

ACCOUNTANTS' REPORT ON EPISTEM LIMITED

The Directors
EpiStem Limited
The Incubator Building
Grafton Street
Manchester
M13 9XX

Teather & Greenwood Limited
Beaufort House
15 St. Botolph Street
London
EC3A 7QR

30 March 2007

Dear Sirs,

EpiStem Limited

We report on the financial information set out in Part IIIB of this Admission Document. This financial information has been prepared for inclusion in the AIM Admission Document of EpiStem Holdings Plc dated 30 March 2007 on the basis of the accounting policies set out in note 1 of the financial information on pages 35 and 36. This report is required by paragraph (a) of Schedule Two of the AIM Rules and is given for the purposes of complying with that paragraph and for no other purpose.

Save for any responsibility arising under paragraph (a) of Schedule Two of the AIM Rules to any person as and to the extent provided, to the fullest extent permitted by law, we do not assume any responsibility and will not accept any responsibility to any other person for any loss suffered by any such person as a result of, arising out of, or in connection with this report or our statement, required by and given solely for the purposes of complying with paragraph (a) of Schedule Two of the AIM Rules consenting to its inclusion in the Admission Document.

Responsibilities

The directors of EpiStem Limited are responsible for preparing the financial information on the basis of preparation set out in note 1 to the financial information.

It is our responsibility to form an opinion as to whether the financial information gives a true and fair view for the purposes of the AIM Admission Document and to report our opinion to you.

Basis of Opinion

We conducted our work in accordance with Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. It also included an assessment of the significant estimates and judgments made by those responsible for the preparation of the financial information and whether the accounting policies are appropriate for the entity's circumstances, consistently applied and adequately disclosed.

We planned and performed our work so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the

financial information is free from material misstatement whether caused by fraud or other irregularity or error.

Opinion

In our opinion, the financial information as adjusted and set out in Part IIIB gives for the purposes of the AIM Admission Document dated 30 March 2007, a true and fair view of the state of affairs of EpiStem Limited as at the dates stated and of its profits, losses, cash flows and recognised gains and losses for the periods then ended in accordance with the basis of preparation set out in note 1 of the financial information on pages 35 and 36.

Declaration

For the purposes of paragraph (a) of Schedule Two of the AIM Rules we are responsible for this report as part of the AIM Admission Document and declare that we have taken all reasonable care to ensure that the information contained in this report is, to the best of our knowledge, in accordance with the facts and contains no omission likely to affect its import. The declaration is included in the AIM Admission Document in compliance with Schedule Two of the AIM rules.

Yours faithfully,

HWCA Limited
Chartered Accountants

PROFIT AND LOSS ACCOUNT

	<i>Notes</i>	<i>Year Ended 30 June 2004 £</i>	<i>Year Ended 30 June 2005 £</i>	<i>Year Ended 30 June 2006 £</i>	<i>Period Ended 31 December 2006 £</i>
CRO turnover		703,964	1,245,044	901,161	666,846
NT turnover		–	–	–	–
Turnover	2	<u>703,964</u>	<u>1,245,044</u>	<u>901,161</u>	<u>666,846</u>
CRO cost of sales		(444,752)	(582,584)	(704,682)	(499,015)
NT cost of sales		–	–	–	–
Cost of sales		<u>(444,752)</u>	<u>(582,584)</u>	<u>(704,682)</u>	<u>(499,015)</u>
CRO gross profit		259,212	662,460	196,479	167,831
NT gross profit		–	–	–	–
Gross profit (CRO Contribution)		259,212	662,460	196,479	167,831
Research and development (NT only)		(311,097)	(341,940)	(681,756)	(461,972)
Administrative expenses		(195,908)	(269,235)	(314,931)	(190,122)
Operating (loss)/profit	3	<u>(247,793)</u>	<u>51,285</u>	<u>(800,208)</u>	<u>(484,263)</u>
Interest receivable		298	407	49,853	12,138
Interest payable and similar charges	4	<u>(3,000)</u>	<u>(3,036)</u>	<u>(5,643)</u>	<u>(9,404)</u>
(Loss)/profit on ordinary activities before taxation		(250,495)	48,656	(755,998)	(481,529)
Tax on (loss)/profit on ordinary activities	5	<u>32,706</u>	<u>8,011</u>	<u>130,527</u>	<u>100,173</u>
(Loss)/profit for the financial period		(217,789)	56,667	(625,471)	(381,356)
Balance brought forward		(650,559)	(868,348)	(811,681)	(1,437,152)
Balance carried forward		<u>(868,348)</u>	<u>(811,681)</u>	<u>(1,437,152)</u>	<u>(1,818,508)</u>

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

The company has no recognised gains or losses other than the results for the periods as set out above.

