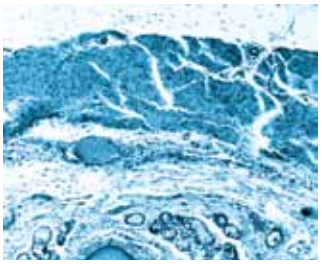
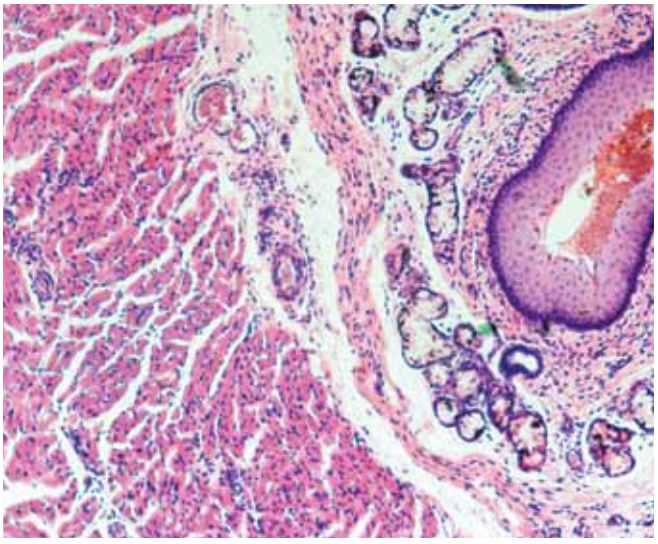
epistem

Delivering a new dimension in healthcare

Epistem Holdings Plc
Annual Report 2013





Welcome to Epistem

"The 2013 year saw continued progress in Preclinical Research Services and Personalised Medicine, whilst we continued our development of Genedrive® to gain regulatory approval for its launch into the clinically regulated marketplace."

David Evans
Chairman

About Us

Epistem is a biotechnology and personalised medicine company commercialising its expertise in epithelial stem cells and infectious disease.

Epistem develops innovative therapeutics, biomarkers and diagnostic products alongside providing preclinical research services for drug development companies.

The Group's core expertise comprises a detailed understanding of the regulation of adult stem cells and novel and proprietary next generation molecular tools for use in patient stratification and personalised medicine.

Highlights

- Total sales of £5.4m (2012: £5.6m) driven by a firm performance from our Preclinical Research Services and Personalised Medicine Divisions.
- Following high levels of investment in our Personalised Medicine technology (Genedrive®), the Company reports a loss of £1.2m (2012: £0.2m loss after tax).
- Preparation for the final stages of Tuberculosis (TB) clinical testing and Indian regulatory submission with launch of Genedrive® expected in H2 2014. Initial TB clinical papers submitted for publication.
- Successfully completed first patient stratification assessments in clinical trials for Genedrive® pharmacogenomic applications.
- Announcement of Euro 1.5m 'Hepatitis C' collaboration with INSERM and the Pasteur Institute.
- Preclinical Research Services sales of £2.9m (2012: £2.9m) with expanded offering in biodefence, leukemia imaging and rheumatoid arthritis.
- Ongoing investment in Novel Therapies lead discovery programme.
- £4.2m cash placing completed in December 2012 resulting in strengthened cash balances of £6.5m as at 30 June 2013.

Strength

Core business driven by a solid performance from Preclinical Research Services with emerging strength in our Personalised Medicine Division.

Technology

Increased investment in our leading technologies accelerated their advancement over the reporting period with particular emphasis on our Genedrive® platform and continued investment in Novel Therapies lead discovery programme.

Financial

A placing of shares during the period strengthening the Company cash reserves.

Investor

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

Our Divisions

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

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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.

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Our **Personalised Medicine: Diagnostics** Division is changing the way healthcare and personalised medicine are delivered. Our innovative Genedrive® platform is preparing for initial product sales in infectious disease in 2014.

Page 8

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

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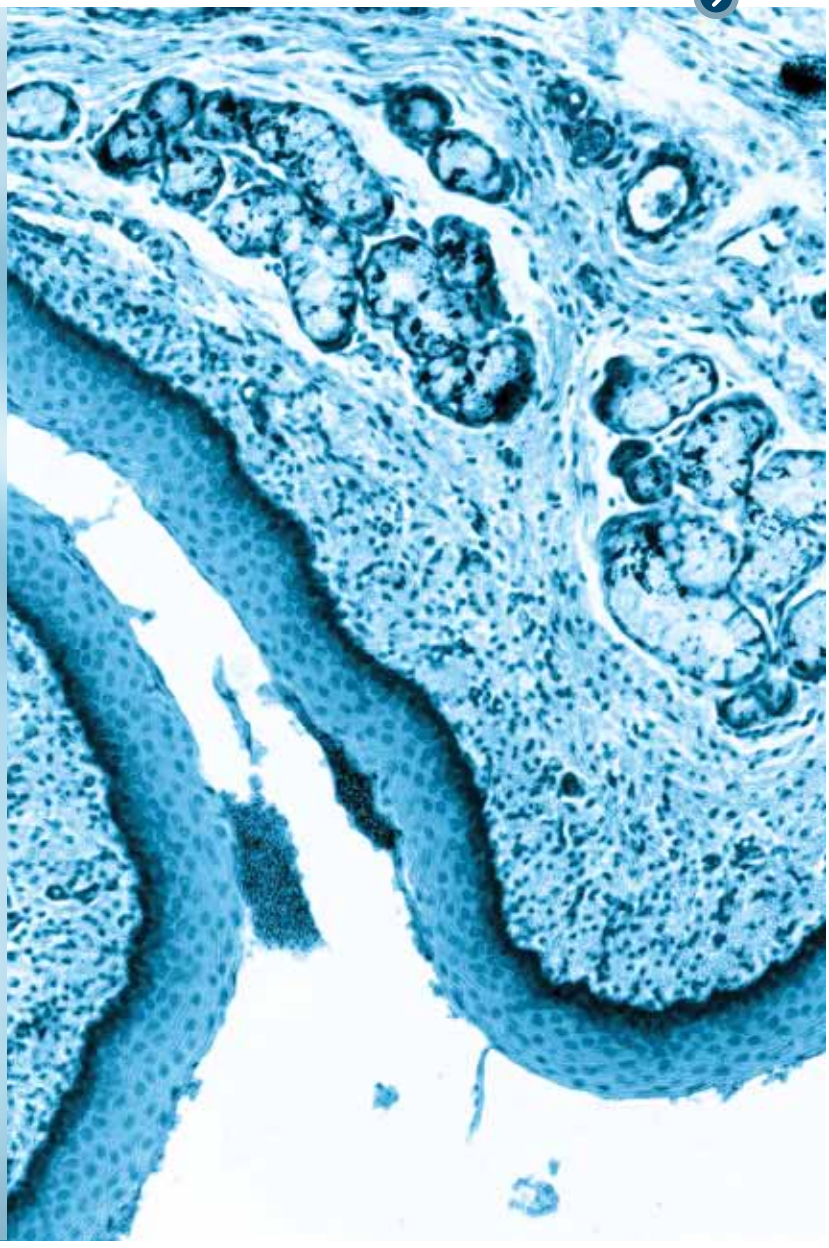
Preclinical Research Services

A global approach to drug development

Expansion of US biodefence contract

Growth in inflammatory bowel disease services

New 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 and dermatology.

During the year, Preclinical Research Services delivered a 27% operating margin on sales of £2.9m (2012: £2.9m).

New model development

The Division provides a high margin, niche, preclinical service offering across our core disease areas of oncology, mucositis, inflammatory bowel disease and dermatology. Alongside developing our cornerstone biodefence models for the US National Institutes of Health, the Division continues to strengthen its service model offering and during the year continued the development of its orthotopic and rheumatoid arthritis models. We look to extend our internal imaging capabilities, especially in leukemia, along with further investment in our inflammatory bowel disease models.

Biodefence

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 a partner to this programme for over 7 years and provide a role as 'Subject Matter Experts' (SME) in radiation exposure. Alongside a broadening client base, we are currently preparing to extend our service capability to set up a small laboratory facility in Baltimore to engage more closely with 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.

Outlook

Over the coming year, we expect to build on our new oncology (imaging) services, rheumatoid arthritis and inflammation models from which we expect to see continued ongoing growth.

Personalised Medicine

Pharmacogenomics: Identification of genomic markers of drug and disease effect to guide patient-specific drug treatment strategies

Molecular Technology
Genedrive®

DNA Amplification

RNA Amplification (RNA AMP®)

Customers

Pharma and Biotech

Patient applications
(Companion Diagnostics)

Patient Stratification

Patient genotypic characteristics

Oncogene/ Identification

Diagnostics: Identification of bacterial, viral, fungal and gene mutations for tailored treatment, preventative action or human identification

Molecular Technology
Genedrive®

DNA Amplification

Customers

Diagnostic partners

Patient applications
(Point of Care)

Infectious Disease

Tuberculosis (TB)

Hepatitis C (HCV)

Dengue/Malaria

STIs

Molecular Technology
Genedrive®

DNA Amplification

Customers

Diagnostic partners

Applications
(Point of Need)

Biosurveillance

Crops & agriculture

Veterinary

Food processing

Forensics

Guide to treatment

Patient therapeutic treatment
(predominantly based on human genomic markers)

"We believe that the launch of our first Genedrive® product in TB coupled with the earlier reported India supply agreement provides very attractive growth opportunities. We are continuing to progress a range of partner discussions across multiple potential applications"

David Evans
Chairman

Guide to treatment

Patient therapeutic treatment
(predominantly targeting disease pathogens)

"We expect to see molecular diagnostics begin to dominate the next generation of diagnostic testing and to change the speed accuracy and workflows in near patient 'Point of Care' assessment"

Matthew H Walls
Chief Executive Officer

Guide to treatment

DNA, Pathogen or other target identity for treatment, preventative action and/or human identification

