Epistem Holdings Plc
Annual Report and Accounts 2009

epistem
Controlling life-long tissue renewal

Strengthening foundations for future growth

Introductory Highlights

Exceptional growth

- Year-on-year sales up 92%
- Contract Research Services 20% sales growth
- Biomarker sales growth and maiden divisional profit
- Announcement of Regenerative Medicine collaboration with Novartis AG
- Maiden Group profit and positive Earnings Per Share
- Strengthened cash balance with improved trading outlook

The 2008/09 financial year saw Epistem continue to build on last year's outstanding performance.

The year's results include an impressive 92% increase in year-on-year turnover and a maiden after tax profit for the company.

92%
Sales growth

20%
Contract Research Services sales growth year on year

1st
Year of profit

Welcome

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 tissue in our organs throughout our lives.

As we get older, the ability of stem cells 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.

Contents

What We Do

Scientific research services, clinical biomarkers and innovative therapeutics for drug development

Contract Research Services (page 4)

Contract Research Services provide specialised preclinical efficacy 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 a well established record of providing a specialist range of testing services to major pharmaceutical and biotechnology companies globally.

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

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

Biomarker (page 6)

Epistem's Biomarker division has developed an innovative, minimally invasive biomarker test for pharmaceutical companies developing new drugs. It is initially being applied in the area of oncology. Under the brand name 'GenetRx^{TM}' the technology identifies drug-induced gene expression change relating to treatment with an oncology drug. The technology is now being unfolded across top-tier pharmaceutical and biotechnology companies. Following the creation of the Biomarker division last year, the Biomarker division generated its first standalone profit during the year.

GenetRx^{TM} leverages the Company's knowledge of the behaviour of epithelial stem cells and high resolution gene expression techniques to accurately 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 targeting the areas of oncology and inflammatory bowel disease. 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.

During the year the Novel Therapies division announced its first Regenerative Medicine collaboration with Novartis. The Novartis collaboration is focused on identifying the key regulators of stem cells and epithelial cell production. The division is applying its proprietary discovery screening models and efficacy techniques to identify and develop key regulator proteins, their targets and related molecular pathways. The Novel Therapies division is focused on identifying new drug leads across major epithelial diseases and will continue to expand its technology and intellectual property portfolio to enhance future collaboration opportunities.

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.

Contract Research Services

20% growth in year-on-year revenues

The Contract Services division provides models which measure the preclinical 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 of over the past year.

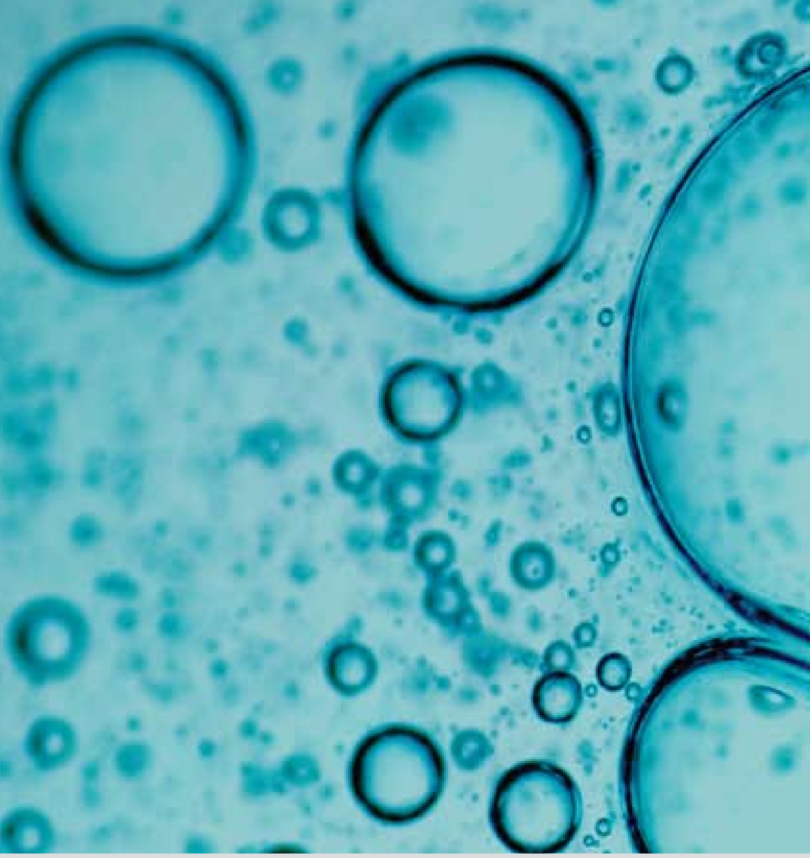
The division continues to see strong demand for its specialised drug efficacy and 'mechanism of action' models especially around oncology and mucositis. The division has extended its client list further and despite the challenging economic conditions saw a 20% year-on-year growth for its 'fee for service' partnering model.

Biodefence
Our collaboration with the US National Institutes of Health (NIH) continued to expand around testing the efficacy of counter measures designed to address exposure to radiation or nuclear attack. The past year saw an expansion in the scope of the collaboration, with Epistem acting as the 'gatekeeper' for mucositis therapies. We anticipate that this contract will develop further and be followed by more comprehensive studies on selected drugs moving forward in development.

New service offerings
The division continues to target niche preclinical areas where our models are difficult to develop and replicate and where the quality of scientific input provides a significant barrier to entry. Following last year's launch of new models in angiogenesis, inflammatory bowel disease and dermatology, this year has marked the establishment of these models with our client base. We continue to develop our understanding in the emerging science area of cancer stem cells to help identify targeted therapies. The weight of scientific support for the theory that cancer stem cells drive tumour growth continues to build and we are applying our knowledge of normal epithelial stem cells to abnormal cancer stem cells to further develop our understanding in this area.

Inflammatory bowel disease
Increasing demand for our inflammatory bowel disease models has grown over the year. The Contract Research division comprises a comprehensive range of inflammatory bowel disease models incorporating target validation for Crohn's disease and ulcerative colitis.

Outlook
A growing recognition of the Company's expertise is now beginning to unfold. A strengthening forecast 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.



Highlights

- Increased demand for oncology and mucositis service offerings
- Growth in US National Institutes of Health bio-defence programme
- Strengthening recognition of science base

+20%

Year-on-year sales growth

Contract Research Services turnover

2009	£2.3m
2008	£1.9m

epistem

Biomarker

Maiden profit in first full year of trading

Biomarkers provide a measure of biological processes that can improve the precision with which we can guide drug development and disease treatment. Epistem's Biomarker division has developed a biomarker technology now branded as GenetRx™ to measure drug-induced change in gene expression (in molecular pathways that control the basic cellular functions of life) for drug development.

GenetRx™ can be applied to small amounts of tissue, such as hair, skin, blood or a tissue biopsy. Demand has increased for its use as a minimally invasive hair biomarker, lending itself to easy clinical and patient application. Our platform leverages the Company's understanding of the behaviour of epithelial stem cells and the changes in gene expression associated with these cells.

Hair biomarker

Epistem's hair biomarker provides a proprietary, minimally invasive platform which is highly competitive with 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 blood or other platform approaches.

With the global biomarker market estimated to be USD$20Billion by 2014 and growing at a cumulative average growth rate of 20% per annum our biomarker technology is well placed in the field of oncology drug discovery and development. The oncology clinical biomarker market represents one of the largest segments of biomarkers in terms of revenue. Regulatory demands of the FDA and National Institutes of Health continues to drive the need for biomarkers to confirm tissue exposure and accelerate the development of targeted therapies.

Development

In its first full year of trading, 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, the next phase being to translate and link this to the tumour through clinical trials.

Collaborations

We continue to build on and extend our biomarker client relationships with the major drug development companies. This approach underpinned a significant increase in our revenues over the year and allowed us to identify and develop our first drug-induced gene expression biomarkers. Collaborative development continues with these companies to widen our biomarker take-up and to bolster our growth. Our focus remains to identify biomarkers which correlate with drug effect and tumour inhibition in a preclinical and clinical setting.

