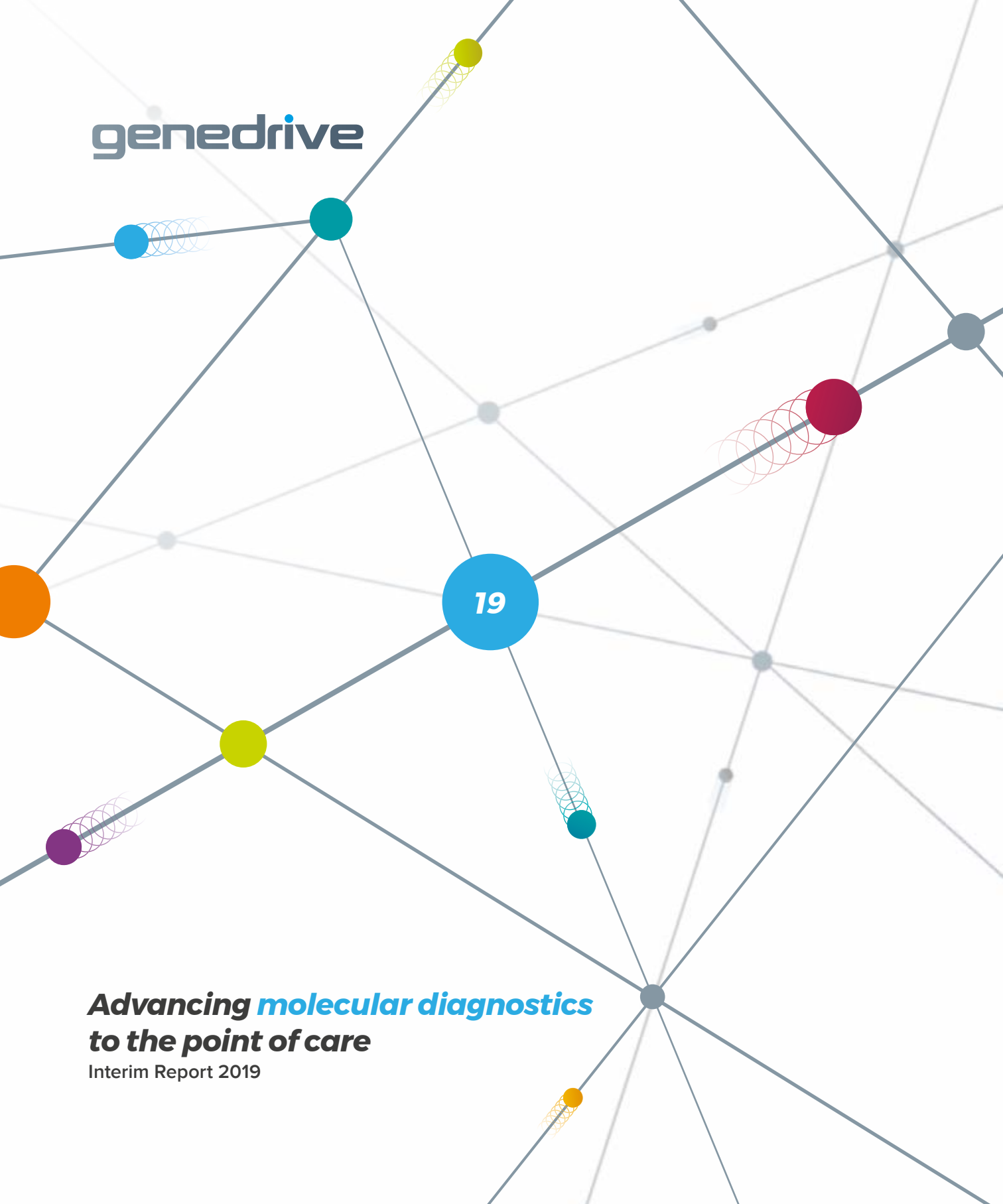
genedrive



Advancing molecular diagnostics to the point of care

Interim Report 2019

WHAT WE DO
Introduction and highlights

Genedrive® is an innovative, easy to use platform that brings molecular diagnostics to decentralised laboratories.

genedrive plc (LSE: GDR), the near patient molecular diagnostics company, announces unaudited interim results for the six months to 31 December 2018.