BALANCE SHEET

	<i>Notes</i>	<i>30 June 2004 £</i>	<i>30 June 2005 £</i>	<i>30 June 2006 £</i>	<i>31 December 2006 £</i>
Fixed Assets					
Intangible assets	6	70,418	66,554	62,690	60,758
Tangible assets	7	89,464	83,907	292,307	375,977
		<u>159,882</u>	<u>150,461</u>	<u>354,997</u>	<u>436,735</u>
Current assets					
Debtors	8	224,221	338,246	453,890	563,553
Cash at bank		89,586	1,517,266	680,960	328,414
		<u>313,807</u>	<u>1,855,512</u>	<u>1,134,850</u>	<u>891,967</u>
Creditors: amounts falling due within one year	9	<u>(372,806)</u>	<u>(372,248)</u>	<u>(281,624)</u>	<u>(450,576)</u>
Net current (liabilities)/assets		<u>(58,999)</u>	<u>1,483,264</u>	<u>853,226</u>	<u>441,391</u>
Total assets less current liabilities		100,883	1,633,725	1,208,223	878,126
Creditors: amounts falling due after more than one year	10	<u>(2,154)</u>	<u>–</u>	<u>(113,205)</u>	<u>(164,464)</u>
		<u>98,729</u>	<u>1,633,725</u>	<u>1,095,018</u>	<u>713,662</u>
Capital and reserves					
Called-up equity share capital	14	149	199	202	202
Share premium account	15	966,928	2,445,207	2,531,968	2,531,968
Profit and loss account		(868,348)	(811,681)	(1,437,152)	(1,818,508)
Equity shareholders' funds	16	<u>98,729</u>	<u>1,633,725</u>	<u>1,095,018</u>	<u>713,662</u>

The financial statements for the sixth month period ended 31 December 2006 have been prepared in accordance with the special provisions of Part VII of the Companies Act 1985 relating to small companies and with the Financial Reporting Standard for Smaller Entities (effective January 2005).

The financial statements for each of the three years ended 30 June 2006 have been prepared in accordance with the specific provisions for smaller companies under Part VII of the Companies Act 1985.

CASH FLOW STATEMENT

	<i>Year Ended</i> <i>30 June</i> <i>2004</i> £	<i>Year Ended</i> <i>30 June</i> <i>2005</i> £	<i>Year Ended</i> <i>30 June</i> <i>2006</i> £	<i>Period Ended</i> <i>31 December</i> <i>2006</i> £
Net cash outflow from operating activities	(75,122)	(66,823)	(874,769)	(298,053)
Returns on investments and servicing of finance				
Interest received	298	407	49,853	12,138
Interest paid	–	(36)	(203)	(174)
Interest element of hire purchase	(3,000)	(3,000)	(5,440)	(9,230)
Net cash (outflow)/inflow from returns on investment and servicing of finance	(2,702)	(2,629)	44,210	2,734
Taxation	124,474	56,831	8,011	–
Capital expenditure				
Payments to acquire tangible fixed assets	(9,376)	(22,443)	(278,171)	(135,370)
Net cash outflow from capital expenditure	(9,376)	(22,443)	(278,171)	(135,370)
Cash inflow/(outflow) before financing	37,274	(35,064)	(1,100,719)	(430,689)
Financing				
Issue of equity share capital	–	50	3	–
Share premium on issue of equity share capital	–	1,478,279	86,761	–
Capital element of hire purchase	(17,482)	(15,585)	172,560	83,232
Net cash (outflow)/inflow from financing	(17,482)	1,462,744	259,324	83,232
Increase/(decrease) in cash	19,792	1,427,680	(841,395)	(347,457)

Reconciliation of operating (loss)/profit to net cash outflow from operating activities

