epistem

Diversity
Innovation
Progress
Growth

Epistem Holdings Plc
Annual Report 2012

I am pleased to report major progress in a number of the Company's core development programmes and the acceleration of investment in our first diagnostic product in the results for the year ended 30 June 2012. I am also pleased to report the recent completion of the first high value commercial contract for our Genedrive™ platform with Becton Dickinson. This agreement coupled with the earlier reported Xcelris Laboratories agreement signals the beginning of a new and exciting phase of revenue growth for Epistem and its investors.

David Evans
Non-executive Chairman

Highlights

- Total sales of £5.6m driven by a solid performance by Contract Research Services and strong growth in our Personalised Medicine division.
- More than 100% year on year growth in the Personalised Medicine division revenues on back of collaborations with GSK, Sanofi-Aventis and emerging Genedrive™ sales.
- EU registration and preparations for launch of first major molecular diagnostic product (Genedrive™).
- Recent announcement of major international distribution agreement with Becton Dickinson in Tuberculosis for ROW territories and initial US$1.0m milestone payment received post the year end.
- Announcement of Xcelris Laboratories (Indian and Indian Sub Continent) distribution agreement for Tuberculosis using Genedrive™.
- Development and expansion of pre-clinical service offering in leukaemia imaging and rheumatoid arthritis.
- Ongoing investment in Novel Therapies lead programme.
- £2.7m cash placing completed in December 2011 resulting in strengthened cash balance of £4.7m at 30 June 2012.

1

Strength
Total sales of £5.6m driven by a solid performance by Contract Research Services with strong and emerging growth in our Personalised Medicine division.

2

Technology
High investment in our leading technologies to accelerate their advancement over the reporting period with particular emphasis on the Genedrive™ platform and continued investment in Novel Therapies lead discovery programme.

3

Financial
A placing of shares during the period underpinned a financial strengthening of the Company with increased cash reserves.

4

Investor
Clear investor communication of the Company's strategy and performance remains a key element of our success.

Our Divisions

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

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

Our **Personalised Medicine Diagnostics** division is changing the way healthcare and personalised medicine are delivered. Our innovative Genedrive™ platform is preparing for initial product sales in infectious disease in 2013.

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.

For more information visit:
www.epistem.co.uk

Contract Research Services

Solid progress

Mucositis antibiotic improvements

Major expansion in radiation capability

New Rheumatoid Arthritis competence

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

Despite challenging market conditions, Contract Research Services delivered a 27% operating margin on sales of £2.9m.

Investment in research and development

The division continues to expand and strengthen its investment in new model development. During the year, model development continued with the advance of our rheumatoid arthritis models, which we anticipate launching in the next financial period. Our oncology model portfolio has also been extended with the introduction of our imaging capabilities, especially in leukaemia, along with further investment in our inflammatory bowel disease models.

Biodefence

The division continued to develop its collaboration with the US National Institutes of Health biodefence programme and our status as 'Subject Matter Experts' (SME) in radiation treatment.

The programme yielded a notable advance in the treatment of mucositis, (the debilitating condition caused by chemotherapy and radiation treatment) with the recognised pre-clinical efficacy evidence of low cost antibiotic treatments. The collaboration is anticipated to develop further in the coming financial period buoyed by our investment in new equipment and facilities. During the year the division took delivery of a new GLP compliant state of the art irradiation system and also received funding from the US biodefence consortium for a new image analysis system.

Outlook

The increased investment in new models is expected to strengthen the growth prospects of our Pre-clinical Research Services. We continue to invest in building key customer relationships as well as strengthening the expertise of our scientific base.

27%
operating margin

Personalised Medicine: Biomarkers

Strong annual growth

Significant growth underpinned by Sanofi and GSK collaborations

New biomarkers discovered for selected drug pathways

Expansion of laser capture microscopy expertise

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

The Biomarker division delivered a significant step up in sales growth (+109%) over the year, as it developed its collaboration with Sanofi-Aventis and announced a new collaboration with GSK in fibrosis.

Companion Biomarkers for drug development

The division's core competencies in translational medicine support the full drug development cycle from discovery through to commercialisation. The division is GCLP compliant and delivers its services using its proprietary and highly sensitive gene expression platform, RNA-Amp™ alongside new pharmacogenomic developments using our Genedrive™ (DNA) amplification platform.

Pathway direct

During the year, the division enhanced its proprietary biomarker database, Pathway Direct. The Pathway Direct database contains oncology based gene expression data from clinical and pre-clinical studies. The pathways of focus remain the key cancer mutational areas including EGFR, Notch, c-Met, PI3 Kinase and Wnt pathways.

Oncology markers

With the increasing trend towards personalised medicine, the division has been successful in developing its own proprietary methods to identify key mutational oncology targets such as KRAS, JAK2 and EGFR in cancerous tissue. The identification of these target mutations enables patients to be stratified for their own 'personalised' course of therapeutic treatment. Alongside these markers, we are beginning to develop a suite of new pharmacogenomic tests using our Genedrive™ platform, primarily in the disease area of oncology.

109%

sales growth

Personalised Medicine: Diagnostics

Case Study
Gaining regulatory approval in India

According to the World Health Organisation, in 2010 globally there were 8.8 million incident cases of TB. India accounted for approximately 25% of the global TB burden with approximately 30 million TB diagnostic tests undertaken per annum. Annually over US$1 billion is spent worldwide on TB diagnostics, a figure over twice as large as the current market for TB drugs.

We are currently progressing the clinical assessment of our initial TB test with the Indian regulatory authorities.

Genedrive™ is a novel, disruptive and highly sensitive molecular diagnostic tool with the capability of providing near patient testing at low cost with rapid results across a broad spectrum of disease areas.

New product registration

During the year, the Company successfully registered its Genedrive™ platform (CE mark) and its first diagnostic tuberculosis (TB) assay (CE-IVD). These registrations will enable the Company to commence a new phase of product led revenue growth. Molecular (DNA) analysis remains the gold standard for disease diagnostic testing globally and the novelty of Genedrive™ lies in its ability to bring molecular analysis to a near patient setting at low cost and with industry leading 'speed to result'.

New relationships

During the year the Company announced global supply and distribution collaborations in TB with Becton Dickinson in the US and Xcelris Laboratories in India. These collaborations include escalating volume requirements with each contract capable of delivering revenues to Epistem in excess of US$20m-US$30m over the next 3-5 years.

Tuberculosis

TB is a highly damaging infectious disease. The World Health Organisation (WHO) has identified tuberculosis as a "Global health issue" and ranks it in their high priority disease areas for improved world health diagnosis and treatment. Over the coming years we will work closely with the WHO to gain accreditation for our initial TB test. The major strategy to tackle this disease remains early diagnosis and drug treatment to interrupt TB transmission.

Test menu development

Beyond our initial TB development in infectious disease we are now beginning to broaden our range of infectious disease tests in the areas of malaria, dengue, HIV, HCV and sexually transmitted diseases.

Government agencies

Alongside infectious diseases, we are working closely with the US Government on a number of programmes to identify bio-threats and infectious diseases in military settings.

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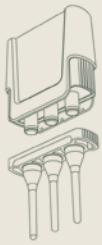

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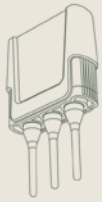

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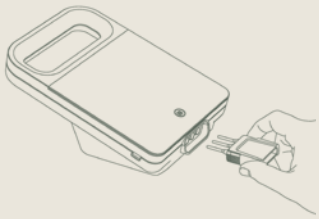

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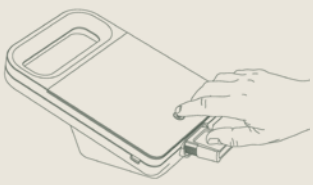
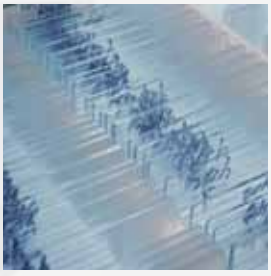


Driving innovation



Major investment in lead validation

Advanced protein synthesis programme

Extensive development of *in vitro* diagnostic tools

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.

