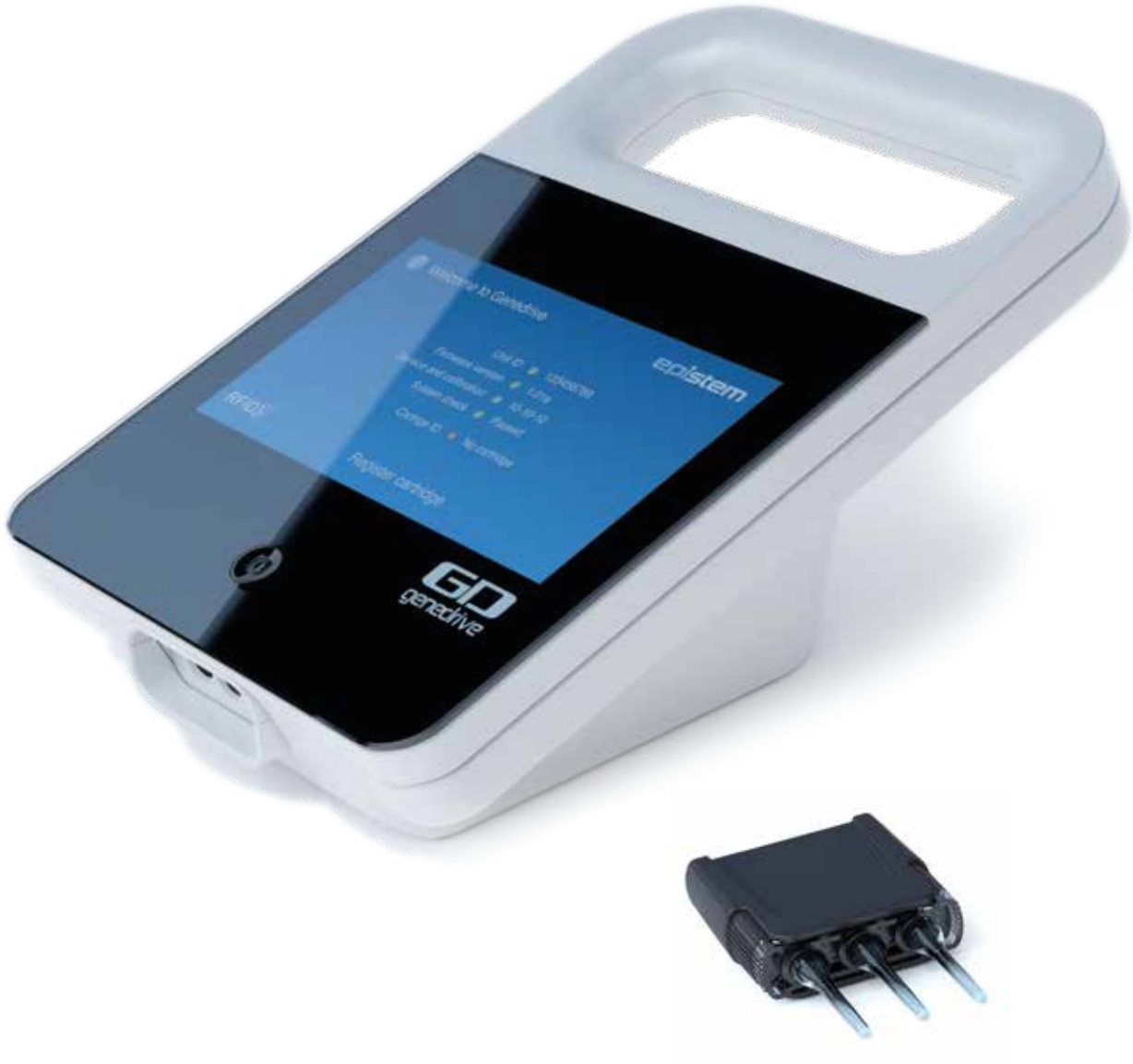


Epistem Holdings Plc
Interim Results to
31 December 2015

Interim Results to 31 December 2015

Epistem Holdings Plc (LSE: EHP), the molecular diagnostics, personalised medicine and biotechnology Group, announces today its unaudited interim results for the six months to 31 December 2015. The first half of the 2015/16 financial year saw Epistem accelerate investment in its core Genedrive® platform and continue preparations for launch of its test for Tuberculosis.

Recent Developments

- Announcement on 18 February 2016 of successful completion of first phase of external assessment of the Genedrive® Hepatitis C test.
- Announcement on 21 March 2016 of additional $2.9m funding for the US Department of Defense biohazard identifier programme.
- Appointment of David Budd as CEO of the Group.
- £0.7m R&D tax credit received post period end.
- Discussions ongoing regarding a proposed placing of new ordinary shares to fund the substantial opportunities which Genedrive® offers.

