



# **Evocutis plc**

Annual Report 2013

Company Number: 05656604

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# Chairman's and Interim Chief Executive Officer's Report

## Introduction

The past year has been a difficult one for Evocutis. Whilst the Group has achieved sales revenues of £395,000 and a reduced overall loss for the year of £1,007,000, the board agreed that the unpredictability and magnitude of revenue generating contracts was a significant problem. During August 2012, we decided that launching our LabSkin™ tissue culture reagent as a separate consumable product might generate sufficient sales revenues to supplement the income from contract services work, in order to sustain the Group whilst other diversification opportunities could be sought.

In September 2012, we launched LabSkin™ as a product and have generated initial sales of £38,000 over the remainder of the financial year. At the same time, considerable effort was made in generating increased contract research work and we announced on 17 January 2013 that we had secured a number of new contracts from major companies worldwide, amounting to over £280,000. However, the slow ramp-up in sales, coupled with significant ongoing cash requirements has made it increasingly difficult to establish a secure independent future for the Group.

## Strategic review

In our 2012 Annual Report, we announced that we were reviewing and evaluating a number of strategic options for the Group. On 3 December 2012, we announced that we had appointed Growth Innovators Group ("GIG") and Zeus Capital Limited (the company's Nominated Advisor) to help and advise on the identification, review and evaluation of strategic options for the Group to optimise shareholder value.

Between December 2012 and September 2013, initial discussions were held with around 100 companies across the UK, Europe and the USA to assess their levels of interest in acquiring the company, its technologies or to establish strategic partnerships. Advanced discussions were held with a small number of these companies over a number of months, but by the end of September 2013 it was clear that we had not identified a company which was prepared to make a formal offer for the whole company, either as an outright acquisition or as a merger and therefore we announced on 2 October 2013 that we were terminating the formal sale process.

## Financial position and going concern

At 31 July 2013, the Group had cash balances of £665,000 and net assets of £955,000.

On 3 December 2013 we announced that all employees had been issued with notices of redundancy, other than those holding board positions.

We also announced that discussions were ongoing with a small private company regarding potential acquisition of that company. Since December 2013, those discussions have evolved and the directors are now negotiating the potential sale or licence of the Group's intellectual property assets to a quoted company with connections to that company, rather than the acquisition as originally proposed.

The board considers that the value within the Group vests in the LabSkin™ technology and the Group's other intellectual property assets. The directors have changed the focus of the Group's activity from that of providing contract research services ourselves utilising our intellectual property, to that of managing the intellectual property portfolio to generate an income stream from royalties from third parties.

Operating costs have been significantly reduced and the board is currently negotiating an exit from its property lease in order to further reduce ongoing costs.

As set out above the directors are in discussions with one company in respect of the Group's intellectual property. The directors are negotiating the sale or licensing of certain assets along with a royalty element to generate future revenue streams for the Group.

At the date of approval of these financial statements, the transaction is still being negotiated. Further announcements will be made to shareholders in due course regarding these discussions and shareholder approval will be sought as required in the event that a deal can be successfully negotiated.

As set out in note 1 to the financial statements, in the event that sufficient income cannot be generated from the sale of licensing of intellectual property or if the Group cannot agree a satisfactory exit from its property lease, then the Group may not be able to continue as a going concern. These conditions indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern.

# Chairman's and Interim Chief Executive Officer's Report continued

## Financial position and going concern

After careful consideration of the uncertainties described above and after considering the assumptions within the cash flow forecasts, the directors are confident that the Group will have sufficient resources to enable it to continue in operation, as a going concern, for at least the next 12 months from the date of these financial statements. As described above the Group's trading activity has changed from the provision of contract research services to that of maintaining its portfolio of intellectual property. The determination of the Group's going concern position is not dependent upon the successful conclusion of the transaction currently being negotiated in respect of the intellectual property.

## Outlook

The directors believe that the ongoing discussions regarding the sale of the Group's technology and assets will be concluded within the next three months. The board expects to be able to make further announcements regarding this to shareholders in due course.

**T Bannatyne - Chairman**

**Dr GO Humphreys - Interim Chief Executive Officer**

27 January 2014

# Financial review

## Results for the year

### Revenue

The Group achieved sales revenue of £395,000 (2012: £457,000). The decrease in revenues arises due to the unpredictable timings on contract research services, the magnitudes of the projects being carried out by our customers and their budgets for research and development expenditure. Whilst the Group has dealt with more customers this year than last year, and across more countries, the average contract values have been lower. Revenues have principally been generated from fees for services undertaken in our main business areas: Collaboration studies utilising LabSkin™ and microbiology expertise along with clinical evaluation studies. A small level of revenues has been generated from the sales of LabSkin™ as a consumable product.

### Gross profit

The Group achieved a gross profit of £219,000 (2012: £235,000), the reduction this year being attributable to reduced sales revenues.

### Operating loss

The operating loss for the year was £1,126,000 (2012: £1,707,000). The operating loss before share-based payment charges, depreciation, amortisation and impairment losses was £967,000 (2012: £910,000). Details of the key factors affecting the operating results are set out below.

### Research and development costs

Research and development expenditure comprises laboratory consumable costs and staff costs for the Group's internal R & D programmes along with patent costs incurred in protecting our intellectual property.

### General and administration

General and administration costs were £902,000 for the year ended 31 July 2013 (2012: £1,433,000). Included within these costs is £67,000 (2012: £633,000) of exceptional costs as set out below.

### Exceptional costs

Following a review of the carrying value of property, plant and equipment, the directors have reduced the carrying value of leasehold improvements to £nil and an impairment charge of £67,000 has been made.

In the prior year, the group incurred impairment losses of £633,000 relating to goodwill and customer relationship intangibles following a review of the carrying value of

those assets. There have been no further impairment losses incurred this year against these assets.

### Loss before taxation

After adjusting operating loss for net finance income of £8,000 (2012: £26,000), the loss before tax amounted to £1,118,000 (2012: £1,681,000).

### Taxation

The tax credit for the year ended 31 July 2013 amounts to £111,000 (2012: £162,000). The tax position of the Group is significantly affected by Research and Development Tax Credits which the Group is able to reclaim in respect of qualifying expenditure incurred in the year on certain of our research and development programmes.

### Loss after taxation and loss per ordinary share

The loss after taxation for the year was £1,007,000 (2012: £1,519,000). This has resulted in a reduced basic and diluted loss per ordinary share of 0.58p (2012: 0.88p).

## Financial position

### Property, plant and equipment

The Group's business is science-based and technology-intensive. The Group operates from its leased property in Wetherby, West Yorkshire which has been fitted out with extensive laboratory facilities which enables the Group to undertake its research and development programme in-house.

At 31 July 2013 the total cost of Property, plant and equipment was £421,000 (2012: £417,000) with a net book value of £49,000 (2012: £166,000). Capital expenditure during the current year of £4,000 related to the purchase of new laboratory equipment and fixtures and fittings.

### Other intangible assets

Other intangible assets include the cost of intangibles acquired from business combinations and relate to customer relationships and in-process research and development. The total carrying value of these assets at 31 July 2013 was £215,000 (2012: £242,000). These assets arose from the acquisition of Leeds Skin Centre for Applied Research Limited. At 31 July 2013 the carrying value of intangibles relates to the LabSkin™ in-process R & D which is being amortised over 10 years from the date of acquisition.

## Financial review continued

### Financial position continued

#### Trade and other receivables

Trade and other receivables amount to £154,000 (2012: £129,000). None of these balances are past due and no provisions against these receivables are required.

#### Cash and cash equivalents

Cash balances have reduced from £1,479,000 in 2012 to £665,000 at 31 July 2013 as a result of the operating loss. The Group has no bank overdraft facilities or other borrowings.

#### Trade and other payables

Trade and other payables have decreased from £117,000 in 2012 to £115,000 at 31 July 2013. There are no old or disputed balances with suppliers.

#### Taxation

Amounts recoverable in respect of taxation comprise the taxation receivable from Research and Development tax credits.

#### Total equity

A summary of the movements in total equity is set out below:

	2013 £000	2012 £000
Total equity at beginning of year	1,935	3,418
Total comprehensive loss for the year	(1,007)	(1,519)
Ordinary shares issued	17	-
Share-based incentive schemes	10	36
Total equity at end of year	955	1,935

#### Cash flow

A summary of the Consolidated cash flow statement is set out below:

	2013 £000	2012 £000
Net cash outflow from operating activities	(818)	(786)
Net cash inflow/(outflow) from investing activities	4	(51)
Decrease in cash and cash equivalents	(814)	(837)
Cash and cash equivalents at beginning of year	1,479	2,316
Cash and cash equivalents at end of year	665	1,479

The increase in the net cash outflow from operating activities arose largely as a result of reduced sales revenues. The net cash inflow from investing activities arose from a surplus of bank interest received over the capital expenditure on new laboratory equipment.

#### Treasury management

The Group continues to manage its cash resources to maximise interest income whilst at the same time minimising any risk to those funds. Surplus cash balances are deposited for periods of up to six months with commercial banks which meet credit criteria approved by the board. The board uses published credit ratings from established credit agencies to assess the creditworthiness of banks used for depositing funds. At 31 July 2013, all of the Group's cash balances were held in instant access accounts with major UK banks.

#### Going concern

The Directors are required to be satisfied that the Group has adequate resources to continue in business for the foreseeable future. The validity of this assumption depends on the Group's ability to achieve its cash flow forecasts for the next 12 months. The Group has significantly reduced its operating costs and is currently exploring opportunities to sell or licence its intellectual property and to secure future revenues from royalty streams from those assets. Additionally the Group is negotiating an exit from its property lease commitment. The Directors are confident that they will be able to manage the Group's cash resources to ensure that it continues to be able meet its operating costs and contractual liabilities from its cash balances. The assumptions regarding the ability to secure revenues from our intellectual property and from the lease negotiations may give rise to a material uncertainty as set out in more detail in Note 1 to the financial statements.

**JD Bamforth**  
Chief Financial Officer

27 January 2014

## Board of Directors

### **Tom Bannatyne (51)**

#### **Non-Executive Chairman**

Tom has over 20 years' experience of the investment industry. He spent nine years at S.G. Warburg Group (since acquired by UBS) in London and Geneva and was a Director of European Equities. In 1994, he joined the Tudor Group, a privately-owned major international hedge fund, establishing and managing its European Equities business. At Tudor he was a Partner, member of the Management Committee, and Chairman of the group's UK operation, as well as of the UK branch of the group's charitable foundation. Since retiring from Tudor at the end of 2007, he has been pursuing his own investment interests. Tom is the Chairman of the Audit Committee, Nominations Committee and Remuneration Committee.

### **Dr Gwyn Humphreys (67)**

#### **Interim Chief Executive Officer**

Gwyn has over 30 years of experience in biotechnology and early stage technology companies. After 10 years at Celltech Limited, Gwyn was a founder and CEO of the very successful UK university spin out company, Bradford Particle Design Limited, which he grew and sold for \$200 million to Nektar Therapeutics Inc. in 2001. Gwyn was Chairman of Evocutis when it floated on AIM and he is also Chairman of Avacta Group plc also listed on the AIM market.