Epistem scientists have comprehensively profiled gene expression patterns in epithelial tissue to identify key regulators of proliferation, differentiation, apoptosis and self-renewal. These key regulators are responsible for restoring damaged tissue and for maintaining life-long tissue renewal.

Investment in technology

During the period, the division focused on protein synthesis of its prioritised leads and we are now beginning to enter the early stages of pre-clinical efficacy testing. At the conclusion of this process, we shall be better able to demonstrate the technical and commercial strength of our leads.

Partnerships

The division's commercial strategy includes working with collaborative partners based around licensing, milestones and royalties, commensurate with pre-clinical and clinical drug development. During the year our body of pre-clinical development data continued to progress and we maintained close contact with the leading big pharma groups to evaluate our drug discovery and development opportunities.

Outlook

The division will continue to progress its identification and understanding of the body's key regulators. The timing of future collaboration agreements remains difficult to predict but we remain confident in our development programme and the prospect of future licences and funding support.

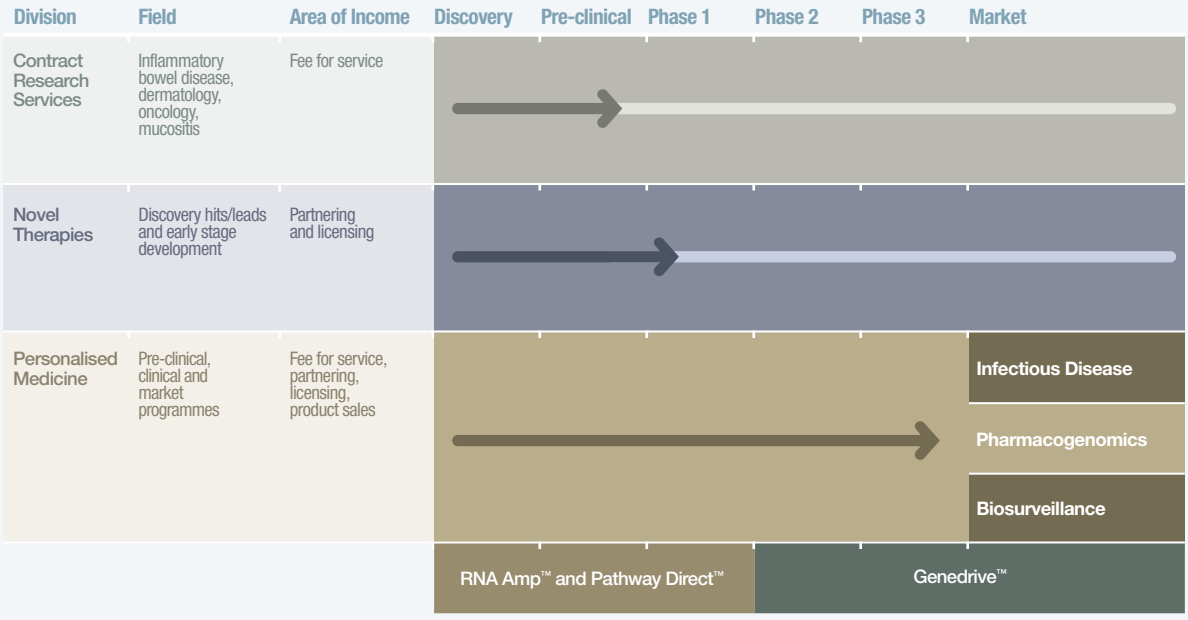
3 leads

in early stage pre-clinical development

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.

Matthew H Walls
Chief Executive Officer



Integrated business model
Epistem's independent divisions bring together a strong and complementary portfolio of business units rarely seen in a biotechnology business model. Our strategy is focused on the scientific, technical and financial growth of each of our independent divisions with the potential for significant financial gain driven by our investment in leading technologies targeted at delivering healthcare advances in core areas of unmet medical need.

Partnering programme
We work closely with our collaborative partners and major customer groups to build on and nurture greater collaborative development in conjunction with our partners. As our business changes we expect our partners to change and evolve too, but we remain committed to developing and enhancing our scientific relationships to unlock the potential of our technologies and further develop the growth of our Company.

Internationally respected technology and expertise
Our investments in technology and expertise are targeted at meeting aspirations of the market leading international companies in our industry. Our investment in technology remains a key mainstay underpinning the growth of all our divisions.

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

Product focus
The arrival of our first diagnostic product Genedrive™ within the company portfolio brings a fresh dimension to the company's profile and business model. Genedrive's™ reach across multiple aspects of the healthcare industry is anticipated to provide a new growth driver in our integrated business model as well as complementing our more established technology and service offerings.

Strategic goals delivery
The launch of Genedrive™ will bring a new outlook to our business, based on its innovative and globally leading technology, cost advantage, quality and technical reliability. The enhancement and recruitment of new scientists and operational teams with recognised expertise will be an on-going feature of our business in order to enable the Company to achieve its growth potential.

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

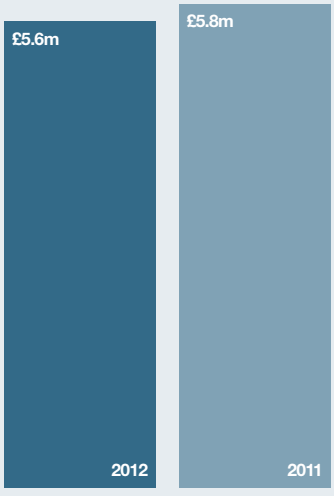
Investor
A pattern of firm delivery in the realisation of our plans offers an increasingly attractive investment opportunity for both our existing and new investors. The potential for substantial and growing income streams from our diagnostics offering continues to flag Epistem as a listed company with significant upside potential.

Highlights 2012

Epistem reports accelerated investment in its diagnostic platform, Genedrive™, and the completion of its first high value commercial contracts. The 2011/12 year also saw continued investment and technical advance in Epistem's core programmes in Novel Therapies, Biomarkers and Contract Research Services.

Group Revenues

Overall steady year on year sales delivery with improved UK performance.
US – 68%
EU/ROW – 19%
UK – 13%

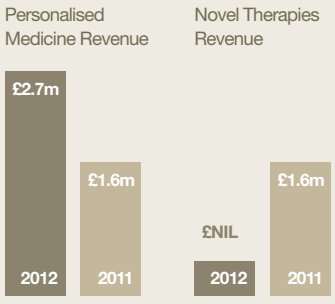


Contract Research Services Revenues

Contract Research Services delivered marginally reduced sales set against a difficult international trading climate. The divisions collaboration with the US NIH continues to strengthen.

Personalised Medicine and Novel Therapies Revenue

Personalised Medicine sales grew significantly over the year (up by a robust 109% on last year) which offset the reduced novel therapies income.



Genedrive™ molecular diagnostic

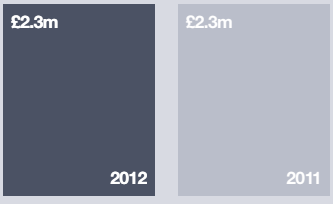
Genedrive™ gearing up for initial sales with new collaboration contracts signed

£5.6m
turnover

£0.2m
loss after tax

Discovery, Development and Admin Costs

Investment in our core discovery programme remained strong. Central business overheads remained steady at £1.3m.

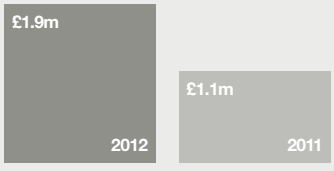


Results After Tax

After tax, discovery, development and admin costs exceeded net contribution from sales by £0.2m.