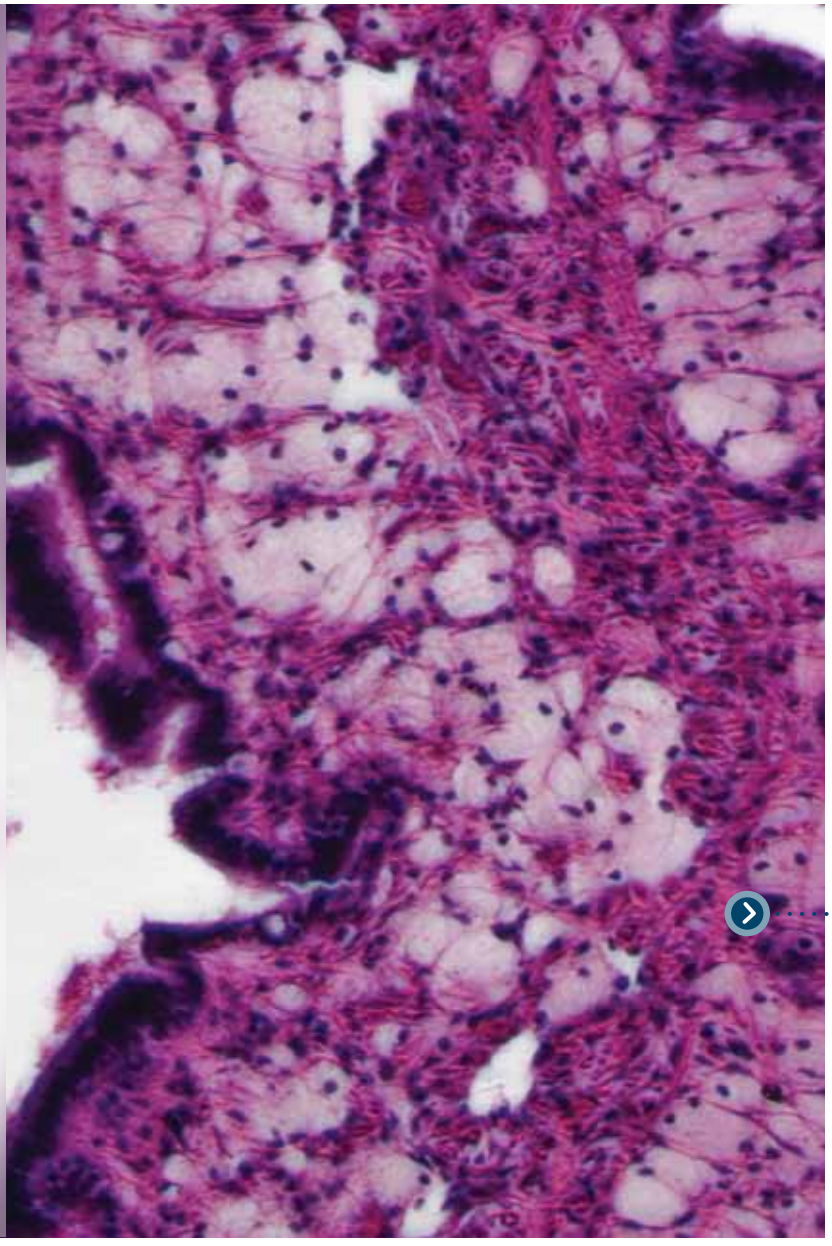
Personalised Medicine: Pharmacogenomics

Continued development in patient stratification and personalised medicine

Major pharmaceutical collaborations

Ongoing development of oncogene mutation analysis

Successful completion of initial clinical studies for patient stratification



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

Following last year's strong growth, this year's revenues remained steady at £2.1m underpinned by our molecular studies for GlaxoSmithKline, Novartis and Sanofi Aventis. These studies utilise Epistem's proprietary RNA amplification technology and oncology (cancer) bioinformatics to provide biomarker discovery and molecular analysis for drug development in oncology and fibrosis drug discovery programmes. The Pharmacogenomics Division (formerly Biomarkers) 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, identifying gene activated pathways. Our expertise in defining the consequences of gene target modulation in epithelial tissue continues to advance, with the discovery of several key oncology target signatures over the past year as well as continuing to be utilised in key target identification programmes for our business partners.

Patient stratification

We are now developing our pharmacogenomics Genedrive® applications with major pharmaceutical strategic partners. We are working closely with Novartis on the clinical expansion of our oncogene identification from whole blood and with GlaxoSmithKline for the rapid assessment of genotypes for 'patient stratification' for therapeutic treatment. During the year we successfully completed 2 Genedrive® clinical assessments for 'on the spot' stratification of patients based on their genotypic characteristics. The identification of genotypic and/or target mutations will allow patients to be 'stratified' at the 'Point of Care' facilitating rapid administration of the correct course of 'personalised' therapeutic treatment. Over the coming year, we will continue our work developing Genedrive® for use as a highly sensitive screening tool for identification and monitoring of the presence of mutation targets in blood.

Outlook

The broadening adoption of Genedrive® for use in pharmacogenomics applications is anticipated to lift the forecast sales of the Personalised Medicine Division over the coming year.

Personalised Medicine: Diagnostics

A new dimension in healthcare

Case study: Hepatitis C (HCV):

Between 150 and 180 million people (2.2-3.0% global population) live with HCV infection and together with Hepatitis B 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.

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

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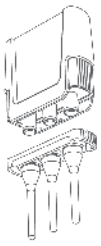

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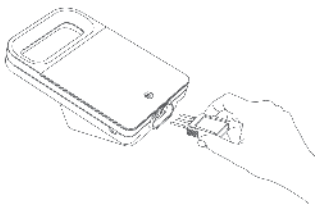

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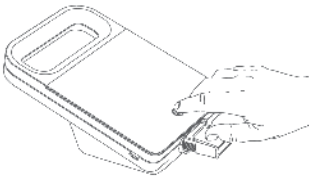


Our key priority in this financial year is to gain approval for launch of Genedrive® into a clinically regulated TB marketplace whilst continuing the broad menu of developments in clinical and non-clinical fields.

We expect to see molecular diagnostics featuring strongly in the next generation of diagnostic testing, enabling speed, accuracy and workflows in near patient 'Point of Care' assessment. Over the coming year, we intend to accelerate our product developments through increased investment in our manpower resource and expertise, enhance our manufacturing and regulatory control and further develop our channel partner distribution strategy to take advantage of the substantial growth opportunities open to us.

Tuberculosis and channel partner strategy

Over the past year, we have designed a TB assay capable of establishing a new standard in antibiotic resistance testing. The assay possesses several important technical advantages over competitor products and coupled with an industry-leading speed to result, ease of use and pricing, will, we believe, deliver a highly competitive product to market. We are beginning to build our case for World Health Organisation recommendation of our TB assay and over the coming months we will be publishing the first clinical data on our TB test and how this compares to industry leaders in addressing the US$1bn TB diagnostics market.

Hepatitis C (HCV)

We recently announced a Euro1.5m, three (3) year collaboration with INSERM the French National Institute of Health and Medical Research, starting from September 2013, to develop a Point of Care predictive and prognostic test that will enable tangible improvements in the health and quality of life of chronic hepatitis C (HCV) patients. Technical completion of the assay is scheduled for mid way through 2014 with an expected launch in 2015. We will be seeking strategic partnerships with non-governmental organisations, national health and development agencies.

Other infectious diseases

We are advancing our assay development across a range of other infectious diseases, with tests under development in malaria, dengue and a range of sexually-transmitted diseases. We expect to supply and distribute these high volume tests through our channel partner strategy.

Biosurveillance

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 preparing to continue to the next phase of our US Government contract with the Defence Threat Reduction Agency (DTRA) for pathogen detection. We anticipate up to US$0.6m in development funding over the next 6 months and if successful, extend into broader US Department of Defence use. We expect further growth in the US Department of Defence areas over the coming year.

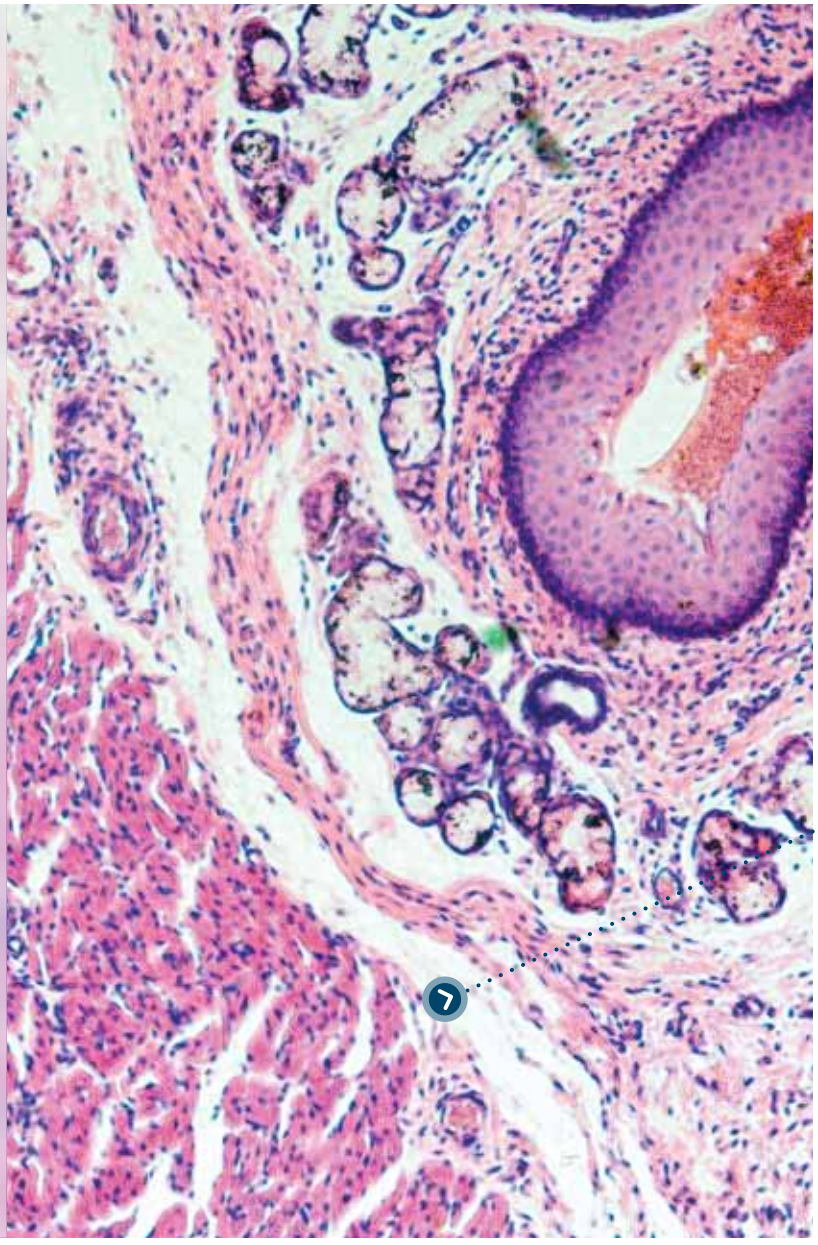
Novel Therapies

Ongoing development

Ongoing investment in lead validation

Advanced protein synthesis programme

Extensive development of *in vitro* screening tools



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

From our comprehensive mapping and gene expression profiling of epithelial tissue, Epistem scientists have begun to identify the 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

The Novartis collaboration was completed in March 2013 and we now retain intellectual property rights over our collaborative leads and continue to progress discussions with partner groups over the development of our Novel Therapies lead programme.