The Company develops and commercialises a range of low cost, quick and simple to use tests which can be used on its portable point-of-need molecular diagnostic reader, genedrive®. The Company's has four areas of focus: Hepatitis C (on market via distributors – Sysmex and Arkray), Bio-threats (on market being sold directly to the US Department of Defense "DoD"), Antibiotic Induced Hearing Loss (in development with support of grant funding and expected to be on market in financial year 20/21) and Tuberculosis (in development with support of grant funding and expected to be on market in financial year 20/21).

Financial Highlights

- Total revenue and other income of £1.5m (2017: £1.3m) reflecting a shift to commercial revenues from development grant revenue.
- Continued R&D spend, giving rise to a pre-tax loss of £1.7m (2017: £2.3m).
- Successful fundraise of £6.0m (gross), a combination of £3.5m equity and £2.5m convertible loan.
- Cash of £5.8m at 31 December 2018 (30 June 2018: £3.5m).

Operational Highlights

- First commercial orders from the DoD post development phase for $0.9m.
- Genedrive HCV ID Kit® now under review by World Health Organisation for Pre-Qualified status.
- Registration of HCV ID Kit® targeted for ~30 countries by end of current financial year with four already concluded including two classed as 'priority countries'.

Post-Period end Highlights

- Additional $0.5m order received from second end-user group within the DoD, with more expected.
- HCV ID Kit® registered in a further 7 countries (11 in total) with 2 (4 in total) classed as 'priority'; most territories requiring in-country studies prior to sales commencing.
- Unaudited cash of £4.7m as at 27 March 2019, with R&D tax credit (£1.0m) and $0.9m DoD payment of their first commercial order expected to be received in the coming weeks.

INTERIM MANAGEMENT REPORT

The six months to 31 December 2018 is the first reporting period of the Company as a focused molecular diagnostics business following disposal of our contract research and pharmacogenomics divisions in June 2018. During this period we have continued to progress the HCV assay as well as recognising our first commercial sales of units and assays to the US DoD with a further order being received post the period end. We progressed our grant funded development programmes on our two development assays, Antibiotic Induced Hearing Loss and Tuberculosis and during December 2018 successfully raised £6.0m (gross), to support our longer term objective of earning material revenues from three assays by the year ending June 2022.

Business Review

Hepatitis C (HCV)

The Genedrive® HCV-ID Kit is CE marked and is the first to market decentralised qualitative molecular test for HCV at the point of need. The test was validated in January 2018 in independent studies in South Africa and showed 100% specificity and sensitivity in independent use, confirming that performance can be translated into real-world settings. The Group has contracted with world class distributors in Sysmex EMA, Sysmex APAC and Arkray, giving broad reach and skilled resource to market and sell the product, and we continue to look for opportunities to expand our distributor reach beyond the current territories of EMEA and APAC.

The Company is targeting approximately 30 country registrations for the Genedrive® HCV-ID Kit by the end of the financial year. We were very pleased to confirm that during November and December 2018 the product was registered for commercial sale in four countries, two of which are classed by the Company as priority markets for this product. Whilst this registration process has been slower than expected, we are now making good progress towards our goal. In-country performance studies are being required in most territories as part of the final registration process which combined with the delays we encountered earlier in the year means we do not expect to see any significant sales to private laboratories from the Genedrive® HCV ID kit until summer 2019

We have been encouraged by our interactions at national levels where the Genedrive® HCV ID kit is being considered for several national programmes and although no outcomes have been secured yet, we are positive about the probability of some near-term success, although the precise timing is to be determined.

Availability of funding for HCV treatment and diagnostics is key to the adoption and uptake of our product. To facilitate funding, we began the process to gain World Health Organisation (WHO) pre-qualified status in the period on an accelerated basis. Progress against this fast-track is broadly on plan, with the site audit of our facilities completed and trial studies now commencing. Given our previous in market performance studies both published and unpublished, the feedback from the site audit, and our knowledge of the WHO-PQ process as a whole, we believe a positive outcome on WHO approval is achievable by the end of the calendar year.