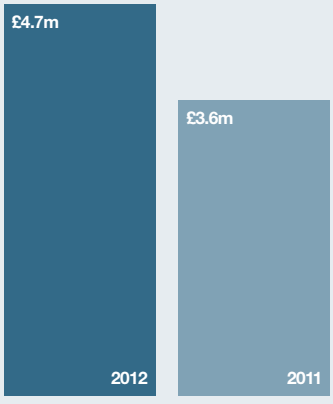
Intangible Asset Investment

Investment in the Company's intellectual property assets increased during the period.



Cash Reserves

Cash reserves strengthened, including the completion of the £2.7m cash placing.



Non-executive Chairman's Statement
David Evans

I am pleased to report major progress in a number of the Company's core development programmes and the acceleration of investment in our first diagnostic product in the results for the year ended 30 June 2012.

I am also pleased to report the recent completion of the first high value commercial contract for our Genedrive™ platform with Becton Dickinson. This agreement coupled with the earlier reported Xcelris Laboratories agreement signals the beginning of a new and exciting phase of revenue growth for Epistem and its investors.

Whilst market and trading conditions remain volatile across the healthcare sector, Epistem continues to differentiate itself through its diversified business model and advancing technologies whilst delivering increasing 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 2012 saw the Company deliver revenues of £5.6m (2011: £5.8m). Based on this trading performance and the high levels of investment made in our Novel Therapies and Diagnostics (Genedrive™) programmes, the Company moved from a prior year profit to reporting an after tax loss of £0.2m (2011: £0.4m profit after tax). Following the successful completion of the £2.7m cash placing in December 2011, cash reserves at the end of the period were £4.7m (2011: £3.6m).

During the year the Company continued to make progress across each of its three divisions as outlined below:

- Following significant revenue growth over the past few years, Contract Research Services revenues were steady in the year at £2.9m (2011: £3.0m). We continue to develop and extend our high margin service offerings alongside our cornerstone US government biodefence contract. With market uncertainties persisting, the division continues to build on and extend its core scientific strengths to provide a solid platform for future growth.
- Personalised Medicine revenue growth increased significantly up to £2.7m (2011: £1.1m), more than double last year's revenue, largely driven by the Sanofi-Aventis oncology and GSK fibrosis biomarker collaborations. The Personalised Medicine reported revenues for the year also included initial Genedrive™ unit sales (development) of £0.4m (2011: £0.0m).
- The progress of our Genedrive™ molecular diagnostic device, the recent EU regulatory approval and the announcement of major collaborations with Becton Dickinson (outside India and the Indian Sub Continent) and Xcelris Laboratories (India and Indian Sub Continent) in Tuberculosis marks the beginning of Epistem's

first product related revenues and heralds a radical change in 'Point of Care' diagnostics healthcare. The Board believes Genedrive™ is poised to bring about a breakthrough in rapid, high sensitivity and low cost molecular (DNA) diagnostic testing 'near to the patient' across a broad range of disease areas.

- Novel Therapies's drug development programme continues to advance. Following the completion of the funded research phase of the Novartis collaboration in 2011, we have invested in the development of our emerging leads with the division reporting nil revenues for the year (2011: £1.6m). Collaborative discussions are being progressed with potential partners in the areas of Regenerative Medicine and Oncology. The timings of license opportunities and future development funding remains difficult to predict accurately.
- Based on the ongoing investment in our Novel Therapies and Genedrive™ programmes, the Company now reports a loss for the year of £0.2m (2011: £0.4m profit for the year) and loss per share of 2.9p (2011: 4.9p earnings per share).

Outlook

Epistem continues to build on its scientific and technical heritage as it transforms into a diverse, technology leading personalised medicine group with the near term growth in product revenues which are now underpinned by our first significant and long term commercial contracts with world class partners. Against a backdrop of market uncertainty, Epistem remains vigilant, whilst increasingly positive about its future growth potential.

Despite the challenging market conditions, each division continues to strengthen its technology and expertise. The Personalised Medicine division has seen a significant improvement in Biomarker growth over the past year, which together with our rapidly advancing molecular diagnostic platform Genedrive™ is expected to deliver accelerated revenue growth across the division in future years. The Contract Research Services division continues to build an international profile and reputation for its proprietary service models and enhance its relationship with the NIH under our US biodefence contract (3 years remaining of this 5 year contract). We anticipate a return to modest growth from this division in the current financial year. The Novel Therapies funded element of the drug discovery collaboration with Novartis was completed in 2011 and we continue to maintain our investment in the development of our identified hits/leads. Whilst the timing of license and development opportunities remains difficult to judge, we remain optimistic about the strength of our hit/lead programme. We are in discussions with a number of other collaborative partners in relation to the development of our regenerative medicine and oncology hits/lead 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.

Alongside continued strengthening of our divisional units and the commercial advance of our Genedrive™ molecular diagnostic product, we expect to see the Company significantly 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 on-going support has provided a stable platform for our continued growth.

On behalf of the Board, I would also like to offer our thoughts and condolences to the family of Professor Chris Potten who died recently. Chris was a world-renowned scientist who pioneered stem cell research in Manchester and was regarded as one of the world's most influential figures in his field. In 2000, he co-founded Epistem and we look forward to maintaining and developing the legacy that Chris created.

David Evans
Non-executive Chairman
16 October 2012

Chief Executive's Review
Matthew H Walls

Building momentum

The financial results for the Group presented in this announcement reflect the Group's trading for the year to 30 June 2012 and for the comparative period to 30 June 2011.

Headline progress over the year and subsequently included:

- Total sales of £5.6m driven by a solid performance by Contract Research Services and strong growth in our Personalised Medicine division.
- More than 100% year on year growth in the Personalised Medicine division revenues on back of collaborations with GSK, Sanofi-Aventis and emerging Genedrive™ sales.
- EU registration and preparations for launch of first major molecular diagnostic product (Genedrive™).
- Recent announcement of major international distribution agreement with Becton Dickinson in Tuberculosis for ROW territories and initial US$1.0m milestone payment received post the year end.
- Announcement of Xcelris Laboratories (Indian and Indian Sub Continent) distribution agreement for Tuberculosis using Genedrive™.
- Development and expansion of pre-clinical service offering in leukaemia imaging and rheumatoid arthritis.
- Ongoing investment in Novel Therapies lead programme.
- £2.7m cash placing completed in December 2011 resulting in strengthened cash balance of £4.7m at 30 June 2012.

Integrated business model

The establishment of our independent divisions has created a strong portfolio of business units rarely seen in a biotechnology business model. Epistem provides a financially robust business, whilst offering the potential for significant financial upside from the development of our Personalised Medicine, Novel Therapies and Contract Research Services divisions. We continue to enhance and exploit our integrated core competence in epithelial cell biology and molecular (personalised) medicine, whilst retaining a high degree of commercial independence across each division.

Financial review

The Company reports a turnover of £5.6m (2011: £5.8m) for the year ended 30 June 2012. Revenues were underpinned by the Contract Research Services division, which delivered sales of £2.9m (2011: £3.0m). The Personalised Medicine division saw sales increase to £2.7m (2011: £1.1m), with the Novel Therapies division reporting no sales over the period, £0.0m (2011: £1.6m).

Consolidated territory revenues were split US 68% (2011: 68%), EU/ROW 19% (2011: 27%) and UK 13% (2011: 5%). Flat year on year Contract Research Services sales



delivered a slightly reduced year-on-year operating profit of £0.8m (2011 £1.0m). Operating profits were further bolstered by growth in Personalised Medicine sales, which saw the division deliver a step up in its operating profit to £0.4m (2011: £0.1m) over the year. With Novel Therapies investment in its lead development reporting an operating loss of £0.8m (2011: operating profit £0.6m) and central administration costs largely unchanged over the year at £1.3m (2011: £1.3m) this gave rise to an overall group operating loss for the year of (£0.8m) (2011: operating profit £0.4m).