We have continued to define the mechanism of action of our lead candidates – understanding the cell biology and signalling pathways which regulate the cell/stem cells in the areas of regenerative medicine and oncology and we are considering small molecule partnerships to establish a portfolio of agents which regulate signalling pathways and cell biology.

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

Outlook

Given the investment requirements of our Genedrive® programme, we will maintain a controlled approach to ongoing investment in our Novel Therapies lead programme. The timing of a license opportunity and/or funding support remains difficult to judge, although we remain confident in our development programme.

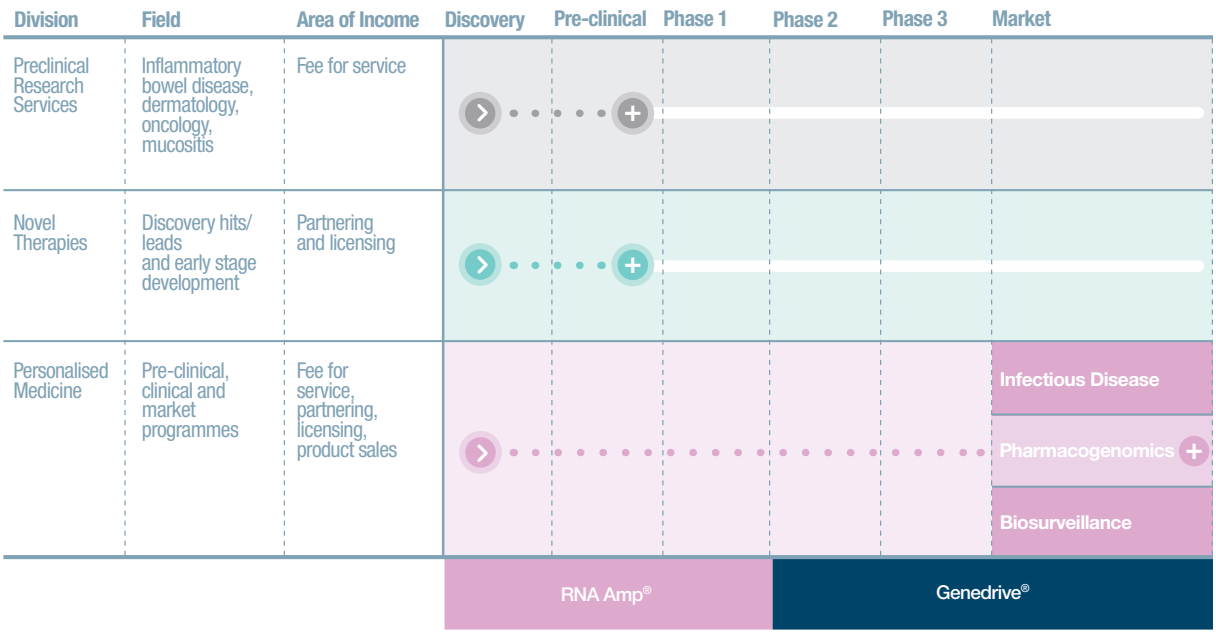
Our Business and Strategy

Forward thinking

Our business model is based on developing technologies and sustaining future growth.

Epistem has an unrivalled knowledge of the behaviour of epithelial tissue which together with our proprietary amplification technologies and emerging first products will further strengthen our position in personalised medicine and disease diagnostics.

Matthew H Walls
Chief Executive Officer



Guiding Principles

Operational

Integrated business model
Epistem's independent Divisions bring together a strong and complementary portfolio of business units rarely seen in a biotechnology business model. Our strategy is focussed 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 build on and nurture greater collaborative development in conjunction with our partners. As our business changes, we expect our partners to change and evolve too, but we remain committed to developing and enhancing our scientific relationships to unlock the potential of our technologies and further develop the growth of our Company.

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

Product focus
The development of our first diagnostic product Genedrive® within the Company portfolio brings a fresh dimension to the Company's profile and business model. Genedrive's® application across multiple disease areas is providing a new growth driver in our integrated business model as well as complementing our more established technology and service offerings.

Strategic

Strategic Goals Delivery
The launch of our first product Genedrive® will bring a new profile to our business, based on globally leading technology, high 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. Substantial and growing income streams from our pharmacogenomics and diagnostics offering will signal Epistem as a company with significant upside potential.

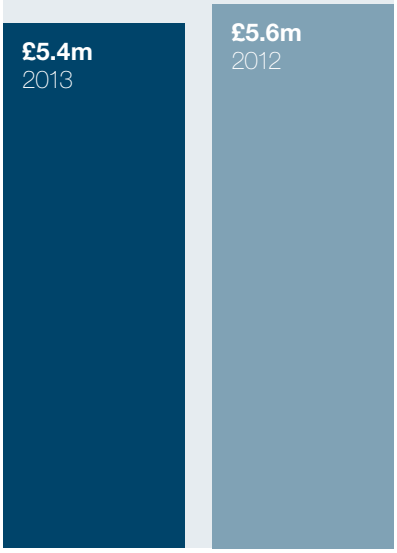
Highlights

Strengthening investment for future growth

Epistem reports increased investment in its diagnostic platform, Genedrive®, and in new pharmacogenomic and infectious disease assays with product launches expected in 2014. Revenue generation in Preclinical Services and Personalised Medicine remain a key cornerstone in the Company's diversified business model.

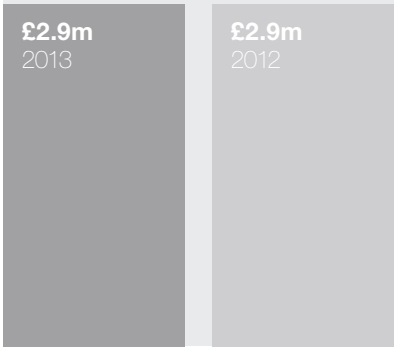
Group Revenues

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



Preclinical Research Services Revenues

Preclinical Research Services delivered £2.9m revenue, as in 2012. Continued US NIH growth.



Personalised Medicine & Novel Therapies Revenue

Personalised Medicine Revenue slightly reduced in 2013 following rapid growth in 2012. Revenue includes £0.4m Genedrive® development income (2012: £0.4m).

Novel Therapies Revenue produced £nil revenue in 2013 (2012: £nil).

59%

United States

27%

United Kingdom

14%

Europe (ex UK)/ROW

£5.4m

Turnover

£1.2m

Loss after Tax

Genedrive® molecular diagnostic

- 2013 figures reflect significant uplift in our investment in Genedrive®.
- Revenues from Genedrive® product sales are anticipated to accrue from 2014.

Discovery, Development and Admin Costs

Discovery and Development costs charged to the P&L grew strongly in 2013 to £1.7m (2012: £1.0m). Reflecting our Genedrive® investment. Admin costs steady at £1.4m (2012: £1.3m).

Results After Tax

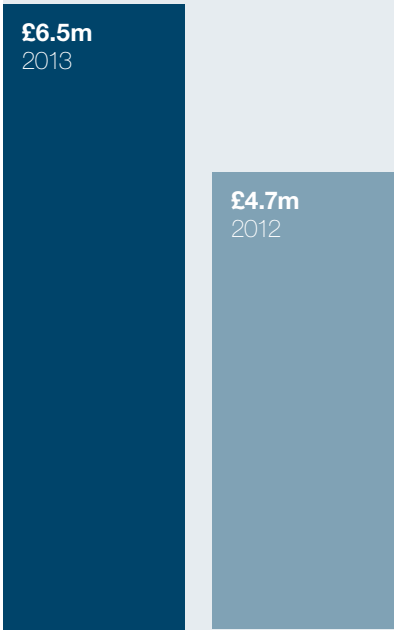
After tax, Development and Admin Costs exceeded contribution from sales by £1.2m (2012: £0.2m).

Intangible Asset Investment

Additional to Discovery & Development costs above, the Company invested £1.4m in intellectual property assets (2012: £1.1m).

Cash Reserves

Including £4.2m proceeds of placing of shares in December 2012, cash reserves strengthened to £6.5m.



Chairman's Statement

Major progress

"I remain wholly convinced that through our investors' funding and support we have developed a strategically valuable asset of real importance to those operating in the field of molecular diagnostics."

In the results for the year ended 30 June 2013, we report a steady trading position which alongside a strengthened and accelerated investment in the advancement of our molecular diagnostic technology Genedrive® has resulted in widening reported losses. It had been our intention to finalise the prelaunch stages of our TB assay on the Genedrive® platform during the 2013 financial year and to recognise milestone payments, but due to technical and manufacturing issues we are disappointed that this was not achieved as part of the collaboration with Becton Dickinson (BD). Whilst we failed to meet the milestones in the timescale agreed with BD, resulting in the termination of our supply and distribution agreement, we remain in dialogue with the group. We are now finalising the technical development and scale up of our Genedrive® platform for its first application in Tuberculosis (TB) diagnosis. We expect to complete the work necessary to enter into the Indian TB regulatory process over the coming months in preparation for a market launch in the second half of 2014. We are also in discussions with prospective distribution partners in relation to tests from our broader infectious disease and pharmacogenomic portfolio.

Our key priority at the current time is to resolve the outstanding technical and manufacturing issues we have had with Genedrive® and we are confident that these issues, which are small in number, are resolvable and that we will be in a position to have our TB assay independently field tested around the end of 2013.