### **Darren Bamforth (44)**

#### **Chief Financial Officer**

Darren has been the Chief Financial Officer of the Group, on a part-time basis, since its formation. He is a Fellow of the Institute of Chartered Accountants in England and Wales and a Director of Atraxa Consulting Limited, his own business advisory practice which specialises in supporting early stage and growing companies. Prior to establishing his own practice in 2002, Darren was a Senior Manager with KPMG where he was responsible for a portfolio of clients in the SME sector.

### **Mike Townend (51)**

#### **Non-Executive Director**

Mike is Chief Investment Officer at IP Group plc, having been on the board at IP Group for four years as Director of Capital Markets. He has over 17 years of experience in all aspects of equity capital markets and joined IP Group from Lehman Brothers where he was Managing Director of European Equities and Head of Equity Sales to hedge funds. Mike was also a key member of the senior relationship management program. Prior to this, he was an Executive Director at Donaldson, Lufkin and Jenrette with responsibility for building the bank's business with hedge funds and alternative investors. Mike has sourced, co-led or led numerous private and public transactions. Mike is the IP Group representative on the boards of Modern Water plc, Evocutis plc and Revolymer Limited. He is also a Non-Executive of Green Urban Transport plc. Mike is a member of the Audit Committee, Nominations Committee and Remuneration Committee.

## Directors' report

The Directors present their report and the audited financial statements for the year ended 31 July 2013.

### Principal activity

The principal activities of the Group during the year were the provision of skin microbiology and clinical dermatology services to companies in pharmaceutical and consumer healthcare markets, using the Group's proprietary advanced living skin technology, LabSkin™. Additionally the Group has continued to seek options for the commercialisation of licensing opportunities for its compounds, principally SYN1113.

### Business review and future developments

A review of the Group's operations and future developments is covered in the Chairman's and Interim Chief Executive Officer's Report and the Financial Review. This includes a summary of the Group's strategy and the markets in which it operates.

### Directors

The Directors who served during the year, or until their date of resignation, were:

T Bannatyne  
 Dr GO Humphreys  
 Dr RA Bojar (resigned 3 May 2013)  
 JD Bamforth  
 MCN Townend

Information in respect of directors' remuneration is given in the Directors' remuneration report on pages 8 to 10.

### Financial results

Details of the Group's financial results are set out in the Consolidated statement of comprehensive income, other primary statements and in the notes to the consolidated financial statements on pages 23 to 45.

### Dividends

The payment of dividends will be subject to the availability of distributable reserves and having regard to retaining sufficient funds to finance the Group's activities. Due to cumulative trading losses the Group does not have distributable reserves and consequently the Directors do not recommend the payment of a dividend.

### Disclosure of information to auditors

The Directors in office at the date of this report have each confirmed that:

- so far as they are aware, there is no relevant audit information of which the Company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a Director to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of Section 418 of the Companies Act 2006.

### Environment

The Group adheres to all environmental regulations and has, where possible, utilised environmental-sustaining policies such as recycling and waste reduction.

### Employment policy

It is the policy of the Group to operate a fair employment policy. No employee or job applicant is less favourably treated than another on the grounds of their sex, sexual orientation, age, marital status, religion, race, nationality, ethnic or national origin, colour or disability and all appointments and promotions are determined solely on merit. The Directors encourage employees to be aware of all issues affecting the Group and place considerable emphasis on employees sharing in its success through its employee share option scheme.

### Insurance for directors

The Company purchased and maintained during the financial year Directors' and Officers' liability insurance in respect of itself and its directors.

### Research and development

During the year, the Group has undertaken further research and development work to progress formulation of compounds and to develop the range of uses of its LabSkin™ technology. During the year the Group has incurred expenditure amounting to £443,000 (2012: £509,000) in respect of research and development. This expenditure has been charged to the Statement of comprehensive income during the year.

### Payment of suppliers

It is the Group's policy to pay suppliers in accordance with the terms and conditions agreed in advance, providing all trading terms and conditions have been met. All payments are made in the ordinary course of business and the Group expects to pay all supplier debts as they become due. Trade creditor days for the Group and Company at 31 July 2013 were 30 days (2012: 30 days).



## Directors' report continued

### Substantial shareholdings

At 21 January 2014, being the latest practicable date prior to the publication of this document, the Company has been advised of the following shareholdings of 3% or more in the issued share capital of Evocutis plc:

	Number of shares	% of issued shares
IP2IPO Limited (together with Techtran Group Limited)	29,255,350	16.75%
Mr Thomas Bannatyne	14,714,670	8.42%
IP Venture Fund Limited	13,856,790	7.93%
XCap Nominees Limited	11,709,110	6.70%
Dr Richard Bojar	11,390,203	6.52%
Mr Mark V Houghton-Berry	10,485,070	6.00%
The University of Leeds	8,119,425	4.65%
TD Direct Investing Ltd	6,233,534	3.57%
Barclayshare Nominees Limited	5,763,465	3.30%
HSDL Nominees Limited	5,506,644	3.15%

### Financial instruments

Details of the Group's exposure to financial risks are set out in Note 24 to the financial statements.

### Financial and non-financial key performance indicators (KPIs)

The Group's main KPIs, which are discussed in the Chairman's Report and Financial Review consist of:

- Monthly review of the sales pipeline, commercial deals under negotiation and review of progress of ongoing deals;
- Monthly review of actual results against the annual budget and review of significant variances; and
- Monitoring of cash balances and working capital requirements against forecast cash requirements for its development programme.

### Auditors

The Company's independent auditor, BDO LLP, has expressed its willingness to continue in office and resolutions for its reappointment and to authorise the Directors to determine its remuneration will be proposed at the forthcoming AGM.

### Risk factors

There are risks and uncertainties relevant to the Group's operations, financial condition and results that may affect the Group's performance and ability to achieve its objectives. The risk factors below are the principal ones that the Directors believe could cause the Group's actual results to differ materially from expected and historical

results. There are other risks and uncertainties that may similarly affect the Group's performance that are either not currently known to the Group or are not deemed to be material.

The Board of Directors reviews and assesses significant risks on a regular basis to ensure that the Group is in a position to address and respond to risks arising. It is not possible for the Group to implement controls to respond to all the risks arising and there can be no assurance that the steps the Group has taken to address certain risks will manage these risks effectively or at all.

As set out in the Chairman's and Chief Executive Officer's Report, the board is taking steps to change the focus of the business from that of the provision of contract research services to that of the management of its intellectual property portfolio. The directors are seeking to secure a future income stream for the Group from the sale or licensing of its intellectual property assets and from royalties generated from such transactions.

The principal risks facing the Group are:

- the risk that the board will not be able to realise sufficient future income from the sale or licensing of its intellectual property to ensure that the Group will be able to remain as a going concern for the foreseeable future.
- The risk that the board will not be able to negotiate a satisfactory exit from its property lease commitment.

As set out in note 1 to the financial statements, the directors have prepared cash flow forecasts for the next 12 months which contain assumptions regarding the anticipated inflows and outflows of cash which are expected to arise from the potential proceeds arising from the sale or licensing of assets, from future royalty revenues arising from those assets and from the lease commitment.

The inability to secure sufficient income from the Group's intellectual property or to negotiate an exit from the lease, which results in an inability to achieve the cash flow forecasts, could materially and adversely affect the Group's performance and financial results. The board believes it has mitigated this risk as far as possible by taking action to reduce the Group's ongoing operating costs, by impairing assets down to carrying values which are expected to be realised in a sale process and by making appropriate provisions for liabilities.

By order of the Board

**JD Bamforth**  
Company Secretary

27 January 2014

# Directors' remuneration report

## Unaudited information

### Remuneration Committee

The Remuneration Committee is described in the report on Corporate Governance. The remuneration for each Executive Director is determined by the Remuneration Committee, which is composed solely of the Chairman and the other Non-Executive Directors. None of the committee members has any personal financial interest, other than as shareholders, in the matters to be decided.

### Service contracts

It is the Group's policy to enter into service contracts or letters of appointment with all Directors. Specific terms, in respect of the Directors holding office at 31 July 2013 are:

	Date of contract	Commencement date	Unexpired term	Notice period
<b>Executive Directors</b>				
Dr GO Humphreys	1.5.12	1.5.12	Indefinite	1 month
JD Bamforth	23.3.06	1.12.05	Indefinite	3 months
<b>Non-Executive Directors</b>				
T Bannatyne	2.2.10	2.2.10	Indefinite	3 months
MCN Townend	22.6.10	22.6.10	Indefinite	3 months

None of the service contracts or letters of appointment provide for any termination payments.

### Remuneration policy

The remuneration packages for Directors and senior management have been structured so as to fairly compensate them for their contribution to the Group and to encourage them to remain within the Group. The basic components of these packages include: Each Director receives an annual salary or Directors' fee for his services, payable either as a cash salary/fee or with an element settled by way of the issue of shares to the value of the remuneration due. These salaries are reviewed annually by the Remuneration Committee. The Group operates a discretionary bonus scheme. The Remuneration Committee is entitled to decide whether any bonuses are payable, and if so, what amount should be granted to Executive Directors.

### External appointments

The Committee recognises that its directors may be invited to become executive or non-executive directors of other companies or to become involved in charitable or public service organisations. As the Committee believes that this can broaden the knowledge and experience of the Company's directors to the benefit of the Group, it is the Company's policy to approve such appointments provided that there is no conflict of interest and the commitment is not excessive. The director concerned can retain the fees relating to any such appointment.

### Pensions and benefits in kind

All staff, Executive Directors and senior management are entitled to participate in the stakeholder pension plan established by the Group. Benefits are provided to certain Executive Directors, including life assurance, private health cover and relocation allowances. The Group does not provide any company cars to any of its Directors or employees.

## Directors' remuneration report continued

### Audited information

#### Directors' remuneration

Directors' remuneration for the year ended 31 July 2013 is set out below:

	Cash based salary £000	Fees Payable to third parties £000	Share based remuneration £000	Benefits in kind and pensions £000	Employer's National Insurance Contributions £000	Total 2013 £000	Total 2012 £000
<b>Non-Executive Directors</b>							
Mr T Bannatyne	20	-	-	-	1	21	-
Mr MCN Townend	-	15	-	-	-	15	-
<b>Executive Directors</b>							
Dr SP Jones (until 4 May 2012)	-	-	-	-	-	-	128
Dr GO Humphreys	80	-	13	-	12	105	49
Mr JD Bamforth	10	-	-	-	-	10	-
Dr RA Bojar (until 3 May 2013)	93	-	-	6	12	111	103
	203	15	13	6	25	262	280

Details of transactions with directors are set out in Note 21.

As part of his agreed remuneration package, Dr Humphreys is entitled to receive part of his remuneration in shares, issued on a quarterly basis in arrears. The fair value of the share based remuneration is calculated based on the salary sacrificed, with the number of shares issued being calculated using the market value of the shares on the date of issue. The share-based remuneration above represents the entitlement in respect of the period from 1 August 2012 to 31 October 2012. For the period from 1 November 2012 to 31 July 2013, Dr Humphreys waived his contractual entitlement to the share-based element of his remuneration.