Outlook

The forthcoming year will continue to build and accelerate the growth of our biomarker platform. We will raise the profile of GenetRx™ via publications and through our partnership announcements and developments in relation to our client specific biomarker programmes. We anticipate continuing revenue growth over the coming year.

Highlights

- First clinical studies now commencing using biomarker technology
- Launch of proprietary GenetRx™ brand
- Unfolding biomarker technology across top-tier pharmaceutical groups
- Maiden divisional profit

Biomarker turnover

2009 £0.7m

2008 £0.2m

Announcement of first discovery and development collaboration in regenerative medicine

Our Novel Therapies division is discovering the body's own key regulators (associated with genes, molecular pathways and proteins) of epithelial stem cells and tissues. 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 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.

Novartis collaboration

During the year we entered into our first drug discovery collaboration with Novartis AG. Under the terms of the agreement Epistem will collaborate with Novartis to identify and develop the body's own key regulators. Using the Epistem discovery platform, we have already identified an emerging group of regulators which we are now validating and testing using our proprietary preclinical efficacy models.

Our collaboration with Novartis is progressing well with several programmes underway to identify and developing our regenerative therapeutic leads.

Partnerships

Outside of the Novartis collaboration, interest continues to grow around our core biology, integrated molecular pathway understanding and drug discovery. Our integrated knowledge of the behaviour of adult epithelial cells has enabled us to begin to build a comprehensive understanding of the key regulators of cell proliferation, differentiation, cell death and self-renewal. Epistem will maintain this lead position by focusing on understanding the detailed 'mechanism of action' which epithelial stem cells play in tissue renewal and cell generation. In addition we will also develop our understanding of cell-to-cell relationships which take place within tissues and the 'normal versus abnormal' role which cells play in disease management.

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

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.

Outlook

The identification of the body's key regulators, their targets and new drug agents is our main focus. With increased interest in our novel and proprietary drug discoveries, we feel that our deep scientific expertise in cell biology and molecular pathways has enabled us to craft a powerful discovery platform with emerging leads for regenerative medicine novel therapies.

Highlights

- Collaboration with Novartis AG
- Discovering and developing leads targeting cancer (oncology) and gastrointestinal disease
- Building intellectual property in identified regulators of epithelial cells

£1.0m

Turnover

Novel Therapies turnover

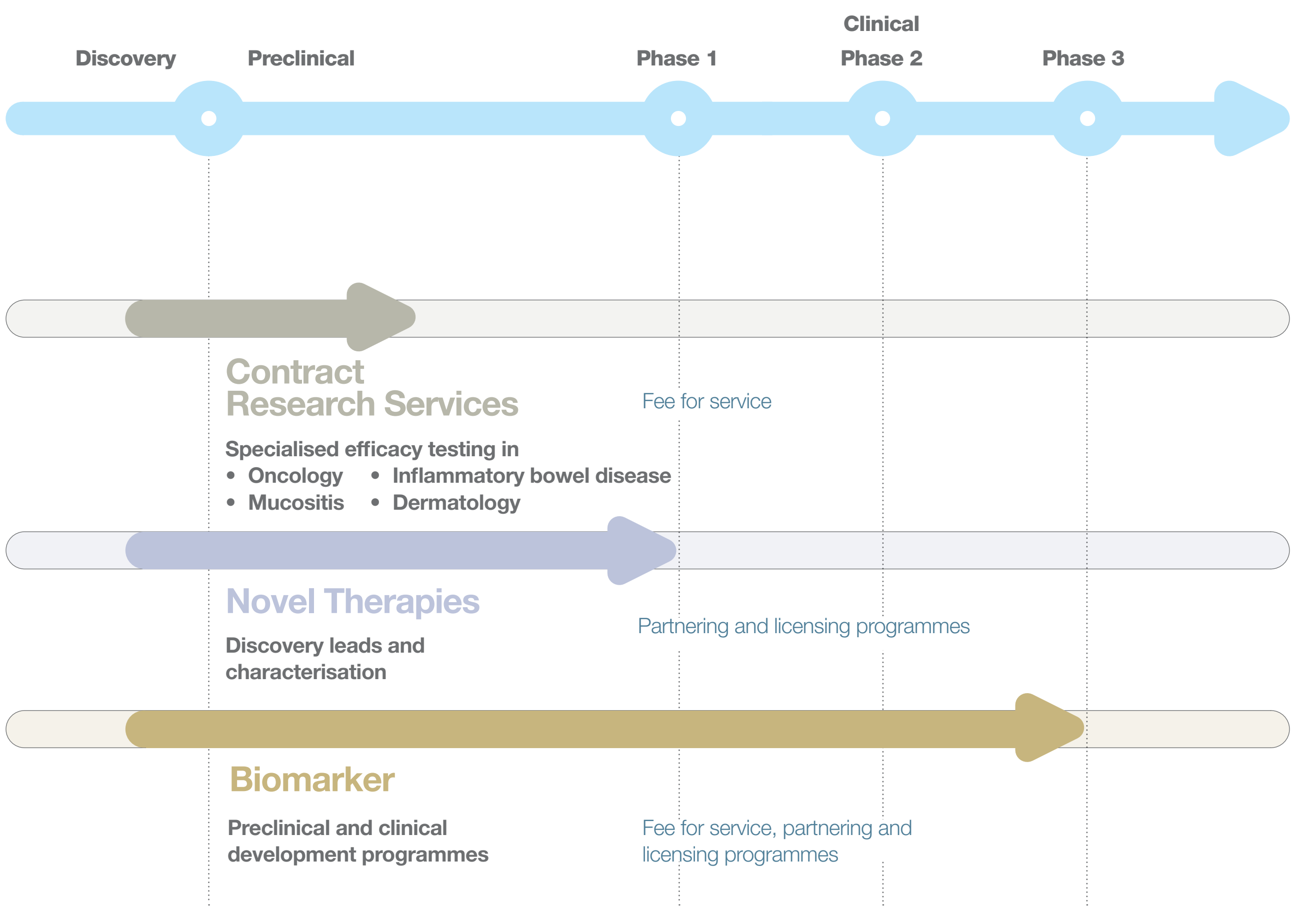
2009	£1.0m
2008	£0.0m

Our Business and Strategy

A strengthening business model based on sustaining future growth

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

Future Strategy



Combined business model
Epistem's combined business model and strategy has now yielded a profitable and growing business across each of our three business divisions. The Contract Research Services business has established robust relationships with pharmaceutical and biotechnology leaders worldwide and these relationships and our wide-ranging stem cell services have provided the basis for partnering strategies for our emerging Novel Therapies and Biomarker businesses.

Partnering programme
Our Novel Therapies division has now entered its first collaboration. Partnership discussions with other pharmaceutical and biotechnology groups to integrate emerging leads will be a growing feature of our therapeutic discovery and development programme.

Licensing opportunities
The strength of our discovery platform underpinning the Company's Novel Therapies division continues to grow and this is partly reflected in the significant number of potential drug candidates which the Company has now identified. These candidates are undergoing development as key regulators, which will drive Epistem's emerging drug development pipeline.

Epistem's clinical biomarker technology continues to rapidly expand. We will maintain and protect our strong intellectual property position in this area and develop our deepening understanding of the key oncology pathways on which the Biomarker division focus.

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 enable us to accelerate investment across the Group and consider acquisition opportunities where appropriate.

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 across each of our divisions alongside increasing forecast revenues and growing profitability demarks Epistem as an exciting growth stock with significant potential upside.

Strength in Depth

Epistem's business development and investment in core research and services will maintain its industry leading position and further underpin ongoing high rates of growth

The 2008/09 financial year saw Epistem continue its high growth rate with year on year sales up 92%. The Company is now profitable with strong cash reserves and powerful investor support for the next phase of growth

Financial Highlights

- **Year-on-year sales up 92% to £4.0m**
- **Contract Research Services 20% sales growth to £2.3m**
- **Biomarker sales of £0.7m and maiden divisional profit**
- **Announcement of Regenerative Medicine collaboration with Novartis AG**
- **Maiden Group profit and positive Earnings Per Share**
- **Strengthened cash balance with improved trading outlook**

Market dynamics

Despite the downturn in the markets, Epistem's specialist service and product offerings were not noticeably affected by the slow-down in the world-wide economy over the past year. The Company intends to continue to strengthen its diversified business model and drive organic growth and cash generation.