With the benefit of a £0.5m deferred tax credit, the Group reported loss after tax for the year was £0.2m (2011: profit £0.4m) with year end headcount in the Company at 63 (2011: 55).

Cash balances following the completion of the £2.7m cash placing in December 2011 were £4.7m (2011: £3.6m).

Reported loss per share was 2.9p (2011: Earnings per share 4.9p).

Clear investor communication of the Company's strategy and performance remains a key element of our success and we will continue to advance our investor communications as we embark upon the next phase of growth.

The Company's annual audit will be completed in October 2012 by HW Chartered Accountants and their audit report will be included in the annual accounts which are expected to be distributed to shareholders shortly.

Operating review

Contract Research Services

Contract Research Services delivered a marginally reduced year-on-year revenue performance, whilst producing a respectable 27% operating margin (£0.8m operating profit). Although market and industry conditions remain challenging, we continue to deliver a high margin, niche, pre-clinical service offering across our core disease areas of oncology, mucositis, inflammatory bowel disease and dermatology. Over the period, we continued to develop and extend our specialist service offering in the area of oncology (new imaging models) and advanced inflammation (rheumatoid arthritis) models.

As part of our ongoing collaboration with the US National Institutes of Health's biodefence programme, we continue to expand our role as 'Subject Matter Experts' (SME) in radiation treatment and have recently taken receipt of a new GLP compliant state of the art irradiation and image analysis system funded by the US biodefence consortium. The US government remains committed to targeting treatment of radiation sickness following a nuclear incident/event.

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 a return to modest growth.

Personalised Medicine Biomarker

Over the year, the Biomarker division enjoyed a strong uplift in revenue performance to £2.3m (2011: £1.1m) driven by the first full year of the Sanofi-Aventis collaboration and the commencement of the recently announced GSK fibrosis collaboration. Both collaborations utilise Epistem's proprietary RNA amplification technology and oncology bioinformatics to provide biomarker discovery and translational support across the Sanofi-Aventis oncology drug development and GSK fibrosis drug discovery programmes. The Biomarker division works with major pharmaceutical and biotech business groups by providing a suite of pre-clinical and clinical pharmacodynamic models to measure the effect of a drug on targeted tissue (gene activated pathways). With the advance of the pharmaceutical industry focus on 'personalised medicine' we have also linked the development of our Genedrive™ platform to our

Chief Executive's Review (continued)

Biomarker group to help identify key mutational oncology targets such as KRAS, JAK2 and EGFR in cancerous tissue. The identification of these target mutations will enable patients to be 'stratified' for the correct course of 'personalised' therapeutic treatment. Over the coming year we will also accelerate our developments in circulating (blood) tumour cells by developing Genedrive™ for use as a highly sensitive screening tool to identify the presence of mutation targets in blood.

Diagnostics

Following our first EU product registration for the Genedrive™ unit (CE mark) and Tuberculosis assay (CE-IVD) and the recent announcements of the Becton Dickinson and Xcelris Laboratories collaborations in Tuberculosis, we now believe we are at the beginning of a new phase of product led revenue growth for Epistem. Both these commercial collaborations (supply and distribution arrangements in Tuberculosis) include escalating annual volume requirements for units and assays with our partners, with each contract capable of delivering revenues to Epistem in excess of US$20-30m per annum over the next 3-5 years. Tuberculosis represents a significant revenue prospect and initial opportunity for our Genedrive™ platform, lending itself to use both inside and outside the laboratory setting and hence enabling 'near patient' testing or testing in remote field locations. The Genedrive™ platform is expected to be capable of testing a wide range of infectious diseases with new tests under development including malaria, dengue, HIV, HCV and a range of sexually transmitted diseases. We expect to supply and distribute these high volume tests through a channel partner strategy.

We are receiving strong interest and demand for the use and development of Genedrive™ and we will be working closely with the World Health Organisation and other high profile Healthcare Foundations including both the Gates and Clinton Foundations to ensure that we position our Tuberculosis test to best diagnostic and therapeutic effect in the global market. Over the coming months we will be publishing our first clinical data on our Tuberculosis test and how this compares with other tests in the market and anticipate launching our first regulated product into the US$1bn Tuberculosis diagnostics market early in 2013.

Alongside healthcare applications, we have also seen significant interest in the use of Genedrive™ for biosurveillance and forensics targets. We are working closely with the US government on a number of programmes to identify biothreats and infectious diseases in military settings. A good example of this is the recent completion of the US Government contract with the Defence Threat Reduction Agency for next generation 'remote settings' diagnostics. This will provide Epistem with up to US$2.0m in staged funding over the next 24 months. We anticipate further growth in the US Department of Defence areas over the coming year. In the UK, we continue to progress the National Police Improvements Agency (NPIA) programme to enable crime scene testing for DNA fingerprinting.

Genedrive™ is a novel, disruptive and highly sensitive molecular diagnostic tool with the capability of targeting a near patient, low cost and rapid turnaround diagnosis (~30-60mins including sample preparation) across a broad spectrum of bacterial, viral, fungal and somatic mutational disease areas. We expect to see molecular diagnostics begin to dominate the next generation of diagnostic testing and to change the speed, accuracy and workflows in near patient 'Point of Care' diagnostic assessment. Over the coming year, we intend to accelerate our product developments through increased investment in our manpower resource and expertise, enhance our manufacturing and regulatory control and further develop our channel partner distribution strategy.

The increased growth in Personalised Medicine revenues enabled the division to lift its operating profit over the year. We anticipate further growth in our portfolio of personalised medicine technologies driven by increasing medical focus for effective patient treatment, tighter regulatory requirements and the growing industry need for rapid, low cost and sensitive molecular diagnostic tools. Our proprietary technologies are well positioned to capitalise on this market growth.

Novel Therapies

The Novel Therapies collaboration with Novartis completed its funding phase in 2011 and we have continued to invest in the development of our prioritised novel hits/leads over the past year. With the Novartis collaboration expected to complete in 2013, we retain intellectual property rights over our collaborative leads and continue to progress discussions with Novartis and other groups around the development of our Novel Therapies lead programme. The timing of a license opportunity and/or funding support remains difficult to judge although we remain confident in our development programme and the prospect of future licenses and funding support.

Following protein synthesis of our prioritised hits/leads, we are now beginning to enter the early stages of pre-clinical efficacy testing. Over the coming months we will better establish our leads' effect on the cell biology and signalling pathways which regulate the cell/stem cells in the areas of regenerative medicine and oncology. We are also considering small molecule partnerships to establish a portfolio of agents which regulate signalling pathways and cell biology.

We will 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

We continue to develop a rich portfolio of technology and business opportunities to enable us to grow and invest in our future growth. We are continuing to build and strengthen our internal expertise across our core divisional programmes and this careful preparation is expected to deliver growth over the coming year. Our traditional business model of services and technology licensing continues to evolve with the advent of our new product revenues. We believe that the new product launches will continue to de-risk our business model and allow us to strengthen our trading position and increase the confidence of our future revenue forecasts.

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

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

We anticipate a strengthening operational and financial position for the year ahead based on our expectation of revenue growth and our overall growth plans. We remain selective in considering complementary technology, acquisitions and in-licensing, with few opportunities thus far meeting our high expectations.

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 technology and the Company as a whole.

On behalf of the all the Board, management and staff at Epistem, I would also like to send our condolences to the family of Professor Chris Potten who died in August. Chris was a world-renowned scientist who pioneered stem cell research in Manchester, UK. Chris led a team of researchers at the Paterson Institute at The Christie Hospital Manchester for more than 30 years. He was regarded as one of the world's most influential figures in his field and developed research which is now central to many areas of cancer therapy. He published around 400 scientific papers and 11 books – ensuring a reference legacy that will be used for many years to come. In 2000, he co-founded Epistem with Cath Booth and his team. Chris will be sadly missed, but we look forward to maintaining and developing the legacy that Chris created.