US Department of Defense (DoD)

The development phase of the DoD funded collaboration project to develop a handheld biohazard identifier successfully completed during the year to June 2018.
In September 2018 we received our first post-development commercial order from customers in the DoD, and this was invoiced during December, contributing $0.9m to revenue in the period. Post period-end we received a further order of $0.5m from an additional DoD customer which we expect to ship in the next couple of months. We continue to work closely with the DoD to gauge their anticipated level of adoption going forwards and as a result we expect further orders in the medium term including annual re-ordering of assays owing to shelf life. We therefore have growing levels of confidence in product adoption going forwards with signs that the visibility of future orders is also improving.

Developement Review

Tuberculosis (mTB)

The mTB market is large and well defined and remains an important target for the Company. Using the £1.1m Innovate UK grant secured in January 2018 we have been refining and developing a new mTB assay in order to enter the market. The funding is being used to develop a new sample preparation process, while concurrently we are designing the assay to minimise cost and maximise performance.
Revenue of £0.5m (2018: £nil) was recorded in the period against the overall grant of £1.1m. Progress in the period is slightly behind our original plan owing to minor technical hurdles but we remain focussed on earning commercial revenues from this assay in the year ending 30 June 2021.

Antibiotic Induced Hearing Loss (AIHL)

The Group is developing an assay to detect the genetic mutation in children that causes profound hearing loss when exposed to antibiotics. With up to 90,000 neonate admissions in the UK alone, this assay has the potential to provide a sizeable commercial opportunity as well as showcasing the benefits of Genedrive® in an NHS setting.
In June 2018 the Group secured £0.5m as part of a £1.0m award from the NHS to develop the test and trial its use in emergency healthcare settings. The project is progressing well and initial proof of principle assays are performing at test times less than 30 minutes. The phasing of the project steps has been altered by an unexpected MHRA requirement to CE mark the analytical performance of the test prior to commencing clinical work and therefore these crucial hospital trials, to be undertaken in Manchester and Liverpool, are now expected to commence in the early autumn, rather than June as originally forecast; overall timelines are not expected to be impacted and we are targeting commercial revenues from this assay in the year ending 30 June 2021. Grant qualifying costs incurred to progress the project have been recorded as revenue in the period.

The ability to test for the genetic mutation at the point of care, at speed and without compromising accuracy fits entirely with the core characteristics of the Genedrive®. We remain very excited about the commercial and healthcare prospects for this assay.

INTERIM MANAGEMENT REPORT continued

Financial Results

There was a distinct change in the mix of revenue compared to previous periods, with the current period being predominantly commercial orders of assays and Genedrive® units and the prior year being development income linked to product progress. This revenue increase is primarily apportioned to pathogen detection projects with the DoD and the $0.9m order that was shipped in mid-December 2018.

Research and development costs were £2.5m (2017: £2.2m) up modestly on the prior year and reflecting the activity in grant funded programmes. Administration costs were down at £1.0m (2017: £1.2m), giving a trading loss for the period of £2.0m (2017: £2.2m). The amendment to the Sale and Purchase Agreement for Visible Genomics created a fair value gain of £0.6m (2017: £nil), making the operating loss for the period £1.4m (2017: £2.2m).

Financing costs of £354k (2017: £71k) relate to interest accruals on the convertible loans issued to BGF and GHIF, net of a small amount of interest earned on deposited cash. The amendment to the GHIF loan in December 2018 created a £0.3m (2018: nil) fair value gain that offset some of the interest charges for the period. The BGF loan was issued towards the end of the accounting period as part of the £6.0m fundraising and attracted a small amount of interest in the period. After financing costs, the loss before taxation was £1.7m (2017: £2.3m). This reduces to £1.4m (2017: £1.8m) after estimating the six month taxation credit. The basic loss per share was 7.0p (2017: 10.9p)

Cash Resources

Net cash out-flows from operations were £3.0m (2017: £1.8m outflow). The operating loss was £1.4m (2017: £2.2m) and working capital consumption £1.0m (2017: £0.4m). Working capital was affected by the invoicing of the DoD just before the period end which explains the majority of debtor out-flow.

The R&D tax claim for the year ending 30 June 2018 was not submitted to HMRC until after the December fundraise and as such there was no receipt in the period (2017: £1.2m). The net proceeds from the December 2018 fund raising were £5.7m, after fees of £0.3m. Linked to the fund raise, the Group paid out £0.3m in cash to the former owner of Visible Genomics as part of an amendment to the historic Sale and Purchase Agreement; the amendment also created a £0.6m non-cash credit to the income statement as noted above. Fund raise proceeds net of fees and the Visible Genomics payment were therefore £5.4m.