We believe that the launch of our first Genedrive® product in TB coupled with the earlier reported India supply and distribution agreement with Xcelris provides very attractive growth opportunities and we are continuing to progress a range of partner discussions across multiple 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 2013 saw the Company deliver revenues of £5.4m (2012: £5.6m). Following high levels of investment made in our Personalised Medicine (Genedrive®) and Novel Therapies programmes, the Company reported a loss of £1.2m (2012: £0.2m loss after tax). After the successful completion of the £4.2m cash placing in December 2012, cash reserves at 30 June 2013 were £6.5m (2012: £4.7m). Reported cash reserves at the end of June 2013 included the BD upfront technology access fee payment of £0.6m, subsequently returned to BD on termination of the agreement post the year end. Unaudited cash reserves at 30 September 2013 were £5.4m.

The Company continues to make progress across each of its 3 Divisions as outlined below:

- Preclinical Research Services revenues remained steady over the year at £2.9m (2012: £2.9m). We continue to develop our range of high-margin service offerings alongside our cornerstone US government bio-defence contract. The Division is building and extending its core scientific strengths, especially in the US, to maintain a solid platform for future growth.
- Following last year's significant step up in growth, Personalised Medicine revenues remained broadly flat at £2.5m (2012: £2.7m), supported by our ongoing pharmaceutical collaborations and an increased investment in our Genedrive® developments.

In addition to gearing up Genedrive® for use in TB and infectious diseases, the Division is preparing tests for pharmacogenomic analysis including near patient clinical management in areas such as cancer treatment, Hepatitis C therapeutic intervention and 'patient stratification' for clinical trials. We are also pleased to report on the successful completion of our first 2 patient stratification clinical studies which we expect to see emerge as an exciting area of growth for the Company. Further details are set out in the Chief Executive's Review. The reported Personalised Medicine revenues for the year included Genedrive® development income, primarily from our work with the US department of defence, of £0.4m (2012: £0.4m).

- Our Personalised Medicine Division also recently announced the initiation of a three (3) year, Euro 1.5m 'Hepatitis C' collaboration with INSERM and the Pasteur Institute for development of 'Hepatitis C' (HCV) Point-of-Care test. The global need for this test is substantial and we will be developing this test as part of our expanding menu of infectious disease assays.
- We are in the final stages of completing our Genedrive® unit testing and TB assay manufacturing scale up. GE Healthcare have commenced scale up of our TB assay product and the final phase of the Genedrive® unit testing is now underway in preparation for independent field testing and our India clinical trials. We anticipate sales of Genedrive® in the second half of 2014 which will mark the beginning of Epistem's first product-related revenues and disrupt traditional methods of TB diagnosis by offering the ability to undertake 'near patient' Point-of-Care molecular diagnosis. The Board believes that Genedrive® will bring about a breakthrough in rapid, high sensitivity and low cost molecular (DNA) diagnostic testing across a broad range of disease areas.
- Novel Therapies's drug development programme continues and we are carefully investing in a limited number of leads with the Division reporting nil revenues for the year (2012: £0.0m). Collaborative discussions with potential partners are ongoing to progress our leads in the areas of Regenerative Medicine and Oncology.
- Based on the ongoing investment in our Genedrive® and Novel Therapies programmes, the Company reports a loss for the year of £1.2m (2012: £0.2m loss for the year) and loss per share of 12.5p (2012: 2.9p loss per share).

Outlook

Our key priority in this financial year is to gain approval for the launch of Genedrive® into a clinically-regulated marketplace whilst continuing its broad menu of development in clinical and non-clinical fields.

I remain wholly convinced that through our investors' funding and support we have developed a strategically valuable asset of real importance to those operating in the field of molecular diagnostics.

To be able to realise this value we need not only to resolve the current technical issues, which I believe are resolvable, but to invest further in resource and infrastructure to support our future partnerships. We will need to demonstrate our ability to scale up production and have sufficient depth in management to ensure deliverability as we move from the innovation phase to the industrial phase – these processes take time and extreme diligence, issues of which we are fully aware given the recent BD experience. Over the coming months we are targeting the following key objectives in relation to Genedrive® and within the wider Personalised Medicine group:

- Entering into the final stages of Indian regulatory approval and completion of the TB clinical trial process.
- Entering Genedrive® into preliminary clinical studies for TB as a forerunner to a WHO recommendation.
- The strengthening of management in Diagnostics with the appointment of a domain relevant COO for that Division with main Board representation.
- Progress with the HCV and other core development programmes.
- Progress our discussions with potential pharmaceutical partners in relation to the use of Genedrive® for use in clinical trials re patient stratification.

We are dedicated to driving the process with Genedrive® so that we can crystallise the strategic value of this technology.

Whilst the outlook is naturally dominated by Genedrive®, I see the continued solid progress in Preclinical Research Services and the pharmacogenomics offering within Personalised Medicine helping to underpin the fundamentals of Epistem and 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.

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
22 October 2013

Chief Executive's Review

Continuing innovation and new product development

"Our business model continues to balance a heritage of service-based revenue growth with emerging new and disruptive product technologies capable of delivering significant investor returns."

Whilst we continue to develop and strengthen our service-based revenue generating businesses, the delays around the completed development of our first product Genedrive® have weighed heavily on our anticipated outturn and market expectations for the year. The financial results for the Group presented in this announcement reflect the Group's trading for the year to 30 June 2013 and for the comparative period to 30 June 2012.

Financial review

The Company reports a turnover of £5.4m (2012: £5.6m) for the year ended 30 June 2013. Revenues were underpinned by the Preclinical Research Services Division, which delivered sales of £2.9m (2012: £2.9m). The Personalised Medicine Division delivered sales of £2.5m (2012: £2.7m), with the Novel Therapies Division reporting no sales over the period.

Consolidated territory revenues were split US 59% (2012: 68%), EU/ROW 14% (2012: 19%) and UK 27% (2012: 13%). Year-on-year Preclinical Research Services sales remained steady delivering a similar year-on-year operating profit of £0.8m (2012: £0.8m). Personalised Medicine sales were broadly similar to last year, which alongside our increased resource and investment in Genedrive® saw the Division report an operating loss of £0.1m (2012: £0.4m profit) over the year. Novel Therapies, investing in its lead development programme, reported an operating loss of £0.8m (2012: operating loss £0.8m) with central administration costs largely unchanged over the year at £1.4m (2012: £1.3m) giving rise to an overall group operating loss for the year of £1.5m (2012: loss £0.8m).

The benefit of a £0.3m R&D and other tax credits saw the Group report a loss after tax for the year of £1.2m (2012: loss £0.2m) with year-end headcount in the Company at 67 (2012: 63).

Cash balances at the end of June 2013 were £6.5m (2012: £4.7m) following the completion of the £4.2m cash placing in December 2012. Reported cash reserves at the end of June 2013 included the BD upfront technology access fee payment of £0.6m, subsequently returned to BD on termination of the agreement. Unaudited cash reserves at 30 September 2013 were £5.4m.

Reported loss per share was 12.5p (2012: 2.9p loss per share).

The Company's annual audit was completed in October 2013 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

Preclinical Research Services

Preclinical Research Services delivered a steady year-on-year revenue performance whilst maintaining a 27% operating margin (£0.8m 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. The year saw the initiation of our first rheumatoid arthritis (RA) and oncology imaging leukaemia models, strong demand for our inflammatory bowel disease models and attainment of GcLP accreditation for our histology services.

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 7 years and provide a role as 'Subject Matter Experts' (SME) in radiation exposure. Alongside a broadening client base, we are currently preparing to extend our service capability to set up small laboratory facility in Baltimore 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.

Over the coming year, we expect to build on our new oncology (imaging) services, RA and inflammation models from which we expect to see continued ongoing growth.

Personalised Medicine

Pharmacogenomics

Following the previous year's strong uplift in revenues, this year's revenues remained steady at £2.1m (2012: £2.3m) underpinned by our molecular studies for GlaxoSmithKline, Novartis and Sanofi Aventis. These studies utilise Epistem's proprietary RNA amplification technology and oncology (cancer) bioinformatics to provide biomarker discovery (hair and other tissues) and translational support for oncology drug development and fibrosis drug discovery programmes. The Pharmacogenomics Division (formerly Biomarker 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, with the addition of several key oncology target signatures over the past year as well as being utilised in key target identification programmes with business partners.

We are now beginning to implement our pharmacogenomics Genedrive® applications with major pharmaceutical strategic partners. We are working closely with Novartis on the clinical expansion of our oncogene identification from whole blood for myeloproliferative disorders and with GlaxoSmithKline for the rapid assessment of genotypes for 'patient stratification' for therapeutic treatment. During the year we successfully completed 2 Genedrive® clinical assessments for 'on the spot' stratification of patients based on their genotypic characteristics. The identification of genotypic and/or target mutations will allow patients to be 'stratified' for 'Point of Care' administration of the correct course of 'personalised' therapeutic treatment. Over the coming year we will continue our work 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.

Chief Executive's Review continued

We have also recently announced a Euro1.5m, three (3) year collaboration with INSERM the French National Institute of Health and Medical Research, starting from September 2013, to develop a Point-of-Care predictive and prognostic test that will enable tangible improvements in the health and quality of life of chronic hepatitis C (HCV) patients. Technical completion of the assay is scheduled for mid way through 2014 with an expected launch in 2015. Alongside retaining full freedom to operate for our HCV test, we will be seeking strategic partnerships with non-governmental organisations, national health and development agencies. Between 150 and 180 million people live with HCV infection globally and together with HBV infection – these infections cause around 1 million deaths each year.

Diagnostics

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

Despite the recent setback with the Becton Dickinson agreement, we are focused on finalising our core Genedrive® developments with the objective of promptly gaining Indian regulatory approval and the launch of our first major infectious disease assay in Tuberculosis (TB). During the year we worked closely with the Xcelris and Becton Dickinson teams to prepare our first product for market. Unfortunately we have experienced assay manufacturing delays and more recently Genedrive® unit technical problems, which are being resolved and are undergoing final phase validation. The assay manufacturing delays were in relation to scale up of manufactured product, which after a detailed and thorough assessment of the manufacturing process with GE Healthcare has yielded a product which is operating consistently under analytical, clinical and field testing conditions. More recently, we identified unit problems related to firmware and software arising from our internal stress testing of the unit. We are carefully and diligently working through these identified problems to ensure that verification and validation of our unit is assured. This has delayed our final submission for Indian regulatory approval which we anticipate in H1 2014.