Operating Highlights

- Continued preparation for full launch of the Genedrive® TB assay in India.
- Proprietary Genedrive® Hepatitis C test ready for external assessment.
- Positive interim feedback from clinical trials of IL28B human genotyping test supervised by Pasteur Institut.
- Positive progress with latest phase of the US Department of Defense biohazard identifier programme.
- Positive progress with Innovate UK Technology Strategy Board funded Genedrive® aquaculture testing programme being undertaken in collaboration with CEFAS.
- Soft first half revenues from our non-Genedrive® Services operations.

Financial Highlights

- Total revenue and other income of £2.0m (2014: £2.2m), with sales by the Preclinical Research Services and Personalised Medicine divisions supplemented by Genedrive® collaboration income.
- Increased investment in Genedrive®, giving rise to a reported after tax loss of £3.3m (2014: £1.9m).
- Net cash outflow from operating activities of £2.5m (2014: £1.9m).
- Cash reserves of £2.3m at 31 December 2015 (30 June 2015: £4.9m).

Dr Ian Gilham, Chairman of Epistem, commented:

"These interim results cover a period of major change and progress for Epistem.

Shareholders will welcome the recent announcements of progress with our Hepatitis C test and biohazard identifier programme which point to the robustness of our Genedrive® technology. This period of preparation for the launch of our TB test in India represents a step change in the activities and prospects for your company and I am pleased to welcome David Budd as CEO to lead Epistem in this period of transition to a diagnostics company.

With today's announcement, I can confirm that we and our advisers are in discussions with shareholders and potential investors regarding a proposed placing of new ordinary shares to ensure that the Group has the necessary funding to exploit the substantial opportunities which Genedrive® offers."

Contents

Genedrive®

Changing the way molecular diagnostics and Personalised Medicine are delivered

Genedrive® is rapidly reconfigurable for specific assays and is suitable for use in a 'Point of Care' setting. Genedrive® analyses nucleic acids from fresh or stored samples in clinical and remote settings to provide near-patient diagnostics.

At the heart of the Genedrive® technology is the plug-in assay cartridge, which allows the device to work across the following areas:

Diagnostics:

Rapid and accurate diagnosis of infectious disease facilitating immediate therapeutic treatment

Pharmacogenomics:

Allowing medicine to be personalised around an individual patient's genotype

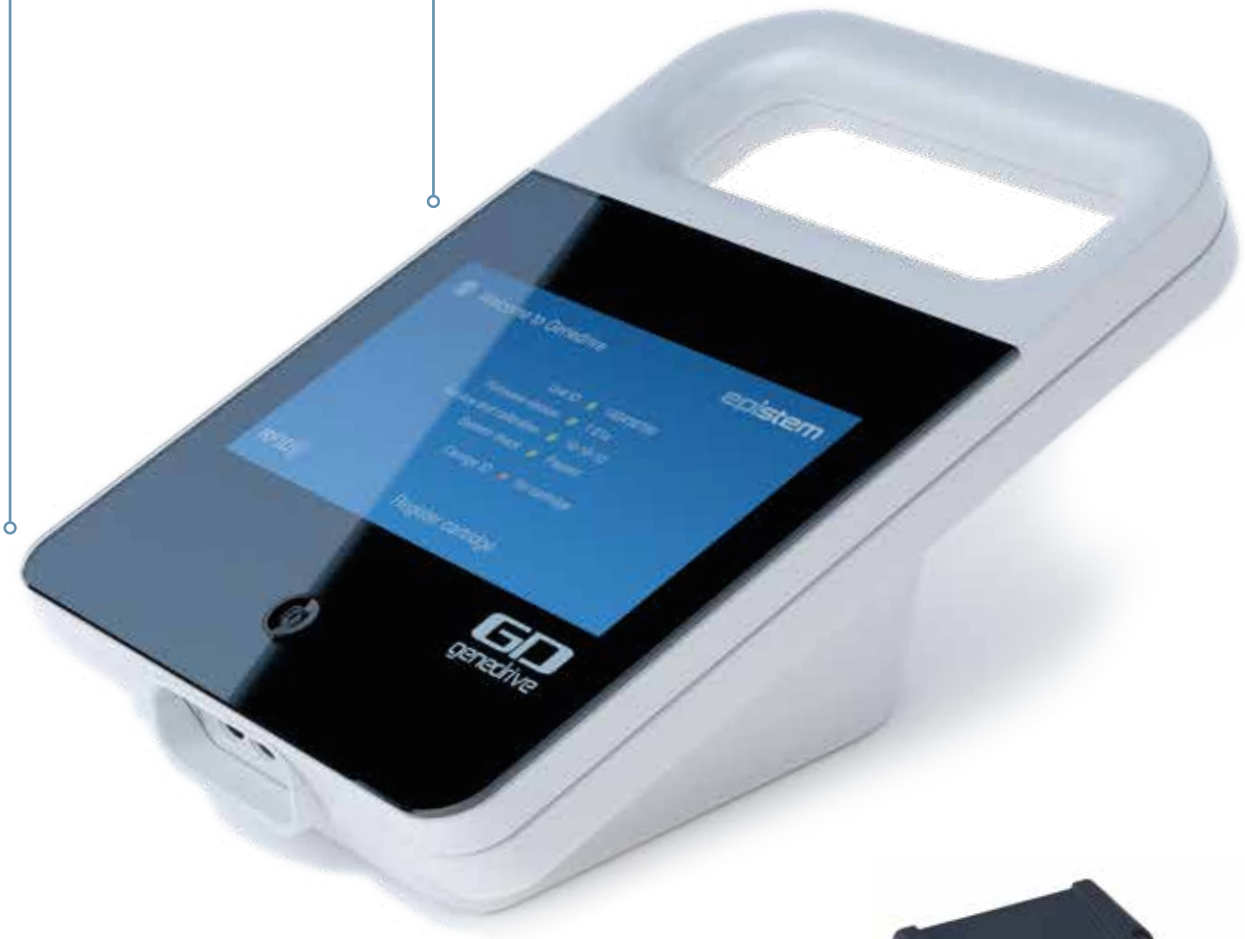
Future applications:

Genedrive® is being validated for use in the areas of pathogen detection & biosurveillance, and aquaculture

Mobile:
designed as a simple to use, handheld device

Rapid:
results in approximately 45-60 minutes

Accurate:
Molecular diagnostic for viral, bacterial and mutational analysis



Genedrive® Assay Development
Single use assay cartridges

At the heart of the Genedrive® technology is the plug-in assay cartridge. Genedrive® tests use a simple assay cartridge with RFID capacity to programme the assay metrics into the Genedrive® unit. This significantly simplifies user operation enabling a single button operation.

Chairman & CEO's Statement

Dr I Gilham Chairman

David Budd Chief Executive Officer

The period to 31 December 2015 has seen significant reorganisation and development for Epistem as we focus on the opportunities which are offered by our investment in Genedrive®, our next generation Point of Care molecular diagnostic platform. In the results for the six months ended 31 December 2015, we report an increased operating loss arising from this increased investment, together with soft first half service revenue performance from our non-Genedrive® Preclinical and Personalised Medicine businesses. The key focus of our investment expenditure has been in Genedrive® as we continue preparations with Key Opinion Leaders in readiness for the launch of our Tuberculosis (TB) assay in India.

In the second half of the current financial year, we expect to register sales of Genedrive® units and tests in India, following full launch training with our distribution partner Xcelris Labs in the middle of April 2016. We also anticipate improved Preclinical Research Services and Personalised Medicine revenues, together with ongoing income from our collaboration with the US Department of Defense to develop Genedrive® as a biohazard identification device. Whilst we are disappointed that preparations for the launch of Genedrive® have extended into the second half of the financial year, the first half has seen considerable validation of the Genedrive® platform. In August 2015, we announced a substantial new development contract from the US Department of Defense with potential revenues of $7.8m. Importantly, we have completed an internal development phase of our proprietary test for the detection of Hepatitis C virus (HCV) which is now ready for external assessment in conjunction with the Pasteur Institut. Further, whilst we are awaiting final independent proof-of-concept results, we have topline data (n=226/250) that our IL28B Human genotyping assay is 100% accurate against the Roche TaqMan® PCR lab standard. We remain confident that Genedrive® offers a disruptive diagnostic platform designed to bring the power of central laboratory molecular diagnostics to the Point of Care setting in a device that has a lower cost and lower time to result than molecular alternatives.

We believe that the market for our first Genedrive® test for TB, initially in India under our supply and distribution agreement with Xcelris Labs, offers very attractive growth opportunities and is a precursor to a wider roll out to new markets and of an expanding panel of infectious disease tests. Further, as part of the increasing focus of medical authorities on the role of personalised medicine in targeting therapeutic treatments, we anticipate potential demand for the pharmacogenomic capabilities of Genedrive®. The IL28B clinical trial nearing completion represents important proof-of-concept validation for Genedrive® as a human genotyping platform. We will consider opportunities to collaborate with pharma partners to develop companion diagnostic genotyping tests targeted at specific drug development and patient stratification needs.

In August, we announced that we had been successful in our bid to participate in a $7.8m US Department of Defense project for the development of Genedrive® as a handheld test for biohazard identification. This follows on from the successful validation of demonstration tests developed in an earlier feasibility study which we reported on in our 2014 Interim Report. This gives us great confidence in the internationally high standing both of the Genedrive® platform but also in our assay development expertise and the ability of our team to work with partners on an international scale. We were delighted to be able to announce, after the period end, success in the $2.4m first phase of the project with the award of a further $2.9m funding to commence the second phase, which is expected to be largely undertaken during the financial year 2016/17.

Last year, we announced that we had been granted £0.4m grant funding for Genedrive® from the Innovate UK Technology Strategy Board to develop an assay for aquaculture testing in relation to shrimp farming. Progress in initiating the project was initially slow but has now picked up as we work to develop novel sample collection protocols appropriate for the white spot disease found in farmed shrimps.