The net cash movement in the period was £2.3m (2017: £0.6m decrease) resulting in a year end cash positon of £5.8m. The unaudited cash position at 27th March 2019 was £4.7m, with the R&D tax credit £1.0m and the DoD $0.9m receivable expected to be paid in the coming weeks.

Balance Sheet

Balance sheet net liabilities at 31 December 2018 totalled £284k (30 June 2018: £2.4m net liabilities). We continue to monitor the net liabilities in accordance with s656 of the Companies Act. The movement in the period is owing to the consolidated loss for the period £1.4m (2017: £1.7m), offset by £3.6m of transactions settled directly in equity that mainly related to the December 2018 fund raise.

Principal Risks and Uncertainties

There are a number of potential risks and uncertainties which could have a material impact on the Group's performance over the remaining six months of the financial year and could cause actual results to differ materially from expected and historical results. The Directors do not consider that these principal risks and uncertainties have changed materially since publication of the annual report for the year ended 30 June 2018; a more detailed explanation of the risks for the Group can be found on page 17 of that annual report. The UK's exit from the European Union (Brexit) has been considered by the Board and is not considered a material risk to the short and medium term plans of the Group.

Outlook

We traded in line with management's expectations in the first half of the current financial year owing to the first commercial order received from the DoD. A second large DoD order is due to ship in the next couple of months and we have confidence that we will receive further orders from this customer in the medium term.

Whilst we continue to make progress in gaining country registrations for our Genedrive® HCV-ID Kit, as previously communicated this process has taken longer than originally expected. This delay will have a short-term impact on revenues for the year ended 30 June 2019, with new sales for this assay expected to contribute more significantly from the next financial year onwards. Nevertheless we still expect to deliver around 25% growth in full year revenue and other income compared to those recorded for the year ended 30 June 2018 – excluding any further sales that may be generated from additional uptake of our HCV assay and further DoD orders beyond those already announced.

The Board remains confident in the Genedrive® platform particularly as we move into commercialisation for both our HCV and bio-threats tests, and continue to be committed to the business strategy of exploiting the attractive near patient molecular diagnostics market.

David Budd
Chief Executive
28 March 2019

Dr I Gilham
Chairman

UNAUDITED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 31 December 2018

	Note	**Six months ended 31 December 2018 Unaudited £'000**	Six months ended 31 December 2017 Unaudited £'000	Year Ended 30 June 2018 Audited £'000
Revenue & other income	4	**1,488**	1,287	1,938
Research and development costs		**(2,496)**	(2,223)	(5,180)
Administrative costs		**(1,009)**	(1,237)	(2,022)
Trading loss		**(2,017)**	(2,183)	(5,264)
Exceptional gain on settlement of deferred consideration		**635**	–	–
Impairment of intangible assets		**–**	–	(2,111)
Operating loss	4	**(1,382)**	(2,183)	(7,375)
Finance costs	5	**(354)**	(71)	(413)
Loss on ordinary activities before taxation		**(1,736)**	(2,254)	(7,788)
Taxation on ordinary activities		**303**	434	758
Loss for the financial year from continuing Operations		**(1,433)**	(1,820)	(7,030)
Discontinued operations				
Profit for the period from discontinued operations		**–**	145	1,063
Loss/ Total Comprehensive Expense for the period		**(1,433)**	(1,675)	(5,967)
Loss per share (pence) from continuing operations -Basic and Diluted		**(7.0)**	(10.9)	(37.6)
Loss per share (pence) from continuing and discontinued operations -Basic and Diluted		**(7.0**	(9.0)	(31.9)

UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 31 December 2018

	Share Capital £'000	Other Reserves £'000	Retained Earnings £'000	Total £'000
At 30 June 2017	281	24,657	(21,497)	3,441
Transfer of shares to SIP members	–	–	(2)	–
Equity –settled share based payments	–	–	–	38
Transactions settled directly in equity	–	–	(2)	38
Total comprehensive expense for the financial period	–	–	(1,675)	(1,675)
At 31 December 2017	281	24,697	(23,174)	1,804
Share Issue	1	–	–	1
Transfer of shares to SIP members	–	31	–	31
Equity –settled share based payments	–	17	–	17
Transactions settled directly in equity	1	38	–	49
Total comprehensive expense for the financial period	–	–	(4,290)	(4,290)
At 30 June 2018	282	24,745	(27,464)	(2,437)
Issue of shares	228	3,015	–	3,243
Deferred consideration- equity component	–	315	–	315
Equity –settled share based payments	–	46	(18)	28
Transactions settled directly in equity	228	3,376	(18)	3,586
Total comprehensive expense for the financial period	–	–	(1,433)	(1,433)
At 31 December 2018	**510**	**28,121**	**(28,915)**	**(284)**

