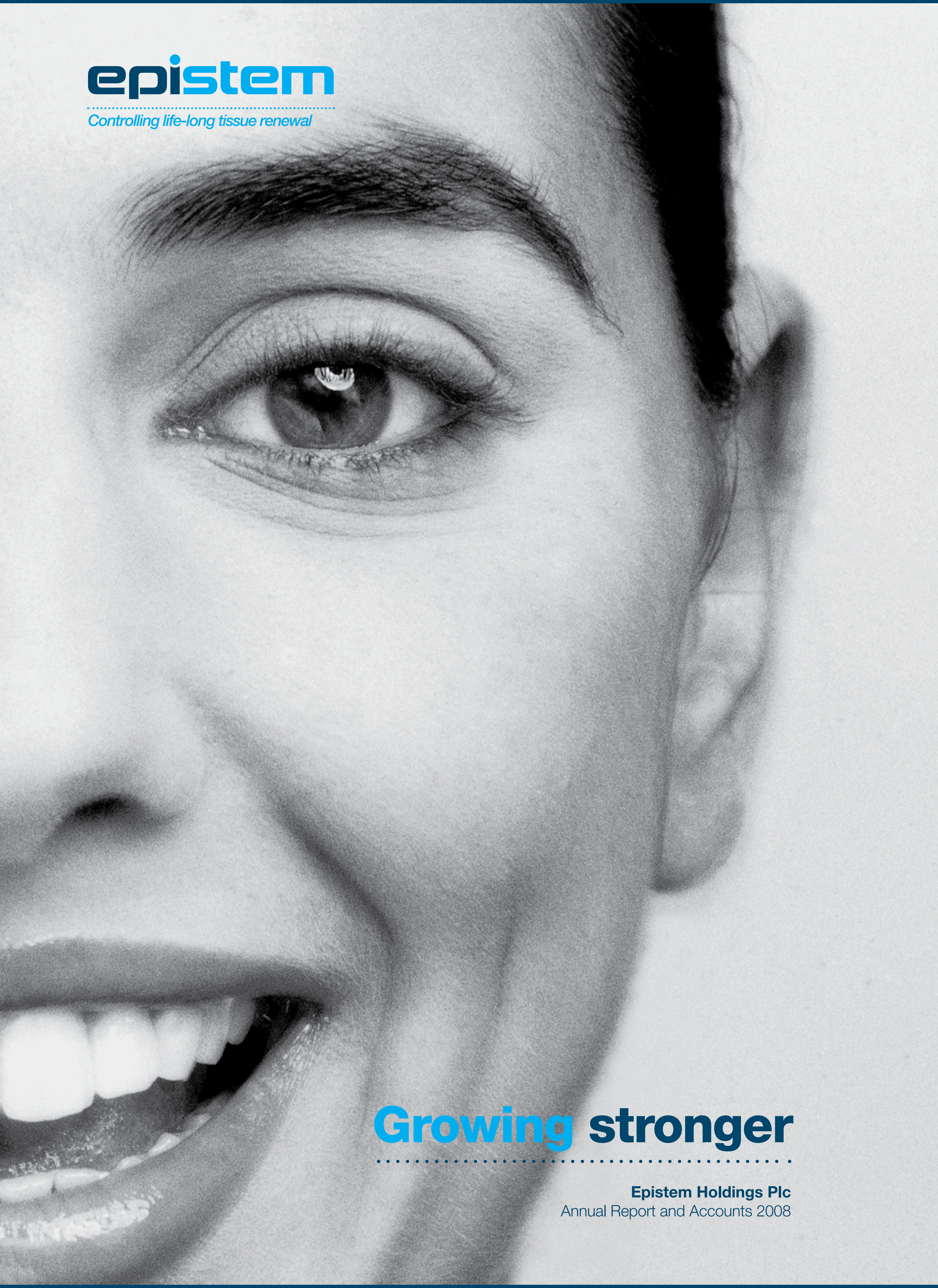
epistem

Controlling life-long tissue renewal



Growing stronger

Epistem Holdings Plc

Annual Report and Accounts 2008

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Epistem is a biotechnology company commercialising its expertise in epithelial stem cells

in the areas of oncology, gastrointestinal disease, dermatology and ageing.

Every person develops from one cell – the fertilised egg. In the early stages of development, stem cells differentiate and become committed to generating a specific tissue or organ. Adult stem cells remain capable of regenerating tissues in our organs throughout our lives.

As we get older, our body's stem cells' ability to regenerate new cellular tissue diminishes, leading to tissue ageing and disease.

Epistem is focused on understanding how cells function and are controlled, so that we can identify new drug therapies to address the major diseases of oncology, gastrointestinal disease, dermatology and ageing.

Heritage and experience

Drug discovery and early stage development strategies are increasingly adopting hypotheses suggesting that cancers grow from abnormal stem cells. These so-called 'cancer stem cells', which form part of epithelial tissue, are believed to be resistant to treatments and to be responsible for maintaining tumour growth. Epistem is identifying the key regulator proteins of epithelial stem cells and is focused on identifying and regulating cancer stem cells.

Formed as a biotechnology company in 2000, Epistem has grown from a Contract Research Services group to include Biomarker and Novel Therapies divisions and is recognised as a global specialist in epithelial tissue and stem cell analysis. Originally based at the Paterson Institute for Cancer Research, our heritage stretches back three decades to the pioneering work of Professor Chris Potten who built his expertise, understanding and know-how in the field of epithelial tissue and adult stem cell biology.

Stem cell research and discovery is a sophisticated and growing area of therapeutic focus where Epistem has amassed significant background expertise, know-how and intellectual property, enabling the Company to build a sizeable technical barrier to entry.

Our technology is focused on targeting major unmet medical needs where the world market is searching for improved health, wellbeing and life expectancy.

Epistem maintains close links with drug companies, clinicians and academics in the field, ensuring that the Company remains at the forefront of stem cell science and technology development.

Located in purpose-built facilities adjacent to the University of Manchester, UK, Epistem is identifying innovative drug leads to help prevent and cure disease to enhance the quality of life.

...and getting better

- Year on year revenue growth of 52%
- CRO operating margins increased two fold
- Expansion of product services and US NIH contract
- Accelerated development of our Novel Therapies therapeutic leads
- Initial revenues generated from our new Biomarker business
- £1.1m placing in November 2007
- Strong cash position
- Shortlisted for best newcomer ‘TechMARK’ award

Contents

What We Do

Contract research services, clinical biomarkers and innovative therapeutics for drug development.

Contract Research Services (page 4)

Contract Research Services provide specialised preclinical efficacy testing primarily for drug development companies on a ‘fee for service’ basis. The division is growing strongly and is cash generative and profitable. Our Contract Research Services group has an established eight-year track record of providing testing services to over 100 companies primarily in Europe and the United States, including most major pharmaceutical companies.

We assist companies with the preclinical development of their drug therapies to treat epithelial diseases including

- Cancers
- Mucositis (cancer supportive care)
- Inflammatory bowel disease
- UV-induced skin damage
- Wound healing
- Skin and hair disorders

Biomarker (page 6)

Epistem has developed an innovative, minimally invasive biomarker test for pharmaceutical companies developing new drugs, initially in the area of oncology. The biomarker is designed to identify changes in gene expression that result from treatment with an oncology drug. The Company is currently working with several top-tier pharmaceutical companies and generated its first biomarker revenues during the year.

This proprietary new biomarker technology leverages the Company’s knowledge of the behaviour of epithelial stem cells and high resolution gene expression techniques to measure drug effects during treatment.

Novel Therapies (page 8)

Epistem is discovering key regulators (proteins) of epithelial cells and developing therapeutics to control cell production, initially in the area of oncology. With over 80% of adult cancers arising from epithelial tissues, the Company believes that applying its understanding of the behaviour of stem cells and cell production will identify new targets and pathways for drug development.

The Novel Therapies division is focused on developing its own proprietary therapeutics based on its discovery of key regulators of epithelial cell production. The team has identified over 250 potential protein regulators which are being evaluated in the Company’s preclinical efficacy models. Lead candidates are emerging and discussions with potential partners for the ongoing development of these leads are in process.

Life-long tissue renewal explained

Epithelial stem cells
Epithelial stem cells are rare cells which represent the 'building blocks' of tissue growth and renewal. Stem cells are essential for tissue repair, since they are responsible for replacement of all cells.

Expertise
Epistem is applying its know-how and expertise to identify genes and proteins responsible for controlling cell production to develop drugs to treat cancer and other epithelial disease.

Vision
Epistem's vision is to control stem cells with its emerging protein therapeutics to prevent, treat or cure health and life-threatening disease.

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Contract Research Services

52% growth in year on year revenues

- Growth in US National Institutes of Health bio-defence programme
- Expansion of product services in cancer stem cells and dermatology
- Strengthening recognition of science base

Over the past year the Contract Research Services group has seen strong demand for its specialised drug efficacy and 'mechanism of action' preclinical models. The divisional growth has largely been driven by the provision of new assay services and the raised awareness of our scientific expertise. Drawing on this strength, the Group has extended its client list and is well positioned to continue to grow its 'fee for service' partnering model within the preclinical stage of the drug development pipeline.

The Group provides models which measure the efficacy of therapeutics in the disease areas of oncology, oncology supportive care (mucositis), inflammatory bowel disease and dermatology. Each of these areas has experienced solid growth over the past year and the scientific team has grown accordingly to meet these demands.

Gatekeeper role

Our collaboration with the US National Institutes of Health (NIH) has continued to expand around testing the efficacy of counter measures designed to address exposure to radiation or nuclear attack. The past year has seen an expansion in the number of candidates tested with Epistem acting as the gatekeeper for selecting mucositis therapies for further development. We anticipate that this will be followed by more comprehensive studies on selected drugs in the future.

Dynamic launches

The division has continued to target niche preclinical areas where our models are difficult to develop and replicate and where the quality of scientific input required provides a significant barrier to entry. Over the past year the division has extended its service offering to include new product launches in angiogenesis, inflammatory bowel disease, dermatology and wound healing. It has also developed tests in the emerging science area of cancer stem cells to help identify targeted therapies. Recent scientific discoveries have provided further support for the theory that cancer stem cells drive tumour growth and are responsible for post-treatment relapse. We are applying our knowledge of normal epithelial stem cells to abnormal cancer stem cells. This has enabled us to launch a new cancer stem cell test for defining whether therapies can target breast cancer stem cells and therefore kill a tumour. This model will be supplemented by an intestinal model, to evaluate the efficacy of curative versus palliative therapeutic candidates. These models complement our established tumour assays.