Matthew H Walls
Chief Executive Officer
16 October 2012

Board of Directors

1. David Evans (52) | 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 (48) | 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. He holds a non-executive post at the REPIN Group and Riyada Oxford Investments Limited and is a chartered accountant and a member of CIMA.

3. John Rylands (58) | Finance Director

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

4. Jeffrey Moore, Ph.D. (53) | Managing Director, Novel Therapies

Jeffrey joined Epistem in 2005 in his current role. Prior to joining Epistem he had been at Phylogix Inc., 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. Catherine Booth, Ph.D. (47) | 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. Catherine received her Ph.D. from Emmanuel College, University of Cambridge.

6. Robert Nolan, Ph.D. (69) | 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.

7. Roger Lloyd, Ph.D. (64) | 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 Plc and AstraZeneca Plc included living and working in the United States and Germany, and having territorial responsibilities for Europe, Japan, Korea, Mexico and the Middle East. As Executive Director of Global Licensing at AstraZeneca he personally completed 24 transactions. He operates as a Board Adviser in the Biotech sector.

Directors' Report

For the year ended 30 June 2012

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 2012.

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 pre-clinical testing and gene biomarker and diagnostic 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 Review on the inside front cover to page 13 of this report. The Group operates a US business development office in Boston, MA, 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 Review and Highlights 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 to 55 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 2012	1 July 2011
David Evans	**80,645**	80,645
Chris Potten (died 3 August 2012)	**519,320**	519,320
Catherine Booth	**983,884**	982,732
Gerard Brady (resigned 4 August 2011)	**79,084**	2,732
Roger Lloyd	**–**	–
Jeffrey Moore	**16,209**	15,057
Robert Nolan	**5,065**	8,065
John Rylands	**193,782**	192,630
Matthew Walls	**9,529**	8,377

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
Blackrock funds	872,552	10%
Calculus Capital funds	759,877	9%
Helium Special Situations Fund	592,500	7%
Henderson Investment Management funds	464,896	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 64 (2011: 86) based on the average monthly 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 Reporting Standards (IFRSs) as adopted by the European Union.

In preparing those financial statements, the Directors are required to:

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

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

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and enable them to ensure that the financial statements comply with the Companies Act 2006 and Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Principal risks

The Board meets regularly to review operations and to discuss risk areas. The Review of the Year on pages 2 to 19 report 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 18 to the financial statements. The Directors regularly assess and monitor the business risks faced by the Group. Risk is an inherent feature of business and set out below are some key risks, together with associated mitigating factors. This list does not purport to be exhaustive.

Development risk

The Group undertakes significant activity with the aim of launching new products, therapies and services. There can be no guarantee that the development activity will enable the programmes to meet the technical and intellectual property hurdles required for a commercial launch to be undertaken. The Group seeks to mitigate this risk by ensuring that development programmes are planned and undertaken by staff with the requisite skills. The Group monitors industry trends and customer needs to ensure that its development targets remain relevant.

Regulatory risk

There can be no guarantee that the Group's products or services will be able to obtain or maintain the necessary approval for the orderly conduct of its business. Approvals can require evaluation of data relating to safety, quality and efficacy standards. The Group seeks to mitigate regulatory risk by conducting its operations within recognised quality assurance standards and by undergoing external assessment.

Management and employees

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

Economic risk

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

Directors' Report (continued)

For the year ended 30 June 2012

Provision of information to auditors

The Directors who were members of the Board at the time of approving the Directors' Report are listed on pages 20 and 21. 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
30 October 2012

Directors' Remuneration Report

For the year ended 30 June 2012

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 undertakes additional assignments for the Company, the Non-executive's fee will be agreed by the Company in respect of each assignment.

Audited information

Aggregate Directors' remuneration

	Salary and fees £	Bonus £	Pension £	**2012 Total £**	2011 Total £
Executive					
Catherine Booth	99,137	10,000	29,431	**138,568**	148,254
Gerard Brady (resigned 4 August, 2011)	1,600	–	–	**1,600**	89,766
Jeffrey Moore	125,000	5,000	–	**130,000**	125,000
John Rylands	125,000	15,000	–	**140,000**	130,000
Matthew Walls	200,000	100,000	–	**300,000**	270,000
Non-executive					
David Evans	35,000	–	–	**35,000**	35,000
Chris Potten (died 3 August, 2012)	13,964	–	–	**13,964**	24,475
Roger Lloyd	24,000	–	–	**24,000**	24,000
Robert Nolan	24,000	–	–	**24,000**	24,000
	647,701	130,000	29,431	**807,132**	870,495

Directors' Remuneration Report (continued)

For the year ended 30 June 2012

Directors' share options

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

	As at 1 July 2011	Exercised/ Lapsed	Options granted	**As at 30 June 2012**	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	29,000	–	**54,333**	£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] (died 3 August, 2012)	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 were satisfied in 2010.
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 01 July 2010.
8. Gain on exercise of Directors' share options. Jeffrey Moore exercised options over 29,000 shares. The gain of market price over exercise price was £66,700. In 2011, no Directors' share options were exercised.

Share Investment Plan

The details of the Epistem Share Investment Plan are outlined in Note 19 (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 2012 No	SIP shares 30 June 2011 No
Catherine Booth	1,295	10,000	2,589	3,884	2,732
Gerard Brady (resigned 4 August, 2011)	1,295	10,000	2,589	3,884	2,732
Jeffrey Moore	1,295	10,000	2,589	3,884	2,732
John Rylands	1,295	10,000	2,589	3,884	2,732
Matthew Walls	1,295	10,000	2,589	3,884	2,732

Approved by the Board

D E Evans
Non-executive Chairman
30 October 2012

Corporate Governance Report

For the year ended 30 June 2012

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

The Board has established an Audit Committee, a Remuneration Committee and a Nomination Committee. 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
Robert Nolan (Non-executive Director)	3	3	1
Roger Lloyd (Non-executive Director), Remuneration/Nominations Committees only	–	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 are set by the Board. The Remuneration Committee also approves the issue of share options under schemes approved by the Board.

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

Audit Committee

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

Nomination Committee

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

Relations with shareholders

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

Internal controls

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

Social, environmental and ethical matters

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

Employment

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

Health, safety and environmental issues

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

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

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

Independent Auditor's Report to the Members of Epistem Holdings Plc

Year ended 30 June 2012

We have audited the group and parent company financial statements (the 'Financial Statements) of Epistem Holdings Plc for the year ended 30 June 2012 which comprise the consolidated statement of comprehensive income, the consolidated and parent company balance sheets, the consolidated and parent company statement of cash flows, the consolidated and parent company statements of changes in equity and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

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

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements. 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 2012, and of the group's loss for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- the financial statements have been prepared in accordance with the requirements of Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the 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, 157 Ashley Road
Hale, Altrincham
Cheshire WA14 2UT

30 October 2012

Consolidated Statement of Comprehensive Income

For the year ended 30 June 2012

	Notes	2012 £'000	2011 £'000
Revenue	2	**5,560**	5,752
Contract costs		**(4,112)**	(3,072)
Discovery and development costs		**(996)**	(979)
General administrative costs		**(1,287)**	(1,316)
Operating (loss)/profit	3	**(835)**	385
Finance income	6	**109**	18
Finance costs	6	**–**	(46)
(Loss)/profit on ordinary activities before taxation		**(726)**	357
Taxation on ordinary activities	7	**482**	28
Total Comprehensive Income for the financial year		**(244)**	385
(Loss)/earnings per share (pence)			
– Basic	9	**(2.9)p**	4.9p
– Diluted	9	**(2.9)p**	4.3p