UNAUDITED CONSOLIDATED BALANCE SHEET

As at 31 December 2018

	Note	31 December 2018 (unaudited) £'000	31 December 2017 (unaudited) £'000	30 June 2018 (audited) £'000
Non-current assets				
Intangible assets		**–**	2,613	–
Plant and equipment		**181**	483	165
Contingent consideration receivable		**340**	–	340
		521	3,096	505
Current assets				
Inventories		**333**	479	171
Trade and other receivables		**1,290**	1,285	551
Current tax asset		**1,307**	600	980
Contingent consideration receivable		**172**	–	172
Cash and cash equivalents		**5,840**	4,551	3,529
		8,942	6,915	5,403
Liabilities				
Current liabilities				
Deferred income		**–**	(129)	–
Trade and other payables		**(1,397)**	(1,551)	(1,470)
Deferred consideration	7	**–**	–	(1,250)
		(1,397	(1,680)	(2,720)
Net current assets		**7,545**	5,235	2,683
Total assets less current liabilities		**8,066**	8,331	3,188
Non-current liabilities				
Deferred consideration	7	**–**	(1,250)	–
Convertible bonds	8	**(8,350)**	(5,277)	(5,625)
		(8,350)	(6,527)	(5,625)
Net assets		**(284)**	1,804	(2,437)
Capital and reserves				
Called-up equity share capital	9	**510**	281	282
Other reserves	10	**28,121**	24,647	24,745
Retained earnings		**(28,915)**	(23,174)	(27,464)
Total shareholders' equity		**(284)**	1,804	(2,437)

UNAUDITED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 31 December 2018

	31 December 2018 (unaudited) £'000	31 December 2017 (unaudited) £'000	30 June 2018 (audited) £'000
Cash flows from operating activities			
Operating loss for the year	**(1,382)**	(2,183)	(7,375)
Depreciation, amortisation and impairment	**54**	480	3,117
Exceptional gain on settlement of deferred consideration	**(635)**		
ATL Research credits	**(24)**	–	(59)
Share – based payment (credit)/ expense	**9**	38	(12)
Operating loss before changes in working capital and provisions	**(1,978)**	(1,665)	(4,329)
(Increase)/ Decrease in inventories	**(162)**	(35)	241
(Increase)/ Decrease in trade and other receivables	**(739)**	14	119
Increase in deferred revenue	**–**	–	(115)
Decrease in trade and other payables	**(120)**	(355)	(547)
Cash flow from discontinued operations	**–**	256	864
Net cash outflow from operations	**(2,999)**	(1,785)	(3,767)
Tax received	**–**	1,220	1,220
Net cash outflow from operating activities	**(2,999)**	(565)	(2,547)
Cash flows from investing activities			
Finance income	**5**	6	13
Cash paid to settled deferred consideration	**(300)**		
Acquisition of plant and equipment and intangible assets	**(70)**	(12)	(24)
Proceeds from disposal of discontinued operations	**–**	–	957
Net cash (outflow)/ inflow from investing activities	**(365)**	(6)	946
Cash flows from financing activities			
Proceeds from share issue	**3,318**		
Proceeds from bond issue	**2,366**	–	–
Net inflow from financing activities	**5,684**	–	–
Net increase/ (decrease) in cash equivalents	**2,320**	(571)	(1,601)
Effects of exchange rate changes on cash and cash equivalents	**(9)**	(7)	1
Cash and cash equivalents at beginning of period/ year	**3,529**	5,129	5,129
Cash and cash equivalents at end of period/ year	**5,840**	4,551	3,529
Analysis of net funds			
Cash at bank and in hand	**5,840**	4,551	3,529

NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS

1. General information

Genedrive plc ('the Company') and its subsidiaries (together 'the Group') is a molecular diagnostics business developing and commercialising a low cost, rapid, versatile, simple to use and robust point of need diagnostics platform for the diagnosis of infectious diseases and for use in patient stratification (genotyping), pathogen detection and other indications. The Company is a limited liability company incorporated and domiciled in the UK. The address of its registered office is 48 Grafton Street, Manchester, M13 9XX. The Company has its listing on the Alternative Investment Market.

