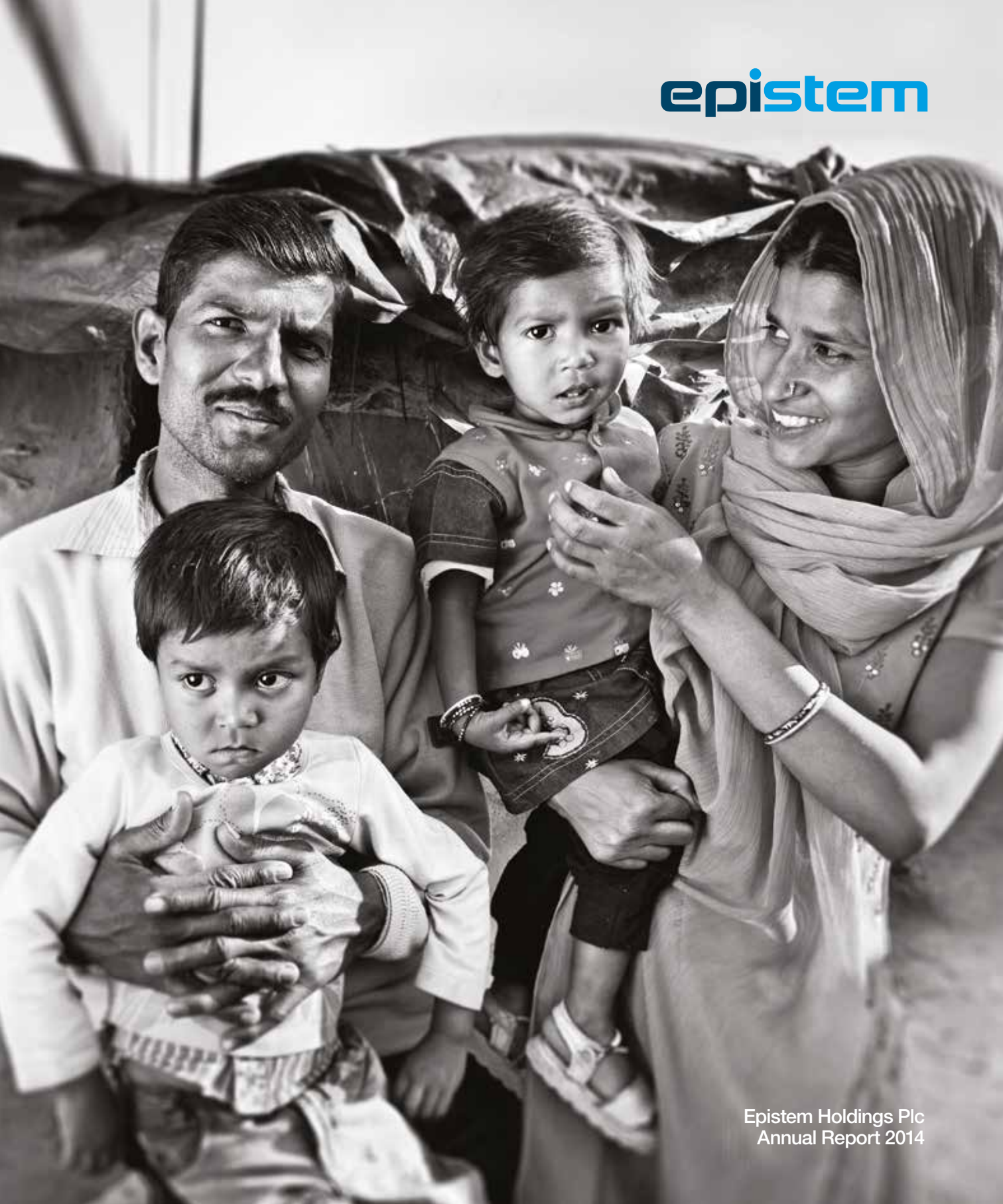
epistem



Epistem Holdings Plc
Annual Report 2014

Welcome to Epistem

The 2013/14 financial year saw Epistem commence and successfully complete its Indian clinical evaluation study in advance of the planned launch of Genedrive® (www.genedrive.com), its revolutionary handheld molecular diagnostic device, whilst accelerating investment in its new product development programmes and delivering a solid set of financial results.

2014 Financial and Operational Highlights

+ Total sales of £5.8m (2013: £5.4m) driven by improving performance from the Personalised Medicine division and solid results from the Preclinical Research Services division.
+ Successful completion of Genedrive® Indian clinical evaluation study and commencement of 'fast track' independently-funded Tuberculosis clinical evaluation studies in Nigeria, South Africa, Uganda and Brazil.
+ Development of 'Hepatitis C' collaboration with INSERM (Institut National de la Santé et de la Recherche Médicale) and Pasteur Institute for development of 'Hepatitis C' (HCV) test.
+ Successful completion of ISO13485 Medical Device Quality Certification with scale up of units and assays underway in preparation for launch of Genedrive®.
+ Ongoing patient stratification assessments in clinical trials for Genedrive® pharmacogenomic applications and collaborative discussions.
+ Preclinical Research Services sales of £2.9m (2013: £2.9m) with strengthened offering in biodefence, leukemia imaging and rheumatoid arthritis.
+ Following high levels of investment made in our Genedrive® technology, the Company reports an after tax loss of £1.7m (2013: £1.2m loss after tax).
+ Cash reserves of £4.2m at June 2014, bolstered by recent Global Health Investment Fund investment, with Cash balance at 30 September 2014 of £7.9m.

Recent Developments

+ Announcement of market regulatory submission filed with the Indian regulator (Drug Controller General of India) for a license to import and sell Genedrive® for the molecular diagnosis of Tuberculosis; approval anticipated early in 2015.
+ Announcement on 22 July 2014 of $8.0m (£4.7m) collaborative funding agreement with the Global Health Investment Fund I, LLC (GHIF) to support the roll-out of Genedrive® as part of the Global Access Programme.
+ Joined Global Alliance TB Drug Susceptibility Test Consortium in collaboration with Bill and Melinda Gates Foundation, TB Alliance and PATH.
+ Announcement of Memorandum of Understanding (MOU) signed with Clinton Health Access Initiative (CHAI) to collaborate in bringing Genedrive® and TB diagnostic assay to market in resource limited countries.

Our Divisions


Page 2

Our **Personalised Medicine: Diagnostics** division is changing the way affordable healthcare and 'point of care' diagnostics are delivered. Our innovative Genedrive® diagnostic platform is being prepared for the launch of its first assay product in infectious disease in early 2015.


Page 6

Our **Personalised Medicine: Pharmacogenomics** 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 and companion diagnostics.


Page 10

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


Page 12

Our **Novel Therapies** division discovers 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 aim to discover and develop our own novel drug agents.

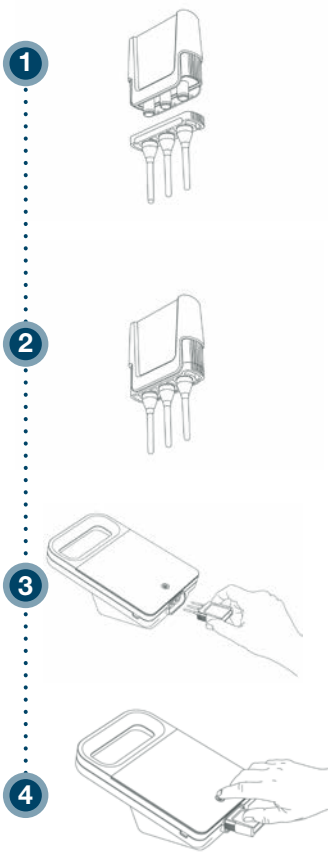
Personalised Medicine: Diagnostics

Successful clinical evaluation and preparations for product launch

Case study 1:

The 2012 World Health Organization (WHO) Global Tuberculosis Report shows that TB continues to be a major public health threat, with an estimated 8.7 million new cases in 2011 and an estimated 1.4 million deaths from TB. Early case detection and rapid treatment remains the most important TB control strategy, and accelerating uptake of new TB diagnostic technologies is critical for ensuring early diagnosis and reduced TB transmission.

Genedrive® is a novel, disruptive and highly sensitive 'Point of Care' molecular diagnostic device with the capability of providing rapid, near-patient diagnostic testing at low cost. We anticipate the launch of Genedrive® for the diagnosis of TB and patient antibiotic resistance in early 2015.



Molecular diagnostics continues to dominate the next generation of diagnostic testing by changing the speed, accuracy and workflow efficiencies of patient diagnosis in 'Point of Care' settings. Over the year, we significantly increased investment in our diagnostic manpower resources to strengthen our product development and operational expertise. We are now beginning to advance our channel partner distribution strategy to take advantage of the growth opportunities which Genedrive® provides across a broad spectrum of disease areas.

During the year, we successfully completed our ISO13485 Certification for the design, development, manufacture and distribution of molecular diagnostics instruments and molecular in-vitro diagnostic assays. Coupled with the successful completion of the Genedrive® Indian clinical evaluation study, we have now submitted our regulatory dossier for the molecular diagnosis of Tuberculosis to the Indian regulator and are preparing for the launch of Genedrive® into the Indian market.

Tuberculosis and Global Access strategy

Alongside successful completion of the Genedrive® Indian clinical evaluation study we have commenced World Health Organisation (WHO) Tuberculosis clinical evaluation studies in Nigeria, South Africa, Uganda and Brazil. The WHO studies are independently funded and targeted at 'fast tracking' Genedrive® to a WHO recommendation, thereby enabling the rapid access and take up of the technology for low and middle income countries in the developing world territories.

We have designed our TB and antibiotic resistance assay to provide a highly sensitive, low cost, molecular diagnostic, suitable for use in remote and low resource settings. We anticipate that the launch of our TB assay will establish a new standard in disease diagnostic testing. Our first clinical paper was published in December 2013 and we are now preparing for the launch of our first Tuberculosis product with our Indian distributor partner. In July, we entered into collaboration with the Global Health Investment Fund (GHIF).

Personalised Medicine: Diagnostics continued

Case study 2: Hepatitis C (HCV):

Between 150 and 180 million people (2.2% - 3.0% global population) live with HCV infection and together with HBV infection these infections cause around 1 million deaths per annum. Hepatitis C is asymptomatic giving rise to liver cirrhosis, hepatocellular carcinoma and is the leading cause for liver transplantation and recognised as having a significant global healthcare and economic burden.

Tuberculosis and Global Access strategy continued
The GHIF Agreement includes USD$8m funding to support the development, manufacture and commercialisation of Genedrive® for the diagnosis of infectious diseases in the developing world. We also entered into a 5-year Global Access Commitment collaboration with GHIF to support and facilitate the introduction, distribution and sale of Genedrive® and its expanding menu of products in development for the developing world.

We are now advancing discussions with other 'rest of world' channel partners as we prepare to employ our TB and antibiotic resistance assay in the US$1bn TB diagnostics market.