Tissue regeneration

Our expanded range of dermatological services has generated interest from both the pharmaceutical and cosmeceutical industries. Models to enable the evaluation of agents that improve wound healing, reduce photoageing and skin cancer risk have all seen increased demand.

Outlook

A growing recognition of the Company's science heritage is now beginning to unfold. A strengthening scientific outlook linked to the central positioning of epithelial cells and their stem cell biology in oncology, inflammatory bowel disease and wound healing, has allowed the Contract Research Services Group to grow rapidly over the past year. With the further planned expansion of our service offerings and the need for greater interpretative support to the big pharmaceutical groups, we anticipate sustained growth in this division over the coming year.

Contract Research Services turnover

2008	**£2.1m**
2007	**£1.4m**

+52%

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Biomarker

Commencing programmes with top-tier pharmaceutical groups

- Develop AstraZeneca and Johnson & Johnson biomarker programmes
- First revenues generated from emerging biomarker platform
- Raised £1.1m for biomarker development
- Received Bionow award for 'biomedical project of the year'

Biomarkers provide a measure of biological processes that can improve the precision with which we evaluate disease and guide drug development and treatment. Epistem's Biomarker division has developed a minimally invasive biomarker technology, based on a single plucked hair, to measure drug-induced change in gene expression (in molecular pathways that control the basic cellular functions of life) for drug development in oncology.

Our hair biomarker is less invasive than traditional blood or biopsy based sampling, lending itself to easy patient application. Our platform leverages the Company's understanding of the behaviour of epithelial stem cells and the changes in gene expression found in the cells at the base of the hair follicle.

The oncology clinical biomarker market represents one of the largest segments of biomarkers in terms of revenue. Whilst still in its infancy, the 2007 estimated oncology biomarker market accounted for around 55% of biomarker revenues at over US$3 billion, with the majority of revenues derived from biomarker discovery and molecular diagnostics. Driven by the regulatory demands of the FDA and National Institutes of Health, the majority of the early research has been aimed at the discovery of biomarkers for targeted therapies using traditional approaches such as blood serum and tissue. Epistem's hair biomarker provides a proprietary, minimally invasive platform which is competitive with these traditional biomarker sampling methods. Importantly, due to its epithelial origin we believe it is more closely aligned with and reflective of the cell biology of oncology and tumour specific targets, providing a significant advantage over other biomarker platform approaches.

Single plucked hair to measure drug-induced gene expression changes in the bulb of cells at the base of the follicle.

Development

Following the November 2007 placing, the biomarker group has developed a comprehensive protocol to guide the preclinical and clinical development of oncology biomarkers, helping to translate and measure the pharmacodynamic characteristics of a drug. This includes drug exposure (whether the drug is accessing the diseased tissue), dosage and dose scheduling (the dose required and duration of treatment for it to be effective). Our preclinical developments to date have successfully measured drug-induced gene expression change using our hair biomarker, the next phase being to translate and link this to the tumour in clinical trials.

Collaborative working is essential

Over the past year we have built biomarker relationships with the leading drug development players, including AstraZeneca, Johnson & Johnson and several other top-tier pharmaceutical companies. This approach has allowed us to work closely with these companies to validate our platform and has generated the first biomarker revenues for the newly created division. Ongoing collaborative development with these companies will continue to widen our biomarker take-up and bolster our growth. Our focus remains to identify biomarkers which correlate with drug effect and tumour inhibition in a preclinical and clinical setting. This approach will identify biomarkers to accelerate drug development and enable earlier go/no-go decisions in drug development.

Outlook

Collaborative biomarker developments will continue to underpin the growth of our biomarker platform over the forthcoming year. Scientific publications marking our progress will be also become more visible alongside the extension of our client specific biomarker programmes. We anticipate continued revenue strengthening over the coming year.

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Novel Therapies

Raising visibility of Novel Therapies discovery and development platform

- Identifying the body's own regulator proteins
- Advancing four leads across cancer (oncology) and gastrointestinal disease
- Presented cancer stem cell developments at ASCO meeting

The Novel Therapies division is discovering the body's own key regulators (proteins) of epithelial stem cells and tissues. These protein regulators are largely unknown because of the difficulties in accessing and evaluating their regulation in epithelial tissue. The key protein regulators are responsible for restoring damaged tissue and maintaining 'life-long tissue renewal' throughout our everyday lives.

The division is focused on identifying the key regulators of cells in the disease areas of unmet medical need including cancer (based on 80% of cancer originating from epithelial tissue), gastrointestinal disease and wound healing.

Using our discovery platform, we have identified an emerging group of more than 250 key regulators which we are now characterising and testing using our proprietary preclinical efficacy models.

The combination of our knowledge of the behaviour of adult epithelial cells integrated with the use of gene expression analysis and bioinformatics techniques has enabled us to begin to identify the key protein regulators of cell proliferation, differentiation, cell death and self-renewal. The past year has marked a significant turning point in the division's development as we work to develop and out-license our own proprietary therapeutic leads.

Commercial opportunities in the emerging area of cancer stem cells

Identifying the key regulators of epithelial cell production will lead to a range of commercial opportunities for proteins, antibodies and small molecules to target multiple tissues and disease areas. The Novel Therapies team is applying its understanding of normal epithelial stem cells to cancer stem cells. This emerging area of oncology focuses on rare and less-differentiated cancer stem cells that are resistant to cancer therapeutics.

Based on our developments, we have selected a small group of leads where we have prioritised our efforts. For example, our lead candidate in oncology, Epi – 288, inhibits tumour growth in preclinical models. We are further characterising its mode of action and Epi – 288's related family members.

Partnering opportunities

The emergence of therapeutic leads from our discovery platform and efficacy in our oncology models has brought increased interest from potential partners. We believe that the identification of suitable top-tier pharmaceutical partners who can complement our discovery approach and accelerate our leads towards the clinic will fundamentally transform our Novel Therapies division.

Outlook

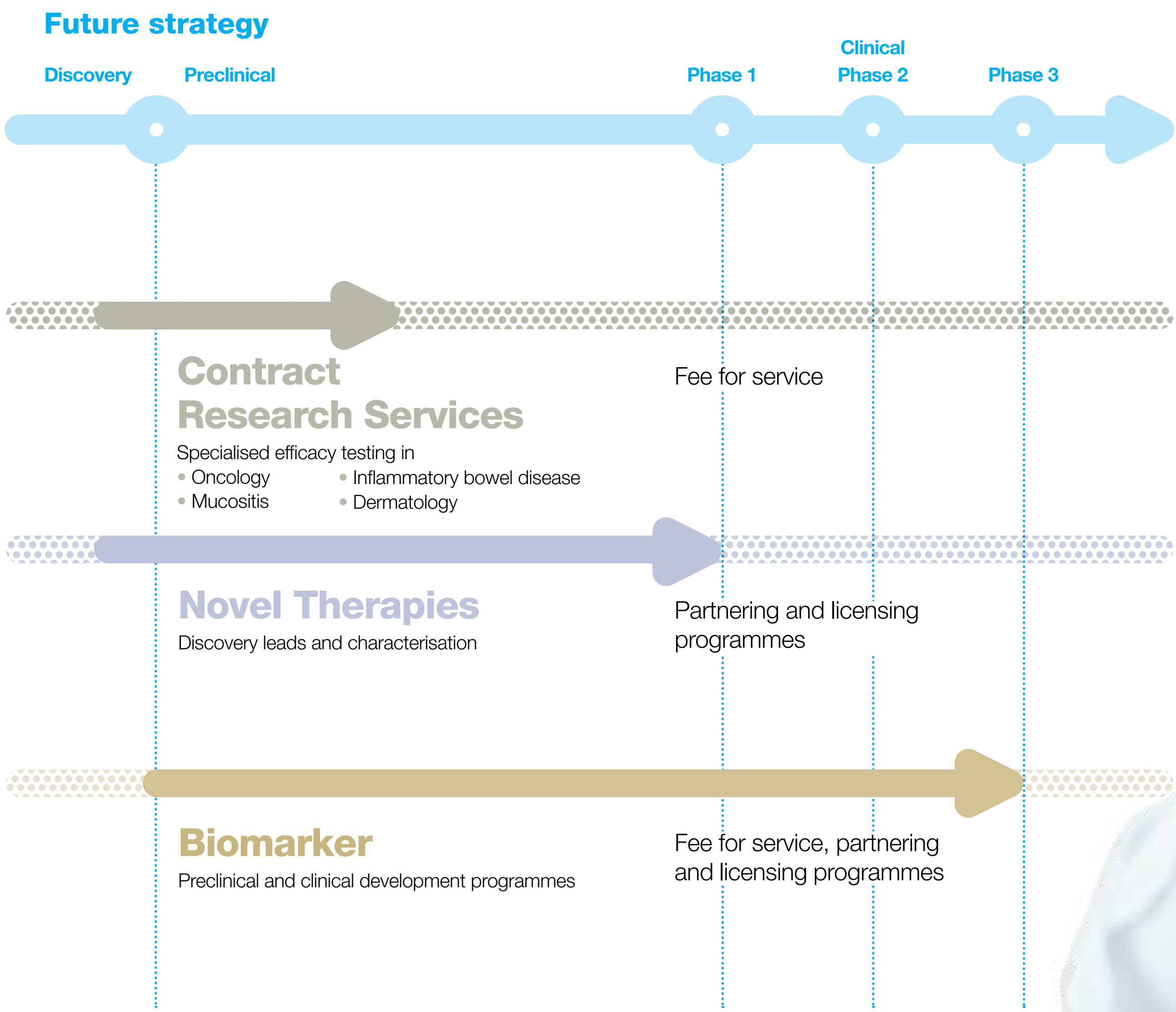
Emerging leads are now forthcoming from our Novel Therapies drug discovery platform. This comes at a time when there is an increased pharmaceutical and biotechnology interest in novel and proprietary drug discoveries. Our Novel Therapies division is well placed to capitalise on this position.

£1.1m
investment in Novel Therapies in 2008

Our Business and Strategy

A robust business model
to sustain future growth.

Epistem has an unrivalled knowledge of epithelial tissue behaviour and an extensive array of stem cell assays, which is becoming a key consideration in the development of new epithelial drugs.



Combined business model

Epistem's approach is a balanced risk model which combines its profitable and growing Contract Research Services division with the discovery and early development of novel therapeutics. The Contract Research Services business has already established robust relationships with pharmaceutical and biotechnology leaders worldwide. These relationships and our wide-ranging stem cell services provide the basis of the future partnering strategy for Epistem's emerging Novel Therapies and Biomarker businesses.