	<i>Year Ended</i> <i>30 June</i> <i>2004</i> £	<i>Year Ended</i> <i>30 June</i> <i>2005</i> £	<i>Year Ended</i> <i>30 June</i> <i>2006</i> £	<i>Period Ended</i> <i>31 December</i> <i>2006</i> £
Operating (loss)/profit	(247,793)	51,285	(800,208)	(484,263)
Amortisation	2,898	3,864	3,864	1,932
Depreciation	37,800	28,000	69,771	51,700
Movement in debtors	(87,427)	(162,845)	6,872	(9,490)
Movement in creditors	219,400	12,873	(155,068)	142,068
Net cash outflow from operating activities	(75,122)	(66,823)	(874,769)	(298,053)

FINANCIAL INFORMATION ON EPISTEM LIMITED

1. Accounting policies and basis of preparation

The financial information on EpiStem Limited has been extracted from the non published audited accounts of the company for the year ended 30 June 2004, the published audited accounts for each of the two years ended 30 June 2006 and the non statutory audited accounts for the period ended 31 December 2006. The financial information does not constitute statutory accounts within the meaning of Section 240 of the Act.

The audited accounts for each of the three years ended 30 June 2006 have been adjusted to reclassify certain costs previously reported as cost of sales to research and development costs.

Haines Watts, Chartered Accountants and Registered Auditors, audited the financial statements for the periods ended 30 June 2004, 30 June 2005 and 30 June 2006. Each audit report was unqualified and did not contain a statement under Section 237(2) or (3) of the Act.

HW, Chartered Accountants and Registered Auditors, audited the interim financial information of EpiStem Limited for the period ended 31 December 2006. Their audit report was unqualified and did not contain a statement under 237(2) or (3) of the Act.

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial information of EpiStem Limited.

Accounting convention

The financial statements have been prepared under the historical cost convention and in accordance with the Financial Reporting Standard for Smaller Entities (effective January 2005).

Turnover

The turnover shown in the profit and loss account represents amount invoiced during the year, exclusive of Value Added Tax.

Revenue recognition

The company generally invoices and reports as sales, 50% of the value of a new contract on signature. This policy is designed to recognise that, in negotiating contracts for new studies, the company performs specific pre-contract work to establish the parameters of the study work. When the final report is issued to the client the remainder of the contract is invoiced and recognised as income, at that date.

Research and development

Research and development expenditure is written off in the period in which it is incurred.

Intangible fixed assets

The intangible fixed asset shown in the balance sheet represents intellectual property capitalised at cost.

Amortisation

Amortisation 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:

Intellectual property - 5 per cent. straight line

Fixed assets

All fixed assets are initially recorded at cost.

Depreciation

Depreciation is calculated so as to write off the cost of an asset, less its estimated residual value, over the useful economic life of that asset as follows:

Plant & Machinery	–	25 per cent. reducing balance
Fixtures & Fittings	–	25 per cent. reducing balance
Equipment	–	25 per cent. reducing balance

Hire purchase agreements

Assets held under hire purchase 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 profit and loss account on a straight line basis.

Operating lease agreements

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

Foreign currencies

Assets and liabilities in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date. Transactions in foreign currencies are translated into sterling at the rate of exchange ruling at the date of the transaction. Exchange differences are taken into account in arriving at the operating profit.

Financial instruments

Trade and other debtors

Trade and other debtors are recognised and carried forward at invoice 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

Interest-bearing 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 profit and loss account when liabilities are derecognised or impaired, as well as through the amortised process.

2. Turnover

Overseas turnover amounted to 57.79 per cent. (2006: 38.36 per cent.; 2005: 44.28 per cent.; 2004: 52.66 per cent.) of the total turnover for the period.

3. Operating (loss)/profit

Operating (loss)/profit is stated after charging:

	<i>Year Ended</i> <i>30 Jun 2004</i>	<i>Year Ended</i> <i>30 Jun 2005</i>	<i>Year Ended</i> <i>30 Jun 2006</i>	<i>Period Ended</i> <i>31 Dec 2006</i>
	£	£	£	£
Amortisation	2,898	3,864	3,864	1,932
Research and development expenditure written off	311,097	341,940	681,756	461,972
Depreciation of owned fixed assets	26,055	19,191	30,965	19,137
Depreciation of assets held under hire purchase agreements	11,745	8,809	38,806	32,563
Auditor's fees	1,500	1,500	2,000	2,000
Operating lease costs – property rent	103,627	147,600	187,600	106,800
	<u>103,627</u>	<u>147,600</u>	<u>187,600</u>	<u>106,800</u>