We maintain an ongoing dialogue with Becton Dickinson and we will be extending our discussions with other potential partners as appropriate. The Xcelris Indian commercial collaboration alone (supply and distribution arrangement in Tuberculosis) includes escalating annual volume requirements for units and assays is capable of delivering significant revenues to Epistem over the next 3-5 years from H2 2014 which is when we expect to commence commercial sales. 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 field locations.

Over the past year, we have designed a TB assay capable of establishing a new standard in antibiotic resistance testing. The assay possesses several important technical advantages over competitor products and coupled with an industry leading speed to result, ease of use and pricing, will we believe deliver a highly competitive product to market. We are also working with the Foundation for Innovative New Diagnostics (FIND, Geneva) to build our case for WHO recommendation of our TB assay. Over the coming months we will be publishing our first clinical data on our TB test and how this compares to the industry leaders in addressing the US$1bn TB diagnostics market.

We are advancing our assay development across a range of other infectious diseases, with tests under development in malaria, dengue and a range of sexually transmitted diseases. We expect to supply and distribute these high volume tests through our 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 preparing to continue to the next phase of our US Government contract with the Defence Threat Reduction Agency (DTRA) for pathogen detection. This has been recently delayed due to the US government budgetary issues, but is anticipated to generate up to USD$0.6m in development funding over the next 6 months and if successful, extend into broader US Department of Defence use. We anticipate further growth in the US Department of Defence areas over the coming year.

Novel Therapies

The Novartis collaboration was completed in March 2013 and we now retain intellectual property rights over our collaborative leads and continue to progress discussions with partner groups over the development of our Novel Therapies lead programme. Given the investment requirements of our Genedrive® programme, we will maintain a controlled approach to our ongoing investment in our Novel Therapies lead programme. The timing of a license opportunity and/or funding support remains difficult to judge although we remain confident in our development programme.

We have continued to define the mechanism of action of our lead candidates – understanding the cell biology and signalling pathways which regulate the cell/stem cells in the areas of regenerative medicine and oncology and we are considering small molecule partnerships to establish a portfolio of agents which regulate signalling pathways and cell biology.

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

Integrated business model

The establishment of our independent Divisions has created a portfolio of revenue-driven business units. Epistem's objective is to provide a financially robust business, whilst offering the potential for significant financial upside from the development of our Personalised Medicine, Novel Therapies and Preclinical Research Services Divisions. We continue to enhance and exploit our competence in epithelial cell biology, gene pathways and molecular (personalised) medicine, whilst retaining a high degree of commercial independence across each Division.

Outlook

Over the coming months we will be focusing on the resolution of the technical issues with the Genedrive® unit before entering the process of Indian regulatory assessment for our TB assay. We will also commence initial evaluation studies as a forerunner to targeting a WHO recommendation, as well as completing our Indian trials in preparation for launch of our TB assay in H2 2014.

Alongside the continued growth of our Preclinical Research Services and Pharmacogenomic Divisions, we will be advancing our new HCV programme with INSERM/Pasteur and other ongoing programmes with the US Department of Defence, alongside the development of Genedrive® for use in clinical trials for patient stratification.

Our business model continues to balance a heritage of service-based revenue growth with new and disruptive product technologies capable of delivering significant investor returns.

Alongside the growth of the group, we expect to strengthen our Board and management of the Diagnostics Division with the appointment of a Chief Operating Officer with relevant sector expertise. We will also bolster our staff and senior management with individuals who fit with the culture and dynamism of the Company.

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

Matthew H Walls
Chief Executive Officer
22 October 2013

Board of Directors

A team with experience

David Evans (53)
Chairman

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

Matthew Walls (49)
Chief Executive Officer

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

John Rylands (59)
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.

Catherine Booth, Ph.D. (48)
Managing Director, Contract Research Services

Catherine is a co-founder of Epistem and prior to starting Epistem she worked for ten years with Prof. Chris Potten at the Paterson Institute. Whilst at the Paterson Institute she developed many pre-clinical assays. This knowledge is at the core of the Epistem Contract Research Service. Catherine received her Ph.D. from Emmanuel College, University of Cambridge.

Robert Nolan, Ph.D. (70)
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 the 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.

Roger Lloyd, Ph.D. (65)
Non-executive Director

Roger joined the Board as a Non-executive Director on 1 July 2007. Trained as a biochemist, Roger has 36 years' experience in the healthcare and biotechnology sector, particularly in the areas of strategic planning and business development. International business management with ICI Plc and AstraZeneca Plc included living and working in the United States and Germany, and having territorial responsibilities for Europe, Japan, Korea, Mexico and the Middle East. As Executive Director of Global Licensing at AstraZeneca he personally completed 24 transactions. He operates as a Board Adviser in the Biotech sector.

Directors' Report

For the year ended 30 June 2013

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 2013.

Principal activities and review of the business

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

A review of the business during the year which summarises overall progress, research and development, on going research and future development and key performance indicators, as well as risks and developments is detailed in the Business Review on pages 12–21 of this report.

Results and dividends

The trading results for the year and the Group's financial position at the end of the financial year are shown in the financial statements on pages 32–58 of this report.

The Directors do not recommend payment of a final dividend.

Going concern

After due consideration, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the accounts.

Directors and their interests in shares

The Directors of the Company who held office throughout the year, unless otherwise stated, and their interests in the share capital of the Company, including family and pension scheme trust interests, were as follows:

	30 June 2013	1 July 2012
David Evans	**80,645**	80,645
Chris Potten (died 3 August 2012)	**519,320***	519,320
Catherine Booth	**984,727**	983,884
Roger Lloyd	**–**	–
Jeffrey Moore (resigned 10 October 2013)	**14,052**	16,209
Robert Nolan	**5,065**	5,065
John Rylands	**194,625**	193,782
Matthew Walls	**10,372**	9,529

* As at 3 August 2012.

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
Blackrock	913,023	9%
Investec	702,000	7%
ODEY Asset Management	664,000	7%
M&G Investments	531,623	5%
Calculus Capital	495,926	5%
Aerion	370,857	4%
Liquid Capital	354,500	4%
Henderson Investment Management	318,224	3%

Policy on payments to suppliers

It is the policy of the Company in respect of all of its suppliers, where reasonably practicable, to settle the terms of payment with those suppliers when agreeing the terms of each transaction, to ensure that those suppliers are made aware of the terms of payment, and to abide by those terms. The Group has complied with this policy during the year. The average number of creditor days for the Group was 45 (2012: 64) based on the average monthly amount invoiced by suppliers during the year.

Statement of Directors' responsibilities

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

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

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

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

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

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

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

Directors' Report continued

For the year ended 30 June 2013

Principal risks

The Board meets regularly to review operations and to discuss risk areas. The Review of the Year on pages 12–21 report on the factors which are key to the on-going development of the Company. The Corporate Governance Report contains details of the Group's system of internal control. Details of the financial risks are disclosed in Note 18 to the financial statements. The Directors regularly assess and monitor the business risks faced by the Group. Risk is an inherent feature of business and set out below are some key risks, together with associated mitigating factors. This list does not purport to be exhaustive.

Development risk

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

Regulatory risk

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

Management & Employees

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

Economic risk

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

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 22 and 23. 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
22 October 2013

Directors' Remuneration Report

For the year ended 30 June 2013

Introduction

This report has been prepared in accordance with the requirements of Schedule 2 Pt1 to the Companies Act 2006 ('the Schedule') and also meets the relevant requirements of the Listing Rules of the Financial Services Authority and describes how the Board has applied the Principles of Good Governance relating to Directors' Remuneration. In accordance with Section 439 of the Companies Act 2006 ('the Act'), a resolution to approve the report will be proposed at the Annual General Meeting of the Company at which the financial statements are to be approved.

Section 497 of the Act requires the auditors to report to the Company's members on the 'auditable part' of the Directors' Remuneration Report and to state whether, in their opinion, that part of the report has been properly prepared in accordance with Part 3 of the Schedule. This report has therefore been divided into separate sections for audited and unaudited information.

Unaudited information

Remuneration policy

Executive remuneration packages are prudently designed to attract, motivate and retain Directors of the necessary calibre and to reward them for enhancing value to shareholders. The performance measurement of the Executive Directors and key members of senior management and the determination of their annual remuneration package is undertaken by the Remuneration Committee. The remuneration of the Non-executive Directors is determined by the Board within limits set out in the Articles of Association.

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

Non-executive Directors' terms of engagement

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

Audited information

Aggregate Directors' remuneration

	Salary & fees £	Bonus £	Pension £	**2013 total £**	2012 total £
Executive					
Catherine Booth	99,138	5,000	29,431	**133,569**	138,568
Jeffrey Moore (resigned 10 October 2013)	128,269	–	–	**128,269**	130,000
John Rylands	125,000	5,000	–	**130,000**	140,000
Matthew Walls	200,000	100,000	–	**300,000**	300,000
Non-executive					
David Evans	35,000	–	–	**35,000**	35,000
Chris Potten (died 3 August, 2012)	–	–	–	**–**	13,964
Roger Lloyd	24,000	–	–	**24,000**	24,000
Robert Nolan	24,000	–	–	**24,000**	24,000
	635,407	110,000	29,431	**774,838**	805,532

Directors' Remuneration Report continued

For the year ended 30 June 2013

Directors' share options

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

	As at 1 July 2012	Exercised/ Lapsed	Options granted	**As at 30 June 2013**	Exercise price	Earliest exercise date	Expiry date
Executive							
Catherine Booth[2]	15,528	–	–	**15,528**	£1.20	Exit	09/01/2016
Jeffrey Moore[3]	54,333	–	–	**54,333**	£1.20	04/04/2007	09/01/2016
Jeffrey Moore[1]	100,000	–	–	**100,000**	£1.20	04/04/2007	09/01/2016
Jeffrey Moore[1]	83,333	–	–	**83,333**	£1.20	01/09/2007	09/01/2016
Jeffrey Moore[1]	83,333	–	–	**83,333**	£1.20	01/09/2008	09/01/2016
John Rylands[3]	83,333	–	–	**83,333**	£1.20	04/04/2007	09/01/2016
John Rylands[1]	127,847	–	–	**127,847**	£1.20	04/04/2007	09/01/2016
Matthew Walls[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	26/03/2016	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
Chris Potten[8] (died 03 August, 2012)	15,528	15,528	–		£1.20	n/a	n/a

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 (5) 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 Chris Potten exercised options over 15,528 shares. The gain of market price over exercise price was £44,255. In 2012, Jeffrey Moore exercised options over 29,000 shares. The gain of market price over exercise price was £66,700.