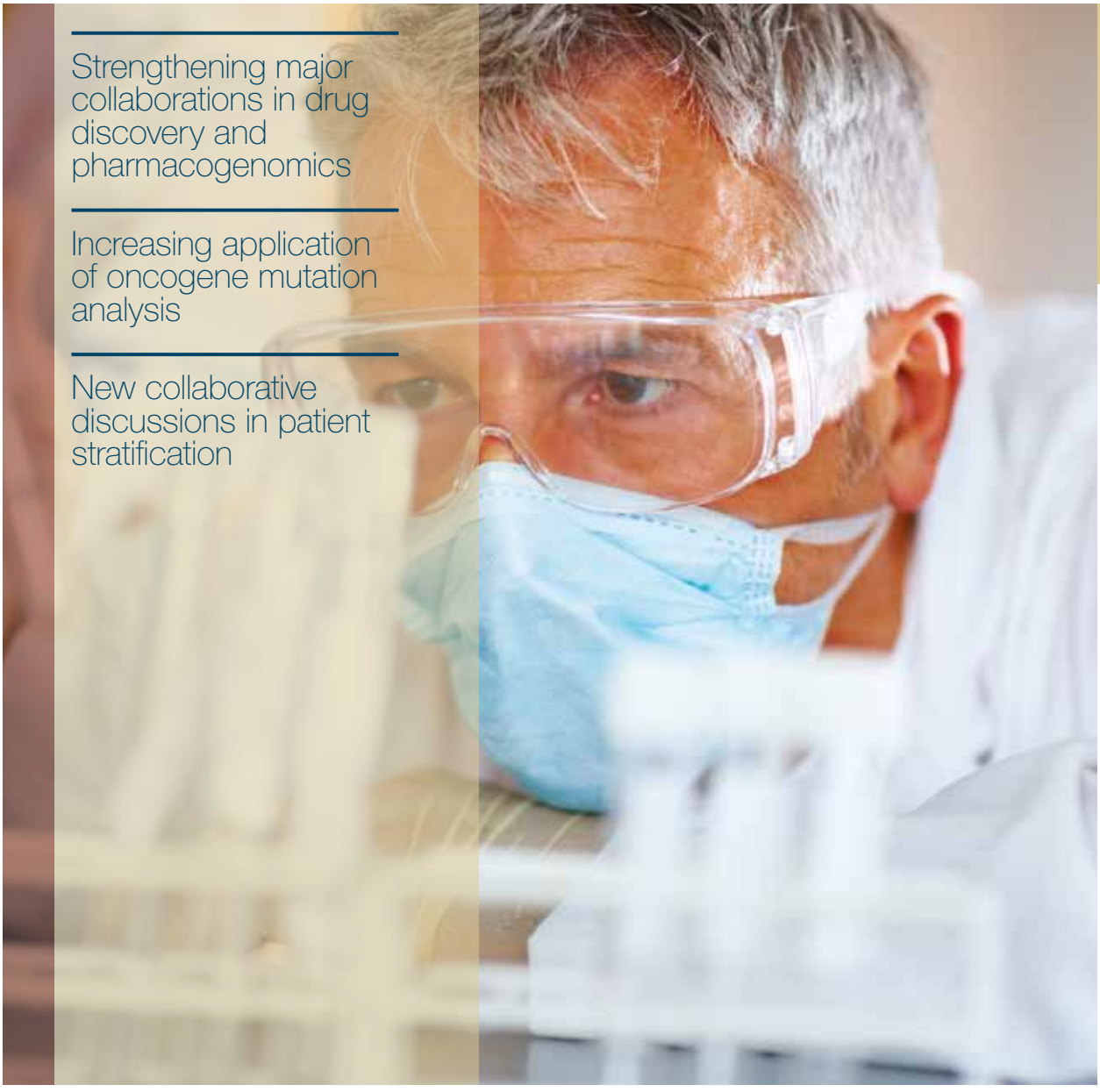
We will continue to widen our assay development across a range of other infectious diseases, with tests in HBV, HIV, malaria, dengue and a range of sexually transmitted diseases. We will supply and distribute these high volume tests through our channel partner strategy.

Hepatitis C (HCV) and IL28B
Our HCV and IL28B assay developments are now nearing the clinical testing phase which we expect to complete in 2015. We expect to follow a similar pathway of development and regulatory approval as our Tuberculosis assay. We will be working closely with our partners at the Pasteur Institute and INSERM in progressing our clinical programme and we will be seeking to position our new HCV and IL28B assays with strategic channel partners over the coming months.

Biosurveillance
Whilst our primary focus for Genedrive® is healthcare applications, we continue to see other opportunities for the use of Genedrive® for biosurveillance, agri and acqa-culture targets. We continue to work closely with the US government on a number of programmes to identify biothreats and infectious diseases in military settings. We are preparing to continue to the next phase of our US Government contract with the Defence Threat Reduction Agency (DTRA) for pathogen detection. We anticipate further growth in the US Department of Defence areas over the coming year.

Personalised Medicine: Pharmacogenomics

Clinical development, patient stratification and personalised medicine



Strengthening major collaborations in drug discovery and pharmacogenomics

Increasing application of oncogene mutation analysis

New collaborative discussions in patient stratification

Our pharmacogenomics division works with major pharmaceutical and biotech business groups to provide a suite of discovery, preclinical and clinical pharmacodynamic biomarker tools.

Pharmacogenomics revenues increased over the year to £2.4m (2013: £2.1m) underpinned by our core collaborative programmes with GlaxoSmithKline and Novartis. These programmes utilise Epistem's proprietary RNA and DNA amplification technology and oncology bioinformatics to provide biomarker discovery (hair and other tissues) and translational support tools for oncology and fibrosis drug discovery programmes. The Pharmacogenomics division works with major pharmaceutical and biotech business groups to provide a suite of preclinical and clinical pharmacodynamic biomarker tools to measure the effect of a drug on targeted pathways and tissues.

Our expertise continues to advance in defining the impact of gene-targeted modulation in both epithelial tissue and blood as we increasingly focus on applying our developed biomarker technology to assess key oncology target signatures and patient genotypes.

Patient stratification

We continue to strengthen our pharmacogenomics Genedrive® applications with major pharmaceutical partners and are working closely with Novartis on the clinical expansion of our oncogene identification from whole blood and GlaxoSmithKline for the rapid assessment of genotypes for 'patient stratification' for alignment with therapeutic treatment.

The identification of genotypic and/or target mutations will increasingly allow patients to be 'stratified' for treatment in clinical studies or at the 'Point of Care' for administration of the correct course of 'personalised' therapeutic treatment. Over the coming year, we will apply Genedrive® for use in genotyping patients for the appropriate therapeutic treatment and for the identification and monitoring of the presence of mutation targets in blood.

Outlook

We anticipate broadening the scope of our ongoing major pharmaceutical collaborations and advancing the adoption of Genedrive® for use in pharmacogenomics. This is expected to continue to strengthen forecast sales of the division over the coming year.

Personalised Medicine

Genedrive®

Products

Diagnostics: Infectious Disease

Rapid and accurate diagnosis for infectious disease facilitating patient treatment decisions

MTB/RIF
TB diagnostic
Mycobacterium tuberculosis and RPOB mutation panel (Rifampicin resistance genes)

HCV
Hepatitis C detection and viral load diagnostic

Pharmacogenomics

Development of drug therapies based on individuals' genotypes and drug response

OPRM1
This gene encodes one of three opioid receptors. The Genedrive® OPRM1 assay is conducted from buccal swab samples without the requirement to isolate DNA.

IL28B
Associated with treatment response for Hepatitis C viral (HCV) infection. The Genedrive® IL28B assay is conducted from buccal swab samples without the requirement to isolate DNA.

Other Applications

Genedrive® assays for other applications

Biosurveillance
3-plex cartridge for the main biological pathogens used in bioterrorism.

Forensics
Amelogenin gender determination using the gene for amelogenin production. The amelogenin (AMEL) assay is specifically designed to determine the presence of DNA and identify sample gender by directly targeting and distinguishing between the AMELX gene located on the X chromosome and the male specific AMELY gene located on the Y chromosome.

Accessories

Test Cartridge (consumable)

Preclinical Research Services

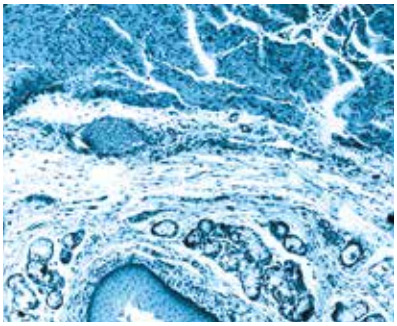
Excellence in preclinical efficacy

Growth of US biodefence contract

Commissioning of Baltimore, US laboratory

Establishing orthotopic and rheumatoid arthritis models

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



The division delivered a £0.5m operating margin (20%) on sales of £2.9m (2013: £2.9m), reflecting a solid year alongside ongoing investment in our new product developments.

New models

The division provides a high margin, niche, preclinical service offering across our core disease areas of oncology, mucositis, inflammatory bowel disease and dermatology. The Biodefence contract with the US National Institutes of Health's biodefence programme provides a cornerstone from which the division continues to develop its service model offering. The new orthotopic and rheumatoid arthritis models' are beginning to establish themselves for preclinical assessment in the areas of oncology and inflammatory disease. We are also extending our internal imaging capabilities, in leukemia, along with further investment in our inflammatory bowel disease models.

US laboratory

Based on the collaboration with the US National Institutes of Health's (NIH) biodefence programme we have set up a US laboratory in Baltimore. The laboratory will help support our biodefence programme which accounts for roughly a third of the divisions revenues. We continue to collaborate with NIH as 'Subject Matter Experts' (SME) in radiation treatment and the Baltimore laboratory will help support a closer working relationship with US government departments and our US East Coast clients. The US government remains committed to targeting treatment of radiation sickness following a nuclear incident/event and we have entered discussions to extend and expand our involvement with NIH.

Outlook

Over the coming year, we expect to build on our new US laboratory operations and the establishment of our oncology (imaging) services, rheumatoid arthritis and inflammation models.

Novel Therapies

Knowledge and intellectual property

Reduced investment in lead validation

Lead identification and signal pathway understanding

Development of *in vitro* diagnostic tools

The Novel Therapies division discovers the body's own key regulators of epithelial stem cells and tissues. Based on our highly sensitive molecular techniques and core cell biology expertise, Novel Therapies has a unique insight into epithelial regulatory pathways.

From our comprehensive mapping of gene expression profiling of epithelial tissue Epistem scientists have identified key regulators of proliferation, differentiation, apoptosis and self-renewal. These novel key regulators of cells and tissue are responsible for restoring damaged tissue and for maintaining life-long tissue renewal.

Technology development

We have created strong know-how and intellectual property rights over key epithelial targets as part of our Novel Therapies lead programme, but have significantly reduced resource and programme investment in this division over the past year.

With the advance of our Personalised Medicine division, the resources previously dedicated to the Novel Therapies programme have been reallocated to our Genedrive® development programme.

We have amassed a strong understanding of the cell biology and signalling pathways which regulate the cell/stem cells in the areas of regenerative medicine and oncology and we are poised to consider further investment in the development of our leads as appropriate at a future stage.

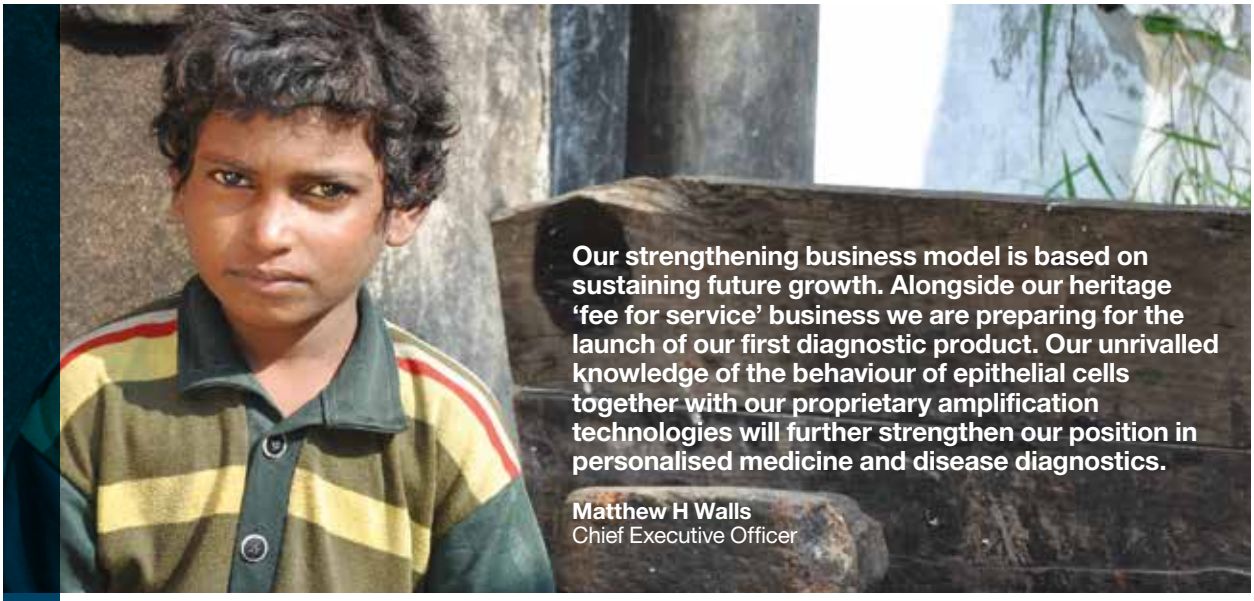
Outlook

We will consider drug discovery and development opportunities with industry groups to expand our discovery and early stage development platform in concert with small molecule partners.

Given the requirements of our Genedrive® programme, we will continue to restrict investment in our Novel Therapies lead programme whilst developing opportunities for collaboration.