Group revenues

Against a challenging economic background, Epistem's year on year consolidated revenues increased 92% to £4.0m. Each division recorded increased revenues over the previous year. Territory revenues were split US 63%, EU 19% and UK 17%.

2009

£4.0m

Contract Research Services revenues

The CRO division reports sales of £2.3m, a 20% increase over the previous year. The division saw increased demand for its oncology and mucositis service offerings along with expansion in the US NIH biodefence contract.

2009

£2.3m

Biomarker revenues

In its first full year of operation Biomarkers reported a significant increase in revenues and its maiden operating profit. The Biomarker division is continuing to build new relationships with top-tier pharmaceutical customers.

2009

£0.7m

Discovery, development and admin

Investment in our Novel Therapies drug discovery and development programme accounted for £1.1m of the 2009 reported figure with the remaining £1.1m relating to central business overheads and administrative operating costs.

2009

£2.2m

Profit (loss) for the financial year

Improved trading throughout the year and the benefit of a £0.7m of previous year's tax loss credit enabled the Company to report its maiden profit and positive earnings per share (EPS).

2009

£0.1m

Cash reserves

Cash reserves were strengthened over the year by improved trading and the cash receipts from the Novel Therapies collaboration with Novartis AG.

2009

£3.7m

Chairman's Statement

'An exceptional year in challenging times'

Dear Shareholder,

I am delighted to report a number of significant achievements and a continuing improvement in the Epistem results for the year ended 30 June 2009.

Despite uncertain market and trading conditions Epistem has enjoyed another exceptional year in challenging times.

Results

Further details of the results for the period are covered in the Chief Executive's Review, but operationally and financially the year to 30 June 2009 saw the Company increase revenues by 92% to £4.0m (2008: £2.1m) with a Group loss on ordinary activities before taxation of £0.7m (2008: Loss £1.3m). Based on future profitability and the benefit of the prior year losses' tax credit, the Company generated its first after tax profit of £0.1m (2008: Loss £1.2m). Cash reserves were £3.7m (2008: £2.1m).

David Evans
Non-executive Chairman

During the year the Company continued to make significant progress across each of its divisions:

- Contract Research Services revenues grew by 20% to £2.3m (2008: £1.9m). The growth was supported by the continuing expansion of our US government bio-defence contract and the launch of new service offerings. Whilst the financial market uncertainties caused some disruption over the year, the division moved carefully through this period, with firmer trading experienced over the second half.
- In its first full year of operation following the successful share placing in 2007, Biomarker revenues grew to £0.7m (2008: £0.2m) to record a first operating profit for the division. We anticipate further growth in this division over the forthcoming year.
- The Novel Therapies division announced its first research and development collaboration with Swiss based Novartis AG. The Regenerative Medicine collaboration is targeted at identifying new drug targets and therapeutics across a variety of epithelial disease areas. Under the terms of the agreement, Novartis has paid Epistem an upfront cash payment and provide research funding. If leads are commercialised, Epistem is eligible to receive tiered royalties on worldwide sales.
- Strengthened investor relations and communications have further advanced the visibility of the Company and we retain a close relationship with our investors to ensure they are kept informed of progress. This close communication has maintained strong growth in the share price performance over the period. In the light of our anticipated future growth we will continue to build on our investor communications.
- The Company also reports its first positive earnings per share.

Outlook

Epistem is transforming itself into a diverse, technology leading and profitable biotechnology group underpinned by strong growth. Despite the difficult to judge market and trading conditions, the outlook for Epistem is increasingly positive, although we remain vigilant around our future strategy.

Each of our divisional businesses is establishing itself in a rapidly changing biotechnology/companion biomarker segment. Despite tough market conditions, the profitable Contract Research Services division has performed well with the Biomarker division also profitable and growing, providing further support for our forecast outlook. With the Novel Therapies first drug discovery collaboration now in place with one of the largest pharmaceutical companies in the world, we anticipate rapid advancement of our drug discovery and development programme and acceleration of identified leads. Epistem is positioning itself as a world leader in therapeutic discovery in the field of epithelial stem cell regulation and control. With industry awareness and visibility of our technology still growing we expect to see the Company advance further over the coming year.

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
Non-executive Chairman
23 October 2009

Chief Executive's Review

'Strengthening fundamentals for future growth'

Matthew H Walls
Chief Executive Officer

Dear Shareholder,

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

Whilst economic and trading conditions were difficult throughout the year Epistem continued to make excellent progress in building itself into a globally recognised drug discovery and early stage development company.

The financial results for the Group presented in this report have been prepared using merger accounting, reflecting the results for the Group's sole trading subsidiary for the year to 30 June 2009 and for the comparative period to 30 June 2008. Please note that the previous year comparison figures (shown in brackets) have been restated where appropriate to reflect the introduction of the new Biomarker division.

Headline progress over the year included;

- Year-on-year net sales growth up 92%.
- The Company reports its maiden profit and positive earnings per share.
- Contract Research Services sales increased by 20% over the previous year.
- Strong Biomarker sales giving rise to a maiden divisional profit
- Novel Therapies division announces its first major collaboration with Novartis AG in the field of Regenerative Medicine.
- A strengthened cash balance of £3.7m and improved trading outlook.

Integrated business model
The Company has made strong progress over the year, with each division now moving into profitability. The establishment of independent divisional profitability enables the creation a powerful risk-reduced business model seldom seen in the biotechnology sector. Epistem provides a profitable and growing business model whilst offering significant upside potential from our growing Biomarker and Novel Therapies divisions. We will continue to enhance and exploit our integrated core competence in epithelial cell biology whilst retaining commercial autonomy across each of our divisions.

Financial review

The Company reports a turnover of £4.0m (2008: £2.1m) for the year ended 30 June 2009. Revenues were underpinned by the Contract Research Services division, which delivered sales of £2.3m (2008: £1.9m) a 20% year-on-year growth. In its first full year of trading, the Biomarker division saw sales increase significantly to £0.7m (2008: £0.2m). The Novel Therapies division also reported increased sales of £1.0m (2008: £0.0m), resulting from the recently announced collaboration with Novartis AG.

Consolidated territory revenues were split US 63% (41%), EU 19% (31%) and UK 17% (28%), the US territory figures strengthened by our NIH and Novartis collaborations.

The sales growth in Contract Research Services delivered a modest increase in operating profit up to £0.6m (2008: £0.5m). The Biomarker sales growth enabled the division to report a maiden operating profit. Novel Therapies reported a small operating loss of £0.2m (2008: Loss £0.9m). Central administration cost increased by £0.2m to £1.1m (2008: £0.9m) primarily due to increased staff costs and professional fees.

The Group reported profit for the year was £0.1m (2008: Loss £1.2m) with headcount in the company now at 45 (2008: 40).

Cash reserves at the end of the year were £3.7m (2008: £2.1m) benefiting from improved trading and collaboration income.

Earnings per share were 1p per share (2008: Loss 17p).

Against a backdrop of uncertain market conditions, the strengthening Epistem trading position translated into a significant share price increase over the year. Clear investor communication of the Company's strategy and performance remains a key element of our success and we will continue to strengthen communications as we embark upon our next phase of growth.

The Company's on site audit was completed in October 2009 by HW Chartered Accountants, and their Audit report will be included in the Annual Report.

Operating review

Contract Research Services

Over the financial year, Contract Research Services delivered a 20% year-on-year growth in revenue under difficult market conditions. Despite these conditions, our specialist service offerings provided a robust defence against the market weakness with a noticeable increase in revenues from the larger pharmaceutical groups partnering with Epistem for their preclinical and discovery research services.

Revenue growth increased across each of our territories with our oncology and mucositis areas showing greatest gain. Both our new client relationships and aggregate contract values also increased over the year.