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 2012

	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 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
Balance at 1 July 2011	119	11,206	(88)	691	(2,484)	(3,262)	6,182
Allotment of ordinary shares	12	2,765	–	–	–	–	2,777
Share issue costs	–	(60)	–	–	–	–	(60)
Purchase of own shares (SIP)	–	–	(48)	–	–	–	(48)
Exercise of options	2	96	–	(14)	–	–	84
Lapse of options	–	–	–	(1)	–	1	–
Recognition of equity-settled share-based payments	–	–	–	171	–	–	171
Total comprehensive income for the year	–	–	–	–	–	(244)	(244)
At 30 June 2012	**133**	**14,007**	**(136)**	**847**	**(2,484)**	**(3,505)**	**8,862**

Consolidated Balance Sheet

As at 30 June 2012

	Notes	2012 £'000	2011 £'000
Non-current assets			
Intangible assets	10	**2,189**	1,075
Plant and equipment	11	**573**	567
Deferred taxation	12	**1,002**	520
		3,764	2,162
Current assets			
Trade and other receivables	13	**1,978**	1,910
Tax receivables		**41**	117
Cash and cash equivalents	14	**4,684**	3,620
		6,703	5,647
Liabilities			
Current liabilities			
Deferred Income	15	**198**	75
Trade and other payables	16	**1,407**	1,447
		1,605	1,522
Net current assets		**5,098**	4,125
Total assets less current liabilities		**8,862**	6,287
Non-current liabilities			
Liabilities payable 1 – 5 years		**–**	(105)
Net assets		**8,862**	6,182
Capital and reserves			
Called-up equity share capital	21	**133**	119
Share premium account	22	**14,007**	11,206
Employee share incentive plan reserve	22	**(136)**	(88)
Share options reserve	22	**847**	691
Reverse acquisition reserve	22	**(2,484)**	(2,484)
Retained earnings	22	**(3,505)**	(3,262)
Total shareholders' equity		**8,862**	6,182

These financial statements were approved by the Directors and authorised for issue on 30 October 2012 and are signed on their behalf by:

D E Evans
Non-executive Chairman

H J J Rylands
Finance Director

Epistem Holdings Plc
Company number: 06108621

Consolidated Statement of Cash Flows

For the year ended 30 June 2012

	2012 £'000	2011 £'000
Cash flows from operating activities		
Operating (loss)/profit for the year	**(835)**	385
Depreciation, amortisation and impairment	**193**	194
Share-based payment expense	**171**	58
Operating (loss)/profit before changes in working capital and provisions	**(471)**	637
(Increase) in trade and other receivables	**(68)**	(899)
Increase/(decrease) in deferred income	**123**	(899)
(Decrease)/increase in trade and other payables	**(40)**	433
Net cash (outflow) from operations	**(456)**	(728)
Finance income	**109**	18
Finance costs	**–**	(46)
Tax received	**76**	75
	185	47
Net cash (outflow) from operating activities	**(271)**	(681)
Cash flows from investing activities		
Acquisition of fixed assets	**(1,313)**	(1,093)
Net cash outflow from investing activities	**(1,313)**	(1,093)
Cash flows from financing activities		
Proceeds from issue of share capital	**2,861**	–
Expenses of share issue	**(60)**	–
Purchase of own shares	**(48)**	(45)
Movement in borrowings	**(105)**	68
Net cash inflow from financing activities	**2,648**	23
Net increase/(decrease) in cash equivalents	**1,064**	(1,751)
Cash and cash equivalents at beginning of year	**3,620**	5,371
Cash and cash equivalents at end of year	**4,684**	3,620
Analysis of net funds		
Cash at bank and in hand	**4,684**	3,620
Net funds	**4,684**	3,620

Notes to the Financial Statements

For the year ended 30 June 2012

1. Significant accounting policies

Basis of accounting

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

Epistem Holdings Plc is a company incorporated in the UK.

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

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

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

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, duration of contracts, income 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 inform 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 on-going research activity are recorded as deferred income and recognised as revenue over the anticipated duration of the agreement. Where the anticipated duration of the agreement is modified, the period over which revenue is recognised is also modified.

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

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

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

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

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 18.

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

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

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

Notes to the Financial Statements (continued)

For the year ended 30 June 2012

1. Significant accounting policies (continued)

Share-based payments (continued)

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

The issuance by the Company of share options to employees of its subsidiaries 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 a HMR&C qualifying Share Incentive Plan. Under the scheme, the Company will 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.

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

New standards and interpretations not applied
The International Accounting Standards Board ('IASB') and IFIRC have issued the following standards and interpretations with an effective date for financial years beginning on or after 1 July 2012:

IAS 1 (revised)	Presentation of financial statements
IAS 19 (revised)	Employee benefits
IAS 32 (revised)	Financial instruments: presentation
IFRS 7 (revised)	Financial instruments set-off of assets and liabilities
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

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 2012

2. Segment information

For internal reporting, the Group is organised into three operating divisions – Contract Research Services, Personalised Medicine and Novel Therapies. Contract Research Services provides pre-clinical testing services. Personalised Medicine specialises in molecular measures of biological effect and point of care molecular diagnostic testing. Novel Therapies is discovering key regulators of epithelial stem cells.

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

Business segments

	Contract Research Services £'000	Personalised Medicine £'000	Novel Therapies £'000	Unallocated £'000	Total £'000
Twelve months ended 30 June 2012					
Revenue	**2,895**	**2,665**	**–**	**–**	**5,560**
Segment trading result	**856**	**503**	**(700)**	**(1,130)**	**(471)**
Less depreciation and amortisation	**(68)**	**(48)**	**(52)**	**(25)**	**(193)**
Less equity-settled share-based payments)	**(6)**	**(31)**	**(2)**	**(132)**	**(171)**
Operating profit/(loss)	**782**	**424**	**(754)**	**(1,287)**	**(835)**
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 2012					
Segment assets	**1,352**	**2,598**	**505**	**6,012**	**10,467**
Segment capital expenditure	**343**	**763**	**171**	**36**	**1,313**
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

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:

	2012 £'000	2011 £'000
United Kingdom	**720**	273
Europe	**977**	1,452
United States of America	**3,778**	3,901
Asia	**85**	126
	5,560	5,752

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

(a) £1,674k revenue was derived from international pharmaceutical company, Sanofi-Aventis, with revenue included within Contract Research Services and Personalised Medicine (2011: £454k);
(b) £17k revenue was derived from international pharmaceutical company, Novartis, with revenue included in Personalised Medicine (2011: £1,610k);
(c) £922k revenue was derived from the University of Maryland on behalf of the US Government with revenue included within Contract Research Services (2011: £645k);
(d) £266k revenue was derived from international pharmaceutical company, Merck KGaA with revenue included within Contract Research Services (2011: £770k).

3. Operating (loss)/profit

The Group operating profit is stated after charging:

	2012 £'000	2011 £'000
Discovery and development expenditure	**996**	979
Amortisation of intangible assets	**8**	8
Depreciation of owned tangible fixed assets	**185**	186
Auditors' remuneration		
– as auditors	**23**	23
– for other services	**–**	–
Operating lease costs – property rent	**189**	189

4. Particulars of employees

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

	2012 No	2011 No
Contract services	**41**	34
Research and development	**12**	9
Administrative	**9**	7
	62	50

The aggregate employee costs (including Directors) were:

	2012 £'000	2011 £'000
Wages and salaries	**2,708**	2,490
Social security costs	**286**	256
Equity settled share-based payments	**171**	58
Pension payments	**65**	53
	3,230	2,857

5. Directors' remuneration (key management)

Group	2012 £'000	2011 £'000
Remuneration	**778**	841
Pension contribution	**29**	29
Equity-settled share-based payments	**131**	32
	938	902

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 2012

6. Finance income and costs

Group	2012 £'000	2011 £'000
Finance income		
– interest receivable	**15**	18
– foreign exchange surpluses	**94**	–
	109	18
Finance costs		
– finance leases	**–**	(4)
– foreign exchange losses	**–**	(42)
	–	(46)