#### Directors' interests in shares options in the EMI and Executive Share Option Schemes

	At 1 August 2012	Granted	Lapsed	At 31 July 2013 (or earlier date of resignation)	Weighted average exercise price pence	Earliest date from which exercisable	Latest expiry date
T Bannatyne	476,000	-	-	476,000	5.25	1/12/2011	30/11/2020
Dr RA Bojar	-	-	-	-	-	-	-
JD Bamforth	1,146,270	-	-	1,146,270	7.52	6/8/2009	30/11/2020
Dr GO Humphreys	647,620	-	-	647,620	6.65	6/8/2009	30/11/2020
MCN Townend	-	-	-	-	-	-	-

## Directors' remuneration report continued

### Audited information

#### Directors' interests in shares

Directors' beneficial interests in the shares of the Company, including family interests, for directors holding office at 31 July 2013, were as follows:

	Number of shares	% of issued share capital
T Bannatyne	<b>14,714,670</b>	8.42%
JD Bamforth	<b>68,250</b>	0.04%
Dr GO Humphreys	<b>3,340,548</b>	1.91%
MCN Townend	-	-

None of the directors had any interest in the share capital of any subsidiary company.

On behalf of the Board

#### **T Bannatyne**

Chair of the Remuneration Committee

27 January 2014

## Corporate governance

This report sets out the Group's board and management structure and corporate governance policy and procedures. The Group recognises the importance of, and is committed to, high standards of corporate governance. Evocutis plc, as an AIM Company, is not required to comply with the full provisions of the UK Corporate Governance Code 2010 although it has adopted many of the principles of that Code as set out below.

### The Board

The Directors are listed on page 5 of this Annual Report. The Board is responsible for the Group's corporate governance and is ultimately responsible for all aspects of the Group's activities including assessment and management of risk, determination of the Group's strategy and financial performance.

Tom Bannatyne has been the Chairman of the Company since February 2010 and was Chairman throughout the financial year. His role is to lead and manage the Board. He is Chairman of the Board's committees.

Dr Gwyn Humphreys has been the Interim Chief Executive Officer of the Company since 30 April 2012. His role is to manage the Group and to implement the policies and strategies adopted by the Board.

Other Board members include Darren Bamforth (Chief Financial Officer) and Michael Townend (Non-Executive Director). Dr Richard Bojar was Chief Scientific Officer until his resignation from the board on 3 May 2013.

Biographies of each Director are set out on page 5. The Directors each have diverse backgrounds and a wide range of experience is available to the Group.

### Board process

The Board meets on a monthly basis to review the Group's performance and to review and determine strategies for future growth. The Board has delegated specific responsibilities to its committees as set out below.

Board meetings were held on 11 occasions during the year. Members of the board attended as follows, usually in person but occasionally by telephone conference.

	Number of meetings held whilst a board member	Number of meetings attended
Tom Bannatyne	11	11
Darren Bamforth	11	11
Dr Richard Bojar (until his resignation on 3 May 2013)	9	9
Dr Gwyn Humphreys	11	11
Michael Townend	11	10

### Directors' conflicts of interest

Directors have a statutory duty to avoid situations in which they have, or can have, an actual or possible conflict of interest with the Company.

The Company's Articles of Association include a general power for the Board to authorise such conflicts. There is no breach of duty if the relevant matter has been authorised by the Board in advance.

Conflicts of interest are recorded in the minutes of Board meetings and generally the Director with the conflict of interest is excluded from participating in the discussions of the matter concerned and any voting situation.

### Board committees

The Board has established three committees as outlined below. These committees comprise only the Chairman and other Non-Executive Directors, although Executive Directors may also be invited to attend committee meetings. The Company Secretary is entitled to attend all committee meetings. Mr T Bannatyne chairs each committee meeting.

Committee	Role and terms of reference	Number of meetings per year
Audit	Reviewing the Group's external audit process, including appointment and compensation of the independent auditor. The Committee reviews the level of non-audit engagements carried out by the external auditors and performs an assessment of their independence. The Audit Committee is also responsible for ensuring the accuracy of the interim and annual reports, as well as compliance with all applicable standards and regulations.	2
Nomination	Reviewing the structure and balance of the board and screening and proposing recommendations to the board for new director appointments.	As required
Remuneration	Reviewing and determining the salaries, benefits and all other elements of remuneration packages for the Executive Directors.	As required

## Corporate governance continued

### Non audit services

In accordance with its policy on non audit services provided by the Company's independent auditor, the Audit Committee reviews and approves the award of any such work. The Audit Committee refers to the Board for approval of any work comprising non audit services where the fees for such work represent more than 25% of the annual audit fee. No non-audit services were provided in the year.

### Auditor independence and conflicts of interest

The Audit Committee continues to evaluate the independence and objectivity of the external auditors and takes into consideration all United Kingdom professional and regulatory requirements. Consideration is given to all relationships between the Company, the Group and the audit firm (including in respect of the provision of non audit services).

The Audit Committee considers whether, taken as a whole, and having regard to the views, as appropriate, of the external auditors and management, those relationships appear to impair the auditors' judgement or independence. The Audit Committee feels they do not.

### Internal audit

The Audit Committee agrees that there should be no internal audit function of the Group at this time considering the size of the Group and the close involvement of senior management over the Group's accounting systems. However, the Committee will keep this matter under review in the event that circumstances warrant an internal function for the Group in the future.

### Internal control procedures

The Board has responsibility for reviewing and approving the adequacy and effectiveness of internal controls. The internal control framework includes approval of an annual operating budget, monthly monitoring of the Group's results and financial position and the performance compared to budget and forecast. Forecasts are reviewed on a regular basis.

This process allows the Board to identify key performance targets and risks expected during the upcoming year. The Board also considers the agreed budget when reviewing trading updates and considering expenditures throughout the year. Progress against budget is monitored at Group level via monthly reporting of actual financial performance against budget and prior year actual results.

The Group has clear authority limits deriving from the list of matters reserved for decision by the Board including capital expenditure approval procedures.

### Relations with shareholders

The Board recognises and understands that it has a fiduciary responsibility to the Group's shareholders. The Chairman's and Interim Chief Executive's Statement include detailed analysis of the Group's performance and future expectations.

Information about the Company including details of the share price is made available to shareholders on its website at [www.evocutis.com](http://www.evocutis.com). Information made available on the website does not constitute part of this Annual Report.

### T Bannatyne

Chairman

27 January 2014

## Directors' statement of responsibilities

### Directors' statement of responsibilities in relation to the financial statements

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the Group and Company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of the profit or loss of the Group and Company for that period.

The Directors are also required to prepare financial statements in accordance with the rules of the London Stock Exchange for companies trading securities on the Alternative Investment Market.

In preparing these financial statements, the directors are required to:

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

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 enable them to ensure that the financial statements comply with the requirements of the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Group and Company financial statements for the year ended 31 July 2013, comprising principal statements and supporting notes are set out on pages 16 to 45 of this report.

The responsibilities of the auditors in relation to the Group and Company financial statements are set out in the Independent Auditors' Report on page 14.

The Group financial statements for the year ended 31 July 2013 are included in the Annual Report, which is published in hard-copy printed form and made available on the Company's website. The Directors are responsible for the maintenance and integrity of the Annual Report on the website in accordance with UK legislation governing the preparation and dissemination of financial statements. Access to the website is available from outside the UK, where comparable legislation may be different.

### Going concern basis

The Chairman and Interim Chief Executive Officer's Report and the Financial Review contain information on the performance of the Group, its financial position, cash flows and net funds position. Further information, including treasury risk management policies and exposure to market and credit risk is given in Note 24 to the financial statements, 'Financial instruments and related disclosures'.

Further details in respect of the Group's going concern position are set out in Note 1. After making enquiries, 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 financial statements.

### Internal control

The Board has reviewed the assessment of risks and the internal control framework that operates within the Group and has considered the effectiveness of the system of internal control in operation for the Group for the year covered by this report and up to the date of its approval by the Board of Directors.

**T Bannatyne**  
Chairman

27 January 2014

## Independent Auditors' Report to the members of Evocutis plc

We have audited the financial statements of Evocutis plc for the year ended 31 July 2013 which comprise the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Financial Position, the Consolidated Statement of Changes in Equity, the Consolidated Statement of Cash Flows, the Company Statement of Financial Position, the Company Statement of Changes in Equity, the Company Statement of Cash Flows, the audited section of the Directors' Remuneration Report 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 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 Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

### Respective responsibilities of directors and auditors

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

### Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's website at [www.frc.org.uk/apb/scope/private.cfm](http://www.frc.org.uk/apb/scope/private.cfm).

### 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 31 July 2013 and of the Group's loss for the year then ended;

- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- The Parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006 ; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

### Emphasis of matter – Going Concern

In forming our opinion, which is not modified, we have considered the adequacy of the disclosures made in note 1 to the financial statements concerning the ability of the Group to continue as a going concern.

The Group is in negotiations with the landlord to exit its property lease. At the date of signing the financial statements no agreement had been reached with the landlord and should the Group not agree a satisfactory exit from its property lease or sufficient income not be generated from the sale and licensing of intellectual property then this could impact on the ability of the group to continue as a going concern.

These conditions indicate the existence of a material uncertainty which may cast significant doubt about the Company's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the Company was unable to continue as a going concern.

### 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.



## **Independent Auditors' Report to the members of Evocutis plc**

continued

### **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 require for our audit.

**Paul Davies (senior statutory auditor)**

**For and on behalf of BDO LLP, statutory auditor**

Leeds

United Kingdom

27 January 2014

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

## Consolidated statement of comprehensive income

for the year ended 31 July 2013

	Notes	2013 £000	2012 £000
<b>Revenue</b>	5	<b>395</b>	457
Cost of sales		<b>(176)</b>	(222)
<b>Gross profit</b>		<b>219</b>	235
Research and development		<b>(443)</b>	(509)
General and administration		<b>(902)</b>	(1,433)
<b>Analysis of operating loss:</b>			
Operating loss before share-based payment charges, depreciation, amortisation and impairment losses		<b>(967)</b>	(910)
Share-based payment charges	25	<b>(10)</b>	(36)
Impairment of goodwill	12	-	(489)
Impairment of other intangible assets	13	-	(144)
Impairment of property, plant and equipment	11	<b>(67)</b>	-
Depreciation and amortisation		<b>(82)</b>	(128)
<b>Operating loss</b>	6	<b>(1,126)</b>	(1,707)
Finance income	8	<b>8</b>	26
<b>Loss before taxation</b>		<b>(1,118)</b>	(1,681)
Taxation	9	<b>111</b>	162
<b>Loss after taxation for the year and total comprehensive loss attributable to equity shareholders</b>		<b>(1,007)</b>	(1,519)
<b>Loss per ordinary share</b>			
Basic and diluted (pence)	10	<b>(0.58p)</b>	(0.88p)

Company number: 05656604

## Consolidated statement of financial position

as at 31 July 2013

	Note	2013 £000	2012 £000
<b>Non-current assets</b>			
Property, plant and equipment	11	49	166
Other intangible assets	13	215	242
<b>Total non-current assets</b>		<b>264</b>	408
<b>Current assets</b>			
Current tax recoverable	9	95	110
Trade and other receivables	15	154	129
Cash and cash equivalents	16	665	1,479
<b>Total current assets</b>		<b>914</b>	1,718
<b>Total assets</b>		<b>1,178</b>	2,126
<b>Current liabilities</b>			
Trade and other payables	17	(115)	(117)
<b>Total current liabilities</b>		<b>(115)</b>	(117)
<b>Non-current liabilities</b>			
Deferred tax liabilities	9	(58)	(74)
Provisions	18	(50)	-
<b>Total non-current liabilities</b>		<b>(108)</b>	(74)
<b>Total liabilities</b>		<b>(223)</b>	(191)
<b>Net assets</b>		<b>955</b>	1,935
<b>Equity attributable to equity holders of the company</b>			
Called up share capital	19	1,747	1,732
Share premium reserve	19	7,634	7,632
Share based payments reserve	20	138	211
Merger reserve	20	979	979
Retained earnings	20	(9,543)	(8,619)
<b>Total equity</b>		<b>955</b>	1,935