Partnering programme

Our Novel Therapies division is now entering into partnership discussions with pharmaceutical and biotechnology groups to integrate leads emerging from our therapeutic discovery and development programme.

Licensing opportunities

The depth of the platform underpinning the Company's Novel Therapies is reflected by the 250 potential drug candidates which the Company has identified to date. A number of these candidates are now undergoing further development as stem cell regulators, which will drive Epistem's drug development pipeline.

Feasibility studies are under way with several drug discovery companies using Epistem's clinical biomarker technology.

Strategic goals:

Growth: We expect to deliver sustained revenue growth and increased visibility and awareness of the Company and its achievements over the forthcoming year.

Technical: We will continue to exploit our core stem cell expertise and build industry recognition around our stem cell science and gene expression technology. We will advance new product developments, biomarker partnerships and therapeutic leads to underpin our continued commercial success.

Financial: Continued revenue growth over the coming year is anticipated with accelerated commercial delivery across all of our divisions. Our combined business model will continue to strengthen and our portfolio strength will help offset investment in our Novel Therapies discovery and development programme.

Investor: Continued development across each of our business divisions offers an increasingly attractive investment opportunity for both our existing and new investors. The impressive revenue growth in our Contract Research Services division coupled with increasing forecast revenues from our Biomarker business and our emerging Novel Therapies therapeutic leads demarks Epistem as an exciting growth stock with significant upside.

Strength in Depth

Investment in services and research underpins ongoing high rates of growth for CRO sales and robust development of Epistem's technology platform.

The 2007/8 financial year saw Epistem sustain its high growth rate of sales which year on year were up 52%. During the 2007/8 financial year, the Company has invested cash resources in the ongoing development of its technology platform and its management and administrative infrastructure.

Financial highlights

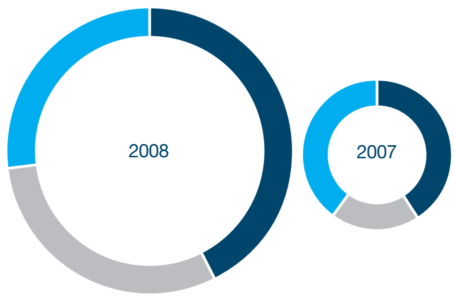
- Strong growth in CRO sales to £2.1m
- Successful implementation of US National Institutes of Health bio-defence programme with ongoing potential for future periods
- Substantive progress with the launch of European sales team
- Significant first steps taken in commercialisation of biomarker services
- £1.1m raised in successful private placing during November 2007
- Ongoing investment in core Novel Therapies programme of £1.1m
- Year end cash reserves stand at £2.1m which are twice the annual operating cashflow

Key performance indicators

Our business split by turnover

Total £2.06m
(2007: £1.36m)

- **United States** **£0.88m** (2007: £0.55m)
- **Europe and Asia** **£0.63m** (2007: £0.26m)
- **United Kingdom** **£0.55m** (2007: £0.55m)



Market dynamics

The Company's main markets have, to date, not been noticeably affected by the slow-down in the world-wide economy. Notwithstanding this, the tightness in credit conditions impacts on the financial market's sentiment. The current environment mitigates towards a focus on organic growth and internal cash generation.

Review of performance and key performance indicators

Against this tightening economic background, Epistem's trading operations have performed well. Overall turnover has increased 52% with CRO operating profit more than doubling to £0.6m. During 2007/8, we invested £1.1m (2007: £1.0m) in R&D. These items, together with £0.9m (2007: £0.5m) in central administration, produced, net of interest and tax, a loss of £1.2m (2007: £1.0m).

The year end cash position of £2.1m compares with a net cash outflow from operations of £1.0m (2007: £0.8m).

Contract Research Services

The CRO division reports sales of £2.1m up from £1.4m and operating profit of £0.6m up from £0.2m. Whilst UK sales have remained steady at £0.6m, our European territory saw excellent growth, up £0.4m to £0.6m. The US territory, our largest market, saw sales grow £0.3m to £0.9m. A particular feature of the US territory has been the development of the bio-defence work undertaken for the US National Institutes of Health.

Novel Therapies

During the year, we maintained our investment of £1.1m pa in our Novel Therapies Division. This investment is a key component of our business model, underpinning potential returns in forthcoming years. Our research is focused on developing therapeutic leads intended to form bases for collaborations with drug development partners. During the year, substantive progress has been achieved both in developing the technology platform as well as specific leads.

Biomarkers

The Company has continued to progress the validation of its Biomarker technology. The division operates a 'fee for service & license' based approach with partners identifying drug-induced biomarkers. During the year, we have continued to meet strong demand from drug development companies for a reliable non-invasive biomarker.

Central financial and administration costs

Central cost increases over the year were primarily driven by management costs reflecting the growth of our senior management and formalised executive and non-executive board structure. Year on year costs were also increased in relation to our PLC status with increases in broker/NOMAD costs, Annual and Interim reporting, PR and communications.

CRO sales

2008	£2.06m
2007	£1.36m

CRO contribution

2008	£0.55m
2007	£0.24m

Loss for financial year

2008	£1.15m
2007	£1.04m

Increase in sales

+£0.7m

Investment in research

2008	£1.1m
2007	£1.0m

Central financial & administration costs

2008	£0.93m
2007	£0.45m

Chairman's Statement

An exceptional set of results delivered against a challenging trading environment

Dear Shareholder,

I am delighted to present the second Annual Report for the Company following its admission to AIM in April 2007.

The financial results for the Group as presented in this report have been prepared using merger accounting, reflecting the results for the Group's sole subsidiary for the year to 30 June 2008 and for the comparative period to 30 June 2007.

Growing stronger

In these times of uncertain market dynamics and fundamental change, I am pleased to present an exceptional set of results, delivered against a challenging trading environment.

Further details of the results for the period are covered in the CEO's review, but operationally and financially, the year to 30 June 2008 saw the Company generate revenues of £2.1m (2007: £1.4m) with a net CRO contribution of £0.6m (2007: £0.2m) and research and other operating costs of £2.0m (2007: £1.5m). The after tax loss reported for the year was £1.2m (2007: £1.0m). Cash reserves were £2.1m (2007: £2.3m).

During the year the Company made significant progress on a number of key fronts:

- Contract Research Services revenues grew by 52% to £2.1m (2007: £1.4m). The increased growth provided a step up in operating margin driven by the expansion of our US government bio-defence contract and the strengthening of our business development team and territory focus.
- In November 2007, we successfully completed a placing of £1.1m with existing investors to help fund the newly created Biomarker business. This timely fundraising enabled us to accelerate our Biomarker technical and commercial developments.

September 2007
Epistem receives Bionow 'Biomedical project of the year' for Biomarker programme.

October 2007
Epistem reports on biomarker progress with AstraZeneca at American Association for Cancer Research (AACR) in San Francisco, California.

- Revenues from our first Biomarker commercial contracts were forthcoming in the year and business development was bolstered by the recruitment of a new senior executive to lead the biomarker business. Whilst there are still some technical risks around the development of our biomarker platform we anticipate rapid growth from this division over the coming year.
- Our Novel Therapies division has made excellent progress through the year. Our emerging therapeutic leads have been prioritised and a core group positioned for rapid development. Partnership discussions are ongoing and we expect to provide a further update on this position over the coming months.
- Investor relations and Company communications have kept our core investor groupings informed of progress throughout the year and this has helped maintain a steady share price performance over the period. In the light of our anticipated future growth we will be building further on our investor communications.

Current trading
Trading in the first three months of the new financial year has been strong with revenues 20% ahead of the comparative period last year.

Outlook
Despite the difficult market and trading conditions, the outlook for Epistem is increasingly positive, although we remain attentive to the challenges ahead.

Our divisional businesses are establishing themselves as rapidly growing and exciting prospects in an equally exciting and rapidly growing biotechnology/healthcare segment. The Contract Research Services division is performing very well and the Biomarker division is now beginning to generate revenues, providing further support for our forecast outlook. The game changing piece has now become our Novel Therapies discovery and development programme and its identified therapeutic leads. We anticipate partnering our programme and leads over the short to medium term. This will position Epistem as a therapeutic discovery leader in the field of epithelial stem cell regulation and control and will lift the value, opportunity and awareness of the Company to a new level.

Finally, I would like to thank 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 valued support has provided a stable platform for our continued growth.

David Evans
Chairman
22 October 2008

Chief Executive's Review

The year ahead will see further increase in our forecast revenues and growth ambition

Dear Shareholder,

It gives me great pleasure in our second year since listing on AIM to report excellent growth, despite the difficult economic and trading conditions. We have made significant progress over the past year and continue to build Epistem into a globally recognised drug discovery and early stage development company focused in the areas of oncology, gastrointestinal and other epithelial disease.

This year's Annual Report has been designed to bring greater attention to our divisional portfolio and to offer a better insight to the commercial opportunity that each presents. It also comes at a time of growing interest in stem cell related therapeutics and regenerative medicines.

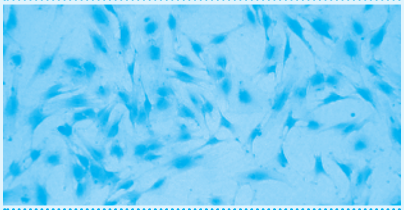
Headline operational progress over the year included;

- Year-on-year net sales growth up 52%, primarily driven by our Contract Research Services division.
- Contract Research Services operating margin increased over two-fold on previous year.
- Accelerated development of our Novel Therapies leads with the identification of a core group of emerging lead candidates.
- Completion of a £1.1m placing in November 2007.
- Initial revenue generation from our new Biomarker platform which bodes well for the future.
- Strong cash balance of £2.1m with an improved trading outlook.

Equity placing

+£1.1m

November 2007
Epistem successfully completes £1.1m equity placing to fund new Biomarker business.



January 2008
Epistem discovery programme identifies emerging therapeutic leads.

Combined business model – integrated biotechnology company

Our combined business model has strengthened throughout the year in an increasingly risk averse UK investor environment. Our profitable and cash generative Contract Research Services division sustained further exceptional growth from which we have continued to develop our Novel Therapies and Biomarker divisions. With both the Novel Therapies and Biomarkers divisions making excellent progress in their own right, our 'portfolio' of business opportunities is now well placed for the year ahead. We will continue to exploit our integrated scientific platform whilst retaining the commercial autonomy of each division.