7. Taxation on ordinary activities

(a) Recognised in the income statement

Group	2012 £'000	2011 £'000
Current tax:		
UK corporation tax on (loss)/profit for the period	**–**	–
Adjustment relating to a previous period	**–**	(44)
Total current tax	**–**	(44)
Deferred tax:		
Impact of tax rate change on brought forward deferred tax balances	**91**	39
Prior year tax losses now recognised	**(196)**	(22)
Current year tax losses	**(860)**	16
Current year capital allowances in excess of depreciation	**224**	(2)
Revenue recognition of items prior to amortisation	**216**	–
In respect of current year share options charges	**43**	(15)
Total deferred tax	**(482)**	16
Total tax (credit) for the year	**(482)**	(28)

(b) Reconciliation of the total tax charge

Group	2012 £'000	2011 £'000
(Loss)/profit before taxation	**(726)**	357
Tax using the UK corporation tax rate of 24% (2011: 27.5%)	**(174)**	98
Effect of difference in tax rate	**91**	39
Revenue recognition of items prior to amortisation	**216**	–
Item not deductible/chargeable for tax purposes	**38**	4
Adjustments in respect of research and development tax credits	**(457)**	(105)
Adjustment relating to a previous year	**(196)**	(64)
Total tax in income statement	**(482)**	(28)

At 30 June 2012, the change in the corporation tax rate to 24% had been substantially enacted and therefore the deferred taxation assets included within these results have been calculated using a UK corporation tax rate of 24%.

The Group had losses, as computed for tax purposes, of approximately £6,577k (2011: £1,770k) 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 2012 is £nil (2011: £nil).

8. Profit attributable to members of the parent company

The profit dealt with in the accounts of the parent company was £14k (2011: £18k).

9. (Loss)/earnings per share

The basic profit/(loss) 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	2012 £'000	2011 £'000
(Loss)/profit for the year after taxation	**(244)**	385

Group	2012 No	2011 No
Weighted average number of ordinary shares in issue	**8,471,693**	7,933,983
Dilutive ordinary shares from options and warrants in issue	**996,381**	1,038,774
Dilutive weighted average number of ordinary shares	**9,468,074**	8,972,757

(Loss)/earnings per share		
– basic	**(2.9)p**	4.9p
– diluted	**(2.9)p**	4.3p

Notes to the Financial Statements (continued)

For the year ended 30 June 2012

10. Intangible assets

Group	Patents £'000	Acquired intellectual property £'000	Developed intellectual property £'000	Total £'000
Cost				
At 1 July 2011	199	287	627	1,113
Additions	170	–	952	1,122
At 30 June 2012	**369**	**287**	**1,579**	**2,235**
Amortisation				
At 1 July 2011	4	34	–	38
Charge for the year	4	4	–	8
At 30 June 2012	**8**	**38**	**–**	**46**
Net book value				
At 30 June 2011	195	253	627	1,075
At 30 June 2012	**361**	**249**	**1,579**	**2,189**
Cost				
At 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

During the year to 30 June 2012, the cost of the Company's Patents assessed as not being available for economic use amounted to £322k (2011: £156k).

11. Plant and equipment

Group	Lab equipment £'000	Fixtures and fittings £'000	Other equipment £'000	Total £'000
Cost				
At 1 July 2011	1,274	30	163	1,467
Additions	154	1	36	191
At 30 June 2012	**1,428**	**31**	**199**	**1,658**
Depreciation				
At 1 July 2011	783	20	97	900
Charge for the year	160	4	21	185
At 30 June 2012	**943**	**24**	**118**	**1,085**
Net book value				
At 30 June 2011	491	10	66	567
At 30 June 2012	**485**	**7**	**81**	**573**

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

12. Deferred taxation

Recognised

Group	**2012 £'000**	2011 £'000
Tax losses carried forward	**1,578**	460
Excess of tax allowances over depreciation	**(478)**	(114)
Excess of revenue recognition over amortisation	**(216)**	–
Share-based payment transactions	**118**	173
Other timing differences	**–**	1
	1,002	520

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 £2,942k (2011: £3,018k).

Notes to the Financial Statements (continued)

For the year ended 30 June 2012

13. Trade and other receivables

Group	2012 £'000	2011 £'000
Trade receivables	**1,188**	1,119
Accrued income	**565**	540
Other receivables	**146**	151
Prepayments	**79**	100
	1,978	1,910

Analysis of trade receivables

	2012 £'000	2011 £'000
Neither impaired nor past due	**892**	779
Past due but not impaired	**296**	340
Trade receivable	**1,188**	1,119

Aging of past due but not impaired trade receivables

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

	2012 £'000	2011 £'000
Not later than one month	**107**	78
Later than one month but not later than three months	**132**	152
Later than three but not later than six months	**57**	110

14. Cash and cash equivalents

Group	2012 £'000	2011 £'000
Cash at bank and in hand	**73**	82
Short-term bank deposits	**4,611**	3,538
	4,684	3,620

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

15. Deferred income

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

Group	2012 £'000	2011 £'000
Amounts to be recognised within 1 year	**198**	75

16. Trade and other payables

Group	2012 £'000	2011 £'000
Trade payables	**609**	772
Accruals	**587**	472
Other payables	**211**	203
	1,407	1,447

17. Share-based payments

(a) Share options outstanding at 30 June 2012

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	7,200	£0.75	31 Mar 2003 to 30 Mar 2013	£0.28p	2,016
EMI – Approved	6,600	£0.75	07 Apr 2003 to 06 Apr 2013	£0.28p	1,848
EMI – Approved	9,400	£0.75	21 Jul 2004 to 20 Jul 2014	£0.27p	2,538
Share Warrants (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	29,024	£1.20	25 Nov 2005 to 24 Nov 2015	£0.43p	12,480
EMI – Unapproved	472,153	£1.20	10 Jan 2006 to 09 Jan 2016	£0.43p	201,137
EMI – Approved	168,722	£1.20	10 Jan 2006 to 09 Jan 2016	£0.43p	72,550
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	65,050	£1.77	31 Jul 2011 to 30 Jul 2018	£0.37p	24,068
2007 Epistem Share Option Scheme	41,700	£4.03	02 Dec 2013 to 01 Dec 2020	£1.64p	68,388
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
2007 Epistem Share Option Scheme	18,450	£3.60	10 Feb 2014 to 10 Feb 2022	£1.46p	26,937

Notes to the Financial Statements (continued)

For the year ended 30 June 2012

17. Share-based payments (continued)

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)
2007 Epistem Share Option Scheme	18 Mar 2012	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) Prior to 2011, the expected volatility was estimated by the Directors after inspection of the financial statements of comparable businesses in the same business sector as the Group. Thereafter, the expected volatility has been calculated by reference to the historic share price of the Company;
(d) The risk free rate used is based upon the prevailing UK bank base rate at the date of the grant;
(e) These options vest on dates dependant on anniversaries of commencing employment with the Group which commenced 1 September 2005 with the final tranche vesting on 1 September 2008;
(f) The performance conditions for these options to vest were satisfied in 2010;
(g) These options are subject to performance criteria which are appropriate to the option holders' role within the Company and which are assessed by the Remuneration Committee.
(h) These options may be exercised following the third anniversary of grant and are subject to performance criteria which are appropriate to the option holders' role within the Company and which are assessed by the Remuneration Committee.
(i) These options 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 01 July 2010.

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

	Number		Weighted average exercise price		Weighted average remaining contracted life – Years	
Group	**2012**	2011	**2012**	2011	**2012**	2011
Outstanding as at 1 July	**1,918,548**	1,586,498	**£1.41**	£1.28	**–**	–
Granted during the year	**18,450**	332,050	**£3.60**	£3,75	**–**	–
Exercised during the year	**(123,400)**	–	**£0.69**	–	**–**	–
Lapsed during the year	**(5,500)**	–	**£1.06**	–	**–**	–
Outstanding as at 30 June	**1,808,098**	1,918,548	**£1.78**	£1.41	**4.83**	5.50
Options exercisable at 30 June	**1,341,030**	1,190,483	**£1.31**	£1.24	**3.80**	4.40

The weighted average share price at the exercise dates was £3.53 (2011: no options were exercised).