The financial statements were approved and authorised for issue by the Board of Directors on 27 January 2014 and were signed on its behalf by:

**Thomas Bannatyne**  
Chairman

**J Darren Bamforth**  
Group Finance Director

Company number: 05656604

## Consolidated statement of changes in equity

for the year ended 31 July 2013

	Share capital £000	Share premium reserve £000	Share-based Payments Reserve £000	Merger reserve £000	Retained earnings £000	Total £000
<b>At 1 August 2011</b>	1,732	7,632	279	979	(7,204)	3,418
Loss for the year and total comprehensive loss	-	-	-	-	(1,519)	(1,519)
Transactions with owners:						
Share-based payment charge	-	-	36	-	-	36
Share options lapsed	-	-	(104)	-	104	-
<b>At 31 July 2012</b>	1,732	7,632	211	979	(8,619)	1,935
<b>At 1 August 2012</b>	1,732	7,632	211	979	(8,619)	<b>1,935</b>
Loss for the year and total comprehensive loss	-	-	-	-	(1,007)	<b>(1,007)</b>
Transactions with owners:						
Issue of new ordinary shares	15	2	-	-	-	<b>17</b>
Share-based payment charge	-	-	10	-	-	<b>10</b>
Share options lapsed	-	-	(83)	-	83	-
<b>At 31 July 2013</b>	<b>1,747</b>	<b>7,634</b>	<b>138</b>	<b>979</b>	<b>(9,543)</b>	<b>955</b>

Details of the nature of each component of equity are set out in Notes 19 and 20.

## Consolidated statement of cash flows

for the year ended 31 July 2013

	2013 £000	2012 £000
<b>Cash flow from operating activities</b>		
Loss after tax	(1,007)	(1,519)
Tax on losses	(111)	(162)
Finance income net of finance costs	(8)	(26)
Depreciation	54	70
Amortisation of intangible assets	27	58
Impairment losses	67	633
Share-based remuneration	17	-
Share-based payment charges	10	36
Changes in working capital:		
(Increase)/decrease in trade receivables	(49)	92
Decrease/(increase) in other receivables	24	(2)
Increase/(decrease) in trade payables	1	(51)
(Decrease)/increase in other payables	(3)	(8)
Increase in provisions	50	-
Cash outflow from operations	(928)	(879)
Taxation received	110	93
Net cash outflow from operating activities	(818)	(786)
<b>Cash flow from investing activities</b>		
Purchase of property, plant and equipment	11	(59)
Finance income	8	8
Net cash inflow/(outflow) from investing activities	4	(51)
Net decrease in cash and cash equivalents	22	(837)
Cash and cash equivalents at the beginning of the year	1,479	2,316
<b>Cash and cash equivalents at the end of the year</b>	16	1,479

## Company statement of financial position

as at 31 July 2013

	Note	2013 £000	2012 £000
<b>Non-current assets</b>			
Property, plant and equipment	11	49	32
Other intangible assets	13	215	242
<b>Total non-current assets</b>		<b>264</b>	<b>274</b>
<b>Current assets</b>			
Current tax recoverable	9	95	110
Trade and other receivables	15	142	155
Cash and cash equivalents	16	664	1,414
<b>Total current assets</b>		<b>901</b>	<b>1,679</b>
<b>Total assets</b>		<b>1,165</b>	<b>1,953</b>
<b>Current liabilities</b>			
Trade and other payables	17	(206)	(117)
<b>Total current liabilities</b>		<b>(206)</b>	<b>(117)</b>
<b>Non-current liabilities</b>			
Deferred tax liabilities	9	(5)	(7)
<b>Total non-current liabilities</b>		<b>(5)</b>	<b>(7)</b>
<b>Total liabilities</b>		<b>(211)</b>	<b>(124)</b>
<b>Net assets</b>		<b>954</b>	<b>1,829</b>
<b>Equity attributable to equity holders of the company</b>			
Called up share capital	19	1,747	1,732
Share premium reserve	19	7,634	7,632
Share based payments reserve	20	138	211
Merger reserve	20	641	641
Retained earnings	20	(9,206)	(8,387)
<b>Total equity</b>		<b>954</b>	<b>1,829</b>

The financial statements were approved and authorised for issue by the Board of Directors on 27 January 2014 and were signed on its behalf by:

**Thomas Bannatyne**  
Chairman

**J Darren Bamforth**  
Group Finance Director

Company number: 05656604

## Company statement of changes in equity

for the year ended 31 July 2013

	Share capital £000	Share premium reserve £000	Share-based payments reserve £000	Merger reserve £000	Retained earnings £000	Total £000
<b>At 1 August 2011</b>	1,732	7,632	279	641	(6,818)	3,466
Loss for the year and total comprehensive loss	-	-	-	-	(1,673)	(1,673)
Transactions with owners:						
Share-based payment charge	-	-	36	-	-	36
Share options lapsed	-	-	(104)	-	104	-
<b>At 31 July 2012</b>	1,732	7,632	211	641	(8,387)	1,829
<b>At 1 August 2012</b>	1,732	7,632	211	641	(8,387)	<b>1,829</b>
Loss for the year and total comprehensive loss	-	-	-	-	(902)	<b>(902)</b>
Transactions with owners:						
Issue of new ordinary shares	15	2	-	-	-	<b>17</b>
Share-based payment charge	-	-	10	-	-	<b>10</b>
Share options lapsed	-	-	(83)	-	83	-
<b>At 31 July 2013</b>	<b>1,747</b>	<b>7,634</b>	<b>138</b>	<b>641</b>	<b>(9,206)</b>	<b>954</b>

Details of the nature of each component of equity are set out in Notes 19 and 20.

## Company statement of cash flows

for the year ended 31 July 2013

	Note	2013 £000	2012 £000
<b>Cash flow from operating activities</b>			
Loss after tax		(902)	(1,673)
Tax on losses		(98)	(111)
Finance income net of finance costs		(8)	(26)
Depreciation		13	13
Amortisation of intangible assets		27	58
Impairment losses		-	760
Share-based remuneration		17	-
Share-based payment charges		10	36
Changes in working capital:			
(Increase)/decrease in trade receivables		(49)	6
Decrease/(increase) in other receivables		62	(13)
Increase/(decrease) in trade payables		1	(1)
(Decrease)/increase in other payables		63	(8)
Cash outflow from operations		(864)	(959)
Taxation received		110	122
Net cash outflow from operating activities		(754)	(837)
<b>Cash flow from investing activities</b>			
Purchase of property, plant and equipment	11	(4)	(20)
Finance income		8	8
Net cash inflow/(outflow) from investing activities		4	(12)
Net decrease in cash and cash equivalents	22	(750)	(849)
Cash and cash equivalents at the beginning of the year		1,414	2,263
<b>Cash and cash equivalents at the end of the year</b>	16	<b>664</b>	<b>1,414</b>



# Notes to the financial statements

## 1 Presentation of the financial statements

### Description of business

Evocutis plc is public limited company domiciled in the United Kingdom. It is a specialist research group focused on topical antimicrobial innovations for products in the medicinal and consumer healthcare markets. The Group provides independent research and testing facilities specialising in skin microbiology, living skin tissue culture and clinical dermatology. The Group's registered office is Evocutis plc, Sandbeck Lane, Wetherby, LS22 7TW.

### Compliance with applicable law and IFRS

The financial statements have been prepared in accordance with the Companies Act 2006 and International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS) and related interpretations, as adopted by the European Union.

### Composition of the financial statements

The consolidated and Parent Company financial statements are drawn up in Sterling, the functional currency of Evocutis plc and in accordance with IFRS accounting presentation. The level of rounding for financial information is the nearest thousand pounds.

### Accounting convention

The financial statements have been prepared using the historical cost convention, as modified by the revaluation of certain items, as stated in the accounting policies.

### Basis of preparation – Going concern

The Financial Reporting Council issued "Going Concern and Liquidity Risk: Guidance for Directors of UK Companies" in 2009 and the Directors have considered this when preparing the financial statements. The financial statements have been prepared on a going concern basis, notwithstanding the loss for the year ended 31 July 2013. This basis assumes that the company will have sufficient funding to enable it to continue to operate for the foreseeable future and the Directors have taken steps to ensure that they believe that the going concern basis of preparation remains appropriate.

The Group made a loss for the year of £1,007,000 after taxation. The Group had net assets of £955,000 and cash balances of £665,000 at 31 July 2013. The Directors have prepared financial forecasts which cover a period of at least 12 months from date that these financial statements are approved. These forecasts show that the Group expects to have sufficient financial resources to continue to operate as a going concern.

As stated in the Report of the Chairman and Chief Executive Officer, the Group has ceased to provide contract research services and products itself and is now focussed on the management of its portfolio of intellectual property and the proprietary technology which has been developed by the Group over a number of years. The board is taking steps to sell or licence our intellectual property to provide a future revenue stream for the Group.

Subsequent to the year end, all of the Group's operational and administrative staff have been put on notice of redundancy. Additionally, the directors are negotiating an exit from the Group's property lease. Consequently, the directors expect that the ongoing operational costs of the Group will be significantly lower for the next 12 months. The financial forecasts assume a level of cash inflows from the sale or licensing of the Group's technologies and intellectual property and from the realisation of other assets during the forecast period. Additionally, assumptions have been made in respect of the remainder of the Group's operating lease commitments in respect of its premises, which it is expecting to vacate within the next six months.

The board anticipates that if it can successfully secure revenue streams, through royalties, from its intellectual property, the focus of the Group will be the management of the asset portfolio.

In the event that sufficient income cannot be generated from the sale and licensing of intellectual property or if the Group cannot agree a satisfactory exit from its property lease, then the Group may not be able to continue as a going concern. These conditions indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern. The financial statements do not include the adjustments that would be necessary if the Group was unable to continue as a going concern.

Consequently, the Directors have a reasonable expectation that the Group has adequate resources to continue to operate for the foreseeable future and that it remains appropriate for the financial statements to be prepared on a going concern basis.

### Financial period

These financial statements cover the financial year from 1 August 2012 to 31 July 2013, with comparative figures for the financial years from 1 August 2011 to 31 July 2012 and, where appropriate, from 1 August 2010 to 31 July 2011.

## Notes to the financial statements continued

### 1 Presentation of the financial statements

continued

#### Composition of the Group

A list of the subsidiary undertakings which, in the opinion of the Directors, principally affected the amount of profit or the net assets of the Group is given in Note 26, 'Principal Group companies'.