4. Interest payable and similar charges

	<i>Year Ended</i> <i>30 Jun 2004</i>	<i>Year Ended</i> <i>30 Jun 2005</i>	<i>Year Ended</i> <i>30 Jun 2006</i>	<i>Period Ended</i> <i>31 Dec 2006</i>
	£	£	£	£
Finance charges	3,000	3,000	5,440	9,230
Other interest and similar charges	–	36	203	174
	<u>3,000</u>	<u>3,036</u>	<u>5,643</u>	<u>9,404</u>

5. Taxation on ordinary activities

(a) Analysis of charge in the period

	<i>Year Ended</i> <i>30 Jun 2004</i>	<i>Year Ended</i> <i>30 Jun 2005</i>	<i>Year Ended</i> <i>30 Jun 2006</i>	<i>Period Ended</i> <i>31 Dec 2006</i>
	£	£	£	£
Current tax:				
UK Corporation tax based on the results for the period at 19% (2006: 19%;2005: 19%; 2004: 19%)	(56,832)	(8,011)	(130,527)	(100,173)
Over provision in prior period	24,126	–	–	–
Total current tax	<u>(32,706)</u>	<u>(8,011)</u>	<u>(130,527)</u>	<u>(100,173)</u>

5. Taxation on ordinary activities (continued)

(b) Factors affecting current tax charge

The tax assessed on the (loss)/profit on ordinary activities for the period differs from the standard rate of corporation tax in the UK of 19 per cent. (2006: 19 per cent.; 2005: 19 per cent.; 2004: 19 per cent.).

The differences are explained below

	<i>Year Ended</i> 30 Jun 2004	<i>Year Ended</i> 30 Jun 2005	<i>Year Ended</i> 30 Jun 2006	<i>Period Ended</i> 31 Dec 2006
	£	£	£	£
(Loss)/profit on ordinary activities before taxation	<u>(250,495)</u>	<u>48,656</u>	<u>(755,998)</u>	<u>(481,529)</u>
(Loss)/profit on ordinary activities by rate of tax	(47,595)	9,245	(143,640)	(91,491)
Capital allowances claimed in excess of depreciation charges	2,947	724	(10,082)	(5,161)
Expenditure not allowable for tax purposes	–	7	–	–
Adjustments in respect of research and development tax credits	(12,184)	(17,987)	(27,193)	(20,801)
Tax loss for the period carried forward	–	–	50,388	17,280
Overprovision in prior period	<u>24,126</u>	<u>–</u>	<u>–</u>	<u>–</u>
Total current tax (note 5(a))	<u>(32,706)</u>	<u>(8,011)</u>	<u>(130,527)</u>	<u>(100,173)</u>

6. Intangible fixed assets

	<i>Intellectual property</i> £
Cost	
At 1 July 2004, 2005, 2006 and 31 December 2006	<u>77,175</u>
Amortisation	
At 1 July 2003	3,859
Charge for 2004	<u>2,898</u>
At 30 June 2004	6,757
Charge for 2005	<u>3,864</u>
At 30 June 2005	10,621
Charge for 2006	<u>3,864</u>
At 30 June 2006	14,485
Charge for period to 31 December 2006	<u>1,932</u>
At 31 December 2006	<u>16,417</u>
Net Book Value	
At 30 June 2004	<u>70,418</u>
At 30 June 2005	<u>66,554</u>
At 30 June 2006	<u>62,690</u>
At 31 December 2006	<u>60,758</u>

7. Tangible fixed assets

	<i>Lab Equipment</i> £	<i>Fixtures & Fittings</i> £	<i>Equipment</i> £	<i>Total</i> £
Cost				
At 1 July 2003	174,859	3,325	19,190	197,374
Additions	6,025	2,264	1,087	9,376
At 30 June 2004	180,884	5,589	20,277	206,750
Additions	11,755	2,920	7,768	22,443
At 30 June 2005	192,639	8,509	28,045	229,193
Additions	261,639	–	16,532	278,171
At 30 June 2006	454,278	8,509	44,577	507,364
Additions	127,623	7,009	738	135,370
At 31 December 2006	<u>581,901</u>	<u>15,518</u>	<u>45,315</u>	<u>642,734</u>
Depreciation				
At 1 July 2003	69,876	1,527	8,083	79,486
Charge for the year	32,400	600	4,800	37,800
At 30 June 2004	102,276	2,127	12,883	117,286
Charge for the year	22,600	600	4,800	28,000
At 30 June 2005	124,876	2,727	17,683	145,286
Charge for the year	62,671	1,500	5,600	69,771
At 30 June 2006	187,547	4,227	23,283	215,057
Charge for the period	47,800	900	3,000	51,700
At 31 December 2006	<u>235,347</u>	<u>5,127</u>	<u>26,283</u>	<u>266,757</u>
Net Book Value				
At 30 June 2004	<u>78,608</u>	<u>3,462</u>	<u>7,394</u>	<u>89,464</u>
At 30 June 2005	<u>67,763</u>	<u>5,782</u>	<u>10,362</u>	<u>83,907</u>
At 30 June 2006	<u>266,731</u>	<u>4,282</u>	<u>21,294</u>	<u>292,307</u>
At 31 December 2006	<u>346,554</u>	<u>10,391</u>	<u>19,032</u>	<u>375,977</u>