(b) Share Investment Plan

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

	2012	2011
Partnership shares held at 30 June	**18,092**	11,522
Matching Shares held at 30 June	**36,181**	22,841
Unamortised cost of Matching shares		
(Comprising Employee SIP reserve)	**£136,000**	£88,000

18. 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.

Notes to the Financial Statements (continued)

For the year ended 30 June 2012

18. Financial risk management objectives and policies (continued)

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
2012		
Cash and cash equivalents	**25**	**5**
2011		
Cash and cash equivalents	25	3

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 (2011: nil) to manage foreign currency risk.

Balances which are denominated in US Dollars are detailed below:

Group	**2012 £'000**	2011 £'000
Trade and other receivable	**702**	961
Cash and cash equivalent	**1,694**	40
	2,396	1,001

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
2012		
Trade and other receivable	**5%**	**35**
Cash and cash equivalents	**5%**	**85**
2011		
Trade and other receivable	5%	48
Cash and cash equivalents	5%	2

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.

19. Commitments under operating leases

At 30 June 2012 the Group had annual commitments under non-cancellable operating leases as set out below.

	Land and buildings	
Group	**2012 £'000**	2011 £'000
Operating leases which expire:		
Within 1 year	**157**	157

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

20. Related party transactions

At the balance sheet date, the amounts owed to the following Directors, Prof. C Potten, D Evans and R Nolan, were £nil, £9k and £nil respectively (2011: £2k, £6k and £2k.) 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.

21. Share capital

Allotted and called up:

	2012 No	**2012 £'000**	2011 No	2011 £'000
At 1 July	**7,933,983**	**119**	7,933,983	119
Private placing	**793,398**	**12**	–	–
Exercise of options	**123,400**	**2**	–	–
Ordinary shares of £0.015 each	**8,850,781**	**133**	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.

Notes to the Financial Statements (continued)

For the year ended 30 June 2012

22. 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 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)
Balance as at 1 July 2011	(88)	11,206	691	(2,484)	(3,262)
Comprehensive income for the year	–	–	–	–	(244)
Allotment of ordinary shares	–	2,765	–	–	–
Share issue costs	–	(60)	–	–	–
Unamortised cost of Matching Shares	(48)	–	–	–	–
Exercise of options	–	96	(14)	–	–
Lapse of options	–	–	(1)	–	1
Recognition of equity settled share-based payments in the year	–	–	171	–	–
Balance at 30 June 2012	**(136)**	**14,007**	**847**	**(2,484)**	**(3,505)**

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 35,074 shares in Epistem Holdings Plc (2011: 22,841 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 2012 was £140k (2011: £86k). The nominal value held at 30 June 2012 was £526 (2011: £343).

Company Balance Sheet

As at 30 June 2012

	Notes	2012 £'000	2011 £'000
Non-current assets			
Investments	a	**5,891**	5,721
Current assets			
Amounts receivable from Group undertakings and other receivables	b	**6,458**	4,068
Cash and cash equivalents	c	**2,867**	2,442
		9,325	6,510
Current liabilities			
Corporation taxation		**–**	–
Net current assets		**9,325**	6,510
Total assets less current liabilities		**15,216**	12,231
Capital and reserves			
Called-up equity share capital	21	**133**	119
Share premium account	22	**14,007**	11,206
Share options reserve		**847**	691
Retained earnings		**229**	215
Total shareholders' funds equity		**15,216**	12,231

These financial statements were approved by the Directors and authorised for issue on 30 October 2012 and are signed on their behalf by:

D E Evans
Non-executive Chairman
30 October 2012

H J J Rylands
Finance Director
30 October 2012

Epistem Holdings Plc
Company number: 06108621

Company Statement of Changes in Equity

For the year ended 30 June 2012

	Share capital £'000	Share premium account £'000	Share options reserve £'000	Retained earnings £'000	Total £'000
At 1 July 2010	119	11,206	633	196	12,154
Allotment of ordinary shares	–	–	–	–	–
Share issue costs	–	–	–	–	–
Recognition of equity settled share-based payments	–	–	58	–	58
Exercise of options	–	–	–	–	–
Profit for the year	–	–	–	19	–
At 30 June 2011	119	11,206	691	215	12,231
Allotment of ordinary shares	12	2,765	–	–	2,777
Share issue costs	–	(60)	–	–	(60)
Recognition of equity settled share-based payments	–	–	171	–	171
Exercise of options	2	96	(14)	–	84
Lapse of options	–	–	(1)	1	–
Profit for the year	–	–	–	13	13
At 30 June 2012	**133**	**14,007**	**847**	**229**	**15,216**

Company Statement of Cash Flows

For the year ended 30 June 2012

	2012 £'000	2011 £'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	**(2,390)**	(2,576)
(Decrease) in trade and other payables	**–**	(2)
Cash (outflow) from operations	**(2,390)**	(2,578)
Interest received	**14**	19
Tax (paid)/received	**–**	–
	14	19
Net cash outflow from operating activities	**(2,377)**	(2,559)
Cash flows from financing activities		
Proceeds from issue of share capital	**2,861**	–
Expenses of share issue	**(60)**	–
Net cash inflow from financing activities	**2,801**	–
Net (decrease)/increase in cash equivalents	**425**	(2,559)
Cash and cash equivalents at beginning of year	**2,442**	5,001
Cash and cash equivalents at end of year	**2,867**	2,442
Analysis of net funds		
Cash at bank and in hand	**2,867**	2,442
Bank overdrafts	**–**	–
Net funds	**2,867**	2,442

Notes to the Company Financial Statements

For the year ended 30 June 2012

(a) Investments

Company

The Company is the holding company of the Group.

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

Epistem Limited and Epistem Inc. – the provision of services to the biotechnology and pharmaceutical industries;
Epistem SIP Trustees Limited – to act as trustee to the Epistem Share Incentive Plan;
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 is related to performance (an earnout) during the three year period to 30 June 2013 and is capped at £2.85m. The Directors have assessed the performance during the period since 28 July 2010 and have concluded that the criteria will not be met and, accordingly, that no consideration would be payable. However, the performance criteria are currently being reviewed with new criteria being considered. If agreed, these criteria are likely to be met during the current financial period, leading to the full amount of the earnout (£2.85m) becoming payable. 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 2012	Investment in subsidiaries £'000
Cost	
At 1 July 2011	5,721
Additions	170
At 30 June 2012	5,891
Net book value	
At 30 June 2011	5,721
At 30 June 2012	**5,891**

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

Additions in the year ended 30 June 2012 comprised the fair value of the share options issued to employees of the subsidiary undertaking during the year of £170k (2011: £58k). Full details of the share options issued are set out in Note 18 to the consolidated financial statements.

(b) Amounts receivable from Group undertaking and other receivables

Company	2012 £'000	2011 £'000
Amounts receivable from Group undertaking	**6,458**	4,068
	6,458	4,068

(c) Cash and cash equivalents

Company	2012 £'000	2011 £'000
Cash at bank and in hand	**89**	1
Short-term bank deposits	**2,778**	2,441
	2,867	2,442

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

(d) Related party transactions

During the course of the year, Epistem SIP Trustee acquired 19,910 (2011: 18,169) shares in Epistem Holdings Plc on behalf of the Epistem Share Investment Plan at a cost of £71k (2011: £69k).

(e) Impairment review

The carrying value of Investments and Amounts Receivable are subject to an annual impairment review. In the view of the Directors, no impairment provision has been required during the period (2011: nil.)

Notes

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Matthew Walls
Catherine Booth
Roger Lloyd
Jeffrey Moore
Robert Nolan
John Rylands

Company Secretary
John Rylands

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