Our collaboration with the US National Institutes of Health's biodefence programme continues to expand. Epistem is a main provider of tests for agents which may treat radiation sickness following a nuclear incident. Inflammatory bowel disease and immunohistochemistry models also made good progress over the year.

With the second half of the year returning to a more settled trading position we saw a further uplift in demand for our services. Our focus on specialist testing of preclinical drug compounds in our core disease areas continues to provide an attractive business model from which we anticipate further growth over the coming year.

Biomarker

Reporting separately from the Contract Research Services division for the first time this year, our oncology Biomarker business enjoyed strong growth to report a small maiden operating profit. Under the recently launched brand GenetRx™, the hair biomarker platform provides a pharmacodynamic (PD) measure of drug-induced gene expression for use in pre-clinical and clinical studies. Continued development of our biomarker platform through partnerships with major pharmaceutical industry players will enable us to create an effective 'companion PD biomarker' to complement drug development from discovery through to market.

Chief Executive’s Review

‘Building shareholder value by providing a high margin, diverse and rapidly growing portfolio of world class technologies’

With new drug development increasingly targeting specific oncology genes (oncogenes) in molecular pathways, demand for our biomarker platform is being driven by regulatory authority requirements to show that developmental drugs are effectively targeting these oncogenes and molecular pathways. With 80% of adult cancers derived from the epithelium, our highly sensitive biomarker platform has a significant potential to identify oncology biomarkers over other traditional biomarker methods.

Early technical and development risks around the platform are now much reduced and further validation has been completed with several large pharmaceutical groups including AstraZeneca and Johnson & Johnson. With the global biomarker market forecast to grow considerably over the next few years driven by industry and regulatory needs our biomarker is positioned to capitalise on this market growth.

Increased visibility and roll out of our proprietary platform through presentation and scientific abstracts at the key oncology conferences will further strengthen growth of our biomarker over the coming year.

Novel Therapies

The announcement in March 2009 of the research and development collaboration with Novartis signalled Epistem’s first collaboration in drug discovery. Under the terms of the agreement, Novartis have paid Epistem an upfront cash payment of $4.0m and will provide research funding for 2 years. Novartis has an option to exclusively license targets for development of biotherapeutic products in exchange for license fees, milestone payments and royalties. For each product developed from targets licensed under the agreement, Epistem is eligible to receive up to $45.0 million in milestones. Furthermore, if leads are commercialized Epistem is eligible to receive tiered royalties on worldwide sales. Our collaboration with Novartis is progressing well with several programmes engaged in identifying and developing therapeutic leads across a variety of disease areas.

Outside of the Novartis collaboration, there is a growing interest in our drug discovery platform and the role epithelial stem cells play in the mechanisms of tissue renewal and cell generation. Increased awareness of the body’s own key soluble regulators of epithelial cells and the ‘normal versus abnormal’ role which epithelial cells play in disease management is also strengthening collaborative interest with the Company.

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

Current trading and outlook

Epistem is transforming itself into a diversified, technology leading and profitable group with sustainable growth. The past year has seen strong operational and financial development across each of our divisions and the establishment of each division as an independent and maturing business model in its own right.

Trading in the first three months of the new financial year continues to build with revenues 20% ahead of the comparative period last year.

The next phase of Epistem growth will continue to build on and firmly establish each of our divisional operations. We will continue to supplement our management team with world class, innovative individuals who fit with the culture and dynamism of the Company. We will also build on our corporate and board strength and supplement our scientific advisory board and advisory committees as appropriate.

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

Our recognised and experienced management team and strengthening operational and financial position confirms our belief that the year ahead will continue to generate substantial increases in our forecast revenues and growth ambition. In addition we will selectively consider complementary technology acquisitions and in-licensing where appropriate. We are not complacent about the task ahead and we remain vigilant in our outlook.

Our ambition remains firmly fixed on building shareholder value by providing a high margin, diverse and rapidly growing portfolio of world class technologies.

I would like to thank the Board, management and employees for their outstanding performance over the past year. I would also like to thank our investors for their continued close support and interest in our exciting and rapidly growing Company.

Matthew H Walls
Chief Executive Officer
23 October 2009

Board of Directors

1. David Evans (49)
Non-executive 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 (45)
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 Continum Limited and Riyada Oxford Investments Limited and is a chartered accountant and a member of CIMA.

3. John Rylands (54)
Financial Director
John originally joined Epistem as an investor and Non-executive Director, and in 2005, 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. (50)
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 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 identifying the potential commercial application of these factors. He holds a Ph.D. from George Washington University.

5. Prof. Chris Potten (68)
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. Chris acts as Chief Scientific Adviser to the Company, although he does not participate in the day-to-day management of the Company. Chris retains 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. (44)
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. (53)
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. (66)
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 Phico Therapeutics Ltd.

9. Roger Lloyd, Ph.D. (61)
Non-executive Director
Trained as a biochemist, Roger has almost 35 years experience in the healthcare and biotechnology sector, particularly in the areas of strategic planning and business development. International business management with ICI and AstraZeneca included living and working in the US and Germany, and having territorial responsibilities for Europe, Japan, Korea, Mexico and the Middle East. As Executive Director of Global Licensing at AstraZeneca he personally completed 24 transactions, including strategic alliances with Abgenix and CAT, and acquisitions of KuDOS Pharmaceuticals and CAT. He operates as a Board Adviser in the Biotech sector.

Directors' Report

For the year ended 30 June 2009

The Directors present their report for Epistem Holdings Plc ('the Company') and its subsidiaries (together 'Epistem' or 'the Group') for the year ended 30 June 2009.

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 30-55 of this report.

The Directors do not recommend payment of a final dividend.

Going concern

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

Directors and their interests in shares

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

	1 July 2008	30 June 2009
David Evans	80,645	**80,645**
Chris Potten	919,320	**919,320**
Catherine Booth	980,000	**980,419**
Gerard Brady	–	**419**
Roger Lloyd	–	**–**
Jeffrey Moore	14,500	**14,919**
Robert Nolan	8,065	**8,065**
John Rylands	189,898	**190,317**
Matthew Walls	5,645	**6,064**

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	948,908	13.1%
Helium Special Situations Fund	670,503	9.3%
Octopus Investments	364,300	5.0%
Northwest Business Investment Scheme	294,780	4.1%
Rensburg Sheppards	240,940	3.3%
Jonathan Moulton	235,925	3.3%

Directors' Report

For the year ended 30 June 2009

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 66 (2008: 69) 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; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

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

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 2006.

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 19 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
23 October 2009

Directors' Remuneration Report

For the year ended 30 June 2009

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 and fees £	Bonus £	2009 total £	2008 total £
Executive				
Catherine Booth	111,667	22,000	**133,667**	92,350
Gerard Brady	101,667	20,000	**121,667**	89,850
Jeffrey Moore	111,667	36,000	**147,667**	92,350
John Rylands	101,667	20,000	**121,667**	89,400
Matthew Walls	200,000	100,000	**300,000**	261,417
Non-executive				
David Evans	25,000	-	**25,000**	24,000
Chris Potten	61,029	3,000	**64,029**	51,441
Roger Lloyd	24,000	–	**24,000**	12,000
Robert Nolan	24,000	–	**24,000**	12,000
	760,697	**201,000**	**961,697**	**724,808**

Directors' Report

For the year ended 30 June 2009

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Approved by the Board

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Company Secretary
23 October 2009

Directors' Remuneration Report

For the year ended 30 June 2009

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Matthew Walls	200,000	100,000	**300,000**	261,417
Non-executive				
David Evans	25,000	-	**25,000**	24,000
Chris Potten	61,029	3,000	**64,029**	51,441
Roger Lloyd	24,000	–	**24,000**	12,000
Robert Nolan	24,000	–	**24,000**	12,000
	760,697	**201,000**	**961,697**	**724,808**

Directors' Remuneration Report

For the year ended 30 June 2009

Directors' share options

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

	As at 1 July 2008	Options granted	As at 30 June 2009	Exercise price	Earliest exercise date	Expiry date
Executive						
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 06/04/2013
Gerard Brady (2)	1,800	–	**1,800**	£0.75		Exit 20/07/2014
Gerard Brady (2)	24,224	–	**24,224**	£1.20		Exit 24/11/2015
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						
Chris Potten (2)	15,528	–	**15,528**	£1.20	Exit	09/01/2016
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.