Hire purchase agreements

Included within the net book value at 31 December 2006 is £286,940 (30 June 2006 - £201,503; 30 June 2005 - £26,426; 30 June 2004 - £35,234) relating to assets held under hire purchase agreements. The depreciation charged to the financial statements in the period in respect of such assets amounted to £32,563 (2006 - £38,806; 2005 - £8,809; 2004 - £11,745).

Capital commitments

	<i>30 Jun 2004</i> £	<i>30 Jun 2005</i> £	<i>30 Jun 2006</i> £	<i>31 Dec 2006</i> £
Contracted but not provided for in the financial statements	–	100,532	118,000	–

8. Debtors

	30 Jun 2004	30 Jun 2005	30 Jun 2006	31 Dec 2006
	£	£	£	£
Trade debtors	163,236	312,769	205,638	283,369
Corporation tax recoverable	56,831	8,011	130,527	230,700
VAT recoverable	–	10,128	57,973	35,463
Other debtors	4,154	7,338	59,752	14,021
	<u>224,221</u>	<u>338,246</u>	<u>453,890</u>	<u>563,553</u>

9. Creditors: amounts falling due within one year

	30 Jun 2004	30 Jun 2005	30 Jun 2006	31 Dec 2006
	£	£	£	£
Bank loans and overdrafts	–	–	5,089	–
Trade creditors	120,549	124,446	133,732	270,002
Other taxation and social security	15,731	18,754	27,777	26,856
Hire purchase agreements	16,573	3,142	62,497	94,470
Other creditors	219,953	225,906	52,529	59,248
	<u>372,806</u>	<u>372,248</u>	<u>281,624</u>	<u>450,576</u>

10. Creditors: amounts falling due after more than one year

	30 Jun 2004	30 Jun 2005	30 Jun 2006	31 Dec 2006
	£	£	£	£
Hire purchase agreements	<u>2,154</u>	<u>–</u>	<u>113,205</u>	<u>164,464</u>

11. Commitments under hire purchase agreements

Future commitments under hire purchase agreements are as follows:

	30 Jun 2004	30 Jun 2005	30 Jun 2006	31 Dec 2006
	£	£	£	£
Amounts payable within 1 year	20,482	3,544	71,297	99,617
Amounts payable between 1 to 2 years	3,544	–	–	–
Amounts payable between 2 to 5 years	–	–	127,817	197,194
	<u>24,026</u>	<u>3,544</u>	<u>199,114</u>	<u>296,811</u>
Less interest and finance charges relating to future periods	<u>(5,299)</u>	<u>(402)</u>	<u>(23,412)</u>	<u>(37,877)</u>
	<u>18,727</u>	<u>3,142</u>	<u>175,702</u>	<u>258,934</u>
Hire purchase agreements are analysed as follows:				
Current obligations	16,573	3,142	62,497	94,470
Non-current obligations	2,154	–	113,205	164,464
	<u>18,727</u>	<u>3,142</u>	<u>175,702</u>	<u>258,934</u>

The liabilities under the hire purchase agreements are secured on the assets to which they relate.

12. Commitments under operating leases

The company had annual commitments under non-cancellable operating leases as set out below:

	<i>Land & Buildings</i>			
	<i>30 Jun 2004</i>	<i>30 Jun 2005</i>	<i>30 Jun 2006</i>	<i>31 Dec 2006</i>
	£	£	£	£
Operating leases which expire:				
Within 1 year	<u>72,254</u>	<u>72,254</u>	<u>50,127</u>	<u>53,527</u>

13. Related party transactions

During the 6 month period ended 31 December the company purchased consultancy services from directors as follows – Prof C Potten - £39,984 (2006, 2005, 2004: £Nil), Mr D Evans - £15,000 (30 June 2006, 30 June 2005, 30 June 2004: £Nil) and Dr R Nolan - £4,200 (2006, 2005, 2004: £Nil). These were on a normal trading basis and are included within non executive directors' fees. In addition the company has paid consultancy services totalling £6,000 (2006, 2005, 2004: £Nil) to Kerry Riddell Consultants Limited, a company in which Mr R A Onyett is also a director and shareholder.