Our Business model

Our Business and Strategy



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

Matthew H Walls
Chief Executive Officer

Division	Field	Area of Income	Discovery	Pre-clinical	Phase 1	Phase 2	Phase 3	Market
Preclinical Research Services	Inflammatory bowel disease, dermatology, oncology, mucositis	Fee for service						
Novel Therapies	Discovery hits/ leads and early stage development	Partnering and licensing						
Personalised Medicine	Pre-clinical, clinical and market programmes	Fee for service, partnering, licensing, product sales						Diagnostics: Infectious Disease Pharmacogenomics Biosurveillance
			RNA Amp™ and Pathway Direct™					Genedrive®

Our Strategy

Operational

Integrated business model
Epistem's independent divisions bring together a strong and complementary portfolio of business units. 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 areas of unmet medical need.

Partnering programme
We work closely with our collaborative partners and major industry groups to advance our understanding and delivery. 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 the demands and aspirations of the market and leading international companies in our industry. Our investment in technology remains a key mainstay underpinning the growth of all our divisions.

Product focus
The preparations for launch of our first diagnostic product Genedrive® brings a new dimension to the Company's profile and business model. Genedrive®'s application 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 profile to our business, based on its globally leading technology, 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.

Technical reputation
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.

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
We strive to deliver on our Company objectives and the realisation of our plans to provide an increasingly attractive investment opportunity for both our existing and new investors. The potential for substantial and growing income streams from our pharmacogenomics and diagnostics offering signals Epistem as a company with significant upside potential.

Key Performance Indicators

Epistem reports increased investment in its diagnostic platform, Genedrive®, and in new pharmacogenomic and infectious disease assays with product launches expected in 2015. Revenue generation in Preclinical Services and Personalised Medicine remains a key strength in the Company's diversified business model.

Group Revenues

Overall steady year-on-year sales with continued improvement in UK performance.

£5.8m 2014

£5.4m 2013

Preclinical Research Services Revenues

Preclinical Research Services delivered £2.9m revenue, as in 2009. Strengthening US NIH growth.

£2.9m 2014

£2.9m 2013

Personalised Medicine & Novel Therapies Revenue

Personalised Medicine Revenue growth in 2014.

Novel Therapies Revenue produced £nil revenue in 2014 (2013: £nil.)

£2.9m 2014

£2.5m 2013

Group Revenue

44%
United States

33%
United Kingdom

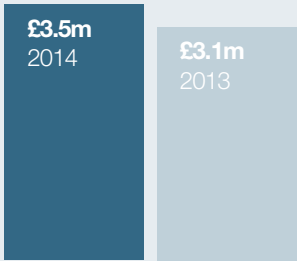
23%
Europe (exUK)/ROW

£5.8m
Turnover

£1.7m
Loss after Tax

Discovery, Development and Admin Costs

Discovery and Development costs charged to the P&L grew strongly in 2014 to £2.0m (2013: £1.7m.) Admin costs steady at £1.5m (2013: £1.4m)



Results After Tax

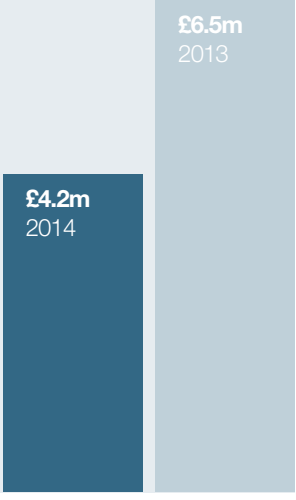
After tax, Development and Admin Costs exceeded contribution from sales to report a loss of £1.7m (2013: £1.2m)

Intangible Asset Investment

Additional to Discovery & Development costs above, the Company recognised an investment of £3.7m in intellectual property assets (2013: £1.4m)

Cash Reserves

Cash reserves £4.2m at the end of June 2014. NB: Not including recent Global Health Investment Funding of £4.7m (USD$8:0m).



Chairman's Statement

Major progress

"The past twelve months have been definitive for the Company with efforts firmly focused on completing the development of Genedrive® and resolving the technical issues encountered in 2013, whilst also continuing to develop our existing core business."

In the results for the year ended 30 June 2014, I am pleased to report the commencement and successful completion of the Genedrive® Indian clinical evaluation study, a solid outcome for the year and the delivery of several key milestones in anticipation of the launch of Genedrive® for the diagnosis of Tuberculosis in India.

The past twelve months have been definitive for the Company with efforts firmly focused on completing the development of Genedrive® and resolving the technical issues encountered in 2013, whilst also continuing to develop our existing core business. We have worked closely with our partners and collaborators to resolve the issues we faced with Genedrive® and our efforts have resulted in the completion of the development of our first generation Genedrive® unit (version 1.0) and finalisation of our Tuberculosis and antibiotic resistance (TB) assay underpinning the successful delivery of our first independent Genedrive® clinical evaluation study in India. The clinical results have now been incorporated into our TB product regulatory submission and filed with the Indian regulator. We anticipate feedback from the regulator and launch of the Tuberculosis product early in 2015.

In July 2014 we entered into a strategically important collaboration and $8.0m (£4.7m) funding agreement with the Global Healthcare Investment Fund (GHIF), supported by the Bill and Melinda Gates Foundation to make Genedrive® available via the 'Global Access Programme' to low-income countries. The agreement with the GHIF has been hugely important to the Company both in terms of the funding that it has provided to enable the Board to continue and accelerate its investment in Genedrive®, but also in terms of being able to access the GHIF network which we believe will significantly support the commercial roll-out of Genedrive®.

We have also announced today that we have signed a collaboration with the Clinton Healthcare Access Initiative to help support our global regulatory and marketing strategy for Genedrive®.

We have also entered into 'fast track' TB clinical testing in Nigeria, South Africa, Uganda and Brazil to build our clinical test data in preparation for a World Health Organisation recommendation.

We continue to strengthen and accelerate our investment in the scale up and manufacture of Genedrive® which has necessarily resulted in increased reported losses. We are also in discussions with prospective collaborative and distribution partners in relation to tests from our pharmacogenomic and infectious disease portfolio.

Our Personalised Medicine team has continued to expand as the opportunities for our new technology become clearer. Dr Allan Brown joined the main Board on 1 February 2014 as Chief Operating Officer, Diagnostics,

and we have bolstered the Diagnostics technical development and operation teams considerably over the past twelve months in readiness for our first product launch.

We believe that the launch of our first Genedrive® product in TB, coupled with the India supply and distribution agreement with Xcelris Labs, provides very attractive growth opportunities and we are continuing to progress a range of channel partner and distributor discussions across multiple territories and potential applications.

Financial Results

Further details of the results for the period are covered in the Chief Executive's review, but financially the year to 30 June 2014 saw the Company deliver income of £5.8m (2013: £5.4m). Following high levels of investment made in our Personalised Medicine (Genedrive®) division, the Company reported a loss of £1.7m (2013: £1.2m loss after tax).

Cash reserves at 30 June 2014 were £4.2m (2013: £6.5m.) Following the successful completion of the $8.0m (£4.7m) collaboration and funding agreement with GHIF in July 2014 cash reserves at 30 September 2014 were £7.9m.

The Company continues to make progress as outlined below:

Personalised Medicine - Diagnostics

The division saw the successful completion of the Genedrive® Indian clinical evaluation study and the 'fast track' commencement of further international independently funded Tuberculosis clinical studies in support of a World Health Organisation (WHO) recommendation. The market and regulatory submission has been filed with the Indian regulator for a license to import and sell Genedrive® for the molecular diagnosis of Tuberculosis and antibiotic resistance, with approval anticipated early in 2015.

We are now finalising development of our 'Hepatitis C' assay under the EU grant received with INSERM and Pasteur Institute in readiness for clinical studies expected to commence in 2015.

We have successfully completed our ISO13485 in-vitro diagnostic and medical device quality accreditation with scale up of units and assays underway in preparation for launch. Personalised Medicine - Diagnostics revenues over the year remained largely unchanged at £0.5m (2013: £0.4m) driven by US Department of Defense pathogen detection development monies.

Personalised Medicine – Pharmacogenomics

Divisional revenues increased to £2.4m (2013: £2.1m), supported by our ongoing pharmaceutical collaborations with GSK and Novartis. Alongside our traditional service based biomarker business revenues we have increased investment in our Genedrive® genotyping and patient stratification assay development. Collaborative discussions with pharma partners are ongoing and are expected to develop further over the coming months.

Preclinical Research Services

Preclinical Research Services divisional revenues remained steady over the year at £2.9m (2013: £2.9m). We continue to strengthen our range of service offerings alongside our cornerstone US government bio-defence contract. The division is building and extending its core scientific strengths, especially in the US, with the set up of our US Baltimore lab, which we expect to maintain as a solid platform for future growth.

Novel Therapies

Our drug development lead programme and investment has been considerably scaled back whilst we complete the launch and initial sales growth of Genedrive®. The significant investment in Genedrive® design, development, scale up and preparation for sale, has meant the reduction in investment in our Novel Therapies lead development programme and the reallocation of resource to our other divisional growth programmes. Further details are available in the Chief Executive's review and we will keep our shareholders in touch with our future plans around further investment in this area.

In July 2014, we announced an $8.0m (£4.7m) collaborative and funding agreement with the Global Health Investment Fund I, LLC (GHIF) to support the roll-out of Genedrive®. The GHIF and Epistem have made global access commitments to mutually support and facilitate the introduction, distribution and sale of the Genedrive® platform and the expanding menu of infectious disease assays under development for low and middle-income countries. We look forward to working closely with the GHIF in the roll out of our Genedrive® product for TB.

The Board believes that Genedrive® will bring about a breakthrough in rapid, high sensitivity and low cost molecular diagnostic testing across a broad range of disease areas.

Based on the growing investment in Genedrive® and reducing investment in our Novel Therapies programme, the Company reports a loss for the year of £1.7m (2013: £1.2m loss for the year) and loss per share of 17.4p (2013: 12.5p loss per share).

Chairman's Statement continued

Outlook

Our initial priority this financial year is the successful launch and sale of our first Genedrive® TB products into the Indian clinically regulated marketplace, whilst accelerating the development of our pipeline of products primarily targeting healthcare applications.

Whilst we have made solid progress to resolve the technical issues encountered last year with Genedrive®, we will need to continue to build further strength, resource and infrastructure to support our future growth. We are still at the early stages of scale up and production and whilst we are confident of meeting our short-term product requirements for assays and devices through 2015, we will need to further bolster our technical and management expertise and scale up capabilities over the coming year. Over the coming months, we will target the following key objectives in relation to Genedrive® and within the wider Personalised Medicine group:

- Scale up and preparation for launch of Genedrive® and our first TB test.
- Gain Indian regulatory approval to import and sell TB product in India through our distributor Xcelris labs.
- Complete 'fast track' clinical studies for TB as a forerunner to a WHO recommendation.
- Prepare clinical studies for 2nd TB target market and strategy for CE-IVD roll-out across Europe.
- Finalise HCV development and commence clinical HCV studies in 2015.
- Accelerate other Infectious disease and Pharmacogenomic assay development programmes.
- Progress collaborative discussions with pharmaceutical partners in relation to the use of Genedrive® for clinical trials re: genotyping and patient stratification and companion diagnostics.
- Advance discussions with channel (distribution) partners for roll-out of our infectious disease portfolio.

I believe that Genedrive® offers a strategically important and disruptive industry technology capable of changing the way diagnostics are delivered. I also believe that this technology will deliver significant investor returns to our shareholders.

Whilst our outlook and investment is naturally dominated by Genedrive® and our diagnostic and pharmacogenomics applications, we expect our Preclinical Research Services division to face a challenging year due to prevailing market conditions in Europe and the USA. Whilst we have scaled back our investment into Novel Therapies we continue to examine ways in which we can realise the value and heritage of this key area of expertise.

At a personal level I have taken the decision to stand down as Chairman at the point that we launch the Genedrive® product into India. I have been with the Company nearly ten years including nine years as Chairman and I believe the time is now right to hand on the baton to someone who can assist the Company with the critical next stage of the broader commercialization and menu expansion for Genedrive®. This has been a considered decision on my part and I am delighted that Dr Ian Gilham has accepted our offer for him to join the Board as Chairman designate. Ian's industry background, knowledge and expertise will be invaluable to the Company.

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 support has provided a stable platform for our continued growth plans.

David Evans
Chairman

Chief Executive's Review

Continuing innovation

"Genedrive® offers a strategically important and disruptive technology primed to tackle disease management at the 'Point of Care', at low cost, thereby providing a new approach to diagnosis and healthcare management."

The way disease is diagnosed and treated must change radically if we are to provide rapid and accurate diagnostic testing at an affordable cost to global populations challenged by disease outbreak and rising healthcare costs. At the same time it is low income developing nations who disproportionately need access to the best healthcare technology to enable accurate diagnosis and effective treatment to properly tackle infectious disease. Epistem's Genedrive® device offers a strategically important and disruptive technology primed to tackle disease management at the 'Point of Care', at low cost, thereby providing a new approach to diagnosis and healthcare management. The same technology enables patients to understand their 'gene types' (for the genotyping of DNA and RNA) allowing patients to be correctly aligned with the most appropriate and effective treatment therapies.