#### Accounting principles and policies

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The financial statements have been prepared in accordance with the Group's accounting policies approved by the Board and described in Note 2, 'Accounting principles and policies'. Information on the application of these accounting policies, including areas of estimation and judgement is given in Note 3, 'Key accounting judgements and estimates'. Where appropriate, comparative figures are reclassified to ensure a consistent presentation with current year information.

### 2 Accounting principles and policies

#### Consolidation

The consolidated financial statements for the year ended 31 July 2013 comprise the Company and its subsidiaries (together referred to as the 'Group').

Subsidiaries are entities controlled by the Company. Control exists when the Company 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 presently are 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 control ceases.

Transactions and balances between Group companies are eliminated and no profit before tax is taken on sales between Group companies until the products or services are sold to customers outside the Group. Goodwill is capitalised as a separate item for subsidiaries acquired. Where the cost of acquisition is below the fair value of the net assets acquired, the difference is recognised directly in the statement of comprehensive income.

#### Business combinations

The Group accounts for business combinations using the acquisition method. Identifiable assets, liabilities and contingent liabilities acquired are measured at fair value at acquisition date. The purchase consideration is measured at fair value and includes the fair value of any contingent consideration. The costs of acquisition are charged to the statement of comprehensive income in the period in which they were incurred.

Business combinations that took place prior to 1 August 2006 have not been restated. The Group previously used merger accounting under UK GAAP to consolidate the results and assets of its subsidiary company, Syntopix Limited as the combination met the criteria of a group reconstruction. The Group has applied the exemptions of IFRS1 to not restate prior period acquisitions on transition to IFRS.

#### Revenue

Revenue is recognised when persuasive evidence of an arrangement exists, delivery of products has occurred or services have been rendered, prices are fixed or determinable and there is a probability that economic benefits will flow to the Group. Certain revenues are generated from licensing and exclusivity agreements under which the Group grants third parties rights to certain products or technologies.

Upfront payments and other similar non-refundable payments received under these agreements are recorded as deferred revenue and are recognised in the statement of comprehensive income over the performance period stipulated in the agreement.

Non-refundable milestone payments which represent the achievement of a significant technical/regulatory hurdle in the research and development process, pursuant to collaborative agreements, are recognised as revenue upon the achievement of the specified milestone.

The Group may also generate revenues from collaborative research and development as well as co-promotion arrangements. Such agreements may consist of multiple elements and provide for varying consideration terms, such as upfront, milestone and similar payments, which are complex and require significant analysis by management in order to determine the most appropriate method of revenue recognition.

Royalty income is recognised on an accruals basis in accordance with the economic substance of the agreement and is reported as part of revenue. Other revenues are recorded as earned or as the services are performed.

## Notes to the financial statements continued

### 2 Accounting principles and policies continued

#### Expenditure

Expenditure is recognised in respect of goods and services received when supplied in accordance with contractual terms. Provision is made when an obligation exists for a future liability relating to a past event and where the amount of the obligation can be reliably estimated.

#### Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker has been identified as the Board of Directors. Further details are set out in Note 5.

#### Research and development expenditure

Research and development expenditure is charged to the statement of comprehensive income as incurred. Development expenditure is capitalised if it can be demonstrated that:

- it is technically feasible to develop the product for it to be sold;
- adequate resources are available to complete the development;
- there is an intention to complete and sell the product;
- the group is able to sell the product;
- sale of the product will generate future economic benefits; and
- expenditure on the project can be measured reliably.

Capitalised development costs are amortised over the periods that the Group expects to benefit from selling the products developed. The amortisation expense is included within general and administration costs in the statement of comprehensive income.

#### Property, plant and equipment

Items of property, plant and equipment are initially recognised at cost. As well as the purchase price, cost includes directly attributable costs. Items of property, plant and equipment are carried at depreciated cost.

Depreciation is provided on all items of property, plant and equipment so as to write off the carrying value of items over their expected useful economic lives. It is applied at the following rates:

Leasehold improvements	– Lease term
Plant & machinery	– 3 to 5 years
Fixtures & fittings	– 5 years

On disposal of property, plant and equipment, the cost and related accumulated depreciation and impairments are removed from the financial statements and the net amount, less any proceeds, is accounted for in the statement of comprehensive income.

#### Investments

Investments are held at cost less any provisions for impairment.

#### Goodwill

Goodwill represents the excess of the cost of a business combination over the total acquisition date fair values of the identifiable assets, liabilities and contingent liabilities acquired. Goodwill is deemed to have an indefinite useful life and is tested for impairment annually. Where the fair value of the interest acquired in an entity's assets, liabilities and contingent liabilities exceeds the purchase consideration paid, this excess is recognised immediately as a gain in the statement of comprehensive income.

#### Other intangible assets

Intangible assets are stated at cost or deemed cost less provisions for amortisation and impairments.

Customer-related intangibles separately acquired or acquired as part of a business combination are amortised over their estimated useful lives, generally not exceeding 20 years, using the straight line basis. The estimated useful lives for determining the amortisation charge take into account the nature of the relationships and are reviewed and, where appropriate, adjusted annually.

Technology-based intangibles comprise unpatented technology, in-process research and development, know-how and trade secrets. Where these are separately acquired or acquired as part of a business combination, they are amortised over their estimated useful lives, generally not exceeding 20 years, using the straight-line basis. The estimated useful lives for determining the amortisation charge take into account the nature of the relationships and are reviewed and, where appropriate, adjusted annually. Research costs which do not meet the criteria for recognition of an internally generated intangible asset are written off to the statement of comprehensive income when incurred.

## Notes to the financial statements continued

### 2 Accounting principles and policies continued

#### Leases

Lease agreements which transfer substantially all the benefits and risks of ownership of an asset to the Group are accounted for as finance leases, as if the asset had been purchased outright. The assets are included within property, plant and equipment. The capital element of the lease commitment is included within obligations under finance leases. Assets held under finance leases are depreciated on a basis consistent with similar owned assets. The interest element of the lease is included in the statement of comprehensive income.

All other leases are operating leases and the rental costs are charged to the statement of comprehensive income on a straight line basis over the term of the lease.

#### Share capital

Financial instruments issued by the Group are treated as equity only to the extent that they do not meet the definition of a financial liability. The Group's ordinary shares are classified as equity instruments.

#### Retirement benefits: Defined Contribution Schemes

Contributions to defined contribution pension schemes are charged to the statement of comprehensive income in the year to which they relate.

#### Share-based payments

The Group has applied the requirements of IFRS 2 Share-based payments. In accordance with the transitional provisions, IFRS 2 has been applied to all grants of equity instruments that were unvested as of 1 August 2006.

Where equity settled share options are awarded to employees, the fair value of the options at the date of grant is charged to the statement of comprehensive income over the vesting period. Non-market vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at each balance sheet date so that, ultimately, the cumulative amount recognised over the vesting period is based on the number of options that eventually vest.

Market vesting conditions are factored into the fair value of the options granted. As long as all other vesting conditions are satisfied, a charge is made irrespective of whether the market vesting conditions are satisfied. The cumulative expense is not adjusted for failure to achieve a market vesting condition.

Where the terms and conditions of options are modified before they vest, the increase in the fair value of the options, measured immediately before and after the modification, is also charged to the statement of comprehensive income over the remaining vesting period.

Where equity instruments are granted to persons other than employees, the statement of comprehensive income is charged with the fair value of goods and services received.

#### Trade and other receivables

Trade and other receivables are accounted for at original invoice amount less any provisions for doubtful debts. Provisions are made where there is evidence of a risk of non-payment, taking into account the age of the debt, historical experience and general economic conditions. If a trade debt is determined to be uncollectable, it is written off, firstly against any provisions already held and then to the statement of comprehensive income. Subsequent recoveries of amounts previously provided for are credited to the statement of comprehensive income.

#### Trade and other payables

Trade and other payables are held at amortised cost which equates to nominal value.

#### Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, current balances with banks and similar institutions and liquid investments generally with maturities of 12 months or less. They are readily convertible into known amounts of cash and have an insignificant risk of changes in values.

#### Taxation

Current tax is provided at the amounts expected to be paid applying tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax assets and liabilities are recognised where the carrying amount of an asset or liability in the balance sheet differs from its tax base, except for differences arising from:

- the initial recognition of goodwill;
- 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 or taxable profits; and
- investments in subsidiaries and jointly controlled entities where the Group is able to control the timing of the reversal of the difference and it is probable that the difference will not reverse in the foreseeable future.

## Notes to the financial statements continued

### 2 Accounting principles and policies continued

#### Taxation continued

Recognition of deferred tax assets is restricted to those instances where it is probable that taxable profit will be available against which the difference can be utilised. The amount of the asset or liability is determined using tax rates that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the deferred tax liabilities/(assets) are settled/(recovered).

Deferred tax assets and liabilities are offset when the Group has a legally enforceable right to offset current tax assets and liabilities and the deferred tax assets and liabilities relate to taxes levied by the same tax authority on either:

- the same taxable group company; or
- different group entities which intend either to settle current tax assets and liabilities on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax assets or liabilities are expected to be settled or recovered.

#### Impairment of non-current assets

The carrying values of all non-currents assets are reviewed for impairment when there is an indication that the assets might be impaired. Additionally, goodwill, intangible assets with indefinite useful lives and intangible assets which are not yet available for use are tested for impairment annually. Any provision for impairment is charged to the statement of comprehensive income in the year concerned.

Impairments of goodwill are not reversed. Impairment losses on other non-current assets are only reversed if there has been a change in estimates used to determine recoverable amounts and only to the extent that the revised recoverable amounts do not exceed the carrying values that would have existed, net of depreciation or amortisation, had no impairments been recognised.

### 3 Key accounting judgements and estimates

The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources.

Actual results may differ from these estimates. The 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 if the revision only affects that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Full details of the outlook for the Group are set out in the Chairman's and Chief Executive Officer's report. The key judgements for management to consider this year are in respect of the Group's ability to continue as a going concern, further details of which are set out in Note 1 and the carrying values of assets as set out in more detail below.

#### Property, plant and equipment

Property, plant and equipment is depreciated over the useful lives of the assets. The carrying values have been tested for impairment where there is an indication that the value of the assets might be impaired, based on the board's judgement as to the realisable values from the anticipated sale of these assets. Future events could cause the assumptions regarding the carrying values to change, with a consequent adverse effect on the future results of the Group. Further details are set out in Note 11.

#### Other intangible assets

As set out in Note 2, 'Accounting principles and policies', intangible assets acquired in a business combination are capitalised and amortised over their useful lives. The directors have carried out impairment testing based on a market value less costs to sell basis as this was considered to be the most appropriate basis in the Group's circumstances. The board have made a judgement that the other intangible assets do not need to be impaired below their current carrying values.

### 4 New accounting requirements

There are no new or amended Accounting Standards and IFRIC interpretations which have been issued by the International Accounting Standards Board but which have not yet been adopted within these financial statements that are expected to have a material effect on the Group's business going forward, or on its assets or liabilities.

**Notes to the financial statements** continued**5 Segmental analysis**

The Group's revenue and loss was derived from its principal activity which is the provision of contract microbiology research services and clinical evaluation studies using its proprietary advanced living skin equivalent model, LabSkin™ and a small level of sales of LabSkin™ as a consumable product.

Operating segment information is reported in accordance with IFRS 8 'Operating Segments' based on the financial information provided to the Board of Directors, which is regarded as the 'Chief Operating Decision Maker' (CODM) as all key strategic and operating decisions are made by the Board.