In August 2015, we reported that Matthew Walls was leaving his position as Chief Executive Officer, with Chairman, Dr Ian Gilham, acting as Chief Executive Officer on an interim basis. We undertook an extensive recruitment process, following which we announced that David Budd would be the new Chief Executive Officer. David joined with effect from 1 March 2016, following which Ian reverted to his role as Non-executive Chairman. David has over 20 years of international commercial and operational experience in the diagnostics and medical devices field, launching multiple diagnostics products into international markets. The Board believes that this strengthening of expertise from the global diagnostics industry will assist in positioning the Group to fully exploit the opportunity which the Genedrive® platform represents and away from the established Services orientated divisions. We expect to see this process continue in the future.

The Board believes that Genedrive® has been de-risked and validated as demonstrated by the receipt of Indian regulatory approval for the TB test, successful external assessment of the HCV test by Institut Pasteur as well as the continued funding from the US Department of Defense for a range of biohazard tests. Given this progress, as well as the recent addition of David Budd as CEO and other management with strong commercial experience in the diagnostics sector, the Company has recently commenced discussions with shareholders and other investors with regards to securing funding of approximately £6.5m (before expenses) to broaden the portfolio of tests to include HIV and Hepatitis B virus (HBV), to undertake clinical trials to expand market entrance e.g. seeking regulatory approval to launch the TB test in China, to fund increased commercialisation and business development activities as well as broadening the Company's infrastructure to support anticipated growth. To date, the Company has received non-binding indicative support from a number of existing shareholders and non-holders and the process is ongoing.

Reflecting shareholder and potential investor feedback, it is clear that financial backing for the Company should be materially enhanced when a track record of end market sales in India for Genedrive® and the associated TB assays can be demonstrated. Given the fact that full launch training with Xcleris Labs in India is due to start in mid-April and will rapidly be followed by a full launch of Genedrive® and associated TB assays, the Company is directing its efforts to ensuring that this very important commercial event is maximised and the significant potential for Genedrive® is therefore demonstrated. Shareholder and potential investor feedback has also focused on the maturity date for the GHIF $8m bond of 21 July 2019. In order to mitigate investor concern regarding the maturity date for the GHIF $8m bond of 21 July 2019 and the underlying commercial traction needed with the pipeline of assays, the Company has commenced discussions with GHIF to extend the maturity date of the bond which was issued in July 2014. GHIF has confirmed it is open to a negotiated extension of the bond's maturity date and remains fully committed to Genedrive® which it believes has the potential to support the needs of significant numbers of patients across the world, for a wide range of infectious diseases.

The Group reports cash resources at 31 December 2015 of £2.3m (30 June 2015: £4.9m) which the Board believes will fund the company at least through the financial year end. The Company's operations in pharmacogenomics, contract research services and novel therapies are largely unrelated to the Company's primary diagnostics activities and the Company proposes to undertake a review of the strategic options for these businesses in due course in order to focus the Company's increased resources on Genedrive®, which the Board believes is best placed to deliver superior returns for shareholders.

This interim report covers the six-month period from 1 July 2015 to 31 December 2015.

Financial Results

Results for the first six months delivered revenue and other income of £2.0m (2014: £2.2m). Increased levels of investment and headcount in our Personalised Medicine (Genedrive®) programme gave rise to a Group reported loss of £3.3m (2014: £1.9m loss after tax). Reported cash reserves at 31 December 2015 were £2.3m (30 June 2015: £4.9m).

Progress across each of the Group's divisions is outlined below:

Preclinical Research Services income for the first six months was £1.0m (2014: £1.0m). In May 2015, we announced that our ten year old collaboration with University of Maryland for the delivery of services to the US National Institutes for Health would not be renewed. Income under this collaboration has been significant (c.£1m annually) and, following its loss, we have focussed attention on developing replacement sources of income. During the period, replacement client business together with alternative funding from the US Department of Defense has ensured that we can report sales at a similar level to 2014. We also expect that sales for the full financial year will be equivalent to the prior year. In addition to winning significant replacement income from our US client base, we are seeing a strengthening of interest in Europe. Our models in the area of inflammatory bowel disease have seen strong growth in the period and we continue carefully to extend our range of higher margin service offerings around our oncology models. With modest investment, the division continues to secure its core scientific strengths, especially in the US, and strengthen its platform for future growth.

Personalised Medicine first half revenues were £1.0m (2014: £1.2m) primarily reflecting the business generated by our Genedrive® development projects for the US Department of Defense in the US and with CEFAS in the UK. In August 2015, we announced that we had been successful in winning a $7.8m collaborative contract with the US Department of Defense for the development of Genedrive® as a handheld biohazard identification unit. In the second half, revenues from Genedrive® development contracts will contribute to full year income for the division together with sales of Genedrive® units and tests which are expected to develop as our launch process gets under way. We will continue to work to develop our offering for our pharmaceutical partners whilst recognising that the primary focus for delivery remains the successful launch and development of our Genedrive® platform.