The past twelve months has been a vitally important period for the Company with Board and management efforts firmly focused on resolution of the development issues encountered with Genedrive® in 2013, whilst maintaining and growing our existing core business. We have worked closely with our partners to resolve these issues and our diligent efforts have resulted in the completion of the development of our Genedrive® unit and TB assay and successful delivery of our first independent Genedrive® clinical evaluation study with the market regulatory submission for our Tuberculosis product now filed with the Indian regulator (Drug Controller General of India). We anticipate feedback from the regulator and launch of the Tuberculosis product early in 2015.

In July 2014 we entered into a strategically important collaboration and $8.0m (£4.7m) funding agreement with the Global Healthcare Investment Fund, supported by the Bill and Melinda Gates Foundation to make Genedrive® available via the 'Global Access Programme' to low income countries. We have also entered into 'fast track' clinical testing in Nigeria, South Africa, Uganda and Brazil to build our clinical test data in preparation for a WHO recommendation anticipated in 2015.

Chief Executive's Review continued

Today we have also announced we have signed a 'memorandum of understanding' with the Clinton Healthcare Access Initiative to help support our global regulatory and marketing of Genedrive® (www.genedrive.com).

It has been a busy year in terms of progress and development of Genedrive® balanced alongside growth of our existing core business.

Financial review

The financial results for the Group presented in this announcement reflect the Group's trading for the year to 30 June 2014 and for the comparative period to 30 June 2013.

The Company reports revenue and other income of £5.8m (2013: £5.4m) for the year ended 30 June 2014. Preclinical Research Services division revenues remained steady at £2.9m (2013: £2.9m). The Personalised Medicine division delivered sales of £2.9m (2013: £2.5m), with the Novel Therapies division reporting no sales over the period.

Consolidated territory revenues were split US 44% (2013: 58%), EU/ROW 23% (2013: 14%) and UK 33% (2013: 28%). Year-on-year Preclinical Research Services sales remained steady delivering a reduced year-on-year operating profit of £0.5m (2013 £0.8m) reflecting lower margin mix of business over the year. Personalised Medicine sales increased over the year, which alongside increasing headcount and investment in Genedrive® saw the division report an operating loss of £0.7m (2013: £0.1m loss) over the year. Novel Therapies, reducing investment in its lead development programme, reported an operating loss of £0.6m (2013: operating loss £0.8m) with central administration costs marginally increased over the year at £1.5m (2013: £1.4m) giving rise to an overall group operating loss for the year of £2.3m (2013: loss £1.5m).

The benefit of a £0.7m R&D and other tax credits saw the Group report a loss after tax for the year of £1.7m (2013: loss £1.2m) with Year End headcount in the Company at 71 (2013: 67).

Cash balances at the end of June 2014 were £4.2m (2013: £6.5m). Following the completion of the Global Health Investment Fund loan of £4.7m completed in July 2014, reported cash reserves at the 30 September 2014 were £7.9m.

Reported loss per share was 17.4p (2013: 12.5p loss per share).

The Company's annual audit was completed in October 2014 by HW Chartered Accountants and their audit report will be included with the annual accounts which are expected to be distributed to shareholders shortly.

Operating review

Personalised Medicine

Genedrive® represents a novel and globally disruptive molecular diagnostic (identification of disease and patient based DNA and RNA gene based biomarkers) capable of changing the way diagnostics are delivered. As a small handheld diagnostic device, Genedrive® enables low cost, rapid molecular testing 'near to the patient' across a broad spectrum of bacterial, viral, fungal and somatic mutations. The advance of molecular based technologies is beginning to dominate diagnostic testing by changing the speed and accuracy of patient information and diagnosis, enabling changes to healthcare workflow and the ability to test in remote 'Point of Care' settings away from traditional laboratory settings.

Diagnostics

The past year has seen the finalisation of development of our first generation Genedrive® device (version 1.0), which recently entered and successfully completed its initial Tuberculosis (TB) and Rifampicin (RIF) resistance clinical evaluation study in India, with the results enabling the completion and submission of our filing with the Drug Controller General of India (DCGI). We are now awaiting approval from the Indian regulator for a licence to import and sell our first major infectious disease assay for TB. This is anticipated early in 2015.

The clinical studies were completed over a four-month period ending September 2014 after testing 300 randomly referred and blinded pulmonary 'raw sputa' TB patient samples, with each test taking approximately one hour to complete. The test results delivered high levels of sensitivity (93%) and specificity (94%), versus the industry gold standard 'culture test' method for TB. The study also measured those patients showing resistance to the first line antibiotic Rifampicin, a growing concern due to irregular and incomplete treatment with differing regimens giving rise to the growth in Multi Drug Resistance-TB (MDR-TB) cases in India.

These levels of accuracy, speed to result and simplicity of operation compare favourably with other molecular and non-molecular TB test methods, such as culture which has lengthy turn around times to test result (culture testing typically taking up to 42 days to obtain a confirmed TB test result), microscopy which delivers less accurate, (lower sensitivity and specificity of TB test results) and other competitive molecular tests which require lengthy upfront extraction processes, extended timescales to test result and/or increased cost. Genedrive®'s advantage is its ability to deliver an industry leading speed to result, high levels of molecular accuracy and simplicity of use at low cost in remote/non-laboratory based settings, making it suitable for tackling disease in low-income countries and developing nations.

Genedrive® has now commenced clinical evaluation studies in Nigeria, South Africa, Uganda and Brazil underpinned by funding from the Foundation for Innovative New Diagnostics (FIND), National Institute of Allergy and Infectious Disease (NIAID) and the Bill and Melinda Gates Foundation (BMGF). These studies will build on our Indian results to date to provide a dossier of support targeting a World Health Organisation (WHO) recommendation for our Genedrive® device and TB assay anticipated in 2015.

Our Genedrive® assay design, development and manufacturing processes continued to improve over the year with the Company receiving ISO13485 in-vitro diagnostic and medical device accreditation. This globally recognised accreditation provides increasing confidence in our operational processes and quality assurance as well as supporting our regulatory submissions. We are working closely with our ISO13485 approved Genedrive® unit manufacturers in Asia and GE Healthcare in Cardiff for the scale up of our TB assay product in preparedness for launch early in 2015.

In July 2014, we entered into a collaborative funding agreement with the Global Health Investment Fund I, LLC (GHIF) to support the roll-out of Genedrive®. Under the terms of the agreement, Epistem has issued to the GHIF a five-year convertible bond totaling $8.0 million (GBP4.7 million). As part of the collaborative funding agreement, the GHIF and Epistem have made global access commitments to mutually support and facilitate the introduction, distribution and sale of the Genedrive® platform and the expanding menu of infectious disease assays under development for low and middle-income countries. This marks a step change for Epistem and helps chart a course which, by working closely with international aid organisations we seek to establish Genedrive® as a world class 'Point of Care' molecular platform for low and middle income countries.

More recently Epistem was invited to join the select Global Alliance TB Drug Susceptibility Consortium supported by Bill and Melinda Gates Foundation, PATH ('driving transformative Innovation to change lives'), FIND, Cepheid, J&J/Janssen, Sanofi, Sequella, Abbott Molecular, Alere and Hain Lifescience GmbH.

We are also pleased to announce today the signing of a 'Memorandum of Understanding' with the Clinton Healthcare Access Initiative (CHAI). CHAI will assist Epistem in determining target market segments in focus countries, assist in determining the optimal global regulatory strategy and building a strategy for appropriate local product management, with a focus in the medium term on the TB Indian public market. Based on CHAI's learning in relation to data reporting and communications they will also advise on incorporation of remote connectivity into Genedrive® device.

Chief Executive's Review continued

Our Indian distributor partner Xcelris Lab is preparing for the launch of our TB/RIF test including first line antibiotic resistance (Rifampicin) detection. The Xcelris collaboration (supply and distribution arrangement) includes escalating annual volume requirements for units and assays capable of delivering significant revenues to Epistem over the next three to five years. TB represents our first significant revenue prospect and the initial opportunity to see the application of our Genedrive® platform used both inside and outside laboratory settings enabling 'near patient' testing or testing in remote, low resource, field locations to address the US$1bn TB diagnostics market.

The 3 year collaboration with INSERM, the French National Institute of Health and Medical Research, completed its first year of development. HCV Point-of-Care testing for both genotyping patients for targeted treatment (IL28B test) and improving the health and quality of life for chronic hepatitis C patient (HCV test) are both expected to complete their assay development phase over the coming months. Clinical testing will then commence over the coming year with an expected launch in late 2015. Between 150 and 180 million people live with HCV infection globally and together with HBV infection – these infections cause around one million deaths each year.

The year also saw the strengthening of the management team with the creation of a new Chief Operating Officer, Diagnostics role and the appointment of Dr. Allan Brown, along with senior management to lead our assay and operational development, electrical and software engineering groups.

We are also advancing our assay development across a range of other infectious diseases, with tests under early stage design in HIV and Sepsis. We expect to supply and distribute these high volume tests through a channel partner strategy.

Alongside healthcare applications, we continue to see opportunities for the use of Genedrive® for biosurveillance and forensic targets. We are working closely with the US government on a number of programmes to identify biothreats and infectious diseases in military settings. We are currently completing the first phase of our US Government contract for pathogen detection anticipated by early 2015. If successful, this is likely to extend into broader US Department of Defense development. Diagnostic revenues for the year were £0.5m (2013: £0.4m) reflecting the US DoD biothreat development monies.

Pharmacogenomics

The Pharmacogenomics division works with major pharmaceutical and biotech business groups to provide a suite of preclinical and clinical pharmacodynamic biomarkers to measure the effect of a drug on targeted tissue (gene activated pathways). Our expertise in defining the consequences of gene target modulation in epithelial tissue continues to advance and provide biomarker discovery and translational support for oncology drug development and fibrosis drug discovery programmes.

Revenues increased to £2.4m (2013: £2.1m) primarily supported by GlaxoSmithKline, Novartis and grant revenues.

Our collaboration with GlaxoSmithKline continues to build, supported by our RNA amplification technology and bioinformatics expertise to provide biomarker discovery (using hair and other tissues) for drug development. We are also collaborating with GlaxoSmithKline for the rapid assessment of genotypes for 'patient stratification' for therapeutic treatment.

We continue to work closely with Novartis on the clinical expansion of our oncogene identification from whole blood for myeloproliferative disorders. Novartis oncology revenues increased over the year buoyed by the application of our oncology biomarkers for Phase II clinical testing. We anticipate this collaboration expanding further in myeloproliferative disorders as well as via the use of Genedrive® for patient stratification and genotyping.

We are also developing Genedrive® for use as a highly sensitive screening tool for identification and monitoring of the presence of mutation targets in blood. The broadening adoption of Genedrive® for use in pharmacogenomics applications is anticipated to present additional revenue generating opportunities over the coming year.

Preclinical Research Services

Preclinical Research Services delivered a steady year-on-year revenue performance and 20% operating margin (£0.6m operating profit). The division provides a high margin, niche, preclinical service offering across our core disease areas of oncology, mucositis, inflammatory bowel disease and dermatology.

Our collaboration with the US National Institutes of Health's biodefence programme continues to expand and accounts for roughly a third of the division's revenues. We have collaborated as part of this programme for over eight years and provide a role as 'Subject Matter Experts' (SME) in radiation treatment.

During the year we extended our service capability to set up small laboratory facility in Baltimore, Maryland to engage more closely with the US government departments and our local US East Coast clients. The US government remains committed to targeting treatment of radiation sickness following a nuclear incident/event.

The year saw continued interest in our rheumatoid arthritis (RA) and oncology imaging leukaemia models, together with strong demand for our inflammatory bowel disease models.

Over the coming year, we expect to strengthen and build on our new oncology (imaging) services, RA and inflammation models from which we expect to see future growth. However, during this period of considerable investment in the launch of Genedrive®, we are limiting investment in our other divisions. We expect our Preclinical Research Services division to continue to face a challenging year, exacerbated in part due to tougher market conditions in the Europe and the US and as a result do not expect near term growth in this division to match that of recent years.

Novel Therapies

Over the year our Novel Therapies' drug development programme operated at a much reduced investment and resource level which we expect to maintain whilst we complete the launch and development of Genedrive®. The significant investment in Genedrive® design, development and preparation for sale, has necessarily meant the reduction in resource support and investment in our Novel Therapies programme with the small NT team being repositioned into our Personalised Medicine and Preclinical Services divisional teams. Commensurate with this, the accounts include an impairment charge of £385k (2013: nil) to cover the carrying value of the Novel Therapies assets. We do not anticipate investment in our Novel Therapies lead programme over the short to medium term, but will continue to review our position in light of growth and progress in our core business.