During the period the company purchased services to the value of £Nil (2006: £Nil; 2005: £7,000; 2004: £12,000) from Castlegate Consultancy Services Limited, a company in which Prof. C Potten has a material interest. All the transactions were on a normal trading basis and are included within Non executive directors' fees.

During the period the company has made a provision of £Nil (2006: £Nil; 2005: £12,000; 2004: £12,000) for accountancy services payable to Northern Venture Management Limited, a company in which Mr H J Rylands is also a director and shareholder. Other creditors at 31 December 2006 includes a total of £Nil owed in respect of these services (2006: £Nil; 2005: £18,000; 2004: £22,000).

14. Share capital

Authorised share capital:

	<i>30 Jun 2004</i>	<i>30 Jun 2005</i>	<i>30 Jun 2006</i>	<i>31 Dec 2006</i>
	£	£	£	£
99,657 Ordinary A shares of £0.01 each	997	–	–	–
343 Ordinary B shares of £0.01 each	3	–	–	–
20,000,000 Ordinary shares of £0.00005 each	–	1,000	1,000	1,000
	<u>1,000</u>	<u>1,000</u>	<u>1,000</u>	<u>1,000</u>

Allotted, called up and fully paid:

	<i>30 Jun 2004</i>		<i>30 Jun 2005</i>		<i>30 Jun 2006</i>		<i>31 Dec 2006</i>	
	<i>No</i>	£	<i>No</i>	£	<i>No</i>	£	<i>No</i>	£
Ordinary A shares of £0.01 each	14,528	146	–	–	–	–	–	–
Ordinary B shares of £0.01 each	343	3	–	–	–	–	–	–
Ordinary shares of £0.00005 each	–	–	3,971,094	199	4,045,628	202	4,045,628	202
Equity shares	<u>14,871</u>	<u>149</u>	<u>3,971,094</u>	<u>199</u>	<u>4,045,628</u>	<u>202</u>	<u>4,045,628</u>	<u>202</u>

On 18 March 2005 the ordinary 'A' and the ordinary 'B' shares of one pence each were redesignated as ordinary shares of one pence each having rights attached thereto in the Articles of Association of the company.

On 18 March 2005 the members voted at a general meeting that each existing issued ordinary share and each of the existing un-issued shares of one pence each be subdivided into 200 ordinary shares of 0.005 pence each.

14. Share capital (continued)

On 8 June 2005 there was a private placing of 996,894 ordinary shares which were issued at £1.61 each, thereby increasing the issued share capital and share premium by £50 and £1,604,949 respectively.

On 21 September 2005 there was a private placing of 74,534 ordinary shares which were issued at £1.61 each, thereby increasing the issued share capital and share premium account by £3 and £119,996 respectively.

On 18 March 2005 the company issued warrants giving places the right to subscribe for up to 198,554 ordinary shares at a subscription price of £1.61 per share. The subscription should take place before 18 March 2015 but none of these warrants have been exercised to date.

Options have been granted under the following Enterprise Management Incentive (EMI) schemes to subscribe for ordinary shares in the company as follows:

<i>Scheme</i>	<i>Brought Forward</i>	<i>Lapsed</i>	<i>Issued this period</i>	<i>Carried forward</i>	<i>Price per share</i>	<i>Exercise period</i>
EMI plan	88,800	–	–	88,800	50p	07.01.02 – 06.01.12
EMI plan	13,600	–	–	13,600	75p	31.03.03 – 30.03.13
EMI plan	10,600	–	–	10,600	75p	07.04.03 – 06.04.13
EMI plan	12,200	–	–	12,200	75p	21.07.04 – 20.07.14
EMI Plan	78,000	–	–	78,000	£1.29	31.03.05 – 30.03.15
EMI Plan	33,824	–	–	33,824	£1.20	25.11.05 – 24.11.15
EMI Plan	669,875	–	–	669,875	£1.20	10.01.06 – 09.01.16
EMI Plan	–	–	11,100	11,100	£1.20	29.09.06 – 28.09.16
	<u>906,899</u>	<u>–</u>	<u>11,100</u>	<u>917,999</u>		