Directors' Remuneration Report

For the year ended 30 June 2009

Share Investment Plan

The details of the Epistem Share Investment Plan are outlined in Note 19 (b) to the accounts. The Directors' interests in the shares of the Company include shares acquired under the Share Investment Plan as follows:

	Partnership Shares No	Matching Shares No	Cost of Matching Shares £	Total SIP Shares 30 June 2009 No	Total SIP Shares 30 June 2008 No
Catherine Booth	139	280	1,000	**419**	–
Gerard Brady	139	280	1,000	**419**	–
Jeffrey Moore	139	280	1,000	**419**	–
John Rylands	139	280	1,000	**419**	–
Matthew Walls	139	280	1,000	**419**	–

Approved by the Board

D E Evans
Chairman
23 October 2009

Corporate Governance Report

For the year ended 30 June 2009

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

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

	Audit Committee	Remuneration Committee	Nominations Committee
David Evans (Non-executive Chairman)	2	3	1
Robert Nolan (Non-executive Director)	2	3	1
Roger Lloyd (Non-executive Director), Remuneration Committee only	n/a	3	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 2009

We have audited the group and parent company financial statements (the 'Financial Statements') of Epistem Holdings Plc for the year ended 30 June 2009 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. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs), as adopted by the European Union and, as regards the parent company's financial statements, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the company's members, as a body, in accordance with Sections 495 and 496 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and Auditors

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

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatements, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the group's and the parent company's affairs as at 30 June 2009, and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with the IFRSs as adopted by the European Union and as applied in accordance with the requirements of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and as regards the group financial statements, Article 4 of the IAS regulation.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

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

Matters on which we are required to report by exception

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

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

Independent Auditors' Report to the Members of Epistem Holdings Plc

For the year ended 30 June 2009

Under the Listing Rules we are required to review:

- the Directors' statement, set out in the Directors' Report, in relation to going concern; and
- the part of the Corporate Governance Statement relating to the company's compliance with the nine provisions of the June 2008 Combined Code specified for our review.

J L Whittick FCA
(Senior Statutory Auditor)

For and on behalf of:

HW
Chartered Accountants and Statutory Auditor
Bridge House
157 Ashley Road
Hale
Altrincham
Cheshire WA14 2UT
23 October 2009

Consolidated Income Statement

For the year ended 30 June 2009

	Notes	2009 £'000	2008 £'000
Revenue	2	**3,968**	2,065
Contract costs		**(2,424)**	(1,509)
Discovery and development costs		**(1,131)**	(1,071)
General administrative costs		**(1,114)**	(933)
Operating loss	3	**(701)**	(1,448)
Interest receivable		**41**	128
Interest payable and similar charges	6	**(9)**	(13)
Loss on ordinary activities before taxation		**(669)**	(1,333)
Tax credit on loss on ordinary activities	7	**752**	179
Profit/(loss) for the financial year		**83**	**(1,154)**
Earnings/(loss) per share			
– basic	9	**1p**	(17)p
– diluted	9	**1p**	(17)p

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

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

Consolidated Statement of Changes in Equity

For the year ended 30 June 2009

	Share capital £'000	Share premium account £'000	Share options reserve £'000	Reverse acquisitions reserve £'000	Retained earnings £'000	Total £'000
Balance at 1 July 2007	98	7,402	454	(2,484)	(2,872)	2,598
Allotment of ordinary shares	10	1,055	–	–	–	1,065
Share issue costs	–	(20)	–	–	–	(20)
Recognition of equity settled share-based payments	–	–	93	–	–	93
Loss for the year	–	–	–	–	(1,154)	(1,154)
At 30 June 2008	108	8,437	547	(2,484)	(4,026)	2,582
Balance at 1 July 2008	108	8,437	547	(2,484)	(4,026)	2,582
Allotment of ordinary shares	–	24	–	–	–	24
Exercise/lapse of options	–	6	(12)	–	6	–
Recognition of equity settled share-based payments	–	–	71	–	–	71
Profit for the year	–	–	–	–	83	83
At 30 June 2009	**108**	**8,467**	**606**	**(2,484)**	**(3,937)**	**2,760**

Consolidated Balance Sheet

As at 30 June 2009

	Notes	2009 £'000	2009 £'000	2008 £'000	2008 £'000
Non-current assets					
Intangible assets	10		**139**		55
Plant and equipment	11		**465**		352
Deferred taxation	12		**594**		–
			1,198		407
Current assets					
Trade and other receivables	13	**820**		437	
Tax receivables		**150**		175	
Cash and cash equivalents	14	**3,748**		2,143	
		4,718		2,755	
Liabilities					
Current liabilities					
Deferred income	15	**1,380**		–	
Trade and other payables	16	**721**		428	
Obligations under finance leases	17	**46**		41	
Bank overdrafts and loans		**52**		25	
		2,199		494	
Net current assets			**2,519**		2,261
Total assets less current liabilities			**3,717**		2,668
Non-current liabilities					
Deferred income	15		**(920)**		–
Obligations under finance leases	17		**(37)**		(86)
Net assets			**2,760**		**2,582**
Capital and reserves					
Called-up equity share capital	22		**108**		108
Share premium account	23		**8,467**		8,437
Share options reserve	23		**606**		547
Reverse acquisition reserve	23		**(2,484)**		(2,484)
Profit and loss account	23		**(3,937)**		(4,026)
Total shareholders' equity			**2,760**		**2,582**

These financial statements were approved by the Directors and authorised for issue on 23 October 2009 and are signed on their behalf by:

D E Evans
Chairman

H J J Rylands
Company Secretary

Epistem Holdings Plc
Registered Number: 6108621

Consolidated Statement of Cash Flows

For the year ended 30 June 2009

	2009 £'000	2009 £'000	2008 £'000	2008 £'000
Cash flows from operating activities				
Operating loss for the year		**(701)**		(1,448)
Depreciation, amortisation and impairment		**131**		106
Share-based payment expense		**71**		93
Operating loss before changes in working capital and provisions		**(499)**		(1,249)
(Increase) in trade and other receivables		**(383)**		(80)
Increase in deferred income		**2,300**		–
Increase in trade and other payables		**293**		33
Net cash inflow/(outflow) from operations		**1,711**		(1,296)
Interest received	**41**		128	
Tax received	**183**		165	
		224		293
Net cash outflow from operating activities		**1,935**		(1,003)
Cash flows from investing activities				
Acquisition of fixed assets, net of lease finance	**(328)**		(86)	
Net cash outflow from investing activities		**(328)**		(86)
Cash flows from financing activities				
Proceeds from issue of share capital	**24**		1,065	
Expenses of share issue	**–**		(20)	
Repayment of borrowings	**(53)**		(104)	
Net cash (outflow) inflow from financing activities		**(29)**		941
Net increase/(decrease) in cash equivalents		**1,578**		(148)
Cash and cash equivalents at beginning of year		**2,118**		2,266
Cash and cash equivalents at end of year		**3,696**		**2,118**
Analysis of net funds				
Cash at bank and in hand		**3,748**		2,143
Bank overdrafts		**(52)**		(25)
Net funds		**3,696**		**2,118**

Notes to the Financial Statements

For the year ended 30 June 2009

1. Significant accounting policies

Basis of accounting

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRS') as adopted by the European Union and therefore comply with Article 4 of the EU IAS Regulation, International Financial Reporting Interpretations Committee ('IFRIC') interpretations and with those parts of the Companies Act 1985 and 2006 applicable to companies reporting under IFRS.

Epistem Holdings Plc is a company incorporated in the UK.

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

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

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

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, duration of contracts, income and expenses and taxation. Determining the value of the deferred tax asset requires an estimation of future taxable profits against which the accumulated tax losses may be utilised. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Basis of consolidation

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that are currently exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Transactions between Group companies are eliminated on consolidation.