Operating segments are determined based on the internal reporting information and management structure within the Group. The CODM considers that the Group operates as a single operating segment and internal management information is presented on that basis. Due to the small size and low complexity of the business, profitability is not analysed in further detail beyond the operating segment level and is not allocated by revenue stream.

An analysis of revenue streams is presented to the CODM on a monthly basis and as such, this information has been provided below.

	<b>2013</b>	2012
<b>Revenue</b>	<b>£000</b>	£000
LabSkin™ and microbiology services	<b>356</b>	353
LabSkin™ product sales	<b>38</b>	-
Clinical evaluation services	<b>1</b>	104
<b>Total revenue</b>	<b>395</b>	457

**Geographical information**

The UK is the Group's country of domicile.

	<b>2013</b>	2012
<b>Revenue by location of customer</b>	<b>£000</b>	£000
UK	<b>126</b>	168
Belgium	<b>17</b>	75
Denmark	<b>3</b>	-
France	<b>126</b>	77
Germany	-	69
Italy	<b>4</b>	-
Spain	<b>13</b>	-
Sweden	<b>1</b>	11
USA	<b>105</b>	57
<b>Total revenue</b>	<b>395</b>	457

	<b>2013</b>	2012
<b>Revenue by location of group entity</b>	<b>£000</b>	£000
UK	<b>395</b>	457

## Notes to the financial statements continued

### 5 Segmental analysis continued

#### Reconciliations of reportable segment revenues, profit or loss, assets and liabilities and other material items

Information regarding the results of the reportable segment is included below. Performance is based on segment operating profit or loss before share-based payment charges, depreciation, amortisation and acquisition costs, as reported in the internal management reports that are reviewed by the CODM. The segment operating profit or loss is used to measure performance. Revenues disclosed below represent revenues to external customers

	2013 £000	2012 £000
<b>Revenues</b>		
Total revenue for reportable segments	395	457
Consolidated revenue	395	457
<b>Loss</b>		
Total loss for reportable segments	(967)	(910)
Loss before share-based payment charges, depreciation, amortisation, impairment losses and acquisition costs	(967)	(910)
<b>Assets</b>		
Total assets for reportable segments	1,178	2,126
Consolidated total assets	1,178	2,126
<b>Liabilities</b>		
Total liabilities for reportable segments	165	117
Unallocated liabilities:		
Deferred tax	58	74
Consolidated total liabilities	223	191

#### Major customers

Transactions with the Group's three largest customers represent 32%, 17% and 17% of the Group's total revenues respectively (2012: 18%, 16% and 16%).

**Notes to the financial statements** continued**6 Operating loss**

The following items have been included in operating loss:

	<b>2013</b> <b>£000</b>	2012 £000
Employee costs (Note 7)	<b>623</b>	716
Depreciation of property, plant and equipment	<b>54</b>	70
Amortisation of intangible assets	<b>27</b>	58
Impairment of property, plant and equipment	<b>67</b>	-
Impairment of goodwill and intangible assets	-	633
Net foreign exchange losses	<b>1</b>	3
Operating lease rentals: Minimum lease payments	<b>19</b>	37
Fees payable to the company's auditors in relation to the Group:		
Audit and assurance services : Audit of parent company and consolidated financial Statements and audit of the trading subsidiary company financial statements	<b>26</b>	26

At 31 July 2013, the amount due to BDO LLP for fees yet to be invoiced was £25,750, comprising statutory audit of £25,750.

**7 Employee costs**

	<b>2013</b> <b>£000</b>	2012 £000
Wages and salaries	<b>540</b>	594
Social security costs	<b>51</b>	59
Pension costs	<b>22</b>	27
Share-based scheme costs	<b>10</b>	36
	<b>623</b>	716

The Group provides benefits to employees including healthcare insurance and personal life assurance.

	<b>2013</b> <b>Number</b>	2012 Number
Average number of persons employed by the Group (including Directors) during the year	<b>16</b>	16



## Notes to the financial statements continued

### 7 Employee costs continued

The compensation of the Directors, in aggregate, was as follows:

	2013 £000	2012 £000
Wages and salaries	203	230
Social security costs	25	29
Pension costs	5	12
Benefits in kind	1	2
Fees payable to third parties	15	-
Share-based remuneration	13	7
Share-based scheme costs	10	36
	<b>272</b>	<b>316</b>

Full details of the remuneration of individual Directors, including the highest paid Director, are set out in the Remuneration Report on pages 8 to 10. There was 1 (2012: 2) Director in the Group's stakeholder money purchase pension schemes in the year.

### 8 Finance income

	2013 £000	2012 £000
Interest income arising from cash and cash equivalents	8	26

### 9 Taxation

	2013 £000	2012 £000
<b>Taxation credit based on losses for the year</b>		
UK Corporation tax	(95)	(117)
Deferred taxation	(16)	(45)
	<b>(111)</b>	<b>(162)</b>

Reconciliation of the taxation rate on Group profits	2013		2012	
	£000	%	£000	%
Loss before tax	(1,118)	(100.0)	(1,681)	(100.0)
UK Corporation tax at the statutory UK rate	(265)	(23.7)	(426)	(25.3)
Expenses not deductible for tax purposes	3	0.3	10	0.6
Research and development enhancement	(113)	(10.1)	(121)	(7.2)
Losses utilised against R & D tax credits received	109	9.7	124	7.4
Losses carried forward	155	13.9	251	14.9
Other permanent differences	-	-	3	0.2
Prior year adjustments	-	-	(3)	(0.2)
Total	<b>(111)</b>	<b>(9.9)</b>	<b>(162)</b>	<b>(9.6)</b>

The difference between the actual tax rate for the year ended 31 July 2013 and the standard UK rate is largely due to the effect of research and development expenditure and the availability of R & D tax credits on the Group's research activities.

## Notes to the financial statements continued

## 9 Taxation continued

	Group		Company	
	2013 £000	2012 £000	2013 £000	2012 £000
Corporation tax recoverable	95	110	95	110

## Movement in deferred tax liabilities

Group	Accelerated capital allowances £000	Intangibles £000	Total £000
Deferred tax liabilities			
At 1 August 2012	14	60	74
Charge/(credit) to statement of comprehensive income – arising from the origination and reversals of temporary differences	(9)	(7)	(16)
At 31 July 2013	5	53	58

Company	Accelerated capital allowances £000	Total £000
Deferred tax liabilities		
At 1 August 2012	7	7
Charge to statement of comprehensive income – arising from the origination and reversals of temporary differences	(2)	(2)
At 31 July 2013	5	5

Tax losses – Group	Recognised		Unrecognised	
	2013 £000	2012 £000	2013 £000	2012 £000
Trading losses available indefinitely	-	-	6,800	5,416
Deferred tax asset	-	-	1,360	1,230

Share-based payments – Group	Recognised		Unrecognised	
	2013 £000	2012 £000	2013 £000	2012 £000
Accumulated share-based payments	-	-	138	211
Deferred tax asset	-	-	28	51

As set out in Note 2, the Group has not recognised a deferred tax asset in the financial statements as there is no certainty that taxable profits will be available against which these assets could be utilised.

## Factors affecting the tax charge in future years

Changes to tax legislation could impact on the Group's effective tax rate. The UK Government has proposed some significant changes to the UK taxation system. The UK Government announced a phased reduction in the main rate of corporation tax to 20% and the deferred tax balances reflect that reduction in the UK tax rate. In November 2010 the UK Government reconfirmed its intention to introduce the 'patent box' regime which would apply a reduced rate of corporation tax to income from patents with effect from April 2013 following a period of consultation.

## Notes to the financial statements continued

### 10 Loss per share

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

Diluted loss per share is calculated by adjusting the weighted average number of ordinary shares in issue to assume the conversion of all potentially dilutive ordinary shares.

The Group has one class of potentially dilutive ordinary shares: those share options granted to employees where the exercise price is less than the average market price of the Company's ordinary shares during the year. However, due to losses incurred in the year there is no dilutive effect from the potential exercise of these share options.

<b>Basic and diluted loss per share</b>	<b>Loss for the year £000</b>	<b>Weighted average number of shares</b>	<b>Loss per share (pence)</b>
Year ended 31 July 2013	(1,007)	174,448,752	(0.58p)
Year ended 31 July 2012	(1,519)	173,179,690	(0.88p)

### 11 Property, plant and equipment

<b>Group</b>	<b>Leasehold improvements £000</b>	<b>Plant and equipment £000</b>	<b>Fixtures and fittings £000</b>	<b>Total £000</b>
Cost at 1 August 2011	126	221	11	<b>358</b>
Additions	-	57	2	<b>59</b>
Cost at 31 July 2012	126	278	13	<b>417</b>
Additions	-	1	3	<b>4</b>
Cost at 31 July 2013	126	279	16	<b>421</b>
Depreciation at 1 August 2011	3	170	8	<b>181</b>
Charge for the year	28	41	1	<b>70</b>
Depreciation at 31 July 2012	31	211	9	<b>251</b>
Charge for the year	28	24	2	<b>54</b>
Impairment charge	67	-	-	<b>67</b>
Depreciation at 31 July 2013	126	235	11	<b>372</b>
Net book value at 1 August 2011	123	51	3	<b>177</b>
Net book value at 31 July 2012	95	67	4	<b>166</b>
Net book value at 31 July 2013	-	44	5	<b>49</b>

The Group's leasehold land and buildings comprise a leased property with a lease less than 50 years.

**Notes to the financial statements** continued**11 Property, plant and equipment** continued

<b>Company</b>	Plant and equipment £000	Fixtures and fittings £000	<b>Total £000</b>
Cost at 1 August 2011	189	10	<b>199</b>
Additions	18	2	<b>20</b>
Cost at 31 July 2012	207	12	<b>219</b>
Additions	1	3	<b>4</b>
Transfers from group undertakings	26	-	<b>26</b>
Cost at 31 July 2013	234	15	<b>249</b>
Depreciation at 1 August 2011	166	8	<b>174</b>
Charge for the year	12	1	<b>13</b>
Depreciation at 31 July 2012	178	9	<b>187</b>
Charge for the year	11	2	<b>13</b>
Depreciation at 31 July 2013	189	11	<b>200</b>
Net book value at 1 August 2011	23	2	<b>25</b>
Net book value at 31 July 2012	29	3	<b>32</b>
Net book value at 31 July 2013	45	4	<b>49</b>

The board has undertaken an impairment review in respect of the Group and Company's property, plant and equipment. This has been carried out on a market value less costs to sell basis which has resulted in a higher impairment charge than a value in use basis and an impairment charge of £67,000 has been made against the carrying value of leasehold improvements as a result of this review.

**12 Goodwill**

<b>Group</b>	Goodwill £000
Cost at 1 August 2011, 31 July 2012 and 31 July 2013	489
Impairment provision at 1 August 2011	-
Impairment loss for the year	489
Impairment provision at 31 July 2012 and 31 July 2013	489
Net book value at 1 August 2011	489
Net book value at 31 July 2012	-
Net book value at 31 July 2013	-

The goodwill arose on the acquisition of Leeds Skin Centre for Applied Research Limited in May 2011.