15. Share premium account

	<i>30 Jun 2004</i>	<i>30 Jun 2005</i>	<i>30 Jun 2006</i>	<i>31 Dec 2006</i>
	<i>£</i>	<i>£</i>	<i>£</i>	<i>£</i>
Balance brought forward	966,928	966,928	2,445,207	2,531,968
Premium on shares issued in the period	–	1,604,949	119,996	–
Costs on the issue of new shares	–	(126,670)	(33,235)	–
Balance carried forward	<u>966,928</u>	<u>2,445,207</u>	<u>2,531,968</u>	<u>2,531,968</u>

16. Reconciliation of movements in shareholders' funds

	<i>30 Jun 2004</i>	<i>30 Jun 2005</i>	<i>30 Jun 2006</i>	<i>31 Dec 2006</i>
	<i>£</i>	<i>£</i>	<i>£</i>	<i>£</i>
(Loss)/Profit for the financial period	(217,789)	56,667	(625,471)	(381,356)
New equity share capital subscribed	–	50	3	–
Premium on new share capital subscribed	–	1,478,279	86,761	–
	<u>(217,789)</u>	<u>1,534,996</u>	<u>(538,707)</u>	<u>(381,356)</u>
Opening shareholders' funds	316,518	98,729	1,633,725	1,095,018
Closing shareholders' funds	<u>98,729</u>	<u>1,633,725</u>	<u>1,095,018</u>	<u>713,662</u>

17. Reconciliation of net cash flow to movement in net funds

	<i>Year ended</i> <i>30 Jun 2004</i>	<i>Year ended</i> <i>30 Jun 2005</i>	<i>Year ended</i> <i>30 Jun 2006</i>	<i>Period ended</i> <i>30 Dec 2006</i>
	£	£	£	£
Increase/decrease in cash in the period	19,792	1,427,680	(841,395)	(347,457)
Cash inflow/(outflow) from change in debt	17,483	15,585	(172,560)	(83,232)
Change in net debt resulting from cash flows	37,275	1,443,265	(1,013,955)	(430,689)
Net funds at beginning of period	33,584	70,859	1,514,124	500,169
Net funds at at end of period	<u>70,859</u>	<u>1,514,124</u>	<u>500,169</u>	<u>69,480</u>

18. Analysis of changes in net funds

	<i>30</i>			<i>30</i>			<i>30</i>			<i>30</i>			<i>31</i>
	<i>June</i>	<i>non</i>	<i>cash</i>	<i>June</i>	<i>non</i>	<i>cash</i>	<i>June</i>	<i>non</i>	<i>cash</i>	<i>June</i>	<i>non</i>	<i>cash</i>	<i>December</i>
	<i>2003</i>	<i>cash</i>	<i>flows</i>	<i>2004</i>	<i>cash</i>	<i>flows</i>	<i>2005</i>	<i>cash</i>	<i>flows</i>	<i>2006</i>	<i>cash</i>	<i>flows</i>	<i>2006</i>
	£	£	£	£	£	£	£	£	£	£	£	£	£
Cash at bank and in hand	69,794	-	19,792	89,586	-	1,427,680	1,517,266	-	(836,306)	680,960	-	(352,546)	328,414
Bank overdraft	-	-	-	-	-	-	-	-	(5,089)	(5,089)	-	5,089	-
	<u>69,794</u>	<u>-</u>	<u>19,792</u>	<u>89,586</u>	<u>-</u>	<u>1,427,680</u>	<u>1,517,266</u>	<u>-</u>	<u>(841,395)</u>	<u>675,871</u>	<u>-</u>	<u>(347,457)</u>	<u>328,414</u>
Hire purchase contracts	(36,209)	-	17,482	(18,727)	-	15,585	(3,142)	-	(172,560)	(175,702)	-	(83,232)	(258,934)
Net funds	<u>33,585</u>	<u>-</u>	<u>37,274</u>	<u>70,859</u>	<u>-</u>	<u>1,443,265</u>	<u>1,514,124</u>	<u>-</u>	<u>(1,013,955)</u>	<u>500,169</u>	<u>-</u>	<u>(430,689)</u>	<u>69,480</u>