Financial review

The Company reports a turnover of £2.1m (2007: £1.4m) for the year ended 30 June 2008. Revenues are predominantly underpinned by Contract Research Services division sales, which maintained a 52% year-on-year revenue growth trend. The newly created Biomarker division recorded £0.1m of first year sales. Due to the size and immaturity of the Biomarker division these sales have been consolidated into the Contract Research Services segment for reporting purposes.

The business development team made good progress throughout the year in raising market awareness and visibility of our service offerings. Territory revenues were split US (43%), EU (31%) and UK (26%). Both the US and EU territory revenues have now overtaken our historic reliance on the UK home market. The US territory was buoyed by our second year of collaboration with the US National Institutes of Health, with the EU territory benefiting from dedicated business development support.

The growth in Contract Research Services saw divisional contribution increase by over two-fold to £0.6m (2007: £0.2m). Investment in the Novel Therapies and Biomarker divisions, including central administration costs increased by £0.5m, to £2.0m, due partly to an increase in senior management and investment support for our new Biomarker division. The increase in costs also reflects the first full year of listing costs, PR and external communications.

The loss reported for the financial year was £1.2m (2007: £1.0m) with headcount in the company now 40 (2007: 30).

In November 2007, the Company completed a 10% equity placing of £1.1m at the then prevailing mid-market price of 163p. The placing proceeds are now being used to develop the newly created Biomarker division.

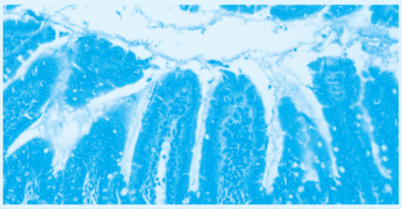
Cash reserves at the end of the year were £2.1m. Improved trading reduced monthly cash outflows through the year to £0.1m per month.

Earnings per share showed a reduced loss of (16.6)p per share (2007: (22.4)p) largely resulting from the increased number of shares in issue following the placing.

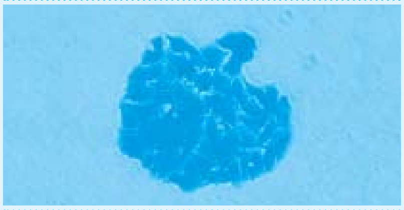
Against the downturn in the financial markets and the limited share liquidity of the Company, the Epistem share price has held up well. Clear communication of the Company's strategy and performance outlook has kept investors informed of our prospects and helped offset any significant volatility in the Company's share price. With further anticipated growth forecast over the forthcoming year, we expect to enhance our investor communications further.

The Company's annual audit was completed in October 2008 by HW Chartered Accountants, and their Audit report is included with the annual accounts.

Chief Executive's Review (continued)



April 2008
Epistem announces contract with Exponential Biotherapies, Inc to provide efficacy testing services for agents likely to protect the gastrointestinal tract against radiation damage.



May 2008
Epistem presents data and launches cancer stem cell assays at the American Society of Clinical Oncology.

Operating review

Contract Research Services

Over the year, the Contract Research Services division delivered a 52% year-on-year growth in revenue, signalling the strength of interest in our core biology and service offering. The division's focus on testing the preclinical efficacy of drug compounds in its core disease areas continues to provide an attractive business model from which we anticipate further future growth.

Revenue growth was driven by a number of factors including an increase in repeat business and new client relationships which underpinned an increase in the average contract size. The business development team has been organised on a territory basis which together with a revised marketing and branding effort helped raise performance and deliver new business opportunity.

At a client level, our collaboration with the US National Institutes of Health's biodefence programme saw an increase in the number of agents tested along with a widening of the scope of work undertaken – Epistem is a main provider of tests for agents which may treat radiation sickness following a nuclear incident. There are currently no medications approved by the NIAID/FDA to treat this condition. This model of closer collaboration is also being rolled out with other selected clients where we can provide ongoing service support.

New product developments made good progress through the year with our angiogenesis, cancer stem cells and inflammatory bowel disease models which were all well received on launch. Angiogenesis models grow human blood vessels, thereby we can test the efficacy of anti-angiogenic oncology agents currently being developed by biotechnology and pharmaceutical groups.

We will be maintaining a similar strategy over the coming year to raise visibility and awareness of our commercial offering and to accelerate our operating margin. Whilst the nature of Contract Research opportunities can often be piecemeal and difficult to forecast, we anticipate sustained growth over the forthcoming year.

Biomarkers

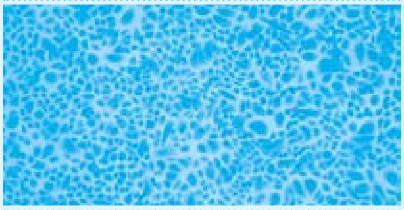
In November 2007, we successfully completed a £1.1m equity placing allowing us to build our new hair biomarker business. Prior to raising these proceeds, the early biomarker development was undertaken within the Novel Therapies division.

Arising from an increase in demand from drug development groups and regulatory authorities for a biomarker to evaluate the biologic effect of new and existing drugs, Epistem's hair biomarker provides a simple measure of drug-induced gene expression change in epithelial tissue. With 80% of adult cancers derived from the epithelium, we believe our platform has a significant advantage in identifying oncology biomarkers over other traditional biomarker methods.

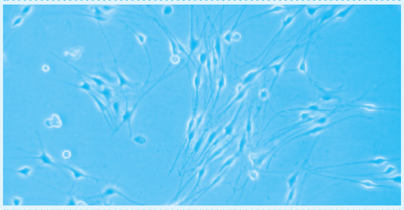
Following the November placing, the biomarker group has grown to include technical support and also by the recruitment of Lydia Meyer Turkson who has joined the management team to lead the growth of the Biomarker division. Whilst there are still some technical and development risks around elements of the technology platform, early validation has been undertaken with a group of leading pharmaceutical groups including AstraZeneca and Johnson & Johnson. The success of these studies generated our first revenues and has helped us benchmark our biomarker as a guide to drug development.

We will be presenting the early results of our biomarker work at the forthcoming ASCO and AACR autumn meetings with the expectation of further raising our biomarker profile.

The global biomarker market is forecast to grow considerably over the next few years driven by industry and regulatory needs for biomarkers to provide measures of drug efficacy. Over the forthcoming year, we will be extending our oncology biomarker developments with our collaborative partners from which we expect to see further growth.



June 2008
Epistem presents details of its US National Institute of Health's programme for the screening novel agents for biodefence applications at Multinational Association of Supportive Care in Cancer in Houston, Texas.



July 2008
Epistem announces preclinical contract with Humanetics Corporation, US.

Novel Therapies

Increased awareness of the role epithelial stem cells play in the normal operation of cell generation in the body has given rise to a growing number of scientific publications and stem cell hypotheses surrounding abnormal or so called 'cancer stem cells', the theory being that cancer stem cells are responsible for driving tumour growth. Our core expertise in epithelial stem cells and the recent development of our cancer stem cell models and lead therapeutics has positioned us to exploit this growing scientific momentum.

Following last year's AIM listing, we have accelerated the discovery and development of our Novel Therapies programme giving rise to an exciting year of progress. The programme has identified and selected a core group of novel and proprietary proteins which regulate epithelial cells. A small group of these proteins have been prioritised for further development and characterisation.

The next phase of our growth will include close collaboration with the pharmaceutical and biotechnology industry's leading companies to establish our scientific approach and raise the visibility of our core expertise and therapeutic leads.

Collaborative interest in our discovery programme and its emerging therapeutic leads has grown over the year, with discussions now ongoing with interested parties. An established collaboration with a major pharmaceutical or biotechnology industry player will allow us to integrate our discovery platform and preclinical models with a downstream development partner to accelerate our lead development. It would also signal the transformation of Epistem into a biopharmaceutical discovery and early stage development company.

Outlook

Over the past year, we have carefully managed the development of our technology, lead therapies and contract services whilst at the same time growing our revenues and in-house expertise. This has required a significant effort across the Company. The reward for this effort has been the establishment and strengthening of each of our divisions. We are aware that even greater effort will be needed for our future success and we are now preparing for a new cycle of growth.

We will continue to build and supplement our management team with world class, innovative employees who fit with the culture and dynamism of the Company. We will also continue to build on our corporate and board strength and supplement our scientific advisory board and advisory committees as appropriate.

Our shareholder interest and support has been exceptional over the past year and we will ensure that our ongoing investor communications continue to grow this relationship.

The combination of our recognised and experienced management team and our strengthening commercial position confirms our confidence that the year ahead will see further substantial increase in our forecast revenues and growth ambition. We will also consider other complementary technology acquisitions and in-licensing where appropriate to underpin this position. Against the backdrop of weakening economic conditions and a volatile market it is easy to see that there are still many pitfalls and we will remain vigilant in our outlook.

It remains our ambition to significantly build shareholder value by providing the next generation of cancer and gastrointestinal therapeutics, exploiting our know-how and expertise in epithelial stem cells.

I would like to thank the Board, management and employees for their outstanding performance and for helping Epistem achieve an excellent set of results. I would also like to thank our investors for their continued close support and interest in our exciting Company.

Matthew H Walls
Chief Executive Officer
22 October 2008

Board of Directors

1 David Evans (48)

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: Immunodiagnostic System Holdings plc and Omega Diagnostics Group plc.

2 Matthew Walls (44)

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 Riyada Oxford Investments Limited and is a chartered accountant and a member of CIMA.

3 John Rylands (53)

Financial 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. Until 1999 he was an investor in and consultant to the SDS group of companies. John holds a degree in Economics and Accountancy from Manchester University and is a member of ICAEW.

4 Jeffrey Moore, Ph.D. (49)

Managing Director, Novel Therapies

Jeffrey joined Epistem in 2005 in his current role. Prior to joining Epistem he had been at Phylogix, a US biotechnology company which he founded in 1998. Jeff has held two postdoctoral fellowships at different research institutes, DNAX Research Institute of Molecular and Cellular Biology Inc and the Walter and Eliza Hall Institute of Medical Research, following which he joined Imclone Systems Inc. Throughout his career, Jeffrey has kept a strong interest in stem cell regulation and the potential commercial application of these factors. He holds a Ph.D. from George Washington University.

5 Prof. Chris Potten (67)

Chief Scientific Adviser
Chris is a co-founder of Epistem and the Company capitalises on the results of the research that was produced by him and his team at the Paterson Institute over the past three decades. While not involved in the day-to-day management of the Company, Chris keeps a strong interest in the progress and success of the Company and prior to Epistem's AIM listing was its biggest individual shareholder.

6 Catherine Booth, Ph.D. (43)

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.