The carrying value of goodwill is made up of balances arising on acquisitions as follows:

Entity	Cash generating unit	2013 £000	2012 £000
Leeds Skin Centre for Applied Research Ltd	Leeds Skin Centre	-	-

**Notes to the financial statements** continued**12 Goodwill** continued

Goodwill is allocated to cash generating units which are tested for impairment at least annually. The Group has two cash-generating units being 'Evocutis' and 'Leeds Skin Centre'. The goodwill arising on the acquisition of Leeds Skin Centre for Applied Research Limited was allocated to the Leeds Skin Centre CGU for impairment testing purposes.

<b>Company</b>	Goodwill £000
Cost at 1 August 2011	-
Additions following hive up of trade from a subsidiary undertaking	616
Cost at 31 July 2012 and 31 July 2013	616
Impairment provision at 1 August 2011	-
Impairment loss for the year	616
Impairment provision at 31 July 2012 and 31 July 2013	616
Net book value at 1 August 2011, 31 July 2012 and 31 July 2013	-

The goodwill arose on the hive up of trade from Leeds Skin Centre for Applied Research Limited in October 2011. Predecessor accounting values have been used and goodwill is the difference between the cost of investment in Leeds Skin Centre for Applied Research Limited and the value of the intangible assets acquired on hive-up as outlined in Note 13.

The valuation of the CGU for goodwill impairment testing has been prepared on a value in use basis. Value in use is calculated as the net present value of the projected risk-adjusted post tax cash flows plus a terminal value of the cash generating unit. Initially a post-tax discount rate is applied to calculate the net present value of the post tax cash flows. The discount rate is based on the Group's weighted average cost of capital.

Details relating to the discounted cash flow model used in the impairment tests are as follows:

Valuation basis	Value in use
Key assumptions	Sales growth rates Profit margins Discount rate
Determination of assumptions	Growth rates are based on management estimates and forecasts based on internal and external market information and past experience. Margins are based on past experience and cost estimates. Discount rate is based on weighted average cost of capital.
Period of specific projected cash flow used in forward cash flow forecasts	3 years
Discount rate	20%
Terminal growth rate	0%

At 31 July 2013, based on the Group's forward looking cash flow forecasts, the impairment tests concluded that the goodwill remains fully impaired and the accounts contain full provision for this impairment for both the Group and the Company.

## Notes to the financial statements continued

## 13 Other intangible assets

<b>Group</b>	Customer relationships £000	Unpatented technology & In-process R & D £000	<b>Total £000</b>
Cost at 1 August 2011, 31 July 2012 and 31 July 2013	179	275	<b>454</b>
Amortisation at 1 August 2011	5	5	<b>10</b>
Charge for the year	30	28	<b>58</b>
Impairment loss	144	-	<b>144</b>
Amortisation at 31 July 2012	179	33	<b>212</b>
Charge for the year	-	27	<b>27</b>
Amortisation at 31 July 2013	179	60	<b>239</b>
Net book value at 1 August 2011	174	270	<b>444</b>
Net book value at 31 July 2012	-	242	<b>242</b>
Net book value at 31 July 2013	-	215	<b>215</b>

Amortisation charges and impairment losses have been charged to the statement of comprehensive income as follows:

	<b>2013 £000</b>	2012 £000
General and administration	<b>27</b>	202

<b>Company</b>	Customer relationships £000	Unpatented technology & In-process R & D £000	<b>Total £000</b>
Cost at 1 August 2011	-	-	-
Additions following hive up of trade from a subsidiary	174	270	<b>444</b>
Cost at 31 July 2012 and 31 July 2013	174	270	<b>444</b>
Amortisation at 1 August 2011	-	-	-
Charge for the year	30	28	<b>58</b>
Impairment loss	144	-	<b>144</b>
Amortisation at 31 July 2012	174	28	<b>202</b>
Charge for the year	-	27	<b>27</b>
Amortisation at 31 July 2013	174	55	<b>229</b>
Net book value at 1 August 2011	-	-	-
Net book value at 31 July 2012	-	242	<b>242</b>
Net book value at 31 July 2013	-	215	<b>215</b>

Customer relationships acquired relate to the ongoing contracts between customers and Leeds Skin Centre and information relating to those customers and these were being amortised over 6 years. During the year ended 31 July 2012, full provision was made for the remaining carrying value of this asset following an impairment review and based on future cash flow forecasts. Unpatented technology and in-process R & D comprises living skin equivalent tissue culture technology models which have been developed by Leeds Skin Centre. This is being amortised over 10 years and the remaining amortisation period for unpatented technology and in-process R & D at 31 July 2013 is 7.83 years.

## Notes to the financial statements continued

### 13 Other intangible assets continued

The board has undertaken an impairment review in respect of the Group and Company's intangible assets. This has been carried out on a market value less costs to sell basis which may have resulted in a higher impairment charge than a value in use basis. The board concluded that the carrying value of intangible assets does not need to be impaired.

### 14 Investments

<b>Company</b>	<b>Investments in subsidiary undertakings £000</b>
Cost at 1 August 2011	<b>1,399</b>
Transfer to intangible assets and goodwill on hive-up	<b>(1,060)</b>
Cost at 31 July 2012 and 31 July 2013	<b>339</b>
Impairment at 1 August 2011	<b>339</b>
Charge for the year	-
Impairment at 31 July 2012 and 31 July 2013	<b>339</b>
Net book value at 1 August 2011	<b>1,060</b>
Net book value at 31 July 2012	-
Net book value at 31 July 2013	-

The impairment of £339,000 was made during the year ended 31 July 2009 to write down the value held in the investment in Syntopix Limited to reflect accumulated losses in the subsidiary company. The value in use of this asset is currently estimated as being £nil. On 1 August 2009 the trade and assets of Syntopix Limited and Syntopix Services Limited were transferred up to the parent company, Evocutis plc, pursuant to a hive-up agreement. The assets and liabilities of the subsidiaries were transferred to Evocutis plc at net book values.

During the year ended 31 July 2012, the trade of Leeds Skin Centre for Applied Research Limited was hived-up to the parent company. Consequently the investment in this company was transferred to goodwill and intangible assets as set out in Notes 12 and 13.

### 15 Trade and other receivables

	<b>Group</b>		<b>Company</b>	
	<b>2013 £000</b>	<b>2012 £000</b>	<b>2013 £000</b>	<b>2012 £000</b>
Trade receivables	<b>77</b>	28	<b>77</b>	28
Other receivables	<b>20</b>	21	<b>20</b>	21
Amounts due from subsidiary undertakings	-	-	-	38
Prepayments	<b>57</b>	80	<b>45</b>	68
	<b>154</b>	129	<b>142</b>	155

As at 31 July 2013 none of the trade receivables (2012: none) were past due. The Group has no provisions for bad and doubtful debts. The Company's financial statements contain an inter-group receivable with a gross amount of £3,522,000 against which a provision of £3,522,000 has been made. No changes were made to this provision during the year ended 31 July 2013 (2012: no changes).

## Notes to the financial statements continued

## 16 Cash and cash equivalents

	Group		Company	
	2013 £000	2012 £000	2013 £000	2012 £000
Cash at bank and in hand	665	115	664	50
Short term deposits	-	1,364	-	1,364
	<b>665</b>	<b>1,479</b>	<b>664</b>	<b>1,414</b>

## 17 Trade and other payables

	Group		Company	
	2013 £000	2012 £000	2013 £000	2012 £000
<b>Amounts due within one year</b>				
Trade payables	54	53	54	53
Social security	13	18	13	18
Other payables	3	8	3	8
Amounts due to subsidiary undertakings	-	-	91	-
Accruals and deferred income	45	38	45	38
	<b>115</b>	<b>117</b>	<b>206</b>	<b>117</b>

## 18 Provisions

	Group		Company	
	2013 £000	2012 £000	2013 £000	2012 £000
<b>Property dilapidations provision</b>				
Balance at 1 August	-	-	-	-
Provisions made during the year	50	-	-	-
Balance at 31 July	<b>50</b>	-	-	-

The Group has a lease on a property which contains clauses relating to the condition of the property throughout the lease term and at the date when the lease ends. The Group has made a provision during the current year of £50,000 in respect of the estimated costs of property repairs which may need to be undertaken in order to fulfil the terms of the lease.

## 19 Share capital and share premium account

	Ordinary shares of 1p each		Share
	Number	£000	premium £000
<b>Share capital issued and fully paid</b>			
At 1 August 2011 and 31 July 2012	173,179,690	1,732	7,632
Issue of new ordinary shares	1,496,138	15	2
At 31 July 2013	<b>174,675,828</b>	<b>1,747</b>	<b>7,634</b>

Share capital represents the nominal value of the amount subscribed for shares. Share premium represents the amount subscribed for shares in excess of their nominal value. Ordinary shares carry the rights to one vote per share at general meetings of the Company and the rights to share in any distributions of profits or returns of capital and to share in any residual assets available for distribution in the event of a winding up.



## Notes to the financial statements continued

### 19 Share capital and share premium account continued

On 1 August 2012, the company issued 595,238 ordinary shares of 1 pence each at a price of 1.12 pence each to Dr GO Humphreys in settlement of share-based remuneration for the period from 1 June 2012 to 31 July 2012. On 1 November 2012, the company issued a further 900,900 ordinary shares of 1 pence each at a price of 1.11 pence each to Dr Humphreys in respect of share based pay for the period from 1 August 2012 to 31 October 2012.

### 20 Movements in equity

The merger reserve is a reserve created on the combination of companies within the Group prior to 1 August 2006 and as a consequence of applying merger relief criteria to the premium arising from the issue of ordinary shares as part of the cost of acquisition of Leeds Skin Centre for Applied Research Limited in the year ended 31 July 2011.

The share-based payment reserve represents amounts arising from the requirement to expense the fair value of share-based remuneration in accordance with IFRS 2 'Share-based Payments'.

Retained earnings are the cumulative net losses recognised in the Consolidated statement of comprehensive income. Movements on these reserves are set out in the Consolidated statement of changes in equity.

### 21 Related party transactions

The Group and Company had the following transactions with related parties:

Name of related party	Relationship	Nature of transaction	Amounts owed to related party			
			Purchases from related party		At 31 July	At 31 July
			2013 £000	2012 £000	2013 £000	2012 £000
The University of Leeds	Shareholder	Consumable costs, provision of staff and services of a director	-	7	-	-
Atraxa Consulting Limited	Common directorship of Mr J D Bamforth	Accountancy services	58	63	12	9

#### Terms and conditions of transactions with related parties

Outstanding balances that relate to trading balances are unsecured, interest free and settlement occurs in cash. There have been no guarantees provided or received for any related party receivables or payables. The Company has an outstanding amount of £3,522,000 due from a subsidiary undertaking, against which it has made full provision. This assessment is undertaken each financial year through examining the financial position of the subsidiary company. No changes were made to this provision in the year ended 31 July 2013.

#### Compensation of key management personnel of the Group

The Group considers the directors to be its key management personnel. Full details of the remuneration of the directors are shown in the Directors' Remuneration Report and Note 7.