The Personalised Medicine division continues to make significant investment in Genedrive®. Overall, development costs have risen to £1.9m (2014: £1.3m).The principal task for the division has been to work with our India distribution partner and Key Opinion Leaders (KOLs) in preparing the market for the use of the Genedrive® device. Whilst this period of finalising the development of the Genedrive® unit and the TB test has been extended, KOL studies are underway at two sites with three more sites expected to start soon. Final pre-launch training is expected to start in mid-April 2016 as a pre-cursor to the commencement of end user sales of Genedrive® units and TB tests.

We have also progressed the development of our assay for the detection of the Hepatitis C virus which was initially developed in collaboration with INSERM and Pasteur Institut under EU FP7 grant funding. We will continue to work with Pasteur Institut as we progress external assessment of the Hepatitis C assay in readiness for regulatory approval, anticipated in 2017.

In the last financial period, we completed the development of our IL28B human genotyping assay, which then entered a clinical trial overseen by Pasteur Institut. On publication of the results of this trial, anticipated in this financial year, we will progress the process of commercialising our genotyping capability and address the market for pharmacogenomics patient stratification. We are very encouraged that topline data (n=226/250) suggests 100% accuracy against the Roche TaqMan® PCR lab standard.

Following the award of a £0.4m Technology Strategy Board grant in collaboration with CEFAS to develop Genedrive® as a 'Point of Need Diagnostic' (POND) for shrimp aquaculture, work has commenced on this two year project and with recognition of this income during 2016. Current estimates predict that up to 40% of tropical shrimp production (>$3bn) is lost annually to viral diseases, including White Spot Syndrome Virus (WSSV) and Early Mortality Syndrome (EMS). The consortium led by Epistem is designed to establish a mobile testing model in which WSSV/EMS POND are linked with data transmission to central facilities for regional disease management.

We have continued to invest in our infrastructure and our supply chain. We have taken on additional accommodation in the Innovation Centre, Manchester, alongside our existing facilities. Fresh manufacturing runs of our Genedrive® unit point to the robustness of our unit supplier. We continue to work with the manufacturing partner of our TB test to secure reliable yet flexible manufacturing runs and volume related reductions in the present cost of goods of approximately $5.

Our Novel Therapies' drug development programme remains on hold.

Based on the ongoing investment in our Genedrive® technology, the Group reports an operating loss for the first half of £3.1m (2014: £1.9m loss).

We report financing costs for the period of £0.5m (2014: £0.4m). Costs relating to the convertible bond amounted to £0.3m and foreign exchange differences amounted to £0.2m. The Group reports an after tax loss of £3.3m (2014: £1.9m) and a loss per share of 31.7p (2014: 18.6p).

Cash at bank at 31 December 2015 amounted to £2.3m (30 June 2015: £4.9m) with net cash outflow in the period amounting to £2.6m. Research and Development tax credits of £0.7m were received following the period end.

Outlook

Following the appointment of David Budd as Chief Executive Officer on 1 March 2016, the Group will continue to focus its resources towards its Genedrive® Point of Care molecular diagnostic platform and strengthen its diagnostics expertise and infrastructure.

The focus for the second half of the financial year remains firmly on progressing the commercialisation of the Genedrive® TB test in India, alongside the development of our pipeline HCV assay, progressing our IL28B assay and pharmacogenomics capabilities, delivering on our collaborative projects and closing the proposed placing of new ordinary shares. With increasing validation of our expertise across a variety of diagnostics applications, we are well placed to exploit the commercial potential of Genedrive® and to generate superior shareholder returns from the market response which we expect to create – the proposed placing would provide the Company with the funding to deliver these goals. We are also intent on driving an improved second half income from our Preclinical Research Services and Personalised Medicine Divisions, with both divisions anticipating increased revenues in the second half although they are expected to make a modest loss for the year as a whole.

Notwithstanding the first half reported revenues from our service businesses and the delay in developing sales of Genedrive® and associated TB tests in India, we are very encouraged by the increasing validation of the Genedrive® platform and its potential to test for a broad range of infectious diseases, human genotyping and biohazard applications. Genedrive® is the Group's flagship platform and we are excited to be commencing full launch training next month prior to marketing to approximately 5,000 small/medium laboratories in India with our distribution partner Xcleris Labs. The Group considers that the Genedrive® TB and Hepatitis C programmes represent substantive commercial value underpinning the business going forward. As detailed above, the Group and its advisers are engaged in fundraising discussions to fund the ongoing development and expansion of the Genedrive® platform. The Board anticipates the success of this fundraising and believes that Genedrive® offers substantial growth opportunities for shareholders.