On 16 March 2007, Epistem Holdings Plc merged with Epistem Limited, and on that date the shareholders of Epistem Limited exchanged their shares for equivalent shares in Epistem Holdings Plc. As Epistem Holdings Plc was newly incorporated at the time of the transaction under the terms of IFRS 3 'Business Combinations', this transaction has been accounted for as a reverse acquisition, on the basis that the shareholders of Epistem Limited gained a controlling interest in the Group. The financial statements therefore represent a continuation of the financial statements of Epistem Limited.

Revenue

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

Revenue recognition

a. Contract revenue

In respect of pre-clinical contract income, the Company generally invoices and reports as revenue 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 revenue, 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.

In respect of clinical contract income, revenue is recognised as work is undertaken and invoiced.

b. Collaboration and licensing revenue

Contractually agreed upfront payments and similar non-refundable payments in respect of collaboration or licence agreements which are not directly related to ongoing research activity are recorded as deferred income and recognised as revenue over the anticipated duration of the agreement. Where the anticipated duration of the agreement is modified, the period over which revenue is recognised is also modified. Non-refundable milestone and other payments that are linked to the achievement of significant and substantive technological or regulatory hurdles in the research and development process are recognised as revenue upon the achievement of the specified milestone.

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

Notes to the Financial Statements

For the year ended 30 June 2009

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

Intellectual property – 5% straight-line basis
Patents – over their estimated useful lives on a straight-line basis

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

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

Plant and machinery – 25% reducing balance basis
Fixtures and fittings – 25% reducing balance basis
Equipment – 25% reducing balance basis

Finance lease agreements
Assets held under finance lease agreements are capitalised and disclosed under tangible fixed assets at their fair value. The capital element of the future payments is treated as a liability and the interest is charged to the consolidated income account 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. The foreign currency risks relating to assets and liabilities are detailed in Note 19.

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

Share-based payments
The Group issues equity-settled 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.

Notes to the Financial Statements

For the year ended 30 June 2009

1. Significant accounting policies (continued)

Share-based payments (continued)

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.

Interest-bearing loans and borrowings

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

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

Investments

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

Taxation

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

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.

Notes to the Financial Statements

For the year ended 30 June 2009

New standards and interpretations not applied

The International Accounting Standards Board ('IASB') and IFIRC have issued the following standards and interpretations with an effective date for financial years beginning on or after 1 January 2009:

IFRS 1 (revised)	First-time adoption of International Financial Reporting Standards
IFRS 2 (revised)	Share-based payments (vesting conditions and cancellations)
IFRS 3 (revised)	Business combinations
IFRS 7 (revised)	Disclosure about financial instruments – fair value and liquidity risk
IFRS 8	Operating segments
IAS 1 (revised)	Presentation of financial statements, comprehensive revision
IAS 7 (revised)	Statement of cash flows, arising from 2009 Annual Improvements
IAS 23 (revised)	Borrowing costs
IAS 27 (revised)	Consolidated and separate financial statements
IAS 32 (revised)	Puttable financial instruments
IAS 36 (revised)	Impairment of assets, arising from 2009 Annual Improvements
IAS 38 (revised)	Intangible assets, arising from 2009 Annual Improvements
IAS 39 (revised)	Eligible hedged items
IFRIC 15	Agreements for construction of real estate
IFRIC 16	Hedges of a net investment in a foreign operation
IFRIC 17	Distributions of non-cash assets to owners
IFRIC 18	Transfer of assets from customers

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

For the year ended 30 June 2009

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 £'000	Bio-markers £'000	Novel Therapies £'000	Unallocated £'000	Total £'000
Twelve months ended 30 June 2009					
Revenue	2,295	670	1,003	–	3,968
Segment trading result	607	51	(103)	(1,054)	(499)
less depreciation and amortisation	(37)	(24)	(53)	(17)	(131)
less equity settled share-based payments (IFRS 2)	(7)	(19)	(2)	(43)	(71)
Operating profit/(loss)	**563**	**8**	**(158)**	**(1,114)**	**(701)**
Twelve months ended 30 June 2008					
Revenue	1,912	153	–	–	2,065
Segment trading result	497	(50)	(821)	(875)	(1,249)
less depreciation and amortisation	(30)	(2)	(60)	(14)	(106)
less equity settled share-based payments (IFRS 2)	(11)	(8)	(31)	(43)	(93)
Operating profit/(loss)	**456**	**(60)**	**(912)**	**(932)**	**(1,448)**
Twelve months ended 30 June 2009					
Segment assets	615	234	2,686	2,381	5,916
Segment liabilities	161	93	2,495	407	3,156
Segment capital expenditure	24	57	207	40	328
Twelve months ended 30 June 2008					
Segment assets	521	–	423	2,218	3,162
Segment liabilities	342	–	149	90	580
Segment capital expenditure	24	–	38	25	86

The segment information for the year to 30 June 2008 has been re-stated, detailing Biomarkers as a separate segment.

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:

	2009 £'000	2008 £'000
United Kingdom	**687**	550
Europe	**762**	630
United States of America	**2,508**	885
Asia	**11**	–
	3,968	**2,065**

Notes to the Financial Statements

For the year ended 30 June 2009

3. Operating loss

The Group operating loss is stated after charging:

	2009 £'000	2008 £'000
Research and development expenditure written off	**1,131**	1,071
Amortisation	**4**	4
Depreciation of owned fixed assets	**80**	40
Depreciation of assets held under finance lease agreements	**47**	62
Auditors' remuneration		
– as auditors	**20**	15
– for other services	**5**	5
Operating lease costs – property rent	**153**	**109**

4. Particulars of employees

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

	2009 No	2008 No
Contract services	**28**	20
Research and development	**9**	11
Administrative	**5**	4
	42	**35**

The aggregate payroll costs of the above were:

	2009 £'000	2008 £'000
Wages and salaries	**2,022**	1,584
Social security costs	**218**	170
Equity settled share-based payments	**71**	93
	2,311	**1,847**

5. Directors' emoluments

Group	2009 £'000	2008 £'000
Remuneration	**961**	725
Equity settled share-based payments	**53**	67
	1,014	**792**

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

6. Interest payable and similar charges

Group	2009 £'000	2008 £'000
Finance charges	**9**	13

Notes to the Financial Statements

For the year ended 30 June 2009

7. Taxation on ordinary activities

(a) Recognised in the income statement

Group	2009 £'000	2008 £'000
Current tax		
Research and development tax credits	**(150)**	(175)
Adjustment relating to a previous period	**(8)**	(4)
Total current tax	**(158)**	**(179)**
Deferred tax		
Prior year tax losses now recognised	**(423)**	–
Current year tax losses	**(74)**	–
Prior year capital allowances in excess of depreciation now recognised	**26**	–
Current year capital allowances in excess of depreciation	**49**	–
In respect of prior year options charges now recognised	**(153)**	–
In respect of current year options charge	**(19)**	–
Total deferred tax	**(594)**	**–**
Total tax credit for the year	**(752)**	**(179)**

(b) Reconciliation of the current tax charges

Group	2009 £'000	2008 £'000
Loss before taxation	**(669)**	**(1,333)**
Tax using the UK corporation tax rate of 28% (2008: 28%)	**(187)**	(373)
Depreciation charges in excess of capital allowances claimed	**(49)**	2
Expenditure not allowed for tax purposes	**21**	27
Adjustments in respect of research and development tax credits	**(9)**	29
Tax loss for the year carried forward by rate of tax	**74**	140
Adjustment relating to a previous period	**(8)**	(4)
Total current tax in income statement	**(158)**	**(179)**

No liability to UK corporation tax arose during the year. The Group had losses, as computed for tax purposes, of approximately £1,764k (2008: £1,511k) 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 2009 is £150k (2008: £175k).

8. Profit attributable to members of the parent company

The profit dealt with in the accounts of the parent company was £34k (2008: £120k).

Notes to the Financial Statements

For the year ended 30 June 2009

9. Earnings per share

The basic profit/(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.

The diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares in relation to share options and share warrants. The number of share options has been adjusted to take into account the issue price and the fair value, consistent with IAS 33, 'Earnings per share'.

Group	2009 £'000	2008 £'000
Profit/(loss) for the year after taxation	**83**	**(1,154)**

Group	2009 Number	2008 Number
Weighted average number of ordinary shares in issue	**7,201,928**	**6,945,363**
Dilutive ordinary shares from options and warrants in issue	**739,372**	–
Dilutive weighted average number of ordinary shares	**7,941,300**	6,945,363
Earnings/(loss) per share		
– basic	**1p**	(17)p
– diluted	**1p**	(17)p

Notes to the Financial Statements

For the year ended 30 June 2009

10. Intangible assets

Group	Patents £'000	Intellectual property £'000	Total £'000
Cost			
At 1 July 2008	–	77	77
Additions	88	–	88
At 30 June 2009	**88**	**77**	**165**
Amortisation			
At 1 July 2008	–	22	22
Charge for the year	–	4	4
At 30 June 2009	**–**	**26**	**26**
Net book value			
At 30 June 2008	–	55	55
At 30 June 2009	**88**	**51**	**139**
Cost			
At 1 July 2007 and 30 June 2008	–	77	77
Amortisation			
At 1 July 2007	–	18	18
Charge for the year	–	4	4
At 30 June 2008	**–**	**22**	**22**
Net book value			
At 30 June 2007	–	59	59
At 30 June 2008	**–**	**55**	**55**

Notes to the Financial Statements

For the year ended 30 June 2009

11. Plant and equipment

Group	Lab equipment £'000	Fixtures and fittings £'000	Other equipment £'000	Total £'000
Cost				
At 1 July 2008	684	19	71	774
Additions	201	–	39	240
At 30 June 2009	**885**	**19**	**110**	**1,014**
Depreciation				
At 1 July 2008	372	9	41	422
Charge for the year	110	3	14	127
At 30 June 2009	**482**	**12**	**55**	**549**
Net book value				
At 30 June 2008	312	10	30	352
At 30 June 2009	**403**	**7**	**55**	**465**

Group	Lab equipment £'000	Fixtures and fittings £'000	Other equipment £'000	Total £'000
Cost				
At 1 July 2007	623	15	50	688
Additions	61	4	21	86
At 30 June 2008	**684**	**19**	**71**	**774**
Depreciation				
At 1 July 2007	285	6	29	320
Charge for the year	87	3	12	102
At 30 June 2008	**372**	**9**	**41**	**422**
Net book value				
At 30 June 2007	338	9	21	368
At 30 June 2008	**312**	**10**	**30**	**352**

Obligations under finance leases

Included within the net book value is £89k (2008: £188k) 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 £30k (2008: £60k).

Capital commitments

Group	2009 £'000	2008 £.000
Contracted but not provided for in the financial statements	**120**	**–**

12. Deferred taxation

Recognised

Group	2009 £'000	2008 £'000
Tax losses carried forward	**497**	–
Excess of tax allowances over depreciation	**(75)**	–
Share options	**172**	–
	594	**–**

Unrecognised

Group	2009 £'000	2008 £'000
Tax effect of timing differences:		
Tax losses carried forward	**–**	432
Excess of tax allowances over depreciation	**–**	(27)
Share options	**702**	–
Potential deferred tax asset	**702**	**405**

Deferred tax assets are recognised to the extent that the Directors consider it is probable that there will be sufficient profit available against which the deferred tax asset may be utilised.

Note 7 gives details of the tax losses carried forward by the Group.

13. Trade and other receivables

Group	2009 £'000	2008 £'000
Trade receivables	**474**	355
Other receivables	**71**	82
Prepayments and accrued income	**275**	–
	820	**437**

14. Cash and cash equivalents

Group	2009 £'000	2008 £'000
Cash at bank and in hand	**484**	120
Short-term bank deposits	**3,264**	2,023
	3,748	**2,143**

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.

Notes to the Financial Statements

For the year ended 30 June 2009

15. Deferred income

The items recorded as Deferred Income are to be recognised over future periods as follows:

Group	2009 £'000	2008 £'000
Amounts to be recognised within 1 year	**1,380**	–
Amounts to be recognised within 2 to 5 years	**920**	–
	2,300	–

16. Trade and other payables

Group	2009 £'000	2008 £'000
Trade payables	**349**	193
Other payables	**147**	69
Accruals and deferred income	**225**	166
	721	**428**

17. Obligations under finance leases

Future commitments under finance lease agreements are as follows:

Group	2009 £'000	2008 £'000
Amounts payable within 1 year	**49**	49
Amounts payable within 2 to 5 years	**40**	93
	89	**142**
Less: interest and finance charges relating to future periods	**6**	15
	83	**127**
Hire purchase agreements are analysed as follows:		
Current obligations	**46**	41
Non-current obligations	**37**	86
	83	**127**

Notes to the Financial Statements

For the year ended 30 June 2009

18. Share-based payments

(a) Share options outstanding at 30 June 2009

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	11,200	£0.75	31 Mar 2003 to 30 Mar 2013	28.2p	3,158
EMI – Approved	9,000	£0.75	7 Apr 2003 to 6 Apr 2013	28.2p	2,358
EMI – Approved	11,000	£0.75	21 Jul 2004 to 20 Jul 2014	26.6p	2,926
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	32,624	£1.20	25 Nov 2005 to 24 Nov 2015	42.6p	13,898
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	9,900	£1.20	29 Sept 2006 to 28 Sept 2016	41.6p	4,217
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	26,703	£1.67	27 Jul 2007 to 26 Jul 2017	38.9p	10,414
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 2011 to 02 Mar 2018	36.0p	25,890
2007 Epistem Share Option Scheme	66,550	£1.77	31 Jul 2011 to 30 Jul 2018	37.0p	24,624

Notes to the Financial Statements

For the year ended 30 June 2009

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	–	60	3.75	None
EMI – Approved	7 Apr 2003	5 years	–	60	3.75	None
EMI – Approved	21 Jul 2004	5 years	–	60	4.50	None
Share Warrants	18 Mar 2005	5 years	–	60	4.75	None
EMI – Unapproved	31 Mar 2005	5 years	–	60	4.75	None
EMI – Approved	25 Nov 2005	5 years	–	60	4.50	None
EMI – Unapproved	10 Jan 2006	5 years	–	60	4.50	See Note (e)
EMI – Approved	10 Jan 2006	5 years	–	60	4.50	None
EMI – Approved	29 Sept 2006	5 years	–	60	4.50	None
EMI – Approved	28 Mar 2007	5 years	–	60	5.25	See Note (f)
EMI – Unapproved	28 Mar 2007	5 years	–	60	5.25	See Note (f)
EMI – Approved	27 Jul 2007	5 years	–	45	5.50	None
EMI – Approved	09 Oct 2007	5 years	–	45	5.75	Note (g)
EMI – Unapproved	15 Oct 2007	5 years	–	45	5.75	Note (g)
2007 Epistem Share Option Scheme	03 Mar 2008	5 years	–	45	5.25	Note (h)
2007 Epistem Share Option Scheme	31 Jul 2008	5 years	–	40	5.00	Note (h)

(a) The expected term used in the model is five years and is based upon the Directors' best estimates for the effects of exercise restrictions and behavioural considerations;
(b) The dividend yield of 0% reflects the absence of a history of paying dividends and a clear dividend policy at the relevant grant dates;
(c) 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; and
(h) These options may be exercised following the third anniversary of grant and are subject to performance criteria which are appropriate to the option holders' role within the Company and which are assessed by the Remuneration Committee.