7 Gerard Brady, Ph.D. (52)

Research Director
Gerard joined Epistem shortly after its inception from Manchester University, where he was a lecturer, and was previously a Zeneca Fellow. He brought with him important technological expertise gained through working on blood stem cells. Of particular importance to Epistem is his expertise in single cell gene analysis, which enables the examination of rare cells such as stem cells. Gerard previously held scientific positions in Canada and at EMBL, Heidelberg.

8 Robert Nolan, Ph.D. (65)

Non-executive Director
Robert has been a Non-executive Director of the Company since 2004. He brings with him a wealth of expertise in partnering and licensing negotiations with both small biotechnology and large pharmaceutical companies. Prior to his retirement he was Director, Global Licensing, at AstraZeneca. He is also a Non-executive Director of f2g Ltd and Phico Therapeutics Ltd and acts as European & US Business Consultant to LG Life Sciences of Seoul, South Korea.

9 Roger Lloyd, Ph.D. (60)

Non-executive Director
Roger joined the Board as a Non-executive Director on 1 July 2007, having only recently stood down as Executive Director, Global Licensing, at AstraZeneca plc. In this capacity, he headed up the deal-making team responsible for the acquisitions by AstraZeneca of Cambridge Antibody Technologies plc and KuDOS Pharmaceuticals Limited, as well as other strategically important transactions.

Directors' Report

For the year ended 30 June 2008

The Directors present their report for Epistem Holdings Plc ('the Company') and its subsidiary (together 'Epistem' or 'the Group') for the year ended 30 June 2008.

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 services and the development of novel therapeutics for partner companies. The trading activities of the Group are currently undertaken in the subsidiary undertaking and a detailed overview of these activities is outlined in the Business Overview on the inside front cover to page 11 of this report.

A review of the business during the year which summarises overall progress, research and development and Key Performance Indicators, as well as risks and developments is detailed in the Business Overview and Review of the Year on the inside front cover to page 19 of this report.

Results and dividends

The trading results for the year and the Group's financial position at the end of the financial year are shown in the financial statements on pages 28 – 48 of this report.

The statements have been prepared under International Financial Reporting Standards ('IFRSs'). The adoption of IFRS 2 relates to the issue of share options and has given rise to a fair value charge, which is detailed in Note 17 to the financial statements.

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:

	1 July 2007	30 June 2008
David Evans	80,645	80,645
Chris Potten	919,320	919,320
Catherine Booth	980,000	980,000
Gerard Brady	–	–
Roger Lloyd	–	–
Jeffrey Moore	14,500	14,500
Robert Nolan	8,065	8,065
John Rylands	189,898	189,898
Matthew Walls	5,645	5,645

Significant shareholdings

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

	Ordinary shares	Percentage holding
Managed by Calculus Capital Ltd	1,219,585	16.96%
Helium Special Situations Fund	820,003	11.40%
Northwest Business Investment Scheme	294,780	4.10%
Rensburg Sheppards	240,940	3.35%
Jonathan Moulton	235,925	3.28%

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 69 (2007: 66) based on the average daily 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 International Financial Reporting Standards (IFRSs) as adopted by the European Union.

The Directors are responsible for preparing financial statements for each financial year which give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of affairs of the Company and the Group and of profit or loss of the Group for that year.

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 whether the financial statements comply with IFRSs as adopted by the European Union;
- 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 proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and the Group and to enable them to ensure that the financial statements and the Directors' Remuneration Report comply with the Companies Act 1985 and Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Company and the Group and hence taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

Principal risks

The Board meets regularly to review operations and to discuss risk areas. The 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.

Provision of information to auditors

So far as the Directors are aware, there is no relevant audit information of which the Company's auditors are unaware and the Directors have taken all the steps that ought to have been taken as Directors in order to make themselves aware of any audit information and to establish that the Company's auditors are aware of that information.

Auditors

HW Chartered Accountants have expressed their willingness to continue as auditors. A resolution to reappoint HW Chartered Accountants will be proposed at the Annual General Meeting.

Approved by the Board

H J J Rylands
Company Secretary
22 October 2008

Directors' Remuneration Report

For the year ended 30 June 2008

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

Unaudited information

Remuneration policy

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

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

Non-executive Directors' terms of engagement

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

Audited information

Aggregate Directors' remuneration

	Salary & fees £	Bonus £	Benefits in kind £	2008 total £	2007 total £
Executive					
Chris Potten	50,456	–	985	**51,441**	69,972
Catherine Booth	90,500	–	1,850	**92,350**	75,000
Gerard Brady	88,000	–	1,850	**89,850**	75,000
Jeffrey Moore	90,500	–	1,850	**92,350**	90,000
John Rylands	88,000	–	1,400	**89,400**	62,500
Matthew Walls	178,417	80,000	3,000	**261,417**	58,333
Non-executive					
David Evans	24,000	–	–	**24,000**	134,107
Roger Lloyd	12,000	–	–	**12,000**	–
Robert Nolan	12,000	–	–	**12,000**	15,000
	633,873	**80,000**	**10,935**	**724,808**	**579,912**

Benefits in kind relate to health insurance policies.

Directors' share options

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

	As at 1 July 2007	Options granted	As at 30 June 2008	Exercise price	Earliest exercise date	Expiry date
Executive						
Chris Potten (2)	15,528	–	15,528	£1.20	Exit	09/01/2016
Catherine Booth (2)	15,528	–	15,528	£1.20	Exit	09/01/2016
Gerard Brady (2)	88,800	–	88,800	£0.50	Exit	06/01/2012
Gerard Brady (2)	3,200	–	3,200	£0.75	Exit	30/03/2013
Gerard Brady (2)	2,200	–	2,200	£0.75	Exit	20/07/2014
Gerard Brady (2)	1,800	–	1,800	£0.75	Exit	24/11/2015
Gerard Brady (2)	24,224	–	24,224	£1.20	Exit	09/01/2016
Gerard Brady (2)	–	12,653	12,653	£1.67	Exit	27/07/2017
Gerard Brady (4)	–	57,727	57,727	£1.60	15/10/2010	15/10/2017
Jeffrey Moore (3)	83,333	–	83,333	£1.20	04/04/2007	09/01/2016
Jeffrey Moore (1)	100,000	–	100,000	£1.20	04/04/2007	09/01/2016
Jeffrey Moore (1)	83,333	–	83,333	£1.20	01/09/2007	09/01/2016
Jeffrey Moore (1)	83,333	–	83,333	£1.20	01/09/2008	09/01/2016
John Rylands (3)	83,333	–	83,333	£1.20	04/04/2007	09/01/2016
John Rylands (1)	127,847	–	127,847	£1.20	04/04/2007	09/01/2016
Matthew Walls (5)	177,653	–	177,653	£1.24	31/10/2010	27/03/2017
Matthew Walls (6)	80,644	–	80,644	£1.24	31/10/2010	27/03/2017
Non-executive						
David Evans (1)	62,112	–	62,112	£1.20	04/04/2007	09/01/2016
Robert Nolan (1)	78,000	–	78,000	£1.29	31/05/2005	30/03/2015
Robert Nolan (1)	15,528	–	15,528	£1.20	10/01/2006	09/01/2016

1. Unapproved stand-alone agreement, no performance criteria.
2. EMI Company scheme, no performance criteria.
3. EMI stand-alone scheme, no performance criteria.
4. EMI and Unapproved stand-alone scheme, with performance criteria which require the Board to determine whether certain identified technical developments have been completed.
5. EMI and Unapproved stand-alone scheme, with performance criteria which allow the options to vest (i) when the audited accounts for the year ended 30 June 2010 become available and (ii) when the earnings per share of the financial year are a positive figure.
6. EMI stand-alone scheme, with performance criteria as detailed in (5) above.

Approved by the Board

D E Evans
Chairman
22 October 2008

Corporate Governance Report

For the year ended 30 June 2008

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) appointed 1 July 2008, Remuneration Committee only	n/a	1	n/a

Remuneration Committee

The Remuneration Committee will review 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 will be set by the Board. The Remuneration Committee will also approve the issue of share options under schemes approved by the Board.

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

Audit Committee

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

Nomination Committee

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

Relations with shareholders

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

Internal controls

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

Social, environmental and ethical matters

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

Employment

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

Health, safety and environmental issues

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

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

The Group is committed to maintaining high standards in implementing appropriate health, safety and environmental protection policies. The Group has an excellent health and safety record. 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

For the year ended 30 June 2008

We have audited the Group and Parent Company Financial Statements (the 'Financial Statements') of Epistem Holdings Plc for the year ended 30 June 2008 which comprise the Group Income Statement, the Group and Parent Company Balance Sheets, the Group and Parent Company Cash Flow Statements, the Group and Parent Company Statements of Changes in Equity and the related notes. These Financial Statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

This report is made solely to the Company's members, as a body, in accordance with Section 495 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 Auditors' 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

The Directors' responsibilities for preparing the Annual Report, the Directors' Remuneration Report and the Financial Statements in accordance with United Kingdom law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the Financial Statements and the part of the Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the Financial Statements give a true and fair view and whether the Financial Statements and the part of the Directors' Remuneration report that is described as having been audited have been properly prepared in accordance with the Companies Act 2006 and, as regards the group Financial Statements, Article 4 of the IAS Regulation. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the Financial Statements. The information given in the Directors' Report includes specific information that is presented elsewhere in the Annual Report and is cross referred from the business review section of the Directors' Report.

In addition we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and other transactions is not disclosed.

We read the other information contained in the Annual Report and consider whether it is consistent with the audited Financial Statements. The other information comprises only the Directors' Report, the unaudited part of the Directors' Remuneration Report, the Chairman's Statement, the Chief Executive's Review, the Business Overview, the Strength in Depth section and the Corporate Governance Report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Group Financial Statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Financial Statements and the part of the Directors' Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the Financial Statements, and of whether the accounting policies are appropriate to the Group's and Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Financial Statements and the part of the Directors' Remuneration Report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the Financial Statements and the part of the Directors' Remuneration Report to be audited.

Opinion

In our opinion:

- the Group Financial Statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Group's affairs as at 30 June 2008 and of the Group's loss for the year then ended;
- the parent company Financial Statements give a true and fair view, in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Act 2006, of the state of the Parent Company's affairs at 30 June 2008 and of its profit for the year then ended;
- the Financial Statements and the part of the Directors' Remuneration report to be audited have been properly prepared in accordance with the Companies Act 2006 and, as regards the Group Financial Statements, Article 4 of the IAS Regulation; and
- the information given in the Directors' Report is consistent with the Financial Statements.