Dr I Gilham
Chairman

David Budd
Chief Executive Officer

31 March 2016

Unaudited Consolidated statement of comprehensive income

For the six months ended 31 December 2015

	Notes	**Six months ended 31 December 2015 Unaudited £'000**	Six months ended 31 December 2014 Unaudited £'000	Year Ended 30 June 2015 Audited £'000
Revenue		**1,177**	1,668	3,703
Other Income – development grant funding		**793**	547	814
Revenue & Other Income	(3)	**1,970**	2,215	4,517
Contract costs		**(1,904)**	(1,916)	(3,933)
Discovery and development costs		**(1,851)**	(1,281)	(2,942)
General administrative costs		**(1,330)**	(895)	(1,682)
Operating (loss)	(4)	**(3,115)**	(1,877)	(4,040)
Finance income and costs	(5)	**(512)**	(369)	616
(Loss) on ordinary activities before taxation		**(3,627)**	(2,246)	(3,424)
Taxation on ordinary activities		**278**	389	399
Total Comprehensive Income for the financial period		**(3,349)**	(1,857)	(3,025)
(Loss) per share (pence)				
Basic	(6)	**(31.7)p**	(18.6)p	(30.2)p
Diluted	(6)	**(31.7)p**	(18.6)p	(30.2)p

Unaudited Consolidated statement of changes in equity

For the six months ended 31 December 2015

	Share Capital £'000	Share Premium Account £'000	Employee Share Incentive Plan Reserve £'000	Share Options Reserve £'000	Reverse Acquisitions Reserve £'000	Retained Earnings £'000	Total £'000
At 1 July 2014	150	18,616	(228)	1,032	(2,484)	(6,222)	10,864
Exercise of options	–	5		(2)	–	2	5
Purchase of own shares (SIP)	–	–	(35)	–	–	–	(35)
Recognition of equity-settled share-based payments	–	–		86	–	–	86
Total comprehensive income for the financial period	–	–	–	–	–	(1,857)	(1,857)
At 31 December 2014	**150**	**18,621**	**(263)**	**1,116**	**(2,484)**	**(8,077)**	**9,063**
Allotment of ordinary shares	7	1,393	–	–	–	–	1,400
Share issue costs adjustment	–	–	–	–	–	–	–
Exercise of options	1	74	–	(27)	–	27	75
Purchase of own shares (SIP)	–	–	67	–	–	–	67
Forfeit of options	–	–	–	(11)	–	–	(11)
Recognition of equity- settled share-based payments	–	–	–	119	–	–	119
Total comprehensive income for the financial period	–	–	–	–	–	(1,168)	(1,168)
At 30 June 2015	158	20,088	(196)	1,197	(2,484)	(9,218)	9,545
Recognition of equity-settled share-based payments	–	–	–	98	–	–	98
Total comprehensive income for the financial period	–	–	–	–	–	(3,349)	(3,349)
At 31 December 2015	**158**	**20,088**	**(196)**	**1,295**	**(2,484)**	**(12,567)**	**6,294**

Unaudited Consolidated balance sheet

As at 31 December 2015

	31 December 2015 (unaudited) £'000	31 December 2014 (unaudited) £'000	30 June 2015 (audited) £'000
Non-current assets			
Intangible assets	**6,726**	7,328	7,191
Plant and equipment	**750**	759	805
Deferred taxation	**30**	154	30
	7,506	8,241	8,026
Current assets			
Inventories	**276**	–	163
Trade and other receivables	**2,494**	2,214	2,191
Tax receivables	**1,047**	1,246	685
Cash and cash equivalents	**2,293**	6,609	4,928
	6,110	10,069	7,967
Liabilities			
Current liabilities			
Deferred income	**60**	68	50
Trade and other payables	**1,535**	1,394	1,123
Deferred consideration payable in shares (note 7)	**1,250**	2,650	1,250
	2,845	4,112	2,423
Net current assets	**3,265**	5,957	5,544
Total assets less current liabilities	**10,771**	14,198	13,570
Non-current liabilities			
Convertible Bond (note 8)	**4,477**	5,135	4,025
Net assets	**6,294**	9,063	9,545
Capital and reserves			
Called-up equity share capital	**158**	150	158
Share premium account	**20,088**	18,621	20,088
Employee share incentive plan reserve	**(196)**	(263)	(196)
Share options reserve	**1,295**	1,116	1,197
Reverse acquisition reserve	**(2,484)**	(2,484)	(2,484)
Retained earnings	**(12,567)**	(8,077)	(9,218)
Total shareholders' equity	**6,294**	9,063	9,545