Share Investment Plan

The details of the Epistem Share Investment Plan are outlined in Note 17 (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 2013 No	No SIP Shares 30 June 2012 No
Catherine Booth	1,576	13,000	3,151	4,727	3,884
Jeffrey Moore	1,576	13,000	3,151	4,727	3,884
John Rylands	1,576	13,000	3,151	4,727	3,884
Matthew Walls	1,576	13,000	3,151	4,727	3,884

Approved by the Board

D E Evans
Chairman
22 October 2013

Corporate Governance Report

For the year ended 30 June 2013

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

The Board has established an Audit Committee, a Remuneration Committee and a Nomination Committee. The membership of these committees and attendance at meetings is as follows:

	Audit Committee	Remuneration Committee	Nominations Committee
David Evans (Non-executive Chairman)	2	3	1
Robert Nolan (Non-executive Director)	2	3	1
Roger Lloyd (Non-executive Director), Remuneration/Nominations Committees only	na	3	1

Remuneration Committee

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

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

Audit Committee

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

Corporate Governance Report continued

For the year ended 30 June 2013

Social and ethical matters

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

Employment

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

Health, safety and environmental issues

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

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

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

Independent Auditors' Report to the Members of Epistem Holdings Plc

Year Ended 30 June 2013

We have audited the group and parent company financial statements (the 'Financial Statements) of Epistem Holdings Plc for the year ended 30 June 2013 which comprise the consolidated statement of comprehensive income, the consolidated and parent company balance sheets, the consolidated and parent company statement of cash flows, the consolidated and parent company statements of changes in equity and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

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

Respective responsibilities of Directors and auditors

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

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the group's and the parent company's affairs as at 30 June 2013, 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 the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

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

Matters on which we are required to report by exception

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

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

Carol Graham FCA
(Senior Statutory Auditor)
For and on behalf of
HW, Chartered Accountants & Statutory Auditor
Bridge House
157 Ashley Road
Hale
Altrincham
Cheshire
WA14 2UT
22 October 2013

Consolidated Statement of Comprehensive Income

For the year ended 30 June 2013

	Notes	2013 £'000	2012 £'000
Revenue	2	**5,356**	5,560
Contract costs		**(3,800)**	(4,112)
Discovery and development costs		**(1,679)**	(996)
General administrative costs		**(1,396)**	(1,287)
Operating (loss)	3	**(1,519)**	(835)
Finance income	6	**60**	109
(Loss) on ordinary activities before taxation		**(1,459)**	(726)
Taxation on ordinary activities	7	**296**	482
Total Comprehensive Income for the financial year		**(1,163)**	(244)
Loss per share (pence)			
– Basic	9	**(12.5)p**	(2.9)p
– Diluted	9	**(12.5)p**	(2.9)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 2013

	Share capital £'000	Share premium account £'000	Employee share incentive plan reserve £'000	Share options reserve £'000	Reverse acquisitions reserve £'000	Retained earnings £'000	Total £'000
Balance at 1 July 2011	119	11,206	(88)	691	(2,484)	(3,262)	6,182
Allotment of ordinary shares	12	2,765	–	–	–	–	2,777
Share issue costs	–	(60)	–	–	–	–	(60)
Purchase of own shares (SIP)	–	–	(48)	–	–	–	(48)
Exercise of options	2	96	–	(14)	–	–	84
Lapse of options	–	–	–	(1)	–	1	–
Recognition of equity-settled share-based payments	–	–	–	171	–	–	171
Total comprehensive income for the year	–	–	–	–	–	(244)	(244)
At 30 June 2012	133	14,007	(136)	847	(2,484)	(3,505)	8,862
Allotment of ordinary shares	12	4,312	–	–	–	–	4,324
Share issue costs	–	(140)	–	–	–	–	(140)
Purchase of own shares (SIP)	–	–	(46)	–	–	–	(46)
Exercise of options	1	51	–	(13)	–	–	39
Lapse of options	–	–	–	(8)	–	–	(8)
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**

Consolidated Balance Sheet

As at 30 June 2013

	Notes	2013 £'000	2012 £'000
Non-current assets			
Intangible assets	10	**3,495**	2,189
Plant and equipment	11	**710**	573
Deferred taxation	12	**977**	1,002
		5,182	3,764
Current assets			
Trade and other receivables	13	**2,006**	1,978
Tax receivables		**362**	41
Cash and cash equivalents	14	**6,522**	4,684
		8,890	6,703
Liabilities			
Current liabilities			
Deferred income	15	**210**	198
Trade and other payables	16	**1,807**	1,407
		2,017	1,605
Net current assets		**6,873**	5,098
Total assets less current liabilities		**12,055**	8,862
Non-current liabilities			
Liabilities payable 1–5 years		**–**	–
Net assets		**12,055**	8,862
Capital and reserves			
Called-up equity share capital	21	**146**	133
Share premium account	22	**18,230**	14,007
Employee share incentive plan reserve	22	**(182)**	(136)
Share options reserve	22	**1,013**	847
Reverse acquisition reserve	22	**(2,484)**	(2,484)
Retained earnings	22	**(4,668)**	(3,505)
Total shareholders' equity		**12,055**	8,862

These financial statements were approved by the Directors and authorised for issue on 22 October 2013 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 2013

	2013 £'000	2012 £'000
Cash flows from operating activities		
Operating (loss) for the year	**(1,519)**	(835)
Depreciation, amortisation and impairment	**284**	193
Share-based payment expense	**179**	171
Operating (loss) before changes in working capital and provisions	**(1,056)**	(471)
(Increase) in trade and other receivables	**(28)**	(68)
Increase in deferred income	**12**	123
Increase/(decrease) in trade and other payables	**400**	(40)
Net cash (outflow) from operations	**(672)**	(456)
Finance income	**60**	109
Finance costs	**–**	–
Tax received	**–**	76
	60	185
Net cash (outflow) from operating activities	**(612)**	(271)
Cash flows from investing activities		
Acquisition of non-current assets	**(1,727)**	(1,313)
Net cash (outflow) from investing activities	**(1,727)**	(1,313)
Cash flows from financing activities		
Proceeds from issue of share capital	**4,363**	2,861
Expenses of share issue	**(140)**	(60)
Purchase of own shares	**(46)**	(48)
Movement in borrowings	**–**	(105)
Net cash inflow from financing activities	**4,177**	2,648
Net increase in cash equivalents	**1,838**	1,064
Cash and cash equivalents at beginning of year	**4,684**	3,620
Cash and cash equivalents at end of year	**6,522**	4,684
Analysis of net funds		
Cash at bank and in hand	**6,522**	4,684
Net funds	**6,522**	4,684

Notes to the Financial Statements

For the year ended 30 June 2013

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, which informs 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, which continues as a trading subsidiary.

Revenue

Revenue is measured at the fair value of the consideration received or receivable, net of discounts and sales-related taxes.

1. Significant accounting policies continued

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.

Segment reporting

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

Research and development

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

Intangible assets

Intangible assets are stated at cost less accumulated amortisation and any accumulated impairment losses. Amortisation is calculated so as to write off the cost of an intangible asset, less its estimated residual value, over the useful economic life of that asset, as follows:

- Acquired intellectual property – the shorter of 5% straight-line basis or their estimated useful life
- Developed intellectual property – the shorter of 10% straight-line basis or their estimated useful life
- Patents – over the shorter of 17 years or their estimated useful lives on a straight-line basis

No amortisation is charged on those assets which are not yet available for use.

Plant and equipment

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

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

Finance lease agreements

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

Notes to the Financial Statements continued

For the year ended 30 June 2013

1. Significant accounting policies continued

Operating lease agreements

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

Foreign currencies

Transactions in foreign currencies are translated at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date. Non-monetary items carried at fair value and denominated in foreign currencies are retranslated at the rates prevailing on the date when fair value is determined. The foreign currency risks relating to assets and liabilities are detailed in Note 18.

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

Share-based payments

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

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

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

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

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

Share Incentive Plan

The Company operates a HMRC qualifying Share Incentive Plan. Under the scheme, the Company will contribute Matching shares to employees who elect to invest in Epistem shares under the scheme.

The Matching shares have vesting conditions which require participants to remain employed with the Company and retain their investment in Epistem shares for at least 3 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.

1. Significant accounting policies continued

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 de-recognised or impaired, as well as through the amortisation process.

Investments

Investments in subsidiaries are stated at cost less any provisions for impairment. An impairment is recognised when the recoverable amount of the investment is less than the carrying amount.

Taxation

Current tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted, or substantially enacted, by the balance sheet date.

Deferred tax is recognised in respect of all temporary differences identified at the balance sheet date, except to the extent that the deferred tax arises from the initial recognition of goodwill (if amortisation of goodwill is not deductible for tax purposes) or the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither accounting profit nor taxable profit and loss. Temporary differences are differences between the carrying amount of the Group's assets and liabilities and their tax base.

Deferred tax liabilities may be offset against deferred tax assets within the same taxable entity. Any remaining deferred tax asset is recognised only when, on the basis of all available evidence, it can be regarded as probable that there will be suitable taxation profits, within the same jurisdiction, in the foreseeable future against which the deductible temporary difference can be utilised.

Deferred tax is provided on temporary differences arising in subsidiaries, jointly controlled entities and associates, except where the timing of reversal of the temporary difference will not reverse in the foreseeable future. Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the asset is realised or liability settled, based on tax rates and laws that have been enacted or substantially enacted by the balance sheet date. Measurement of deferred tax liabilities and assets reflects the tax consequence expected to fall from the manner in which the asset or liability is recovered or settled.

