalents	**(2,559)**	2,000
Cash and cash equivalents at beginning of year	**5,001**	3,001
Cash and cash equivalents at end of year	**2,442**	5,001
Analysis of net funds		
Cash at bank and in hand	**2,442**	5,001
Bank overdrafts		–
Net funds	**2,442**	5,001

Notes to the Company Financial Statements

For the year ended 30 June 2011

(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 Trustee 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 Trustee Limited – to act as trustee to the Epistem Share Incentive Plan;
Visible Genomics Limited – a dormant company.

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. The consideration payable to the vendors of Visible Genomics Limited, which is related to future performance (an earnout) during the three year period to 30 June 2013, cannot yet be assessed but is capped at £2.85m. The consideration may be paid either by the issue of shares in Epistem Holdings Plc or by the issue of loan notes.

Year ended 30 June 2011	Investment in subsidiaries £'000
Cost	
At 1 July 2010	5,663
Additions	58
At 30 June 2011	5,721
Net book value	
At 30 June 2010	5,663
At 30 June 2011	**5,721**

Year ended 30 June 2010	Investment in subsidiaries £'000
Cost	
At 1 July 2009	5,635
Additions	28
At 30 June 2010	5,663
Net book value	
At 30 June 2009	5,635
At 30 June 2010	5,663

Additions in the year ended 30 June 2011 comprised the fair value of the share options issued to employees of the subsidiary undertaking during the year of £58k. Additions in the year ended 30 June 2010 comprised the fair value of the share options issued to employees of the subsidiary undertaking during the year of £28k. Full details of the share options issued are set out in Note 18 to the consolidated financial statements.

Notes to the Company Financial Statements (continued)

For the year ended 30 June 2011

(b) Amounts receivable from Group undertaking and other receivables

Company	2011 £'000	2010 £'000
Amounts receivable from Group undertaking	**4,068**	1,492
	4,068	1,492

(c) Cash and cash equivalents

Company	2011 £'000	2010 £'000
Cash at bank and in hand	**1**	1
Short-term bank deposits	**2,441**	5,000
	2,442	5,001

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 counterparties 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 18,169 (2010: 16,914) shares in Epistem Holdings Plc on behalf of the Epistem Share Investment Plan at a cost of £69k (2010: £66k).

Directors, Secretary and Advisers

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Matthew Walls
Prof. Chris Potten
Catherine Booth
Roger Lloyd
Jeffrey Moore
Robert Nolan
John Rylands

Company Secretary
John Rylands

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