Collaborative discussions with potential partners remain on hold pending the further development of our leads in the areas of Regenerative Medicine and Oncology.

Integrated business model

Epistem has established a balance of independent, revenue-driven business units with the objective of building each autonomously as part of a financially robust integrated business model, whilst offering the potential of significant financial upside from technology growth emerging from our Personalised Medicine, Novel Therapies and Preclinical Research Services divisions. Quality of science has been a central theme and we have leveraged successes in one division to develop and secure the growth and development of another. Whilst this remains our ongoing objective, we will continue to review this model to ensure it is optimal for each division and offers our investors the best return on their investment.

We will continue to enhance and exploit our competence in molecular (personalised) medicine and infectious disease, gene pathways and epithelial cell biology whilst retaining a high degree of commercial independence across each division.

Outlook

The past few years have seen a careful investment in the design, development and manufacture of Genedrive® to complete the first generation (version 1.0) unit build. We have now created a strategically important asset and technology with significant global potential. The coming months will signal the first Genedrive® product sales for Epistem and the acceleration of our assay development programmes to expand our test menu offering. Whilst our first generation infectious disease products including TB/RIF, IL28B and HCV target low resource, decentralised, 'Point-of-Care' settings, future Genedrive® developments will also target patient specific genotype tests as companion diagnostics for therapeutic treatment.

We anticipate Indian regulatory approval over the coming months and the final preparations for launch into India of Genedrive® and our first TB and antibiotic resistance test. We will initially work with selected Key Opinion Leader (KOL) sites in India to technically support the roll-out of Genedrive® and we expect our first product revenues from early 2015.

We will also prepare our next target markets for roll-out taking advantage of our DCGI and CE-IVD status and Global Access Commitment and collaboration through GHIF and a growing network of support from the Bill and Melinda Gates foundation, Clinton Healthcare Access Initiative, FIND and WHO alongside the completion of our ongoing TB evaluation studies as a forerunner to a WHO recommendation anticipated later in 2015.

We will appoint distribution channel partners to help us exploit Genedrive® into the market for our developing menu of products. Over the coming year we anticipate collaborating with leading pharmaceutical companies to introduce Genedrive® as a companion diagnostic for patient genotyping and stratification for drug treatment.

Alongside anticipated revenue growth from our service-based Pharmacogenomic division, we expect to complement this with increasing product revenues initially led by our first diagnostic test products.

We will continue to accelerate and expand our product developments through increased investment in our manpower resource and industry competence, enhance our software and electrical engineering expertise, manufacturing scale up capabilities, quality and regulatory and further develop our channel partner distribution strategy to take advantage of the substantial growth opportunities open to us.

On behalf of the Board and in response to David Evans' announcement to step down from as Chairman, I would like to thank David for his tireless support and absolute commitment to Epistem over the past decade. It has been a great privilege and pleasure to work closely with David during this time and the Board and employees of Epistem are extremely grateful for his wise and considered leadership.

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

Matthew H Walls
Chief Executive Officer

Principal Risks and Uncertainties
For the year ended 30 June 2014

Principal risks and uncertainties
The Board meets regularly to review operations and to discuss risk areas. Details of the financial risks are disclosed in Note 19 to the financial statements. The Directors regularly assess and monitor the business risks faced by the Group. Risk is an inherent feature of business and set out below are some key risks, together with associated mitigating factors. This list does not purport to be exhaustive.

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

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

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

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

Pages 2 to 27 of the annual report form the Strategic Report. The Strategic Report was approved by the Board and signed on its behalf by David Evans and Matthew H Walls.

David Evans
Chairman
12 December 2014

Matthew H Walls
Chief Executive Officer
12 December 2014

Board of Directors

1. David Evans (54)
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. On 28 October 2014, David advised of his intention to stand down as Chairman at the point the Company launches Genedrive® in India. 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, Venn Life Sciences Holdings PLC, Collagen Solutions Plc, Premaitha Health plc and Optibiotix Health plc.

2. Matthew Walls (50)
Chief Executive Officer
Matthew joined Epistem in February 2007 as Chief Executive Officer. He is an experienced CEO, most recently with Oxford Biosignals Limited, where he led the strategic collaboration with Rolls Royce Plc and Covance Inc. Matthew spent the early part of his career with ICI Plc, progressing through to AstraZeneca Plc prior to its plant crop biotechnology group merger with Novartis to form Syngenta Plc. Matthew has led the growth of several technology and biotechnology companies as CEO, including Internexus Limited and Zylepsis Limited. He holds a Chairman post at the REPIN Group and is a chartered accountant and a member of CIMA.

3. John Rylands (60)
Finance Director
John originally joined Epistem as an investor and Non-executive Director, and in 2005, he took over his current role. John provided corporate finance advice to private companies before joining Epistem. Prior to 1999 he was an investor in and consultant to the SDS group of companies. John holds a degree in Economics and Accountancy from Manchester University and is a Fellow of ICAEW.

4. Catherine Booth, Ph.D. (49)
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. Catherine is an expert in radiation or cytotoxic drug (chemotherapy) induced toxicity and, whilst at the Paterson Institute, she developed many pre-clinical assays. This knowledge is at the core of Epistem's Preclinical Research Services. Catherine received her Ph.D. from Emmanuel College, University of Cambridge.

Board of Directors continued

5. Robert Nolan, Ph.D. (71)
Non-executive Director
Robert has been a Non-executive Director of the Company since 2004. Having gained US post doctoral experience at Dartmouth Medical School and MIT, he joined SANDOZ Forschungsinstitut in Vienna in 1972 to work on mechanism of antibiotic action and was also coopted on to Sandoz global strategic planning group. He joined ICI pharmaceuticals (which became AstraZeneca) in 1979 to head up a natural products discovery programme and subsequently joined their product licensing group.He brings with him a wealth of expertise in partnering and licensing negotiations with both small biotechnology and large pharmaceutical companies. Prior to his retirement he was Director, Global Licensing, at AstraZeneca. He is also a Non-executive Director of Phico Therapeutics Ltd.

6. Roger Lloyd, Ph.D. (66)
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.

7. Allan Brown, Ph.D. (53)
Chief Operating Officer, Diagnostics
Allan was appointed as a Director on 1 February 2014. He has spent his career in the Life Sciences/diagnostics industry. During a seventeen year period with Tepnel Life Sciences plc, latterly as Divisional Managing Director, Allan's technical management roles covered product development through to commercial product launch; his commercial management roles covered sales and business development and M&A. Allan left Tepnel in 2010 following its recommended US$132m cash offer by Gen-Probe Inc. in 2009. At the time of the offer by Gen-Probe Inc. Tepnel employed over 200 employees and had operations in the UK, US, Belgium and France. After leaving Tepnel/Gen-Probe, Allan joined the leading Sample & Assay Technologies company, QIAGEN N.V., in Manchester and managed the final development and launch of the company's first US FDA approved products, helping secure the site as QIAGEN's Global Centre of Excellence for molecular diagnostic product development. Allan was appointed to the Board on 1st February, 2014.

8. Ian Gilham, Ph.D. (54)
Non-executive Director
Ian was appointed on 24 November 2014. He is currently non-executive chairman of three life sciences companies including AIM quoted Horizon Discovery Group plc, which provides gene-editing tools to support translational genomics and the development of personalised medicine, Multiplicom NV focused on the development and commercialisation of next generation DNA sequencing products and Biosurfit SA, focused on development and commercialisation of point-of-care diagnostic products. Dr Gilham was formerly Chief Executive Officer of Axis-Shield plc.

Directors' Report

For the year ended 30 June 2014

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 2014.

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 66 and 67 of this report.

Going concern

After due consideration and noting the post balance sheet events detailed below, 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 2014	1 July 2013
David Evans	**98,845**	80,645
Catherine Booth	**985,984**	984,727
Roger Lloyd	**–**	–
Jeffrey Moore (resigned 10 October 2013)	**n/a**	14,052
Robert Nolan	**5,065**	5,065
John Rylands	**195,882**	194,625
Matthew Walls	**11,629**	10,372
Allan Brown (appointed 1 February 2014)	**–**	n/a
Ian Gilham (appointed 24 November 2014)	**–**	n/a

Significant shareholdings

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

	Percentage Holding	Percentage Holding
ODEY Asset Management	15%	7%
Blackrock funds	9%	9%
River & Mercantile Asset Management	6%	–
Prudential Plc group of companies	5%	5%
Aerion Fund Management	4%	–
Henderson Investment Management funds	3%	3%

Directors' and officers' liability insurance

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

Research and development

During the year ended 30 June 2014 the Group has incurred research Discovery and development costs of £2,037k (2013 – £1,679k.)

Expenditure on Intangible Assets (relating to research and development activities) was £3,730k (2013 – £1,380k) as detailed in Note 10 to the Financial Statements. Additions to Intangible Assets include research and development expenditure of £2,750k in respect of the recognition of Visible Genomics Limited earnout consideration which is detailed on page 64 of Annual Report.

A review of the progress of research and development expenditure is included within the Strategic Report on pages 2 – 27.

Post balance sheet events

On 22 July 2014, the Company announced that it had entered into a collaborative funding agreement with the Global Health Investment Fund ("GHIF"), which benefits from a partial guarantee from the Bill & Melinda Gates Foundation and the Swedish International Development Cooperation Agency. Under the terms of the agreement, the Company has issued to GHIF a five year convertible bond totaling $8m. Further details are listed pages 66 and 67.

Statement of Directors' responsibilities

The Directors are responsible for preparing the Annual Report, the Directors' Remuneration Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law The Directors have prepared the Group financial statements in accordance with International Reporting Standards (IFRSs) as adopted by the European Union.

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

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

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

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

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

Provision of information to auditors

The Directors who were members of the Board at the time of approving the Directors' Report are listed on pages 28 and 29. 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
12 December 2014

Directors' Remuneration Report

For the year ended 30 June 2014

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

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

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

Matthew Walls's and Allan Brown's service contracts are subject to 12 months notice of termination. Catherine Booth's and John Rylands's service contracts are subject to six months notice of termination. The Company received the appropriate six months notice of termination from Jeffrey Moore in advance of his resignation.

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

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

Non-executive Directors' terms of engagement

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

Audited information

Aggregate Directors' remuneration

	Salary & fees £	Bonus £	Pension £	Benefits in kind £	**2014 total £**	2013 total £
Executive						
Catherine Booth	102,262	5,000	27,143	342	**134,747**	133,569
Jeffrey Moore (resigned 10 October 2013)	35,096	–	–	110	**35,206**	128,269
John Rylands	128,125	5,000	1,281	–	**134,406**	130,000
Matthew Walls	232,000	70,000	2,320	860	**305,180**	300,000
Allan Brown (appointed 1 February, 2014)	62,500	–	625	304	**63,429**	–
Non-executive						
David Evans	35,000		–	–	**35,000**	35,000
Roger Lloyd	24,000		–	–	**24,000**	24,000
Robert Nolan	24,000		–	–	**24,000**	24,000
	642,983	80,000	31,369	1,616	**755,968**	774,838

Directors' share options

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

	As at 1 July 2013	Exercised/ forfeited	Options granted	**As at 30 June 2014**	Exercise price	Earliest exercise date	Expiry date
Executive							
Catherine Booth[2]	15,528	–	–	**15,528**	£1.20	Exit	09/01/2016
John Rylands[3]	83,333	–	–	**83,333**	£1.20	04/04/2007	09/01/2016
John Rylands[1]	127,847	–	–	**127,847**	£1.20	04/04/2007	09/01/2016
Matthew Walls[4]	177,653	–	–	**177,653**	£1.24	31/10/2010	27/03/2017
Matthew Walls[5]	80,644	–	–	**80,644**	£1.24	31/10/2010	27/03/2017
Matthew Walls[6]	254,631	–	–	**254,631**	£3.73	30/09/2013	29/03/2021
Matthew Walls[6]	5,369	–	–	**5,369**	£3.60	30/09/2013	10/05/2021
Matthew Walls[7]	23,758	–	–	**23,758**	£5.50	27/03/2016	27/03/2023
Allan Brown (appointed 1 February 2014)[2]	–	–	200,000	**200,000**	£3.25	25/03/2017	25/03/2024
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

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 were satisfied in 2010.
5. EMI stand-alone scheme, with performance criteria as detailed in (4) above.
6. 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.
7. 2007 Epistem Share Option Scheme, with performance criteria determined by the Remuneration committee and which correlate to shareholder value.
8. Gain on exercise of Directors' share options. In 2013, following his departure from the Company, Jeffrey Moore exercised options over 320,000 shares. The gain of market price over exercise price was £670,939.