**Notes to the financial statements** continued**22 Reconciliation of net cash flow to movement in net funds**

	Group		Company	
	2013 £000	2012 £000	2013 £000	2012 £000
Net funds at beginning of the year	<b>1,479</b>	2,316	<b>1,414</b>	2,263
Decrease in cash	<b>(814)</b>	(837)	<b>(750)</b>	(849)
Net funds at end of the year	<b>665</b>	1,479	<b>664</b>	1,414

**Analysis of changes in net funds**

	At 31	Cash	At 31
	July	Flow	July
	2012	£000	2013
	£000	£000	£000
Cash and cash equivalents	1,479	(814)	<b>665</b>
Net funds	1,479	(814)	<b>665</b>

**23 Commitments**

The total future minimum lease payments under non-cancellable operating leases are:

	Group		Company	
	2013 £000	2012 £000	2013 £000	2012 £000
Rental payments due within one year	<b>80</b>	97	-	-
Rental payments due between one and five years	<b>106</b>	181	-	-
Total commitments under non-cancellable operating leases	<b>186</b>	278	-	-

The Group has an operating lease in respect of its five year lease on its property in Wetherby which expires on 30 November 2015.

## Notes to the financial statements continued

### 24 Financial instruments and related disclosures

#### General objectives, policies and processes

The Board has overall responsibility for the determination of the Group's risk management objectives and policies and, whilst retaining ultimate responsibility for them, it has delegated authority for designing and operating processes that ensure the effective implementation of the objectives and policies to the Group's finance function. The Board receives monthly reports from the Chief Financial Officer through which it reviews the effectiveness of the processes put in place and the appropriateness of the objectives and policies it sets.

The overall objective of the Board is to set policies that seek to reduce risk as far as possible without unduly affecting the Group's competitiveness and flexibility.

The Group reports in Sterling. Internal and external funding requirements and financial risks are managed based on policies and procedures adopted by the Board of Directors. The Group does not use derivative financial instruments such as forward currency contracts, interest rate and currency swaps or similar instruments. The Group does not issue or use financial instruments of a speculative nature.

#### Capital management

The Group's objectives when maintaining capital are:

- to safeguard the entity's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- to provide an adequate return to shareholders by pricing products and services commensurately with the level of risk.

The capital structure of the Group consists of total shareholders' equity as set out in the 'Consolidated statement of changes in equity' on page 18. All working capital requirements are financed from existing cash resources.

Capital is managed on a day to day basis to ensure that all entities in the Group are able to operate as going concerns. Operating cash flow is primarily used to advance the Group's research and development programme and for periodic outflows of capital expenditure. As the Group is in its early stages of development, revenue streams are not sufficient to cover operating costs and the Group has therefore periodically raised additional capital through the issue of shares.

#### Liquidity risk

Liquidity risk arises from the Group's management of working capital. It is the risk that the Group will encounter difficulty in meeting its financial obligations as they fall due. The Group's policy is to ensure that it will always have sufficient cash to allow it to meet its liabilities when they become due. To achieve this aim, it seeks to maintain short term cash balances to meet expected requirements for a period of at least 60 days.

The Board receives rolling 12-month cash flow projections on a monthly basis as well as information regarding cash balances and the value of the cash balances on short term deposits. At the balance sheet date the Group has cash balances of £665,000 and the financial forecasts indicated that the Group expected to have sufficient liquid resources to meet its obligations under all reasonably expected circumstances and will not need to establish overdraft or other borrowing facilities.

#### Interest rate risk

The policy on managing its exposure to interest rate change is agreed at Board level and is reviewed on an ongoing basis. Prior to placing fixed-term deposits, the Board reviews interest rates available from the major banks. At 31 July 2013 the Group and the parent company had no fixed rate deposits in place.

The Group does not use interest rate swaps.

**Notes to the financial statements** continued**24 Financial instruments and related disclosures** continued**Market risk****Foreign exchange risk**

Foreign current transaction exposures arising from external trade flows are not hedged. However, the level of transactions undertaken in foreign currency is low and the Board of Directors do not believe that there is a significant risk to the Group from exposure to significant fluctuations in currency rates. All the Group's entities are based in the UK and there are no internal currency exposures.

**Credit risk**

The Directors considers the maximum credit risk of the Group to be £819,000 which is the total of the Group's financial assets as set out below. The Group's most significant financial asset is cash and cash equivalents of £665,000 which at 31 July 2013 was held in accounts with various banks. These balances are all held in instant access accounts.

The Group sells its products and services to a small number of pharmaceutical companies and similar companies. At 31 July 2013, the Group had trade receivables due from these customers of £77,000 (2012: £28,000). The Group is exposed to credit risk in respect of these balances such that, if one or more of them encounters financial difficulties, this could materially and adversely affect the Group's financial results. The Group attempts to mitigate credit risk by entering into contracts with its customers with agreed credit terms.

The Directors are not aware of any factors affecting the recoverability of outstanding balances at 31 July 2013 and consequently no provisions are held for bad and doubtful debts (see Note 15 'Trade and other receivables').

The Company has credit risk exposure on inter-group receivables. Provisions have been made at each period end against inter-group receivables to the extent that it is envisaged that the amounts will not be recoverable.

**Fair value of financial assets and liabilities**

The carrying values and fair values of the Group's financial assets and liabilities are shown below. The fair values are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. In respect of cash and cash equivalents, trade and other receivables and trade and other payables, fair value approximates to the carrying amounts.

Group	2013		2012	
	Carrying value £000	Fair value £000	Carrying value £000	Fair value £000
Cash and cash equivalents	665	665	1,479	1,479
Trade and other receivables	154	154	129	129
Total financial assets	819	819	1,608	1,608
Financial liabilities measured at amortised cost:				
Trade and other payables and other non-current liabilities	(102)	(102)	(99)	(99)
Total financial liabilities	(102)	(102)	(99)	(99)
Net financial assets and financial liabilities	717	717	1,509	1,509

## Notes to the financial statements continued

## 24 Financial instruments and related disclosures continued

Company	2013		2012	
	Carrying value £000	Fair value £000	Carrying value £000	Fair value £000
Cash and cash equivalents	664	664	1,414	1,414
Trade and other receivables	142	142	155	155
Total financial assets	806	806	1,569	1,569
Financial liabilities measured at amortised cost:				
Trade and other payables and other non-current liabilities	(193)	(193)	(99)	(99)
Total financial liabilities	(193)	(193)	(99)	(99)
Net financial assets and financial liabilities	613	613	1,470	1,470

**Trade and other receivables in scope of IAS 39**

The following table sets out financial assets within Trade and other receivables which fall within the scope of IAS39. These assets are non-interest earning.

	Group		Company	
	2013 £000	2012 £000	2013 £000	2012 £000
Trade and other receivables (Note 15)	154	129	142	155

Analysed as:

Financial assets in scope of IAS39	154	129	142	155
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There are no financial assets which are past due and for which no provision for bad or doubtful debts has been made.

**Trade and other payables in scope of IAS39**

The following table sets out financial liabilities within Trade and other payables which fall within the scope of IAS39. These financial liabilities are predominantly non-interest bearing. Other liabilities include tax and social security payables and provisions which do not constitute contractual obligations to deliver cash or other financial assets, which are outside the scope of IAS39.

	Group		Company	
	2013 £000	2012 £000	2013 £000	2012 £000
Trade and other payables (Note 17)	115	117	206	117

Analysed as:

Financial liabilities in scope of IAS39	102	99	193	99
Other liabilities	13	18	13	18
	115	117	206	117

**Notes to the financial statements** continued**25 Share schemes**

The Group has a share option scheme for all employees (including Directors). Options are exercisable at a price agreed at the date of grant. The vesting period is usually between one and five years. The exercise of options is dependent upon eligible employees meeting performance criteria. The options may not be exercised before the occurrence of a takeover, sale or admission. The options are settled in equity once exercised.

If the options remain unexercised after a period of 10 years from the date of grant, the options expire. Options lapse if the employee leaves the Group before the options vest.

**Options outstanding**

	Number	Weighted average exercise price
At 1 August 2011	8,560,110	8.96p
Options lapsed	(3,303,000)	(8.65p)
At 31 July 2012	5,257,110	9.16p
Options granted	6,295,200	1.12p
Options lapsed	(3,761,370)	(7.23p)
At 31 July 2013	7,790,940	3.60p
Range of exercise prices	1.12p – 8.65p	
Weighted average remaining contractual life	7.85 years	

**Options outstanding at 31 July 2013**

Year of grant (year ended 31 July)	Number	Weighted exercise price (p)	Latest exercise date
2009	1,451,890	8.65p	6/8/2018
2011	1,943,850	5.41p	30/11/2020
2013	4,395,200	1.12p	31/7/2022
Total	7,790,940	3.60p	

**Options exercisable**

	Number	Weighted exercise price (p)
At 31 July 2012	5,257,110	9.16p
At 31 July 2013	4,860,807	5.07p

**Charge to the statement of comprehensive income**

	2013 £000	2012 £000
Share based payment charges	10	36

**Notes to the financial statements** continued**25 Share schemes** continued

The fair values of options granted during the financial year were calculated using the Black-Scholes pricing model. The inputs into the model were as follows:

	Year ended 31 July 2013
Expected life of options – years	5
Weighted average exercise price - £	£0.0112
Weighted average share price at grant date - £	£0.0112
Expected volatility - %	52%
Risk free rate - %	3.75%

The Group uses historical data to estimate option exercise and employee retention within the valuation model. Expected volatilities are based upon the Company's historical share price. The risk free rate for the period within the contractual life of the option is based on the UK gilt yield curve at the time of the grant.

**26 Principal Group companies**

The following are the subsidiary undertakings of Evocutis plc at 31 July 2013. All entities are based at the Group's headquarters in Wetherby, England.

Name of subsidiary	Country of incorporation	Principal activity	Percentage Owned
Leeds Skin Centre for Applied Research Limited	England and Wales	Property management	100%
Syntopix Limited	England and Wales	Dormant	100%
Syntopix Research Services Limited	England and Wales	Dormant	100%

**27 Post balance sheet events**

As set out in the Chairman's and Chief Executive Officer's report, subsequent to the year end the directors have changed the focus of the Group's activities. All employees (other than board directors) have been placed on notice of redundancy in order to reduce ongoing operating costs. The redundancy programme is expected to be completed by mid May 2014 and is expected to cost the Group approximately £30,000. The directors are focused on the management of the Group's intellectual property portfolio and are seeking to secure the sale or licensing of these assets. The board has reviewed all asset values in the light of this decision. As a consequence of this review, an impairment provision was made to the carrying value of property, plant and equipment, as set out in note 11. Additionally, the Group is currently negotiating an exit from its lease commitment in respect of its operating premises.

**28 Loss for the financial year**

The company has taken advantage of the exemption allowed under section 408 of the Companies Act 2006 and has not presented its own profit and loss account in these financial statements. The group loss for the year includes a loss after tax of £902,000 (2012: £1,673,000) which is dealt with in the financial statements of the parent company.

## Shareholder information

The Ordinary Shares of the Company are listed on the Alternative Investment Market of the London Stock Exchange.

Information about the Company including details of the share price is available on its website at [www.evocutis.com](http://www.evocutis.com). Information made available on the website does not constitute part of this Annual Report.

### Company Secretary and Registered Office

The Company Secretary is Darren Bamforth who can be contacted at the Company's registered office which is:

Sandbeck Lane  
Wetherby  
West Yorkshire  
LS22 7TW

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### Registrar

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34 Beckenham Road  
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