Notes to the Financial Statements

For the year ended 30 June 2009

18. Share-based payments (continued)

Option valuations (continued)

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

Group	Number 2009	Number 2008	Weighted average exercise price 2009	Weighted average exercise price 2008	Weighted average remaining contracted life – Years 2009	Weighted average remaining contracted life – Years 2008
Outstanding as at 1 July	**1,583,298**	1,374,850	**£1.26**	£1.21		
Granted during the year	**68,050**	208,448	**£1.77**	£1.56		
Exercised during the year	**(19,200)**	–	**£1.27**	–		
Lapsed during the year	**(42,000)**	–	**£1.53**	–		
Outstanding as at 30 June	**1,590,148**	**1,583,298**	**£1.28**	**£1.26**	**6.44**	**7.56**
Options exercisable at 30 June	**1,193,383**	**915,373**	**£1.24**	**£1.30**	**5.87**	**7.30**

(b) Share Investment Plan

During the year, the Company introduced the Epistem Share Investment Plan, SIP, which is open to Directors and employees in accordance with HMR&C approved rules. Under the terms of the SIP, Directors and employees may invest up to £125 per month and this sum will be invested in ordinary shares ('Partnership Shares') in the Company at the prevailing market price. At the same time as each monthly subscription, a maximum of two Matching Shares for each Partnership Share will be acquired on behalf of the SIP's participants. Both the Partnership and the Matching Shares are purchased on behalf of the scheme's participants by Epistem SIP Trustee Limited, a wholly-owned subsidiary of the Company. Participants may withdraw their Matching Shares once their associated Partnership Shares have been held for three years.

19. 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 licence income and those short-term trade receivables which are not invoiced in sterling. There are no significant costs incurred that involve payments in foreign currency.

The Group has no forward contracts at the year end (2008 – nil) to manage foreign currency risk.

Notes to the Financial Statements

For the year ended 30 June 2009

Balances which are denominated in US Dollars are detailed below:

Group	2009 £'000	2008 £'000
Trade and other receivables	**121**	–
Cash and cash equivalent	**479**	–
	600	–

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

20. Commitments under operating leases

At 30 June 2009 the Group had annual commitments under non-cancellable operating leases as set out below.

	Land and buildings	
Group	2009 £'000	2008 £'000
Operating leases which expire:		
Within 1 year	**143**	64

21. Related party transactions

At the balance sheet date, the amounts owed to the following Directors, Prof. C Potten, D Evans and R Nolan, were £7k, £3k and £0 respectively (2008: £5k, £2k and £5k).

22. Share capital

Authorised share capital:

	2009 £'000	2008 £'000
10,000,000 ordinary shares of £0.015 each	**150**	150

Allotted and called up:

	2009 No	2009 £'000	2008 No	2008 £'000
At 1 July	**7,191,883**	**108**	6,538,077	98
Private placing	**–**	**–**	653,806	10
Exercise of options	**19,200**	**–**	–	–
Ordinary shares of £0.015 each	**7,211,083**	**108**	7,191,883	108

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 £'000	Share options reserve £'000	Reverse acquisition reserve £'000	Retained Earnings £'000
Balance as at 1 July 2007	7,402	454	(484)	2,598
Loss for the year	–	–	–	(1,154)
Allotment of ordinary shares	1,055	–	–	–
Share issue costs	(20)	–	–	–
Recognition of equity settled share-based payments in the year	–	93	–	–
Balance at 30 June 2008	**8,437**	**547**	**(2,484)**	**(4,026)**
Balance as at 1 July 2008	8,437	547	(2,484)	(4,026)
Profit for the year				83
Allotment of ordinary shares	24	–	–	–
Exercise/lapse of options	6	(12)	–	6
Recognition of equity settled share-based payments in the year	71			
Balance at 30 June 2009	**8,467**	**606**	**(2,484)**	**(3,939)**

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 2009

	Notes	2009 £'000	2009 £'000	2008 £'000	2008 £'000
Non-current assets					
Investments	a		**5,635**		5,564
Current assets					
Amounts receivable from Group undertaking and other receivables	b	**735**		1,696	
Cash and cash equivalents	c	**3,001**		2,001	
		3,736		3,697	
Current liabilities					
Trade and other payables		**–**		(19)	
Net current assets			**3,736**		3,678
Total assets less current liabilities			**9,371**		**9,242**
Capital and reserves					
Called-up equity share capital	21		**108**		108
Share premium account	22		**8,467**		8,437
Share options reserve			**606**		547
Retained Earnings			**190**		150
Total shareholders' funds equity			**9,371**		**9,242**

These financial statements were approved by the Directors and authorised for issue on 23 October 2009 and are signed on their behalf by:

D E Evans
Chairman

H J J Rylands
Company Secretary

Epistem Holdings Plc
Registered Number: 6108621

Company Statement of Changes in Equity

For the year ended 30 June 2009

	Share capital £'000	Share premium account £'000	Share options reserve £'000	Retained earnings £'000	Total £'000
At 1 July 2007	**98**	**7,401**	**–**	**30**	**7,529**
Allotment of ordinary shares	10	1056	–	–	1066
Share issue costs	–	(20)	–	–	(20)
Recognition of equity settled share-based payments					
– in respect of previous periods	–	–	454	–	454
– current year	–	–	93	–	93
Profit for the year	–	–	–	120	120
At 30 June 2008	**108**	**8,437**	**547**	**150**	**9,242**
Allotment of ordinary shares					
Allotment of ordinary shares	–	24	–	–	24
Recognition of equity settled share-based payments	–	–	71		71
Exercise/lapse of options	–	6	(12)	6	–
Profit for the year	–	–	–	34	34
At 30 June 2009	**108**	**8,467**	**606**	**190**	**9,371**

Company Statement of Cash Flows

For the year ended 30 June 2009

	2009 £'000	2009 £'000	2008 £'000	2008 £'000
Cash flows from operating activities				
Profit for the year before				
Share-based payment expense		**–**		–
Operating profit before changes in working capital and provisions		**–**		**–**
(Increase) in trade and other receivables		**961**		(1,196)
Increase in trade and other payables		**(19)**		18
Cash outflow from operations		**942**		**(1,178)**
Interest received	**34**		120	
Tax (paid)/received	**–**		–	
		34		120
Net cash outflow from operating activities		**976**		**(1,058)**
Cash flows from financing activities				
Proceeds from issue of share capital	**24**		1,066	
Expenses of share issue	**–**		(20)	
Net cash inflow from financing activities		**24**		1,046
Net (decrease)/increase in cash equivalents		**1,000**		(12)
Cash and cash equivalents at beginning of year		**2,001**		2,013
Cash and cash equivalents at end of year		**3,001**		**2,001**
Analysis of net funds				
Cash at bank and in hand		**3,001**		2,001
Bank overdrafts		**–**		–
Net funds		**3,001**		**2,001**

Notes to the Company Financial Statements

For the year ended 30 June 2009

a. Investments

Company

The Company is the holding company of the Group.

The Company owns 100% of the issued share capital of Epistem Limited and, additionally during the current year, Epistem SIP Trustees Limited, companies both registered in England and Wales. The issued share capital is fully paid and is included in the consolidated financial statements of the Group. The principal activity of Epistem Limited is the provision of services to the biotechnology and pharmaceutical industries. The principal activity of Epistem SIP Trustees Limited is to act as trustee to the Epistem Share Investment Plan.

Year ended 30 June 2009	Investment in subsidiary £'000
Cost	
At 1 July 2008	5,564
Additions	71
At 30 June 2009	**5,635**
Net book value	
At 30 June 2008	5,564
At 30 June 2009	**5,635**

Year ended 30 June 2008	Investment in subsidiary £'000
Cost	
At 1 July 2007	5,017
Additions	547
At 30 June 2008	**5,564**
Net book value	
At 30 June 2007	5,017
At 30 June 2008	**5,564**

Additions in the year ended 30 June 2009 comprised the fair value of the share options issued to employees of the subsidiary undertaking during the year of £71k. 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 £93k and £454k reflecting the replacement of the original share options issued by Epistem Limited.

b. Amounts receivable from Group undertaking and other receivables

Company	2009 £'000	2008 £'000
Amounts receivable from Group undertaking	**735**	1,672
Accrued income	**–**	4
	735	**1,696**

Notes to the Company Financial Statements

For the year ended 30 June 2009

c. Cash and cash equivalents

Company	2009 £'000	2008 £'000
Cash at bank and in hand	**1**	1
Short-term bank deposits	**3,000**	2,000
	3,001	**2,001**

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.

Notes

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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