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 £	Matching Shares No	Total SIP Shares 30 June 2014 No	SIP Shares 30 June 2013 No
Catherine Booth	1,994	16,000	3,989	5,984	4,727
Jeffrey Moore (resigned 10 October 2013)	–	–	–	–	4,727
John Rylands	1,994	16,000	3,989	5,984	4,727
Matthew Walls	1,994	16,000	3,989	5,984	4,727
Allan Brown (appointed 1 February 2014)	190	1,250	380	570	n/a

Approved by the Board

D E Evans
Chairman
12 December 2014

Corporate Governance Report

For the year ended 30 June 2014

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 has followed the Quoted Companies Alliance guidelines to establish 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	4	2
Robert Nolan (Non-executive Director)	3	4	2
Roger Lloyd (Non-executive Director), Remuneration/Nominations Committees only	N/A	4	2

Remuneration Committee

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

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

Audit Committee

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

Nomination Committee

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

Relations with shareholders

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

Internal controls

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

Social, environmental and ethical matters

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

Employment

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

Health, safety and environmental issues

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

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

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

Approved by the Board

H J J Rylands
Company Secretary
12 December 2014

Independent Auditors' Report to the Members of Epistem Holdings Plc

Year Ended 30 June 2014

We have audited the group and parent company financial statements (the 'Financial Statements) of Epistem Holdings Plc for the year ended 30 June 2014 which comprise the consolidated statement of comprehensive income, the consolidated and parent company balance sheets, the consolidated and parent company statement of cash flows, the consolidated and parent company statements of changes in equity and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

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

Respective responsibilities of directors and auditors

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

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the group's and the parent company's affairs as at 30 June 2014, and of the group's loss for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- the financial statements have been prepared in accordance with the requirements of Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

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

Matters on which we are required to report by exception

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

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we required for our audit.

Carol Graham FCA
(Senior Statutory Auditor)
For and on behalf of
Haines Watts, Chartered Accountants & Statutory Auditor
Bridge House
157 Ashley Road
Hale
Altrincham
Cheshire
WA14 2UT
12 December 2014

Consolidated Income Statement of Comprehensive Income

For the year ended 30 June 2014

	Notes	2014 £'000	2013 £'000
Revenue		**4,497**	4,957
Other Income – development grant funding		**1,264**	399
Revenue & Other Income	2	**5,761**	5,356
Contract costs		**(4,489)**	(3,800)
Discovery and development costs		**(2,037)**	(1,679)
General administrative costs		**(1,530)**	(1,396)
Operating (loss)	3	**(2,295)**	(1,519)
Finance (costs)/income	6	**(54)**	60
(Loss) on ordinary activities before taxation		**(2,349)**	(1,459)
Taxation on ordinary activities	7	**656**	296
Total comprehensive Income for the financial year		**(1,693)**	(1,163)
(Loss) per share (pence)			
Basic	9	**(17.4)p**	(12.5)p
Diluted	9	**(17.4)p**	(12.5)p

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

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

Consolidated Statement of Changes in Equity

For the year ended 30 June 2014

	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
At 1 July 2012	133	14,007	(136)	847	(2,484)	(3,505)	8,862
Allotment of ordinary shares	12	4,312	–	–	–	–	4,324
Share issue costs	–	(140)	–	–	–	–	(140)
Exercise of options	1	51	–	(13)	–	–	39
Forfeit of options	–	–	–	(8)	–	–	(8)
Purchase of own shares (SIP)	–	–	(46)	–	–	–	(46)
Recognition of equity-settled share-based payments	–	–	–	187	–	–	187
Total comprehensive income for the year	–	–	–	–	–	(1,163)	(1,163)
At 30 June 2013	146	18,230	(182)	1,013	(2,484)	(4,668)	12,055
Exercise of options	4	386	–	(139)	–	139	390
Forfeit of options	–	–	–	(58)	–	–	(58)
Purchase of own shares (SIP)	–	–	(46)	–	–	–	(46)
Recognition of equity-settled share-based payments	–	–	–	216	–	–	216
Total comprehensive income for the year	–	–	–	–	–	(1,693)	(1,693)
At 30 June 2014	**150**	**18,616**	**(228)**	**1,032**	**(2,484)**	**(6,222)**	**10,864**

Consolidated Balance Sheet

As at 30 June 2014

	Notes	2014 £'000	2013 £'000
Non-current assets			
Intangible assets	10	**6,785**	3,495
Plant and equipment	11	**840**	710
Deferred taxation	12	**154**	977
		7,779	5,182
Current assets			
Trade and other receivables	13	**1,125**	2,006
Tax receivables		**1,474**	362
Cash and cash equivalents	14	**4,238**	6,522
		6,837	8,890
Liabilities			
Current liabilities			
Deferred income	15	**86**	210
Trade and other payables	16	**1,016**	1,807
Deferred consideration payable in shares	17	**2,650**	–
		3,752	2,017
Net current assets		**3,085**	6,873
Total assets less current liabilities		**10,864**	12,055
Net Assets		**10,864**	12,055
Capital and reserves			
Called-up equity share capital	22	**150**	146
Share premium account	23	**18,616**	18,230
Employee share incentive plan reserve	23	**(228)**	(182)
Share options reserve	23	**1,032**	1,013
Reverse acquisition reserve	23	**(2,484)**	(2,484)
Retained earnings	23	**(6,222)**	(4,668)
Total shareholders' equity		**10,864**	12,055

These financial statements were approved by the Directors and authorised for issue on 12 December 2014 and are signed on their behalf by:

D E Evans
Chairman

H J J Rylands
Finance Director

Epistem Holdings Plc
Company number: 06108621

Consolidated Statement of Cash Flows

For the year ended 30 June 2014

	2014 £'000	2013 £'000
Cash flows from operating activities		
Operating (loss) for the year	**(2,295)**	(1,519)
Depreciation, amortisation and impairment	**712**	284
Research Credits	**(211)**	–
Share-based payment expense	**158**	179
Operating (loss) before changes in working capital and provisions	**(1,636)**	(1,056)
Decrease/(increase) in trade & other receivables	**881**	(28)
(Decrease)/increase in deferred income	**(124)**	12
(Decrease)/(increase) in trade & other payables	**(791)**	400
Net cash (outflow) from operations	**(1,670)**	(672)
Finance Costs	**(69)**	–
Finance income	**15**	60
Tax received	**578**	–
	524	60
Net cash (outflow) from operating activities	**(1,146)**	(612)
Cash flows from investing activities		
Acquisition of non-current assets	**(1,482)**	(1,727)
Net cash outflow from investing activities	**(1,482)**	(1,727)
Cash flows from financing activities		
Proceeds from issue of share capital	**390**	4,363
Expenses of share issue	**–**	(140)
Purchase of own shares	**(46)**	(46)
Net cash inflow from financing activities	**344**	4,177
Net (decrease)/increase in cash equivalents	**(2,284)**	1,838
Cash and cash equivalents at beginning of year	**6,522**	4,684
Cash and cash equivalents at end of year	**4,238**	6,522
Analysis of net funds		
Cash at bank and in hand	**4,238**	6,522
Net funds	**4,238**	6,522

Notes to the Financial Statements

For the year ended 30 June 2014

1. Significant accounting policies

Basis of accounting

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

Epistem Holdings Plc is a company incorporated in the UK.

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

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

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

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

- Determining the value of Deferred Income 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.

1. Significant accounting policies continued

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 & licensing revenue

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

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

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

c. Other income – development grant funding

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

Segment reporting

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

Research and development

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

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.

Notes to the Financial Statements continued

For the year ended 30 June 2014

1. Significant accounting policies continued

Plant and equipment

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

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

Operating lease agreements

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

Foreign currencies

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

Exchange differences arising on the settlement of monetary items and on the retranslation of monetary items are taken to the 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.

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

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

1. Significant accounting policies continued

Share Incentive Plan

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.

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

Notes to the Financial Statements continued

For the year ended 30 June 2014

1. Significant accounting policies continued

Taxation continued

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 that are not effective for the financial year beginning 1 July 2013 and have not been adopted early:

- IAS 36 (revised) Impairment of assets
- IFRS 9 (revised) Financial instruments
- IFRS 10 Consolidated financial statements
- IFRS 11 Joint arrangements
- IFRS 12 Disclosure of interests in other entities

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.

2. Segment information

For internal reporting, the Group is organised into three operating divisions – Preclinical 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.

2. Segment information continued

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

Business segments

	Preclinical Research Services £'000	Personalised Medicine £'000	Novel Therapies £'000	Unallocated £'000	Total £'000
Twelve months ended 30 June 2014					
Revenue and other income	2,899	2,862	–	–	5,761
Segment trading result	568	(640)	(216)	(1,349)	(1,637)
Add Research Credits	115	96	–	–	211
less depreciation and amortisation	(133)	(109)	(24)	(60)	(326)
Less fixed asset impairment	–	–	(385)	–	(385)
less equity-settled share-based payments	(8)	(29)	–	(121)	(158)
Operating profit/(loss)	542	(682)	(625)	(1,530)	(2,295)
Twelve months ended 30 June 2013					
Revenue and other income	2,851	2,505	–	–	5,356
Segment trading result	878	15	(718)	(1,231)	(1,056)
less depreciation and amortisation	(108)	(79)	(62)	(35)	(284)
less equity-settled share-based payments	(13)	(33)	(3)	(130)	(179)
Operating profit/(loss)	757	(97)	(783)	(1,396)	(1,519)
Twelve months ended 30 June 2014					
Segment assets	873	7,717	–	6,026	14,616
Segment capital expenditure	348	3,754	–	30	4,142
Twelve months ended 30 June 2013					
Segment assets	1,330	4,249	431	8,062	14,072
Segment capital expenditure	68	1,569	39	51	1,727

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:

	2014 £'000	2013 £'000
United Kingdom	**1,879**	1,491
Europe	**1,157**	563
United States of America	**2,555**	3,144
Asia	**170**	158
	5,761	5,356

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

(a) £1,134k revenue was derived from the University of Maryland on behalf of the US Government with revenue included within Preclinical Research Services (2013 – £1,016k);

(b) £939k revenue was derived from international pharmaceutical company, Glaxo SmithKline, with revenue included within Preclinical Research Services (2013 – £714k); and

(c) £nil revenue was derived from international pharmaceutical company, Sanofi Aventis, with revenue included within Preclinical Research Services and Personalised Medicine (2013 – £736k).

(d))£709k FP7 income was received within Personalised Medicine (2013 – nil in respect of the Hepatitis C collaboration with INSERM.)

Notes to the Financial Statements continued

For the year ended 30 June 2014

3. Operating (loss)/profit

The Group operating profit is stated after charging:

	2014 £'000	2013 £'000
Discovery and development expenditure	**2,247**	1,679
ATL Research Credit (note 7)	**(210)**	–
Amortisation of intangible assets	**101**	74
Depreciation of owned tangible fixed assets	**227**	180
Impairment of tangible & intangible assets	**384**	–
Auditors' remuneration		
– as auditors	**25**	25
– for other services	**–**	–
Operating lease costs – property rent	**235**	175

4. Particulars of employees

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

	2014 No	2013 No
Contract services	**45**	43
Research and development	**13**	13
Administrative	**12**	9
	70	65

The aggregate employee costs (including Directors) were:

	2014 £'000	2013 £'000
Wages and salaries	**3,492**	3,030
Social security costs	**396**	339
Equity settled share based payments	**158**	179
Pension payments	**102**	74
Cost of SIP Matching Shares	**46**	41
	4,194	3,663

5. Directors' remuneration (key management)

Group	2014 £'000	2013 £'000
Remuneration	**722**	745
Pension contribution	**31**	29
Equity-settled share-based payments	**136**	135
Cost of SIP Matching Shares	**12**	12
	901	921

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

6. Finance income and costs

Group	2014 £'000	2013 £'000
Finance income		
– interest receivable	**15**	15
– foreign exchange (losses)/surpluses	**(69)**	45
	(54)	60

7. Taxation on ordinary activities

(a) Recognised in the income statement

Group	2014 £'000	2013 £'000
Current tax:		
Research and development tax credits	**(742)**	(191)
Less: recognised as ATL Research Credit	**210**	–
	(532)	(191)
Adjustments in respect of prior periods	**(946)**	(131)
Total current tax	**(1,478)**	(322)
Deferred tax:		
Impact of tax rate change on brought forward deferred tax balances	**2**	30
Prior year tax losses now recognised	**857**	284
Current year tax losses	**(201)**	(733)
Current year capital allowances in excess of depreciation	**125**	345
Revenue recognition of items prior to amortisation	**–**	102
In respect of current year share options charges	**100**	(2)
Tax withheld from ATL Research Credit	**(61)**	–
Total deferred tax	**822**	26
Total tax (credit) for the year	**(656)**	(296)

(b) Reconciliation of the total tax charge

Group	2014 £'000	2013 £'000
Loss before taxation	**(2,349)**	(1,459)
Tax using the UK corporation tax rate of 22.5% (2013: 23%)	**(528)**	(336)
Less recognised as ATL Research Credit	**210**	–
Effect of difference in tax rate	**2**	30
Movement in share options	**(2)**	42
Revenue recognition of items prior to amortisation	**–**	102
Capital allowances in excess of depreciation	**(114)**	(7)
Item not deductible/chargeable for tax purposes	**19**	(5)
Adjustments in respect of research and development tax credits	**(259)**	(276)
Tax loss for the year	**105**	–
Adjustment relating to a previous year	**(89)**	154
Total tax in income statement	**(656)**	(296)

Notes to the Financial Statements continued

For the year ended 30 June 2014

7. Taxation on ordinary activities continued

At 30 June 2014, the change in the corporation tax rate to 20% had been substantially enacted and therefore the deferred taxation assets included within these results have been calculated using a UK corporation tax rate of 20%.