HW Chartered Accountants
Chartered Accountants
& Registered Auditors

Bridge House
157 Ashley Road
Hale
Altrincham
Cheshire WA14 2UT

22 October 2008

1. The maintenance and integrity of the Epistem Holdings Plc website is the responsibility of the Directors; the audit does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the Financial Statements since they were initially presented on the website.
2. Legislation in the United Kingdom governing the preparation and dissemination of the Financial Statements differs from legislation in other jurisdictions.

Consolidated Income Statement

For the year ended 30 June 2008

	Notes	2008 £	2007 £
Revenue	2	**2,065,417**	1,357,444
Contract research costs		**(1,509,513)**	(1,112,093)
Discovery and development costs		**(1,070,594)**	(1,034,053)
General administrative costs		**(932,735)**	(452,708)
Operating loss	3	**(1,447,425)**	(1,241,410)
Interest receivable		**127,925**	49,793
Interest payable and similar charges	6	**(13,489)**	(5,276)
Loss on ordinary activities before taxation		**(1,332,989)**	(1,196,893)
Tax credit on loss on ordinary activities	7	**179,423**	160,358
Loss for the financial year		**(1,153,566)**	**(1,036,535)**
Loss per share (pence)	9	**(16.6)p**	(22.4)p

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

The Company has taken advantage of section 230 of the Companies Act 1985 not to publish its own Income Statement.

Consolidated Statement of Changes in Equity

For the year ended 30 June 2008

	Share capital £	Share premium account £	Share options reserve £	Reverse acquisitions reserve £	Profit and loss account (restated) £	Total £
Balance at 1 July 2006	202	2,531,968	398,812	–	(1,835,964)	1,095,018
IFRS 3 reverse acquisition conversion	60,482	2,423,924	–	(2,484,406)	–	–
Allotment of ordinary shares	37,387	3,053,250	–	–	–	3,090,637
Share issue costs	–	(607,542)	–	–	–	(607,542)
Recognition of equity settled share based payments	–	–	55,120	–	–	55,120
Loss for the year	–	–	–	–	(1,036,535)	(1,036,535)
At 30 June 2007	98,071	7,401,600	453,932	(2,484,406)	(2,872,499)	2,596,698
Balance at 1 July 2007	98,071	7,401,600	453,932	(2,484,406)	(2,872,499)	2,596,698
Allotment of ordinary shares	9,807	1,055,897	–	–	–	1,065,704
Share issue costs	–	(20,295)	–	–	–	(20,295)
Recognition of equity settled share based payments	–	–	93,424	–	–	93,424
Loss for the year	–	–	–	–	(1,153,566)	(1,153,566)
At 30 June 2008	**107,878**	**8,437,202**	**547,356**	**(2,484,406)**	**(4,026,065)**	**2,581,965**

Consolidated Balance Sheet

As at 30 June 2008

	Notes	2008 £	2008 £	2007 £	2007 £
Non-current assets					
Intangible assets	11		**54,962**		58,826
Plant and equipment	12		**351,827**		368,099
			406,789		426,925
Current assets					
Trade and other receivables	13	**437,510**		357,089	
Tax receivables		**174,639**		160,358	
Cash and cash equivalents	14	**2,143,195**		2,394,456	
		2,755,344		2,911,903	
Liabilities					
Current liabilities					
Trade and other payables	15	**427,743**		394,994	
Obligations under finance leases	16	**40,489**		81,317	
Bank overdrafts and loans		**25,623**		128,884	
		493,855		605,195	
Net current assets			**2,261,489**		2,306,708
Total assets less current liabilities			**2,668,278**		2,733,633
Non-current liabilities					
Obligations under finance leases	16		**(86,313)**		(136,935)
Net assets			**2,581,965**		**2,596,698**
Capital and reserves					
Called-up equity share capital	22		**107,878**		98,071
Share premium account	23		**8,437,202**		7,401,600
Share options reserve	23		**547,356**		453,932
Reverse acquisition reserve	23		**(2,484,406)**		(2,484,406)
Profit and loss account	23		**(4,026,065)**		(2,872,499)
Total shareholders' equity			**2,581,965**		**2,596,698**

These financial statements were approved by the Directors and authorised for issue on 22 October 2008 and are signed on their behalf by:

D E Evans
Chairman

H J J Rylands
Company Secretary

Consolidated Statement of Cash Flows

For the year ended 30 June 2008

	2008 £	2008 £	2007 £	2007 £
Cash flows from operating activities				
Operating loss for the year		**(1,447,425)**		(1,241,410)
Depreciation, amortisation and impairment		**106,044**		109,264
Share based payment expense		**93,424**		55,120
Operating loss before changes in working capital and provisions		**(1,247,957)**		(1,077,026)
(Increase)/decrease in trade and other receivables		**(80,421)**		(33,726)
Increase/(decrease) in trade and other payables		**32,749**		180,956
Net cash outflow from operations		**(1,295,629)**		(929,796)
Interest paid	**(109)**		(5,276)	
Interest received	**127,925**		49,793	
Tax received	**165,142**		130,527	
		292,958		175,044
Net cash outflow from operating activities		**(1,002,671)**		(754,752)
Cash flows from investing activities				
Acquisition of fixed assets, net of lease finance	**(85,908)**		(63,192)	
Net cash outflow from investing activities		**(85,908)**		(63,192)
Cash flows from financing activities				
Proceeds from issue of share capital	**1,065,704**		3,090,637	
Expenses of share issue	**(20,295)**		(607,542)	
Repayment of borrowings	**(104,830)**		(75,450)	
Net cash inflow from financing activities		**940,579**		2,407,645
Net increase/(decrease) in cash equivalents		**(148,000)**		1,589,701
Cash and cash equivalents at beginning of year		**2,265,572**		675,871
Cash and cash equivalents at end of year		**2,117,572**		**2,265,572**
Analysis of net funds				
Cash at bank and in hand		**2,143,195**		2,394,456
Bank overdrafts		**(25,623)**		(128,884)
Net funds		**2,117,572**		**2,265,572**

Notes to the Financial Statements

For the year ended 30 June 2008

1. Significant accounting policies

Basis of accounting

The financial statements have been prepared under the historical cost convention, modified to include the revaluation of financial instruments and in accordance with applicable accounting standards.

Epistem Holdings Plc is a company incorporated in the UK.

The consolidated financial statements consolidate those of the Company and its subsidiary (together referred to as the 'Group').

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, income and expenses. 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.

Turnover

The turnover shown in the consolidated income account represents the amount invoiced during the year, exclusive of Value Added Tax.

Revenue recognition

The Company generally invoices and reports as sales 50% of the value of a new contract on signature. This policy is designed to recognise that, in negotiating contracts for new studies, the Company performs specific pre-contract work to establish the parameters of the study work. When the final report is issued to the client the remainder of the contract is invoiced and recognised as income, at that date. In other cases where the contract does not provide for income recognition on signature, revenue is recognised as the work is undertaken and invoiced.

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. The Group's primary format for segment reporting is based on business segments.

Research and development

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

Intangible fixed assets – other

Other intangible fixed assets are stated at cost less accumulated amortisation and any accumulated impairment losses.

Amortisation

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

Intellectual property – 5% straight line basis

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

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

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 on a straight line basis.

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

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

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

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

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

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

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.

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

Trade and other receivables
Trade and other debtors are recognised and carried forward at invoiced amounts less provisions for any doubtful debts. Bad debts are written off when identified.

Cash and cash equivalents
Cash and cash equivalents are included in the balance sheet at cost. Cash and cash equivalents comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less.

Notes to the Financial Statements (continued)
For the year ended 30 June 2008

1. Significant accounting policies (continued)

Interest-bearing loans and borrowings
All loans and borrowings are recognised initially at cost, which is the fair value of the consideration received, net of issue costs associated with the borrowing.

After initial recognition, interest-bearing loans and borrowings are measured at amortised cost using the effective interest method. Gains or losses are recognised in the consolidated income account when liabilities are derecognised or impaired, as well as through the amortisation process.

Investments
Investments in subsidiaries are stated at cost less any provisions for impairment. An impairment is recognized 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.

Standards, amendments and interpretations effective in 2007
The following standards, amendments and interpretations to published standards are mandatory for accounting periods beginning on or after 1 January 2006 but they are not relevant to the Group's operations:

IAS 21 (amendment), net investment in a foreign operation;
IAS 30 (amendment), cash flow hedge accounting of forecast intragroup transactions;
IAS 39 (amendment), the fair value option;
IAS 39 and IFRS 4 (amendment), financial guarantee contracts;
IFRS 6 (amendment), exploration for and evaluation of mineral resources;
IFRIC 4 determining whether an arrangement contains a lease;
IFRIC 5 rights to interests arising from decommissioning, restoration and environmental rehabilitation funds;
IFRIC 6 liabilities arising from participation in a specific market – waste electrical and electronic equipment;
IFRIC 7 applying the restatement approach under IAS 29 financial reporting in hyperinflationary economies;
IFRIC 9 re-assessment of embedded derivatives;
IFRIC 10 interim financial reporting and impairment;
IFRIC 11 group and treasury share transactions.

The following standards and interpretations to published standards have been issued, but do not take effect until the 2008 and 2009 financial years and are not expected to have a significant impact on the consolidated financial statements:

IFRS 8 operating segments;
IFRIC 12 service concession arrangements;
IFRIC 13 customer loyalty programmes;
IFRIC 14 the limit on a defined benefit asset.

2. Turnover and segmental analysis

Segment information

The Group's primary reporting format is business segments and the secondary format is geographical segments.