Parent Company Assets

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

Notes to the Financial Statements continued

For the year ended 30 June 2013

1. Significant accounting policies continued

New standards and interpretations not applied

The International Accounting Standards Board ('IASB') and IFIRC have issued the following standards and interpretations with an effective date for financial years beginning on or after 1 July 2013:

- IAS 19 (revised) Employee benefits
- IAS 27 (revised) Consolidated financial statements
- IAS 28 (revised) Joint arrangements
- IAS32 (revised) Financial instruments: presentation
- IFRS 1 (revised) Government loans
- IFRS 7 (revised) Financial instruments set-off of assets and liabilities
- IFRS 9 (revised) Financial instruments classification and measurement
- IFRS 10 Consolidated financial statements
- IFRS 11 Joint arrangements
- IFRS 12 Disclosure of interests in other entities
- IFRS 13 Fair value measurement

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

2. Segment information

For internal reporting, the Group is organised into 3 operating Divisions – Preclinicial Research Services, Personalised Medicine and Novel Therapies. Preclinical Research Services provides preclinical testing services. Personalised Medicine specialises in molecular measures of biological effect and point of care molecular diagnostic testing. Novel Therapies is discovering key regulators of epithelial stem cells.

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

Business segments

	Preclinical Research Services £'000	Personalised Medicine £'000	Novel Therapies £'000	Unallocated £'000	Total £'000
Twelve months ended 30 June 2013					
Revenue	**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 2012					
Revenue	2,895	2,665	–	–	5,560
Segment trading result	856	503	(700)	(1,130)	(471)
less depreciation and amortisation	(68)	(48)	(52)	(25)	(193)
less equity-settled share-based payments	(6)	(31)	(2)	(132)	(171)
Operating profit/(loss)	782	424	(754)	(1,287)	(835)
Twelve months ended 30 June 2013					
Segment assets	**1,330**	**4,249**	**431**	**8,062**	**14,072**
Segment capital expenditure	**68**	**1,569**	**39**	**51**	**1,727**
Twelve months ended 30 June 2012					
Segment assets	1,352	2,598	505	6,012	10,467
Segment capital expenditure	343	763	171	36	1,313

2. Segment information continued

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:

	2013 £'000	2012 £'000
United Kingdom	**1,491**	720
Europe	**563**	977
United States of America	**3,144**	3,778
Asia	**158**	85
	5,356	5,560

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

(a) £1,016k revenue was derived from the University of Maryland on behalf of the US Government with revenue included within Preclinical Research Services (2012 – £922k);

(b) £736k revenue was derived from international pharmaceutical company, Sanofi Aventis, with revenue included within Preclinical Research Services and Personalised Medicine (2012 – £1,674k); and

(c) £714k revenue was derived from international pharmaceutical company, Glaxo SmithKline, with revenue included within Preclinical Research Services and Personalised Medicine (2012 – £249k).

3. Operating (loss)

The Group operating loss is stated after charging:

	2013 £'000	2012 £'000
Discovery and development expenditure	**1,679**	996
Amortisation of intangible assets	**74**	8
Depreciation of owned tangible fixed assets	**180**	185
Loss in disposal of fixed assets	**30**	–
Auditors' remuneration		
– as auditors	**25**	23
– for other services	**–**	–
Operating lease costs – property rent	**175**	189

4. Particulars of employees

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

	2013 No	2012 No
Contract services	**43**	41
Research and development	**13**	12
Administrative	**9**	9
	65	62

The aggregate employee costs (including Directors) were:

	2013 £'000	2012 £'000
Wages and salaries	**3,030**	2,708
Social security costs	**339**	286
Equity settled share-based payments	**179**	171
Pension payments	**74**	65
	3,622	3,230

Notes to the Financial Statements continued

For the year ended 30 June 2013

5. Directors' remuneration (key management)

Group	2013 £'000	2012 £'000
Remuneration	**745**	778
Pension contribution	**29**	29
Equity-settled share-based payments	**135**	131
	909	938

One Director (2012: 1) accrues benefits in a money purchase pension scheme. Full details of the Directors' remuneration and Directors' options are contained in the Directors' Remuneration Report.

6. Finance income and costs

Group	2013 £'000	2012 £'000
Finance income		
– interest receivable	**15**	15
– foreign exchange surpluses	**45**	94
	60	109

7. Taxation on ordinary activities

(a) Recognised in the income statement

Group	2013 £'000	2012 £'000
Current tax		
Research and development tax credits	**(191)**	–
Adjustments in respect of prior periods	**(131)**	–
Total current tax	**(322)**	–
Deferred tax		
Impact of tax rate change on brought forward deferred tax balances	**30**	91
Prior year tax losses now recognised	**284**	(196)
Current year tax losses	**(733)**	(860)
Current year capital allowances in excess of depreciation	**345**	224
Revenue recognition of items prior to amortisation	**102**	216
In respect of current year share options charges	**(2)**	43
Total deferred tax	**26**	(482)
Total tax (credit) for the year	**(296)**	(482)

7. Taxation on ordinary activities continued

(b) Reconciliation of the total tax charge

Group	2013 £'000	2012 £'000
Loss before taxation	**(1,459)**	(726)
Tax using the UK corporation tax rate of 23% (2012: 24%)	**(336)**	(174)
Effect of difference in tax rate	**30**	91
Movement in share options	**42**	–
Revenue recognition of items prior to amortisation	**102**	216
Capital allowances in excess of depreciation	**(7)**	–
Item not deductible/chargeable for tax purposes	**(5)**	38
Adjustments in respect of research and development tax credits	**(276)**	(457)
Adjustment relating to a previous year	**154**	(196)
Total tax in income statement	**(296)**	(482)

At 30 June 2013, the change in the corporation tax rate to 23% had been substantially enacted and therefore the deferred taxation assets included within these results have been calculated using a UK corporation tax rate of 23%.

The Group had trading losses, as computed for tax purposes, of approximately £8,581k (2012: £6,577k) available to carry forward to future periods.

In accordance with the provisions of the Finance Act 2000 in respect of research and development allowances, the Group is entitled to claim tax credits for certain research and development expenditure. The amount included in the financial statements in respect of the year ended 30 June 2013 is £191k (2012: £nil).

8. Profit attributable to members of the parent company

The profit dealt with in the accounts of the parent company was £15k (2012: £14k).

9. 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 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	2013 £'000	2012 £'000
(Loss) for the year after taxation	**(1,163)**	(244)

Group	2013 Number	2012 Number
Weighted average number of ordinary shares in issue	**9,299,263**	8,471,693
Dilutive ordinary shares from options and warrants in issue	**1,172,965**	996,381
Dilutive weighted average number of ordinary shares	**10,472,228**	9,468,074
(Loss) per share		
– basic	**(12.5)p**	(2.9)p
– diluted	**(12.5)p**	(2.9)p

Notes to the Financial Statements continued

For the year ended 30 June 2013

10. Intangible assets

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

During the year to 30 June 2013, the cost of the Company's Patents assessed as not being available for economic use amounted to £334k (2012 – £322k).

11. Plant and equipment

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**

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

Notes to the Financial Statements continued

For the year ended 30 June 2013

12. Deferred Taxation

Recognised

Group	2013 £'000	2012 £'000
Tax losses carried forward	**1,974**	1,578
Excess of tax allowances over depreciation	**(804)**	(478)
Excess of revenue recognition over amortisation	**(309)**	(216)
Share-based payment transactions	**115**	118
Other timing differences	**1**	–
	977	1,002

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

The Group did not recognise deferred tax assets in respect of share-based payment transactions of £2,755k (2012 – £2,942k).

13. Trade and other receivables

Group	2013 £'000	2012 £'000
Trade receivables	**1,746**	1,188
Accrued income	**–**	565
Other receivables	**65**	146
Prepayments	**195**	79
	2,006	1,978

Analysis of trade receivables

	2013 £'000	2012 £'000
Neither impaired nor past due	**1,088**	892
Past due but not impaired	**658**	296
Trade receivable	**1,746**	1,188

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:

	2013 £'000	2012 £'000
Not later than 1 month	**345**	107
Later than 1 month but not later than 3 months	**91**	132
Later than 3 months	**222**	57

14. Cash and cash equivalents

Group	2013 £'000	2012 £'000
Cash at bank and in hand	**65**	73
Short-term bank deposits	**6,457**	4,611
	6,522	4,684

Cash and cash equivalents comprise current accounts held by the Group with immediate access and short-term bank deposits with a maturity of 3 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	2013 £'000	2012 £'000
Amounts to be recognised within 1 year	**210**	198

16. Trade and other payables

Group	2013 £'000	2012 £'000
Trade payables	**751**	609
Accruals	**306**	587
Other payables	**750**	211
	1,807	1,407

Notes to the Financial Statements continued

For the year ended 30 June 2013

17. Share-based payments

(a) Share options outstanding at 30 June 2013

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 21)	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	472,153	£1.20	10 Jan 2006 to 09 Jan 2016	£0.43p	201,137
EMI – Approved	153,194	£1.20	10 Jan 2006 to 09 Jan 2016	£0.43p	65,873
EMI – Approved	8,200	£1.20	29 Sept 2006 to 28 Sept 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	24,703	£1.67	27 Jul 2007 to 26 Jul 2017	£0.39p	9,634
EMI – Unapproved	57,727	£1.60	15 Oct 2007 to 14 Oct 2017	£0.36p	20,782
2007 Epistem Share Option Scheme	71,918	£1.53	03 Mar 2011 to 02 Mar 2018	£0.36p	25,890
2007 Epistem Share Option Scheme	63,550	£1.77	31 Jul 2011 to 30 Jul 2018	£0.37p	23,514
2007 Epistem Share Option Scheme	40,600	£4.03	10 Dec 2013 to 09 Dec 2020	£1.64p	66,584
2007 Epistem Share Option Scheme	30,000	£3.60	10 May 2014 to 09 May 2021	£1.46p	43,800
2007 Epistem Share Option Scheme	254,631	£3.73	29 Mar 2014 to 28 Mar 2021	£1.51p	384,492
2007 Epistem Share Option Scheme	5,369	£3.60	10 May 2014 to 09 May 2021	£1.51p	8,107
2007 Epistem Share Option Scheme	14,700	£3.60	10 Feb 2015 to 09 Feb 2022	£1.46p	21,462
2007 Epistem Share Option Scheme	30,192	£5.50	26 Mar 2016 to 25 Mar 2024	£2.23p	67,328
2007 Epistem Share Option Scheme	23,758	£5.50	26 Mar 2016 to 25 Mar 2024	£2.23p	52,980

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.