The financial information for the period ended 31 December 2018 and similarly the period ended 31 December 2017 has been neither audited nor reviewed by the auditor. The financial information for the year ended 30 June 2018 has been based on information in the audited financial statements for that period. The interim condensed financial statements for the period ended 31 December 2018 do not constitute statutory accounts as defined in section 434 of the Companies Act 2006. A copy of the statutory accounts for the year ended 30 June 2018 has been delivered to the Registrar of Companies.

These interim financial statements were approved by the Board of Directors on 27 March 2019.

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

2. Significant accounting policies

Basis of consolidation

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 pounds (£k) except where otherwise indicated.

Subsidiaries are entities controlled by the Group. 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 8th June 2018 the Group disposed of the Service business. The respective results for the business are disclosed as discontinued operations. Where necessary the results for the period ending 31 December 2017 have been restated to present these as discontinued operations.

Basis of preparation

The Group meets its day-to-day working capital requirements through its bank facilities. Cash at bank was increased following the equity and debt fund raise that took place in December 2018. The Group's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the Group should be able to operate within the level of its current facilities. After making enquiries, the Directors have a reasonable expectation that the group has adequate resources to continue in operational existence for at least twelve months from the date of approval of the financial statements. Having reassessed the principal risks, the directors considered it appropriate to adopt the going concern basis of accounting in preparing its condensed interim financial statements

New accounting standards adopted in the period

IFRS 9 Financial Instruments and IFRS15 Revenue from Contracts with Customers have been adopted in the period but have had no impact on the results and no adjustments have been made.

Estimates

The preparation of interim financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing these interim financial statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation were the same as those that applied to the consolidated financial statements for the year ended 30 June 2018, with the exception of changes in estimates that are required in:
– determining the provision for taxation; and
– valuing the amendment to the GHIF convertible loan and the fair valuing of the recently issued BGF convertible bond.

Revenue recognition

a. Contract revenue
Contract revenue is recognised by reference to the stage of completion of the 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 Consolidated Statement of Comprehensive Income on a systematic and rational basis over the useful lives of the related assets.

d. Product sales
Revenue from product sales is recognised on shipment to customers in line with contractual agreements.

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.

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.
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.

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.

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

NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS continued

Share-based payments

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

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.

Cash settled share based payments are fair valued at the date services are delivered. A liability is created on the balance sheet for the value received. Until the liability is settled, the fair value is adjusted at each accounting period with changes reported in the profit and loss for that period.

Financial instruments (including Convertible bond)

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

The Company has in issue a convertible bond which is a compound financial instrument comprising a liability component, or debt host, and an equity derivative component.

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

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

Finance costs of the debt host are included in Finance costs and income. Similarly, gains or losses on the value of the derivative are also included in Finance costs and income.

The Group's convertible bonds are compound financial instruments, comprising both liability components and equity components. The fair value of the liability component is estimated using the prevailing interest rate at the date of issue for similar non-convertible instruments. The difference between the proceeds of issue of the convertible bonds and the fair value assigned to the liability components, representing the embedded option to convert the liability into Company's ordinary shares, is included in equity. The interest expense on the liability component is calculated by applying applicable market rates for similar non-convertible debt prevailing at the dates of issue to the liability components of the instruments.

The difference between this amount and the actual interest paid is added to the carrying amount of the liability component and is included in finance charges together with the interest payable.

3. Revenue and Other Income

Income receivable in the form of Government grants to fund product development is recognised as development grant funding when the related eligible costs are incurred and recognised, as detailed below.