Business segments

	Contract Research Services £	Novel Therapies £	Unallocated £	Total £
Twelve months ended 30 June 2008				
Revenue	2,065,417	–	–	2,065,417
Segment trading result	606,320	(979,415)	(874,862)	(1,247,957)
less depreciation and amortisation	(31,664)	(59,800)	(14,580)	(106,044)
less equity settled share based payments (IFRS 2)	(18,752)	(31,379)	(43,293)	(93,424)
Operating profit/(loss)	555,904	(1,070,594)	(932,735)	**(1,447,425)**
Twelve months ended 30 June 2007				
Revenue	1,357,444	–	–	1,357,444
Segment trading result	277,615	(921,078)	(433,563)	(1,077,026)
less depreciation and amortisation	(32,264)	(68,600)	(8,400)	(109,264)
less equity settled share based payments (IFRS 2)	–	(44,375)	(10,745)	(55,120)
Operating profit/(loss)	245,351	(1,034,053)	(452,708)	**(1,241,410)**
Twelve months ended 30 June 2008				
Segment assets	521,309	423,247	2,217,577	3,162,133
Segment liabilities	341,653	148,806	89,709	580,168
Segment capital expenditure	23,655	37,657	24,596	**85,908**
Twelve months ended 30 June 2007				
Segment assets	433,585	410,164	2,495,079	3,338,828
Segment liabilities	280,127	238,711	223,292	742,130
Segment capital expenditure	13,148	155,312	12,732	**181,192**

Geographical segments

The Group's operations are located in the United Kingdom. The following table provides an analysis of the Group's sales by geographical market:

	2008 £	2007 £
United Kingdom	**550,004**	553,220
Europe	**630,432**	258,677
United States of America	**884,981**	545,547
Asia	**–**	–
	2,065,417	**1,357,444**

Notes to the Financial Statements (continued)
For the year ended 30 June 2008

3. Operating loss

Operating loss is stated after charging:

	2008 £	2007 £
Research and development expenditure written off	**1,070,594**	1,034,053
Amortisation	**3,864**	3,864
Depreciation of owned fixed assets	**40,430**	32,899
Depreciation of assets held under finance lease agreements	**61,750**	72,501
Auditors' remuneration		
– as auditors	**15,000**	10,000
– for other services	**5000**	–
Operating lease costs – property rent	**109,000**	**107,434**

4. Particulars of employees

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

	2008 No	2007 No
Contract research	**20**	17
Research and development	**11**	8
Administrative	**4**	4
	35	**29**

The aggregate payroll costs of the above were:

	2008 £	2007 £
Wages and salaries	**1,583,903**	1,087,876
Social security costs	**169,633**	105,381
Equity settled share based payments	**93,424**	55,120
	1,846,960	**1,248,377**

5. Directors' emoluments

	2008 £	2007 £
Remuneration	**724,808**	440,805
Equity settled share based payments	**66,851**	55,120
	791,659	**495,925**

Full details of the Directors' remuneration and Directors' options are contained in the Directors' Remuneration Report. In addition to the above, bonuses totalling £Nil (2007: £139,107) were written off to the share premium account as part of the cost of issuing shares on AIM.

6. Interest payable and similar charges

	2008 £	2007 £
Interest payable on bank borrowing	**109**	356
Finance charges	**13,380**	4,920
	13,489	**5,276**

7. Taxation on ordinary activities

(a) Recognised in the income statement

	2008 £	2007 £
Current tax:		
Research and development tax credits	**(174,639)**	(160,358)
Adjustment relating to a previous period	**(4,784)**	–
Total current tax	**(179,423)**	**(160,358)**

(b) Reconciliation of total tax charges

	2008 £	2007 £
Loss before taxation	**(1,332,989)**	**(1,196,893)**
Tax using the UK corporation tax rate of 28% (2007: 16%)	**(373,237)**	(191,503)
Depreciation charges in excess of capital allowances claimed	**2,201**	(2,642)
Expenditure not allowed for tax purposes	**27,361**	8,820
Adjustments in respect of research and development tax credits	**29,106**	(55,048)
Tax loss for the year carried forward by rate of tax	**139,930**	80,015
Adjustment relating to a previous period	**(4,784)**	–
Total tax in income statement	**(179,423)**	**(160,358)**

No liability to UK corporation tax arose during the year. The Group had losses, as computed for tax purposes, of approximately £1,542,000 (2007: £1,072,000) 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 2008 is £174,639 (2007: £160,358).

8. Profit attributable to members of the parent company

The profit dealt with in the accounts of the parent company was £119,681 (2007: £29,903).

Notes to the Financial Statements (continued)
For the year ended 30 June 2008

9. Loss per share

The basic loss per share is calculated by dividing the earnings attributable to ordinary shareholders for the year by the weighted average number of ordinary shares in issue during the year.

For diluted loss per share, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all dilutive potential ordinary shares. Since the Group is loss-making there is no dilutive impact.

	2008 £	2007 £
Loss for the year after taxation	**1,153,566**	**1,036,535**
Weighted average number of shares in issue	**6,945,363**	**4,635,934**
Loss per share (basic and diluted)	**16.6p**	**22.4p**

10. Investments

Company

The Company is the holding company of the Group. The Company owns 100% of the issued share capital of Epistem Limited, a company registered in England and Wales. The issued share capital is fully paid and is included in the consolidated financial statements of the Group and its principal activity is the provision of services to the biotechnology and pharmaceutical industries.

Year ended 30 June 2008	Investment in subsidiary £
Cost	
At 1 July 2007	5,016,576
Additions	547,356
At 30 June 2008	**5,563,932**
Net book value	
At 30 June 2007	5,016,576
At 30 June 2008	**5,563,932**

Year ended 30 June 2007	Investment in subsidiary £
Cost	
At 1 July 2006	–
Additions	5,016,576
At 30 June 2007	**5,016,576**
Net book value	
At 30 June 2006	–
At 30 June 2007	**5,016,576**

Additions in the year ended 30 June 2008 comprised the fair value of the share options issued to employees of the subsidiary undertaking during the year of £93,424 and £453,932 reflecting the replacement of the original share options issued by Epistem Limited.

11. Intangible assets

Group	Intellectual property £
Cost	
At 1 July 2007 and 30 June 2008	**77,175**
Amortisation	
At 1 July 2007	18,349
Charge for the year	3,864
At 30 June 2008	**22,213**
Net book value	
At 30 June 2007	58,826
At 30 June 2008	**54,962**
Cost	
At 1 July 2006 and 30 June 2007	**77,175**
Amortisation	
At 1 July 2006	14,485
Charge for the year	3,864
At 30 June 2007	**18,349**
Net book value	
At 30 June 2006	62,690
At 30 June 2007	**58,826**

12. Plant and equipment

Group	Lab equipment £	Fixtures & fittings £	Other Equipment £	Total £
Cost				
At 1 July 2007	622,738	15,518	50,300	688,556
Additions	61,312	4,080	20,516	85,908
At 30 June 2008	**684,050**	**19,598**	**70,816**	**774,464**
Depreciation				
At 1 July 2007	284,547	6,627	29,283	320,457
Charge for the year	87,600	2,580	12,000	102,180
At 30 June 2008	**372,147**	**9,207**	**41,283**	**422,637**
Net book value				
At 30 June 2007	338,191	8,891	21,017	368,099
At 30 June 2008	**311,903**	**10,391**	**29,533**	**351,827**

Notes to the Financial Statements (continued)
For the year ended 30 June 2008

12. Plant and equipment (continued)

	Lab equipment £	Fixtures & fittings £	Other Equipment £	Total £
Cost				
At 1 July 2006	454,278	8,509	44,577	507,364
Additions	168,460	7,009	5,723	181,192
At 30 June 2007	**622,738**	**15,518**	**50,300**	**688,556**
Depreciation				
At 1 July 2006	187,547	4,227	23,283	215,057
Charge for the year	97,000	2,400	6,000	105,400
At 30 June 2007	**284,547**	**6,627**	**29,283**	**320,457**
Net book value				
At 30 June 2006	266,731	4,282	21,294	292,307
At 30 June 2007	**338,191**	**8,891**	**21,017**	**368,099**

Obligations under finance leases

Included within the net book value is £187,723 (2007: £247,003) relating to assets held under finance lease agreements. The depreciation charged to the financial statements in the year in respect of such assets amounted to £59,280 (2007: £72,501).

Capital commitments

	2008 £	2007 £
Contracted but not provided for in the financial statements	**–**	**–**

13. Trade and other receivables

Group	2008 £	2007 £
Trade receivables	**355,737**	259,340
Other receivables	**81,773**	97,749
Prepayments and accrued income	–	–
	437,510	**357,089**

Company	2008 £	2007 £
Amounts receivable from Group undertakings	**1,671,666**	499,847
Accrued income	**4,184**	–
	1,695,850	**499,847**

Amounts receivable by the Parent Company from Group undertakings are not repayable within twelve months.

14. Cash and cash equivalents

Group	2008 £	2007 £
Cash at bank and in hand	**119,872**	394,456
Short term bank deposits	**2,023,323**	2,000,000
	2,143,195	**2,394,456**

Company	2008 £	2007 £
Cash at bank and in hand	**738**	13,151
Short-term bank deposits	**2,000,000**	2,000,000
	2,000,738	**2,013,151**

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

15. Trade and other payables

Group	2008 £	2007 £
Trade payables	**193,015**	236,637
Other payables	**69,145**	49,926
Accruals and deferred income	**165,583**	108,431
	427,743	**394,994**

Company	2008 £	2007 £
Other payables	**18,500**	–

16. Obligations under finance leases

Future commitments under finance lease agreements are as follows:

Group	2008 £	2007 £
Amounts payable within 1 year	**49,080**	99,617
Amounts payable within 2 to 5 years	**93,068**	147,362
	142,148	**246,979**
Less: interest and finance charges relating to future periods	**15,346**	28,727
	126,802	**218,252**
Hire purchase agreements are analysed as follows:		
Current obligations	**40,489**	81,317
Non-current obligations	**86,313**	136,935
	126,802	**218,252**

Notes to the Financial Statements (continued)
For the year ended 30 June 2008

17. Share-based payments

Prior to 28 November 2007, the Company operated a number of HMR&C approved and unapproved share option schemes for employees (including Directors). The original options were granted by Epistem Limited but, following the acquisition by Epistem Holdings Plc, these were released in exchange for equivalent options over the ordinary shares of Epistem Holdings Plc. On 28 November 2007 the Company established the 2007 Epistem Share Option Scheme.