Unaudited Consolidated statement of cash flows

For the six months ended 31 December 2015

	31 December 2015 (unaudited) £'000	31 December 2014 (unaudited) £'000	30 June 2015 (audited) £'000
Cash flows from operating activities			
Operating (loss) for the year	**(3,115)**	(1,877)	(4,040)
Depreciation, amortisation and impairment	**590**	156	387
Research Tax Credits	**(84)**	(117)	(202)
Share based payment expense	**98**	86	194
Operating (loss) before changes in working capital and provisions	**(2,511)**	(1,752)	(3,661)
(Increase) in inventories	**(113)**	–	(163)
(Increase) in trade and other receivables	**(303)**	(1,089)	(1,066)
Increase/(decrease) in deferred income	**10**	(18)	(36)
Increase/(decrease) in trade and other payables	**412**	270	107
Net cash (outflow) from operations	**(2,505)**	(2,589)	(4,819)
Tax received	**–**	734	1,513
Net cash (outflow) from operating activities	**(2,505)**	**(1,855)**	**(3,306)**
Cash flows from investing activities			
Finance income – interest received	**11**	7	16
Acquisition of fixed assets	**(21)**	(618)	(758)
Net cash (outflow) from investing activities	**(10)**	(611)	(742)
Cash flows from financing activities			
Exercise of share options	**–**	5	80
Proceeds from issue of convertible bond	**–**	4,700	4,700
Cost of issue of convertible bond	**–**	(100)	(100)
Finance costs – interest paid	**(132)**	–	(212)
Purchase of own shares	**–**	(35)	(22)
Net cash (outflow)/inflow from financing activities	**(132)**	4,570	4,446
Net (decrease)/increase in cash equivalents	**(2,647)**	2,104	398
Foreign exchange adjustments	**12**	267	292
Cash and cash equivalents at beginning of year	**4,928**	4,238	4,238
Cash and cash equivalents at end of year	**2,293**	**6,609**	**4,928**
Analysis of net funds			
Cash at bank and in hand	**2,293**	6,609	4,928
Net funds	**2,293**	**6,609**	**4,928**

Notes to the unaudited interim financial statements
to 31 December 2015

1. General information
The interim financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union and therefore comply with Article 4 of the EU IAS Regulation, International Financial Reporting Interpretations Committee ("IFRIC") interpretations and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS. The interim financial statements have not been prepared in accordance with IAS 34, Interim Financial Reporting, which has not been adopted by the Group. No new IFRS standards or amendments or interpretations have become effective in the period covered by this Interim Report.

These interim financial statements have not been audited or reviewed in accordance with International Standard on Review Engagement 2410, issued by the Auditing Practices Board and do not constitute statutory accounts within the meaning of section 435 of the Companies Act 2006. The comparative figures for the financial year ended 30 June 2015 are not the statutory accounts for the financial year but are abridged from those accounts which have been reported on by the Group's auditors and delivered to the Registrar of Companies. The report of the auditors was unqualified.

These interim financial statements were approved by the Board of Directors on 31 March 2016.

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

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

Subsidiaries are entities controlled by the Group. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Transactions between Group companies are eliminated on consolidation.

On 16 March 2007, Epistem Holdings Plc merged with Epistem Limited, when 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.

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

In preparing these interim financial statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation were the same as those that applied to the consolidated financial statements for the year ended 30 June 2015, with the exception of changes in estimates that are required in determining the provision for taxation.

2. Significant Accounting Policies continued

Revenue recognition

a. Contract revenue

Contract revenue is recognised by reference to the stage of completion of the transaction at the end of the reporting period.

b. Collaboration & licensing revenue

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

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

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

c. Other Income – development grant funding

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

Research and development

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

2. Significant Accounting Policies continued

Intangible assets

Intangible assets are stated at cost less accumulated amortisation and any accumulated impairment losses. Amortisation is calculated so as to write off the cost of an intangible asset, less its estimated residual value, over the useful economic life of that asset. All intangible assets are subject to impairment review and amortisation in each financial reporting period.

Foreign currencies

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

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

Share-based payments

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

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

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

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

2. Significant Accounting Policies continued

Financial instruments (including Convertible Bond)

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

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

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

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

Finance costs of the debt host are included in Finance (costs)/income. Gains or losses on the value of the derivative are included in Finance (costs)/income.

The Group's convertible bond is a compound financial instrument, comprising a liability component and an equity component. The fair value of the liability component was estimated using the prevailing interest rate at the date of issue for similar non-convertible instruments. The difference between the proceeds of issue of the convertible bond and the fair value assigned to the liability component, representing the embedded option to convert the liability into Company's ordinary shares, is included in equity.

The interest expense on the liability component is calculated by applying applicable market rates for similar non-convertible debt prevailing at the dates of issue to the liability components of the instruments.

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

3. Revenue and Other Income

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

	31 December 2015 £'000	31 December 2014 £'000	30 June 2015 £'000
Revenue	**1,177**	1,668	3,703
Other Income – development grant funding	**793**	547	814
Revenue & Other Income	**1,970**	**2,215**	**4,517**

Notes to the unaudited interim financial statements continued

to 31 December 2015

4. Business segments

	Preclinical Research Services £'000	Personalised Medicine £'000	Unallocated £'000	Total £'000
Six months ended 31 December 2015				
Revenue and Other Income	1,001	969	–	1,970
Segment trading result	**23**	**(1,260)**	**(1,274)**	**(2,511)**
Add Research Credits	45	39	–	84
less depreciation and amortization	(75)	(479)	(36)	(590)
less equity-settled share-based payments	(9)	(69)	(20)	(98)
Operating (loss)	**(16)**	**(1,769)**	**(1,330)**	**(3,115)**
Six months ended 31 December 2014				
Revenue and Other Income	1,003	1,212	–	2,215
Segment trading result	**(78)**	**(779)**	**(895)**	**(1,752)**
Add Research Credits	53	64	–	117
less depreciation and amortization	(88)	(51)	(17)	(156)
less equity-settled share-based payments	(8)	(66)	(12)	(86)
Operating (loss)	**(121)**	**(832)**	**(924)**	**(1,877)**
Twelve months ended 30 June 2015				
Revenue and Other Income	2,322	2,195	–	4,517
Segment trading result	**135**	**(2,204)**	**(1,593)**	**(3,662)**
Add Research Credits	111	91	–	202
less depreciation and amortization	(163)	(173)	(50)	(386)
less equity-settled share-based payments	(15)	(140)	(39)	(194)
Operating profit/(loss)	**68**	**(2,426)**	**(1,682)**	**(4,040)**