4. Business segments

	Diagnostic Segment £'000	Administrative Costs £'000	Total £'000
Six months ended 31 December 2018			
Revenue and other income	1,488	–	1,488
Segment EBITDA	(994)	(969)	(1,963)
Less depreciation and amortisation	(14)	(40)	(54)
Exceptional gain on settlement of deferred consideration	–	635	635
Operating profit/ (loss)	**(1,008)**	**(374)**	**(1,382)**
Net Finance costs			(354)
Loss on ordinary activities before taxation			**(1,736)**
Taxation			303
Loss for the financial period			**(1,433)**

	Diagnostic Segment £'000	Administrative Costs £'000	Total £'000
Six months ended 31 December 2017			
Revenue and other income	1,287	–	1,287
Segment EBITDA	(660)	(1,043)	(1,703)
Less depreciation and amortisation	(286)	(194)	(480)
Operating profit/ (loss)	(946)	(1,237)	(2,183)
Net Finance costs			(71)
Loss on ordinary activities before taxation			(2,254)
Taxation			434
Loss for the financial period from continuing operations			(1,820)
Profit for the period from discontinued operations			145
Loss for the financial period			(1,675)

NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS continued

	Diagnostic Segment £'000	Administrative Costs £'000	Total £'000
Twelve months ended 30 June 2018			
Revenue and other income	1,938	–	1,938
Segment EBITDA	(2,325)	(1,933)	(4,258)
Less depreciation and amortization	(917)	(89)	(1,006)
Impairment of intangible assets	–	(2,111)	(2,111)
Operating profit/ (loss)	(3,242)	(4,133)	(7,375)
Net Finance costs			(413)
Loss on ordinary activities before taxation			(7,788)
Taxation			758
Loss for the financial year from continuing operations			(7,030)
Profit for the year from discontinued operations			1,063
Loss for the financial period			(5,967)

5. Finance costs

	31 December 2018 £'000	31 December 2017 £'000	30 June 2018 £'000
Exceptional			
–Impact of amendment to Convertible Bond	**563**	–	–
–Impact of amendment to derivative embedded in Convertible Bond	**(238)**	–	–
Interest income on bank deposits	**4**	6	13
Finance cost on Convertible Bonds	**(52)**	(153)	(304)
Unwind of discount on Convertible Bond	**(427)**	(109)	(227)
Foreign exchange movement in Convertible Bond	**(204)**	185	105
Financing income and costs	**(354)**	(71)	(413)

6. Earnings per share

The basic earnings per share is calculated by dividing the earnings attributable to ordinary shareholders for the year by the weighted average number of ordinary shares in issue during the year. The weighted average number of shares in issue during the period was 20,529,373 (2017: 18,689,446).

7. Deferred consideration payable in shares

During the period to 31 December 2018, the Company entered into a fifth deed of amendment in relation to the Visible Genomics Sale and Purchase Agreement. The fifth deed of amendment became effective on the 10 December 2018 and varied the remaining £1,250,000 consideration payable to:

i. A payment of £300,000 in cash 20 business days after the 10 December 2018;
ii. An allotment of 869,565 shares in genedrive plc on 10 December 2019;
iii. An allotment of 500,000 shares in genedrive plc on 10 December 2021.

The fair value of the future shares to be issued was calculated based on the share price on the date the deed became effective and was 23.0p per share. The aggregate value of shares to be issued was booked into reserves as a separate component of equity.

The difference between the total fair value of the shares (£315,000) and the cash payment made (£300,000) and the £1,250,000 provision on the balance sheet immediately before the deed became effective was taken to the income statement in the period to 31 December 2018 and disclosed as an exceptional item.

8. Convertible Bond

	GHIF Host £'000	GHIF Derivative £'000	BGF Host £'000	BGF Derivative £'000	Total Host £'000	Total Derivative £'000	Total £'000
Balance at 30 June 2018	5,621	4	–	–	5,621	4	5,625
Finance cost (GHIF)	427	–	–	–	427	–	427
Foreign exchange movement (GHIF)	204	–	–	–	204	–	204
Balance 9th December 2018	6,252	4	–	–	6,252	4	6,256
Fair value impact of Deed of Amendment (GHIF)	(563)	238	–	–	(563)	238	(325)
Issue of loan note (BGF)	–	–	2,104	396	2,104	396	2,500
Prepaid arrangement fees (BGF)	–	–	(133)	–	(133)	–	(133)
Finance cost (BGF)	40	–	12	–	52	–	52
Balance at 31 December 2018	**5,729**	**242**	**1,983**	**396**	**7,712**	**638**	**8,350**

Global Health Investment Fund 1 LLC (GHIF)

The Company entered into a second deed of amendment with the Global Health Investment Fund 1 LLC (GHIF) that became effective on the 10 December 2018. The principal effects of the Deed of Amendment were to alter the June 2016 Deed of Amendment and Restatement of the five year $8.0m and 5% coupon convertible bond with GHIF as follows:

- The maturity date of the GHIF bond was extended from December 2021 to December 2023;
- The deferment of interest period was extended from January 2019 to January 2022;
- The strike price of the first $2m tranche was reduced from 150p to 28.75p; and
- The strike price of the second $6m tranche was reduced from 489p to 150p.