Share Options

Award	Number of awards	Exercise price	Period within which options are exercisable	Fair value per option	Fair value £
EMI – Approved	88,800	£0.50	7 Jan 2002 to 6 Jan 2012	See note below	
EMI – Approved	13,600	£0.75	31 Mar 2003 to 30 Mar 2013	28.2p	3,835
EMI – Approved	10,600	£0.75	7 Apr 2003 to 6 Apr 2013	28.2p	2,989
EMI – Approved	12,200	£0.75	21 Jul 2004 to 20 Jul 2014	26.6p	3,196
Share Warrants (Note 22)	198,554	£1.61	18 Mar 2005 to 17 Mar 2015	56.1p	111,389
EMI – Unapproved	78,000	£1.29	31 Mar 2005 to 30 Mar 2015	44.9p	35,022
EMI – Approved	33,824	£1.20	25 Nov 2005 to 24 Nov 2015	42.6p	14,409
EMI – Unapproved	472,153	£1.20	10 Jan 2006 to 9 Jan 2016	42.6p	201,137
EMI – Approved	197,722	£1.20	10 Jan 2006 to 9 Jan 2016	42.6p	84,230
EMI – Approved	11,100	£1.20	29 Sept 2006 to 28 Sept 2016	41.6p	4,729
EMI – Approved	80,644	£1.24	28 Mar 2007 to 27 Mar 2017	42.6p	33,548
EMI – Unapproved	177,653	£1.24	28 Mar 2007 to 27 Mar 2017	42.6p	73,904
EMI – Approved	28,803	£1.67	27 Jul 2007 to 26 Jul 2017	38.9p	11,233
EMI – Approved	50,000	£1.50	09 Oct 2007 to 08 Oct 2017	34.0p	17,000
EMI – Unapproved	57,727	£1.60	15 Oct 2007 to 14 Oct 2017	36.0p	20,782
2007 Epistem Share Option Scheme	71,918	£1.53	03 Mar 2008 to 02 Mar 2018	36.0p	25,890

Option valuations

The options were valued using the Black-Scholes option-pricing model. Where appropriate, performance conditions were included in the fair value calculations. The fair value per option granted and the assumptions used in the calculations are in the table below. The Group's effective date for IFRS 2, ('Share Based Payments') implementation is 1 July 2006 and the IFRS has been applied to all options granted after 7 November 2002 which have not been vested by this effective date.

Award	Grant date	Expected term (Note a)	Expected dividend yield % (Note b)	Expected volatility % (Note c)	Risk % rate (Note d)	Performance condition
EMI – Approved	31 Mar 2003	5 years	0	60	3.75	None
EMI – Approved	7 Apr 2003	5 years	0	60	3.75	None
EMI – Approved	21 Jul 2004	5 years	0	60	4.50	None
Share Warrants	18 Mar 2005	5 years	0	60	4.75	None
EMI – Unapproved	31 Mar 2005	5 years	0	60	4.75	None
EMI – Approved	25 Nov 2005	5 years	0	60	4.50	None
EMI – Unapproved	10 Jan 2006	5 years	0	60	4.50	See 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	4.50	See Note (f)
EMI – Unapproved	28 Mar 2007	5 years	0	60	5.25	See Note (f)
EMI – Approved	27 Jul 2007	5 years	0	45	5.50	None
EMI – Approved	09 Oct 2007	5 years	0	45	5.75	Note (g)
EMI – Unapproved	15 Oct 2007	5 years	0	45	5.75	Note (g)
2007 Epistem Share Option Scheme	03 Mar 2008	5 years	0	45	5.25	Note (g)

(a) The expected term used in the model is five years and is based upon the Directors' best estimates for the effects of exercise restrictions and behavioural considerations;
(b) The dividend yield of 0% reflects the absence of a history of paying dividends and a clear dividend policy at the relevant grant dates;
(c) The expected volatility has been estimated by the Directors after inspection of the financial statements of comparable businesses in the same business sector as the Group;
(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 main conditions for these options to vest are the later of (i) when the audited accounts for the year ended 30 June 2010 become available and (ii) when the earnings per share of the financial year are a positive figure;
(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.

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

	Number		Weighted average exercise price		Weighted average remaining contracted life – Years	
	2008	2007	2008	2007	2008	2007
Outstanding as at 1 July	**1,374,850**	1,105,453	**£1.21p**	£1.21p		
Granted during the year	**208,448**	269,397	**£1.56p**	£1.24p		
Exercised during the year	**–**	–	**–**	–		
Lapsed during the year	**–**	–	**–**	–		
Outstanding as at 30 June	**1,583,298**	**1,374,850**	**£1.26p**	**£1.21p**	**7.56**	**8.28**
Options exercisable at 30 June	**915,373**	**832,040**	**£1.30p**	**£1.31p**	**7.30**	**8.28**

18. Financial risk management objectives and policies

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

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

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

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

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 those short-term trade receivables which are not invoiced in sterling. This risk is limited as most customers are invoiced in sterling and settle the debt in sterling. There are no significant costs incurred that involve payments in foreign currency.

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.

Notes to the Financial Statements (continued)
For the year ended 30 June 2008

19. Commitments under operating leases

At 30 June 2007 the Group had annual commitments under non-cancellable operating leases as set out below.

	Land and buildings 2008 £	2007 £
Operating leases which expire:		
Within 1 year	**63,700**	**53,697**

20. Related party transactions

At the balance sheet date, the amounts owed to the following Directors, Prof. C Potten, D Evans and R Nolan, were £5,057, £2,448 and £4,935 respectively (2007: £0, £14,896 and £9,686).

21. Deferred taxation (unrecognised)

	2008 £	2007 £
Tax effect of timing differences:		
Losses	**431,875**	214,513
Excess of tax allowances over depreciation	**(26,739)**	(19,898)
Potential deferred tax asset	**405,136**	**194,615**

There was no potential liability to deferred tax at 30 June 2008 nor at 30 June 2007.

In view of the uncertainty of the recoverability of the Group's tax losses carried forward, no deferred tax asset in respect of the available tax losses is recognised. Note 7 gives details of the tax losses available to carry forward by the Group.

22. Share capital

Authorised share capital:

	2008 £	2007 £
10,000,000 ordinary shares of £0.015 each	**150,000**	150,000

Allotted and called up:

	2008 No	2008 £	2007 No	2007 £
At 1 July	**6,538,075**	**98,071**	4,045,628	202
Allotted as consideration for Epistem Limited	**–**	**–**	–	60,684
IFRS 3 reverse acquisition conversion	**–**	**–**	–	(202)
Placing on AIM	**–**	**–**	2,492,447	37,387
Private placing	**653,806**	**9,807**	–	–
Ordinary shares of £0.015 each	**7,191,881**	**107,878**	**6,538,075**	**98,071**

On 16 March 2007, the Company entered into a warrant instrument in respect of the subscription for up to 198,554 ordinary shares of £0.015 each in Epistem Holdings Plc. This warrant instrument replaced a previous warrant instrument created by Epistem Limited on 18 March 2005. Each warrant confers the right to subscribe for one ordinary share at a subscription price of £1.61 per ordinary share. The subscription rights under the warrants may be exercised up to 21 September 2015.

23. Reserves

	Share premium account £	Share options reserve £	Reverse acquisition reserve £	Profit and loss account £
Balance as at 1 July 2006	2,531,968	398,812	–	(1,835,964)
Loss for the year	–	–	–	(1,036,535)
Premium on issue of shares	3,053,250	–	–	–
Share issue costs	(607,542)	–	–	–
IFRS 3 reverse acquisition conversion	2,423,924	–	(2,484,406)	–
Recognition of equity settled share based payments in the year	–	55,120	–	–
Balance at 30 June 2007	**7,401,600**	**453,932**	**(2,484,406)**	**(2,872,499)**
Balance as at 1 July 2007	7,401,600	453,932	(2,484,406)	(2,872,499)
Loss for the year	–	–	–	(1,153,566)
Premium on issue of shares	1,055,897	–	–	–
Share issue costs	(20,295)	–	–	–
Recognition of equity settled share based payments in the year	–	93,424	–	–
Balance at 30 June 2008	**8,437,202**	**547,356**	**(2,484,406)**	**(4,026,065)**

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.

Company Balance Sheet

As at 30 June 2008

	Notes	2008 £	2008 £	2007 £	2007 £
Non-current assets					
Investments	10		**5,563,932**		5,016,576
Current assets					
Amounts receivable from Group undertaking and other receivables	13	**1,695,850**		499,847	
Cash and cash equivalents	14	**2,000,738**		2,013,151	
		3,696,588		2,512,998	
Current liabilities					
Trade and other payables	15	**(18,500)**		–	
Net current assets			**3,678,088**		2,512,998
Total assets less current liabilities			**9,242,020**		**7,529,574**
Capital and reserves					
Called-up equity share capital	22		**107,878**		98,071
Share premium account	23		**8,437,202**		7,401,600
Share options reserve			**547,356**		–
Profit and loss account			**149,584**		29,903
Total shareholders' funds equity			**9,242,020**		**7,529,574**

These financial statements were approved by the Directors and authorised for issue on 22 October 2008 and are signed on their behalf by:

D E Evans
Chairman

H J J Rylands
Company Secretary

Company Statement of Changes in Equity

For the year ended 30 June 2008

	Share capital £	Share premium account £	Share options reserve £	Profit and loss account £	Total £
Issue of share capital	98,071	7,401,600	–	–	7,499,671
Profit for the year	–	–	–	29,903	29,903
At 30 June 2007	**98,071**	**7,401,600**	**–**	**29,903**	**7,529,574**
Allotment of ordinary shares	9,807	1,055,897	–	–	1,065,704
Share issue costs	–	(20,295)	–	–	(20,295)
Recognition of equity settled share based payments					
– in respect of previous periods	–	–	453,932	–	453,932
– current year	–	–	93,424	–	93,424
Profit for the year	–	–	–	119,681	119,681
At 30 June 2008	**107,878**	**8,437,202**	**547,356**	**149,584**	**9,242,020**

Company Statement of Cash Flows

For the year ended 30 June 2008

	2008 £	2008 £	2007 £	2007 £
Cash flows from operating activities				
Profit for the year		**–**		–
Share based payment expense		**–**		–
Operating profit before changes in working capital and provisions		**–**		–
(Increase) in trade and other receivables		**(1,196,003)**		(499,847)
Increase in trade and other payable		**18,500**		–
Cash outflow from operations		**(1,177,503)**		**(499,847)**
Interest received	**119,681**		29,903	
Tax (paid)/received	**–**		–	
		119,681		29,903
Net cash outflow from operating activities		**(1,057,822)**		**(469,944)**
Cash flows from financing activities				
Proceeds from issue of share capital	**1,065,704**		3,090,637	
Expenses of share issue	**(20,295)**		(607,542)	
Net cash inflow from financing activities		**1,045,409**		2,483,095
Net (decrease)/increase in cash equivalents		**(12,413)**		2,013,151
Cash and cash equivalents at beginning of year		**2,013,151**		–
Cash and cash equivalents at end of year		**2,000,738**		**2,013,151**
Analysis of net funds				
Cash at bank and in hand		**2,000,738**		2,013,151
Bank overdrafts		**–**		–
Net funds		**2,000,738**		**2,013,151**

Directors, Secretary and Advisers

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Matthew Walls
Prof. Chris Potten
Catherine Booth
Gerard Brady
Roger Lloyd
Jeffrey Moore
Robert Nolan
John Rylands

Company Secretary
John Rylands

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