17. Share-based payments continued

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 Sept 2006	5 years	0	60	4.50	None
EMI – Approved	28 Mar 2007	5 years	0	60	5.25	Note (f)
EMI – Unapproved	28 Mar 2007	5 years	0	60	5.25	Note (f)
EMI – Approved	27 Jul 2007	5 years	0	45	5.50	None
EMI – Unapproved	15 Oct 2007	5 years	0	45	5.75	Note (g)
2007 Epistem Share Option Scheme	03 Mar 2008	5 years	0	45	5.75	Note (g)
2007 Epistem Share Option Scheme	31 Jul 2008	5 years	0	45	5.25	Note (h)
2007 Epistem Share Option Scheme	10 Dec 2010	5 years	0	40	5.00	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)

(a) The expected term used in the model is 5 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.

Notes to the Financial Statements continued

For the year ended 30 June 2013

17. Share-based payments continued

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

	Number		Weighted average exercise price		Weighted average remaining contracted life – Years	
Group	**2013**	2012	**2013**	2012	**2013**	2012
Outstanding as at 1 July	**1,808,098**	1,918,548	**£1.78**	£1.41	**–**	–
Granted during the year	**54,525**	18,450	**£5.50**	£3.60	**–**	–
Exercised during the year	**(36,628)**	(123,400)	**£1.04**	£0.69	**–**	–
Lapsed during the year	**(5,425)**	(5,500)	**£3.89**	£1.06	**–**	–
Outstanding as at 30 June	**1,820,570**	1,808,098	**£1.82**	£1.78	**4.03**	4.83
Options exercisable at 30 June	**1,304,402**	1,341,030	**£1.30**	£1.31	**2.75**	3.80

The weighted average share price at the exercise dates was £4.89 (2012 – £3.53).

(b) Share Investment Plan

The Company operates a share investment plan, (The Epistem Share Investment Plan or SIP) which is open to Directors and employees in accordance with HMRC 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 2 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 3 years. The cost of the Matching Shares is expensed as and when this vesting condition is met.

	2013	2012
Partnership shares held at 30 June	**21,578**	18,092
Matching Shares held at 30 June	**43,153**	36,181

Group	**2013 £'000**	2012 £'000
Unamortised cost of Matching shares (Comprising Employee SIP reserve)	**182**	136

18. Financial risk management objectives and policies

The Group holds or issues financial instruments in order to achieve 2 main objectives, being:
(a) to finance its operations; and
(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 1 or more of the financial risks described below.

18. Financial risk management objectives and policies continued

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
2013		
Cash and cash equivalents	**25**	**12**
2012		
Cash and cash equivalents	25	5

An increase in 25 basis points would have a similar opposite effect.

Credit risk

The Group monitors credit risk closely and considers that its current policies of credit checks meet its objectives of managing exposure to credit risk.

The Group has no significant concentrations of credit risk. Amounts shown in the balance sheet best represent the maximum credit risk exposure in the event that other parties fail to perform their obligations under financial instruments.

Liquidity risk

The Board's policy aims to ensure that sufficient funds are held on a short-term basis in order to meet operational needs.

Currency risk

The Group's functional currency is sterling. The exposure to currency risk relates to licence income and those short-term trade receivables which are not invoiced in sterling. There are no significant costs incurred that involve payments in foreign currency.

The Group has no forward contracts at the year end (2011 – nil) to manage foreign currency risk.

Balances which are denominated in US Dollars are detailed below:

Group	**2013 £'000**	2012 £'000
Trade and other receivable	**764**	702
Cash and cash equivalent	**1,392**	1,694
	2,156	2,396

Notes to the Financial Statements continued

For the year ended 30 June 2013

18. 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
2013		
Trade and other receivable	**5%**	**38**
Cash and cash equivalents	**5%**	**70**
2012		
Trade and other receivable	5%	35
Cash and cash equivalents	5%	85

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

Fair values of financial assets and liabilities

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

19. Commitments under operating leases

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

	Land and buildings	
Group	**2013 £'000**	2012 £'000
Operating leases which expire:		
Within 1 year	**180**	157

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

20. Related party transactions

At the balance sheet date, the amounts owed to the following Director, D Evans, was £9k (2012: £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.

21. Share capital

Allotted and called up share capital:

	2013 No	**2013 £'000**	2012 No	2012 £'000
Brought forward at 1 July	**8,850,781**	**133**	7,933,983	119
Private placing	**793,398**	**12**	793,398	12
Exercise of options	**36,628**	**1**	123,400	2
Ordinary shares of £0.015 each	**9,680,807**	**146**	8,850,781	133

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 1 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.

22. Reserves

	Employee share incentive plan reserve £'000	Share premium account £'000	Share options reserve £'000	Reverse acquisition reserve £'000	Retained Earnings £'000
Balance as at 1 July 2011	(88)	11,206	691	(2,484)	(3,262)
Comprehensive income for the year	–	–	–	–	(244)
Allotment of ordinary shares	–	2,765	–	–	–
Share issue costs	–	(60)	–	–	–
Unamortised cost of Matching Shares (SIP)	(48)	–	–	–	–
Exercise of options	–	96	(14)	–	–
Lapse of options	–	–	(1)	–	1
Recognition of equity settled share-based payments in the year	–	–	171	–	–
Balance at 30 June 2012	(136)	14,007	847	(2,484)	(3,505)
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 (SIP)	(46)	–	–	–	–
Exercise of options	–	51	(13)	–	–
Lapse 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)**

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 on 16 March 2007.

The employee share incentive plan reserve represents 43,153 shares in Epistem Holdings Plc (2012: 36,181 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 2013 was £248k (2012: £140k). The nominal value held at 30 June 2013 was £647 (2012: £526).

Company Balance Sheet

As at 30 June 2013

	Notes	2013 £'000	2012 £'000
Non-current assets			
Investments	a	**6,070**	5,891
Current assets			
Amounts receivable from Group undertakings and other receivables	b	**9,498**	6,458
Cash and cash equivalents	c	**4,064**	2,867
		13,562	9,325
Current liabilities			
Corporation taxation		**–**	–
Net current assets		**13,562**	9,325
Total assets less current liabilities		**19,632**	15,216
Capital and reserves			
Called-up equity share capital	21	**146**	133
Share premium account	22	**18,230**	14,007
Share options reserve		**1,013**	847
Retained Earnings		**243**	229
Total shareholders' funds equity		**19,632**	15,216

These financial statements were approved by the Directors and authorised for issue on 22 October 2013 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 2013

	Share capital £'000	Share premium account £'000	Share options reserve £'000	Retained earnings £'000	Total £'000
At 1 July 2011	119	11,206	691	215	12,231
Allotment of ordinary shares	12	2,765	–	–	2,777
Share issue costs	–	(60)	–	–	(60)
Recognition of equity settled share-based payments	–	–	171	–	171
Exercise of options	2	96	(14)	–	84
Lapse of options	–	–	(1)	1	–
Profit for the year	–	–	–	13	13
At 30 June 2012	133	14,007	847	229	15,216
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
Lapse of options	–	–	(8)	–	(8)
Profit for the year	–	–	–	14	14
At 30 June 2013	**146**	**18,230**	**1,013**	**243**	**19,632**

Company Statement of Cash Flows

For the year ended 30 June 2013

	2013 £'000	2012 £'000
Cash flows from operating activities		
Profit for the year	**–**	–
Operating profit before changes in working capital and provisions	**–**	–
(Increase) in trade and other receivables	**(3,040)**	(2,390)
(Decrease) in trade and other payables	**–**	–
Cash (outflow) from operations	**(3,040)**	(2,390)
Interest received	**14**	14
Tax (paid)/received	**–**	–
	14	14
Net cash outflow from operating activities	**(3,026)**	(2,377)
Cash flows from financing activities		
Proceeds from issue of share capital	**4,363**	2,861
Expenses of share issue	**(140)**	(60)
Net cash inflow from financing activities	**4,223**	2,801
Net (decrease)/increase in cash equivalents	**1,197**	425
Cash and cash equivalents at beginning of year	**2,867**	2,442
Cash and cash equivalents at end of year	**4,064**	2,867
Analysis of net funds		
Cash at bank and in hand	**4,064**	2,867
Bank overdrafts	**–**	–
Net funds	**4,064**	2,867

Notes to the Company Financial Statements

For the year ended 30 June 2013

a. Investments

Company

The Company is the holding company of the Group.

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

- Epistem Limited and Epistem Inc. – the provision of services to the biotechnology and pharmaceutical industries;
- Epistem SIP Trustees Limited – to act as trustee to the Epistem Share Incentive Plan; and
- 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) during the three-year period to 30 June 2013 and is capped at £2.85m. The Directors have assessed the performance during the period since 28 July 2010 and have concluded that the criteria will not be met and, accordingly, that no consideration would be payable. However, the performance criteria are currently being reviewed with new criteria being considered. If agreed, these criteria are likely to be met during the current financial period, leading to the full amount of the earnout (£2.85m) becoming payable. The consideration may be paid either by the issue of shares in Epistem Holdings Plc or by the issue of loan notes.

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

Notes to the Company Financial Statements continued

For the year ended 30 June 2013

a. Investments continued

Year ended 30 June 2012	Investment in subsidiaries £'000
Cost	
At 1 July 2011	5,721
Additions	170
At 30 June 2012	5,891
Net book value	
At 30 June 2012	5,891

Additions in the year ended 30 June 2013 comprised the fair value of the share options issued to employees of the subsidiary undertaking during the year of £179k (2012: £170k). Full details of the share options issued are set out in note 17 to the consolidated financial statements.

b. Amounts receivable from Group undertaking and other receivables

Company	2013 £'000	2012 £'000
Amounts receivable from Group undertaking	**9,498**	6,458
	9,498	6,458

c. Cash and cash equivalents

Company	2013 £'000	2012 £'000
Cash at bank and in hand	**128**	89
Short-term bank deposits	**3,936**	2,778
	4,064	2,867

Cash and cash equivalents comprise current accounts held by the Group with immediate access and short-term bank deposits with a maturity of 3 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 15,548 (2012: 19,910) shares in Epistem Holdings Plc on behalf of the Epistem Share Investment Plan at a cost of £87k (2012: £71k).

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 (2012 – nil).

Directors, Secretary and Advisers

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Matthew Walls
Catherine Booth
Roger Lloyd
Robert Nolan
John Rylands

Company Secretary
John Rylands

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