All other terms remained the same. The amendment has been treated as a modification and not an extinguishment because material elements of the changes are unaffected and the difference of the cashflows before and after the amendment are approximately equal to 10.4%. The future cashflows from the bond have been discounted at a cost of capital rate of 10.0%,

Business Growth Fund (BGF)

The Company entered into an agreement with the Business Growth Fund (BGF) that became effective on the 10 December 2018. Under the terms of the agreement BGF and the Company entered into a convertible loan arrangement. The main terms of the convertible loan note are:

- £2.5m loan that matures on 30 June 2025;
- Interest accrues on the loan at a rate of 7%, payable quarterly;
- Interest can be deferred into the principal up until 31 December 2021 and then needs to be paid in full;
- The loan converts at 28.75p which was 125% of the share price on 10 December;
- Certain warranties have been granted by the Company and the Executive Directors to BGF and BGF consent is required on certain matters;
- The loan came conditional with a £1m subscription to the December 2018 fund raising process; and
- The maximum number of shares to be issued to BGF on conversion of the Loan Notes, when aggregated with the Ordinary Shares held by BGF and persons acting in concert with BGF, is capped at 29.9% of the issued share capital of the Company.

DIRECTORS, SECRETARY AND ADVISERS

The convertible loan has been stated at its fair value and will be subsequently measured at amortised cost. The future cashflows from the bond have been discounted at a cost of capital rate of 10.0%, with loan arrangement costs being prepaid and amortised against the life of the loan.

The convertible nature of the loan grants BGF an option to convert to equity at a certain share price; this has been valued as the residual amount, representing the value of the equity conversion component, and treated as a derivative option.

9. Share capital

Allotted, issued and fully paid:	No.	£'000
Brought forward at 1 July 2017	18,689,446	281
Shares issued	–	–
Balance at 31 December 2017	18,689,446	281
Shares issued	93,669	1
Balance at 30 June 2018	18,783,115	282
Shares issued	15,217,391	228
Balance at 31 December 2018	**34,000,506**	**510**

At the balance sheet date there are three convertible and potentially convertible arrangements that could result in in the issue of additional shares:

1. Note 7 details the shares to be issued to the former owner of Visible Genomics at 10 December 2019 and 10 December 2021.
2. Note 8 details the option to convert the loan note held by BGF (£2.5m) at 28.75p.
3. Note 8 details the option to convert the loan note held by and GHIF ($8.0m) as follows:
   a. Tranche 1, $2.0m plus deferred interest at 28.75p per share.
   b. Tranche 2, $6m plus deferred interest at 150.0p per share.

10. Other Reserves

	Share Premium Account £'000	Shares to be issued £'000	Employee Share Incentive Plan Reserve £'000	Share Options Reserve £'000	Reverse Acquisitions Reserve £'000	Total £'000
At 30 June 2017	**25,988**	**–**	**(229)**	**1,382**	**(2,484)**	**24,657**
Transfer of shares to SIP members	–	–	2	–	–	2
Equity –settled share based payments	–	–	–	38	–	38
Transactions settled directly in equity	–	–	2	38	–	40
At 31 December 2017	**25,988**	**–**	**(227)**	**1,420**	**(2,484)**	**24,697**
Transfer of shares to SIP members	–	–	31	–	–	31
Equity –settled share based payments	–	–	–	17	–	17
At 30 June 2018	**25,988**	**–**	**(196)**	**1,437**	**(2,484)**	**24,745**
Issue of shares	3,015	–	–	–	–	3,015
Deferred consideration- equity component	–	315	–	–	–	315
Equity –settled share based payments	–	–	18	28	–	46
At 31 December 2018	**29,003**	**315**	**(178)**	**1,465**	**(2,484)**	**28,121**

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