The Group had trading losses, as computed for tax purposes, of approximately £4,297k (2013: £8,583k) available to carry forward to future periods. Following discussions with HMR&C regarding eligibility for Research & Development tax credits in respect of the Company's research & development expenditure, taxation recognised in the Income Statement includes a claim for research and development tax credit of £946k in respect of prior years and which was previously reported in the deferred tax balances at £1,300k.

In accordance with the provisions of relevant Finance Acts, the Group is entitled to claim tax credits in respect of eligible research and development expenditure. These credits are disclosed partly as Above The Line Research & Development Credits ("ATL Research Credits") within Research & Development Costs and partly as Research and development tax credits within Taxation on ordinary activities. The total amount included in the financial statements in respect of the year ended 30 June 2014 is £742k (2013: £191k). Of this sum, £210k (2013: £nil) is disclosed as ATL Research Credit as a deduction from Research & Development Costs with the balance of £532k (2013: £nil) disclosed within Taxation on ordinary activities as detailed above.

8. Profit attributable to members of the parent company

The profit dealt with in the accounts of the parent company was £14k (2013: £14k).

9. Earnings per share per share

The basic earnings per share is calculated by dividing the earnings attributable to ordinary shareholders for the year by the weighted average number of ordinary shares in issue during the year less the weighted average number of Matching Shares held by the Epistem Share Investment Plan which are not yet vested.

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	**2014 £'000**	2013 £'000
(Loss) for the year after taxation	**(1,693)**	(1,163)

Group	**2014 Number**	2013 Number
Weighted average number of ordinary shares in issue	**9,757,923**	9,299,263
Weighted average number of SIP matching shares not vested	**(33,399)**	(33,216)
Dilutive ordinary shares from options and warrants in issue	**1,051,910**	1,172,965
Dilutive weighted average number of ordinary shares	**10,776,434**	10,439,012

(Loss) per share		
– basic	**(17.4)p**	(12.5)p
– diluted	**(17.4)p**	(12.5)p

10. Intangible assets

Group	Patents £'000	Acquired Intellectual Property £'000	Developed Intellectual Property £'000	Total £'000
Cost				
At 1st July 2013	382	287	2,946	3,615
Additions	170	2,890	670	3,730
At 30 June 2014	**552**	**3,177**	**3,616**	**7,345**
Amortisation				
At 1 July 2013	19	42	59	120
Charge for the year	22	4	75	101
Impairment charge	320	–	19	339
At 30 June 2014	**361**	**46**	**153**	**560**
Net book value				
At 30 June 2013	363	245	2,887	3,495
At 30 June 2014	**191**	**3,131**	**3,463**	**6,785**
Cost				
At 1st July 2012	369	287	1,579	2,235
Additions	13	–	1,367	1,380
At 30 June 2013	382	287	2,946	3,615
Amortisation				
At 1 July 2012	8	38	–	46
Charge for the year	11	4	59	74
At 30 June 2013	19	42	59	120
Net book value				
At 30 June 2012	361	249	1,579	2,189
At 30 June 2013	363	245	2,887	3,495

Additions to Developed Intangible Assets include the revaluation of the earn-out payable in respect of the acquisition of Visible Genomics Limited in 2010 which is detailed on pages 64 – 65.

During the year to 30 June 2014, the Research expenditure of the Novel Therapies division was slowed. With no programme in hand to realise the Novel Therapies division's historic investment, the Board provided an impairment charge in respect of the full value of the Novel Therapies division's fixed assets £334k.

The Net Book Value of Intangible Assets principally relates to the Genedrive® unit and assays which have a carrying value of £6,314k (2013: £2,683k).

Notes to the Financial Statements continued

For the year ended 30 June 2014

11. Plant and equipment

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

Group	Lab equipment £'000	Fixtures & fittings £'000	Other Equipment £'000	Total £'000
Cost				
At 1 July 2012	1,428	31	199	1,658
Additions	296	19	32	347
Disposals	(188)	–	–	(188)
At 30 June 2013	1,536	50	231	1,817
Depreciation				
At 1 July 2012	943	24	118	1,085
Charge for the year	145	6	29	180
Depreciation on disposed assets	(158)	–	–	(158)
At 30 June 2013	930	30	147	1,107
Net book value				
At 30 June 2012	485	7	81	573
At 30 June 2013	606	20	84	710

12. Deferred Taxation

Recognised

Group	2014 £'000	2013 £'000
Tax losses carried forward	**859**	1,974
Excess of tax allowances over depreciation & amortisation	**(788)**	(1,113)
Share-based payment transactions	**12**	115
Other timing differences	**–**	1
Amount retained in respect of ATL research credit	**71**	–
	154	977

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

Deferred tax assets include £71k required to be held in respect of the ATL research credit (2013: £nil). This sum is eligible for offset against future taxation payable.

The Group did not recognise deferred tax assets in respect of share-based payment transactions of £1,485k (2013 – £2,755k).

13. Trade and other receivables

Group	2014 £'000	2013 £'000
Trade receivables	**884**	1,746
Other receivables	**29**	65
Prepayments	**212**	195
	1,125	2,006

Analysis of trade receivables

	2014 £'000	2013 £'000
Neither impaired nor past due	**714**	1,088
Past due but not impaired	**170**	658
Trade receivable	**884**	1,746

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:

	2014 £'000	2013 £'000
Not later than one month	**152**	345
Later than one month but not later than three months	**11**	91
Later than three but not later than six months	**7**	222

Notes to the Financial Statements continued

For the year ended 30 June 2014

14. Cash and cash equivalents

Group	2014 £'000	2013 £'000
Cash at bank and in hand	**612**	65
Short-term bank deposits	**3,626**	6,457
	4,238	6,522

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	2014 £'000	2013 £'000
Amounts to be recognised within one year	**86**	210

16. Trade and other payables

Group	2014 £'000	2013 £'000
Trade payables	**522**	751
Accruals	**325**	306
Other payables	**119**	750
Deferred consideration	**50**	–
	1,016	1,807

Deferred consideration includes £50,000 payment in cash anticipated to be due following the revaluation of the earn-out payable in respect of the acquisition of Visible Genomics Limited in 2010 which is detailed on pages 64 – 65.

17. Deferred consideration payable in shares

Group	2014 £'000	2013 £'000
Payable in shares	**2,650**	–
	2,650	–

The deferred consideration relates to the provision of £2,650,000 in respect of the issue of shares in the Company which is anticipated to be due following the revaluation of the earn-out payable in respect of the acquisition of Visible Genomics Limited in 2010 which is detailed on pages 64 – 65.

18. Share-based payments

(A) Share options outstanding at 30 June 2014

Prior to 28 November 2007, the Company operated a number of HMRC 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	4,400	£0.75	21 Jul 2004 to 20 Jul 2014	£0.27p	1,188
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	30,624	£1.20	25 Nov 2005 to 24 Nov 2015	£0.43p	13,168
EMI – Unapproved	205,487	£1.20	10 Jan 2006 to 09 Jan 2016	£0.43p	88,359
EMI – Approved	98,861	£1.20	10 Jan 2006 to 09 Jan 2016	£0.43p	42,510
EMI – Approved	8,200	£1.20	29 Sep 2006 to 28 Sep 2016	£0.43p	3,526
EMI – Approved	80,644	£1.24	28 Mar 2007 to 27 Mar 2017	£0.42p	33,870
EMI – Unapproved	177,653	£1.24	28 Mar 2007 to 27 Mar 2017	£0.42p	74,615
EMI – Approved	23,103	£1.67	27 Jul 2007 to 26 Jul 2017	£0.39p	9,010
EMI – Unapproved	57,727	£1.60	15 Oct 2007 to 14 Oct 2017	£0.36p	20,782
2007 Epistem Share Option Scheme	17,050	£1.77	31 Jul 2011 to 30 Jul 2018	£0.37p	6,308
2007 Epistem Share Option Scheme	39,350	£4.03	02 Dec 2013 to 01 Dec 2020	£1.64p	64,534
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 Mar 2014 to 29 Mar 2021	£1.51p	384,492
2007 Epistem Share Option Scheme	5,369	£3.60	30 Sep 2014 to 10 May 2021	£1.51p	8,107
2007 Epistem Share Option Scheme	11,450	£3.60	10 Feb 2015 to 10 Feb 2022	£1.46p	16,717
2007 Epistem Share Option Scheme	26,166	£5.50	26 Mar 2016 to 25 Mar 2023	£2.23p	58,350
2007 Epistem Share Option Scheme	23,758	£5.50	26 Mar 2016 to 25 Mar 2023	£2.23p	52,980
2007 Epistem Share Option Scheme	86,350	£3.22	27 Jan 2017 to 26 Jan 2024	£1.21p	104,483
2007 Epistem Share Option Scheme	50,000	£3.20	29 Jan 2017 to 28 Jan 2024	£1.21p	60,600
2007 Epistem Share Option Scheme	200,000	£3.25	23 Jan 2017 to 24 Mar 2014	£1.21p	242,000

Notes to the Financial Statements continued

For the year ended 30 June 2014

18. 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	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 Sep 2006	5 years	0	60	4.50	None
EMI – Approved	28 Mar 2007	5 years	0	60	5.25	Note (f)
EMI – Unapproved	28 Mar 2007	5 years	0	60	5.25	Note (f)
EMI – Approved	27 Jul 2007	5 years	0	45	5.50	None
EMI – Unapproved	15 Oct 2007	5 years	0	45	5.75	Note (g)
2007 Epistem Share Option Scheme	31 Jul 2008	5 years	0	40	5.00	Note (h)
2007 Epistem Share Option Scheme	10 Dec 2010	5 years	0	50	0.50	Note (h)
2007 Epistem Share Option Scheme	10 May 2011	5 years	0	50	0.50	Note (h)
2007 Epistem Share Option Scheme	29 Mar 2011	5 years	0	50	0.50	Note (i)
2007 Epistem Share Option Scheme	10 May 2011	5 years	0	50	0.50	Note (h)
2007 Epistem Share Option Scheme	10 Feb 2012	5 years	0	50	0.50	Note (h)
2007 Epistem Share Option Scheme	26 Mar 2013	5 years	0	50	0.50	Note (h)
2007 Epistem Share Option Scheme	26 Mar 2013	5 years	0	50	0.50	Note (j)
2007 Epistem Share Option Scheme	27 Jan 2014	5 years	0	43	0.50	Note (h)
2007 Epistem Share Option Scheme	29 Jan 2014	5 years	0	43	0.50	Note (g)
2007 Epistem Share Option Scheme	25 Mar 2014	5 years	0	43	0.50	Note (h)

(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.
(j) These options may be exercised on achievement of performance criteria determined by the Remuneration committee which correlate to shareholder value.