5. Finance income and costs

	31 December 2015 £'000	31 December 2014 £'000	30 June 2015 £'000
Gain on convertible bond		–	1,004
Movement in fair value of derivative embedded in convertible bond	–	–	73
Finance cost of convertible bond including interest payable	(252)	(283)	(417)
Foreign exchange movement in convertible bond	(199)	(285)	(298)
Foreign exchange surplus/losses	(68)	192	238
Interest receivable	7	7	16
Finance income and costs	**(512)**	**(369)**	**(616)**

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

The weighted average number of shares in issue during the period was 10,564,446 (2014: 10,010,544.)

7. Deferred consideration payable in shares
The Deferred consideration payable in shares represents the balance of the consideration payable following the acquisition of Visible Genomics Limited. As detailed more fully in the Annual Report and Accounts for the Group, the Group acquired Visible Genomics Limited on 28 July 2010. The Deferred consideration payable in shares to the vendors of Visible Genomics Limited (the "Vendors") is detailed below:

- Consideration Shares to a value of £1.25m upon the achievement of commercial milestones related to the recognition of £5m of Genedrive® related income or contractual commitments from any of a list of 16 IVD companies which provide a minimum combined value of £5m.
  The value at which Consideration Shares are to be issued is to be calculated by reference to the Group's daily share price over a 5 day period commencing 30 days after the date that the achievement of the milestone is announced.
  The Consideration Shares are subject to a "lock-In" provision, under which the Vendors covenant not to sell Consideration Shares for a period of up to 24 months without the consent of the Company, except in the event that an offer for the whole of the issued share capital of the Company is received and which is either recommended by the Board or becomes unconditional as to acceptances.
  In the event that an offer for the whole of the issued share capital of the Company or for the Genedrive® business is received and which is either recommended by the Board or is declared unconditional as to acceptances, then, the Vendors will become entitled to be allotted shares in the Company up to a maximum value of £1.25m, save to the extent that Consideration Shares, as detailed above, have already been issued. The value at which these shares are issued will be the relevant offer price.

8. Convertible Bond
The liability payable in 1 – 5 years is in respect of the Convertible Bond Purchase Agreement (the "Agreement") entered into on 21 July 2014 with the Global Health Investment Fund 1 LLC ("GHIF" or the "bond holder"). Under the terms of the Agreement, the Group has issued to GHIF a five-year Convertible Bond totalling $8.0m (£4.7m on conversion to GBP). Further, as part of the Agreement, GHIF and the Group entered into a Global Access Commitment. The purpose of the Agreement is to fund the Group's development, production and commercialisation of Genedrive® to address Global Health Challenges and achieve Global Health Objectives. An outline (only) of the terms of the Agreement is detailed below:

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

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

The Company has an option conversion period running from 22 January 2015 to 8 July 2019, during which the Company may convert all (but not part only) of the Convertible Bond into Epistem Ordinary Shares at the Conversion Price, initially £4.89 per Epistem Ordinary Share at the Fixed Rate of Exchange of $1.6913:£1 if the current market prices equals or exceeds 1.2 times the Conversion Price. The Conversion Price may be adjusted to take account of changes by the Group of its share capital, capital structure or payment of dividends etc.

8. Convertible Bond continued

Convertible Bond Agreement *continued*

The Group may redeem the whole of the Convertible Bond on any interest payment date from 22 July 2016. In this event, the bond holder may elect to receive full payment in Epistem Ordinary Shares based on a conversion ratio calculated around the market price at the time of notice of Redemption. Without such an election, the bond will be redeemed at par in US dollars. The maximum number of Epistem Ordinary Shares that may be allotted to GHIF on conversion is 968,000 Epistem Ordinary Shares. If additional shares would otherwise have been due to be allocated to GHIF on conversion, the Group would repay GHIF the unconverted balance in cash.

Global Access Commitment

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

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

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

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

General Undertakings

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

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

Impact on the financial accounts

The Agreement resulted in an injection of cash at bank of $8m (£4.7m) at 22 July 2014.
Financing costs are detailed in Note 3 above. Interest charges accrue at the rate of 5% (of $8m) per annum from 22 July 2014 and will be booked to the Income Statement.

Unless or until the Convertible Bond is converted or redeemed, the Group will retain a liability of $8m.

Directors, Secretary and Advisers

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David Budd (appointed 1st March 2016)
Catherine Booth
Allan Brown
Roger Lloyd
Robert Nolan
John Rylands

Group Secretary
John Rylands

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