18. Share-based payments continued

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

Group	Number		Weighted average exercise price		Weighted average remaining contracted life – Years	
	2014	2013	**2014**	2013	**2014**	2013
Outstanding as at 1 July	**1,820,570**	1,808,098	**£1.82**	£1.78	**–**	–
Granted during the year	**336,350**	54,525	**£3.23**	£5.50	**–**	–
Exercised during the year	**(324,099)**	(36,628)	**£1.20**	£1.04	**–**	–
Forfeited during the year	**(125,444)**	(5,425)	**£1.82**	£3.89	**–**	–
Outstanding as at 30 June	**1,707,377**	1,820,570	**£2.04**	£1.82	**4.26**	4.03
Options exercisable at 30 June	**1,270,303**	1,304,402	**£1.87**	£1.30	**2.87**	2.75

The weighted average share price at the exercise dates was £3.28 (2013 – £4.89)

(B) Share Investment Plan

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

	2014	2013
Partnership shares held at 30 June	**27,528**	21,578
Matching Shares held at 30 June	**55,054**	43,153

Group	**2014 £'000**	2013 £'000
Unamortised cost of Matching shares (Comprising Employee SIP reserve)	**227**	182

Notes to the Financial Statements continued

For the year ended 30 June 2014

19. Financial risk management objectives and policies

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

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

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

Interest rate risk

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

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

	Decrease in the basis points	Effect on loss before tax and equity £'000
2014		
Cash and cash equivalents	**25**	**5**
2013		
Cash and cash equivalents	25	12

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 cash and short-term trade receivables which are not invoiced in sterling. There were no significant costs incurred that involve payments in foreign currency.

The Group has no forward contracts at the year end (2013 – nil) to manage foreign currency risk.

Balances which are denominated in US Dollars are detailed below:

Group	**2014 £'000**	2013 £'000
Trade and other receivable	**119**	764
Cash and cash equivalent	**2,233**	1,392
	2,352	2,156

19. Financial risk management objectives and policies continued

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

	Decrease in the currency rate	Effect on loss before tax and equity £'000
2014		
Trade and other receivables	**5%**	**6**
Cash and cash equivalents	**5%**	**112**
2013		
Trade and other receivables	5%	38
Cash and cash equivalents	5%	70

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

Fair values of financial assets and liabilities

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

20. Commitments under operating leases

At 30 June 2013 the Group had annual commitments under non-cancellable operating leases as set out below.

	Land and buildings	
Group	**2014 £'000**	2013 £'000
Operating leases which expire:		
Within 1 year	**199**	180

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

21. Related party transactions

At the balance sheet date, the amounts owed to the following Director, D Evans was £20k (2013: £9k.) The transactions during the year with these related parties relate entirely to Directors' remuneration for the year and the amounts for each are detailed in the Directors' Remuneration Report.

22. Share capital

Allotted and called up:

	2014 No	**2014 £'000**	2013 No	2013 £'000
Brought forward at 1 July	**9,680,807**	**146**	8,850,781	133
Private placing	**–**	**–**	793,398	12
Exercise of options	**324,099**	**4**	36,628	1
Ordinary shares of £0.015 each	**10.004,906**	**150**	9,680,807	146

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 2014

22. Share capital continued

On 28 July 2010, as detailed more fully on pages 64 – 65 of this Report, the Company acquired 100% of the issued share capital of Visible Genomics Limited. In these Accounts, the Company reports a provision of a short term liability of £2.65m in respect of the earn out, payable in ordinary shares of £0.015 each in Epistem Holdings Plc to the vendors of Visible Genomics Limited. Based on the closing price of 278p of the ordinary shares in Epistem Holdings Plc at 10 December, 2014, this would result in the issue of 953,237 ordinary shares in the Company.

On 22 July 2014, as detailed more fully on pages 66 – 67 as a Post Balance Sheet Event, the Company issued a redeemable Convertible Bond to the value of $8m. Based on the Conversion Price of 489p, a conversion of the Bond would result in the issue of 967,298 ordinary shares of £0.015 in the Company.

23. Reserves

	Employee share incentive plan reserve £'000	Share premium account £'000	Share options reserve £'000	Reverse acquisition reserve £'000	Retained Earnings £'000
Balance as at 1 July 2012	(136)	14,007	847	(2,484)	(3,505)
Comprehensive income for the year	–	–	–	–	(1,163)
Allotment of ordinary shares	–	4,312	–	–	–
Share issue costs	–	(140)	–	–	–
Unamortised cost of Matching Shares	(46)	–	–	–	–
Exercise of options	–	51	(13)	–	–
Forfeit of options	–	–	(8)	–	–
Recognition of equity-settled share-based payments in the year	–	–	187	–	–
Balance at 30 June 2013	(182)	18,230	1,013	(2,484)	(4,668)
Balance as at 1 July 2013	(182)	18,230	1,013	(2,484)	(4,668)
Comprehensive income for the year	–	–	–	–	(1,693)
Unamortised cost of Matching Shares	(46)	–	–	–	–
Exercise of options	–	386	(139)	–	139
Forfeit of options	–	–	(58)	–	–
Recognition of equity-settled share-based payments in the year	–	–	216	–	–
Balance at 30 June 2014	**(228)**	**18,616**	**1,032**	**(2,484)**	**(6,222)**

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 55,054 shares in Epistem Holdings Plc (2013: 43,153 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 2014 was £186k (2013: £248k). The nominal value held at 30 June 2014 was £825 (2013: £647).

Company Balance Sheet

As at 30 June 2014

	Notes	2014 £'000	2013 £'000
Non-current assets			
Investments	a	**6,228**	6,070
Current assets			
Amounts receivable from Group undertakings and other receivables	b	**14,627**	9,498
Cash and cash equivalents	c	**2,042**	4,064
		16,669	13,562
Current liabilities			
Other payables		**3**	–
Deferred consideration payable in cash	a	**50**	–
Deferred consideration payable in shares	a	**2,650**	–
		2,703	–
Net current assets		**13,966**	13,562
Total assets less current liabilities		**20,194**	19,632
Capital and reserves			
Called-up equity share capital	22	**150**	146
Share premium account	23	**18,616**	18,230
Share options reserve		**1,171**	1,013
Retained Earnings		**257**	243
Total shareholders' funds equity		**20,194**	19,632

These financial statements were approved by the Directors and authorised for issue on 12 December 2014 and are signed on their behalf by:

D E Evans
Chairman

H J J Rylands
Finance Director

Epistem Holdings Plc
Company number: 06108621

Company Statement of Changes in Equity

For the year ended 30 June 2014

	Share capital £'000	Share premium account £'000	Share options reserve £'000	Retained earnings £'000	Total £'000
At 1 July 2012	133	14,007	847	229	15,216
Allotment of ordinary shares	12	4,312	–	–	4,324
Share issue costs	–	(140)	–	–	(140)
Recognition of equity settled share based payments	–	–	187	–	187
Exercise of options	1	51	(13)	–	39
Forfeit of options	–	–	(8)	–	(8)
Profit for the year	–	–	–	14	14
At 30 June 2013	146	18,230	1,013	243	19,632
Allotment of ordinary shares	4	386	–	–	390
Recognition of equity settled share based payments	–	–	216	–	216
Forfeit of options	–	–	(58)	–	(58)
Profit for the year	–	–	–	14	14
At 30 June 2014	**150**	**18,616**	**1,171**	**257**	**20,194**

Company Statement of Cash Flows

For the year ended 30 June 2014

	2014 £'000	2013 £'000
Cash flows from operating activities		
Profit for the year	**–**	–
Operating profit before changes in working capital and provisions	**–**	–
(Increase) in amounts receivable from Group	**(5,129)**	(3,040)
(Decrease) in trade and other payables	**2,703**	–
Cash (outflow) from operations	**(2,426)**	(3,040)
Interest received	**14**	14
Tax (paid)/received	**–**	–
	14	14
Net cash outflow from operating activities	**(2,412)**	(3,026)
Cash flows from financing activities		
Proceeds from issue of share capital	**390**	4,363
Expenses of share issue	**–**	(140)
Net cash inflow from financing activities	**390**	4,223
Net (decrease)/increase in cash equivalents	**(2,022)**	1,197
Cash and cash equivalents at beginning of year	**4,064**	2,867
Cash and cash equivalents at end of year	**2,042**	4,064
Analysis of net funds		
Cash at bank and in hand	**2,042**	4,064
Net funds	**2,042**	4,064

Notes to the Company Financial Statements

For the year ended 30 June 2014

a. Investments

Company

The Company is the holding company of the Group.

The Company acquired 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 dissolved 14 August 2012

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) and was capped at £2.85m. In earlier periods, following assessments of the earnout criteria, it could not be concluded that the further consideration would be payable. On 5th March, 2014, as detailed in the Notes to 2013 Interim Results, agreement was reached with the vendor of Visible Genomics Limited ("Vendor") to vary the terms of the earnout as follows:

(a) Cash payments

- £50,000 upon Epistem products entering a clinical trial registered with the Directorate of Health Services Office of Drugs Controller General (India) "DCGI";
- £50,000 upon Epistem making a DCGI regulatory submission;

(b) Issue of Consideration shares In Epistem Holdings Plc

- Consideration Shares to a value of £1.4m upon receipt of regulatory approval from DCGI;
- Consideration Shares to a value of £1.25m upon the achievement of commercial milestones related to the recognition of £5m of Genedrive® related income or contractual commitments from any of a list of 16 IVD companies which provide a minimum combined value of £5m.

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

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

a. Investments continued

The Board is of the opinion that, as at 30 June 2014, the value of the further consideration of £2.65m was capable of assessment and provision for this liability has been made in these accounts. Based on the share price of 278p at 10 December 2014, this would result in the issue of 953,237 shares. The reassessment of the earnout occurred more than twelve months following its initial assessment in the 2011 accounts and is not eligible to be classed as an addition to investment as subsidiaries. The expenditure has been classed at Research and development expenditure and carried forward as an intangible asset, as detailed in Note 10.

Investment in subsidiaries

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

Year ended 30 June 2013	Investment in subsidiaries £'000
Cost	
At 1 July 2012	5,891
Additions	179
At 30 June 2013	6,070
Net book value	
At 30 June 2013	6,070
At 30 June 2012	5,891

Additions in the year ended 30 June 2014 comprised the fair value of the share options issued to employees of the subsidiary undertaking during the year of £158k (2013: £179k). 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	**2014 £'000**	2013 £'000
Amounts receivable from Group undertaking	**14,627**	9,498
	14,627	9,498

Notes to the Company Financial Statements continued

For the year ended 30 June 2014

c. Cash and cash equivalents

Company	2014 £'000	2013 £'000
Cash at bank and in hand	**242**	128
Short term bank deposits	**1,800**	3,936
	2,042	4,064

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 17,851 (2013: 15,548) shares in Epistem Holdings Plc on behalf of the Epistem Share Investment Plan at a cost of £67k (2013: £87k).

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 (2013 – nil).

f. Post Balance Sheet Event

On 22 July 2014, the Company announced that it had entered into a Collaboration and Convertible Bond Purchase Agreement ("Agreement") with the Global Health Investment Fund 1 LLC ("GHIF" or the "bond holder"). Under the terms of the Agreement, the Company has issued to GHIF a five-year Convertible Bond totaling $8.0m (£4.7m on conversion to GBP). Further, as part of the Agreement, GHIF and the Company entered into a Global Access Commitment. The purpose of the Agreement is to fund the Company's development, production and commercialization of Genedrive® to address Global Health Challenges and achieve Global Health Objectives. An outline (only) of the terms of the Agreement is detailed below:

Convertible Bond Agreement

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

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

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

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

f. Post Balance Sheet Event continued

Global Access Commitment

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

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

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

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

General Undertakings

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

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

Impact on the financial accounts

The Agreement resulted in an injection of cash at bank of $8m (£4.7m) at 22 July 2014.

Interest charges accrue at the rate of 5% (of $8m) per annum from 22 July 2014 and will be booked to the Income Statement.

Unless or until the Convertible Bond is converted or redeemed, the Company will retain a liability of $8m. The liability will be converted to GBP at the dollar/sterling rate of exchange prevailing at each balance sheet date at which the liability is still outstanding. Differences resulting from fluctuations in the exchange rates will be reflected in the Income Statement.

In the event of Conversion or Redemption where the bond holder elects to receive payment in shares, the share capital of the Company will be increased commensurate with the conversion or redemption terms and the liability of $8m will be extinguished. Based on the consideration share price of 489p and the fixed Rate of Exchange of US$1.6913: £1, this would result in the issue of 967,298 shares.

In the event that the bond is redeemed for cash, there will be an obligation to pay US$8m and the liability will be extinguished. Differences from the previously reported liability arising because of exchange rate differences will be booked to the Income Statement.

Directors, Secretary and Advisers

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Matthew Walls
Catherine Booth
Allan Brown (appointed 1 February 2014)
Ian Gilham (appointed 24 November 2014)
Roger Lloyd
Robert Nolan
John Rylands

Company Secretary
John Rylands

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