

9 March 2010

Epistem Holdings Plc ("Epistem")

Interim Report 2009

Epistem (LSE: EHP), the rapidly growing UK biotechnology company with adult epithelial stem cell expertise in oncology, gastrointestinal and dermatological diseases announces its interim results for the six month period ended 31 December 2009.

During the period the Group made significant progress on a number of fronts:

Highlights:

- Year-on-year revenue growth of 90%
- Advancement of our biotherapeutics (Novel Therapies) drug discovery programme
- Expansion of our Biomarker programme and firm demand for Contract Research Services
- Breakeven profit position
- Strong cash position with net funds of £5.5m at the end of the period
- Strengthening business model with reduced risk profile

For further information, please contact:

Epistem Plc

Matthew Walls Chief Executive Officer 07887 501998

John Rylands Finance Director 0161 606 7258

KBC Peel Hunt Ltd

James Steel Qualified Executive 020 7418 8900

Vijay Barathan 020 7418 8900

De Facto Communications

Mike Wort / Anna Dunphy 020 7861 3838

Chairman and Chief Executive Officer Statement

Epistem's first half results continued to advance our strategy of building a recognised world class biotechnology business with a strengthening financial position. We continue to differentiate our business model within the sector by delivering improved trading revenues, an improving commercial outlook and corresponding financial profile. Based on a solid first half revenue performance, a breakeven profit and the recently completed placing, the Board believes that the Company continues to provide a reduced risk business model with significant upside potential.

This Half Year report covers the six-month period from the 1 July 2009 to 31 December 2009.

Overview

The reported 2009/10 Half Year results maintained continued growth set against challenging market conditions.

Results for the first six months showed a year-on-year revenue increase of 90% to £2.8m (£1.5m: 2008/09), largely driven by revenues recognised from our Novel Therapies division following the collaboration entered into with Novartis AG in March 2009.

A resilient first half performance by Contract Research Services saw revenue growth marginally increased to £1.2m (£1.1m: 2008/09). Customers continue to remain cautious over future commitments and this has held back new business development. Despite this, the Contract Research Services quality of business and sales order book remain firm as we move into the second half.

Our Biomarker division saw continued technical and commercial development, with first half revenues of £0.3m (£0.3m: 2008/09), broadly in line with the same period of last year. Our hair biomarker platform continues to target key oncology pathways and we anticipate increased growth and a broadening industry take up over the coming months in line with our expectations.

Our Novel Therapies division reported revenues of £1.3m (£0.0m: 2008/09) with good progress in the discovery and development of our therapeutic targets and leads in collaboration with Novartis. At the first anniversary of the collaboration, we are pleased with progress towards advancing our first therapeutic leads.

We continue to build financial strength by driving revenue growth to further de-risk our business model. This approach is recognised and supported by our new and existing investors with the share price performing well over the period.

Financial Review

Sales revenues from business operations for the first six months of this financial year were £2.8m (£1.5m: 2008/09), a year-on-year increase of £1.3m. Revenue growth was primarily driven by the Novartis collaboration which dominates the work undertaken within the Novel Therapies division. Demand for our Contract Research Services and Biomarker businesses remained steady over the first half with revenues marginally increased over the period. Business revenues are anticipated to strengthen over the second half.

Contract Research Services costs for the first half remained broadly consistent with last year, with Novel Therapies manpower growth in support of the Novartis collaboration showing the largest year-on-year cost increase. Biomarker costs remain conservative based on the early stage development of the division. Other costs remain under tight control.

The business reported a breakeven figure of £0.0m (loss £0.5m: 2008/09) for the first half, reflecting the strengthening revenue position of the Company. We anticipate further revenue growth over the second half and an improving financial profile.

The corresponding Earnings Per Share figure for the first half was 0p against a 7p loss for the previous year.

Cash reserves at 31 December 2009 were £5.6m (£1.2m: 2008/09).

Against a backdrop of uncertain market conditions, the Directors consider the Group's growing revenues, bolstered by significant cash reserves, maintain the business's strong position and rating in the sector, leaving the Company well-placed to take advantage of acquisition opportunities which may present themselves.

Operational Review

Contract Research Services experienced steady growth over the first half with our Inflammatory Bowel Disease and Immunohistochemistry services receiving strongest demand. The scope of work in support of the US National Institutes of Health (NIH) biodefence programme contract continues to expand and is expected to continue into the second half. We anticipate further growth in the Contract Research Division over the second half.

Following the launch of the Biomarker division last year, new business and technical (preclinical/clinical) advances continue to unfold. In addition to our personalised hair pD/pK (Pharmacodynamic/Pharmacokinetic) biomarkers of drug effect, the business is working to advance its amplification technology into other new tissue areas. Whilst at the early stages of gathering clinical results and extending our commercial development, we anticipate further strengthening in the clinical take up and continued growth of Biomarker revenues over the remainder of the year.

Novel Therapies collaboration with Novartis continues to develop with an objective of identifying new drug targets across a variety of epithelial disease areas. The collaboration builds on Epistem's stem cell expertise to identify the body's own key regulators of epithelial stem cells, together with Novartis's expertise in disease pathways, bioinformatics and drug development. The collaboration is advancing well to identify the best novel targets within these pathways for further development and future licensing.

Strategy

Epistem's continued growth is expected to result in a continued improvement in its financial profile. In addition, we will consider complementary acquisitions of technology and new business in order to continue to deliver attractive growth. The Board believes that Epistem's growing business model differentiates us within the biotech sector as a lower risk investment proposition with significant growth potential.

Outlook

We anticipate continuing growth and increasing revenues over the second half of the financial year from each of our operating divisions. This growth will comprise a mix of increasing revenues from both our Contract Research Services and Biomarker divisions. Our Novel Therapies collaboration will see the accelerated development of lead targets and therapeutics to identify key stem cell regulators.

With an upbeat outlook, we will also look to build on our platform strength by acquiring complementary technologies and groups as opportunities arise.

The Company is committed to maintaining its policy of employee share ownership and we have introduced an employee share investment plan to encourage share ownership in the Company.

We believe that our heritage in stem cells, growing international status and expertise will enable Epistem to exploit its potential within the rapidly growing stem cell and regenerative medicine industry.

The Board remains confident that the Group is well-placed to deliver increased shareholder value in the medium term based on its current performance and on the increased value opportunities now emerging.

David Evans
Non-executive Chairman
8 March 2010

Matthew Walls
Chief Executive Officer

Statement of Consolidated Comprehensive Income

For the six months ended 31 December 2009

	Six months to 31 Dec 2009 (unaudited) £'000	Six months to 31 Dec 2008 (unaudited) £'000	Year ended 30 June 2009 (audited) £'000
Revenue	2,763	1,453	3,968
Contract costs	(1,315)	(1,221)	(2,424)
Discovery and development costs	(747)	(389)	(1,131)
General administrative costs	(700)	(487)	(1,114)
Operating profit/(loss)	1	(644)	(701)
Finance income	7	36	41
Finance costs	(3)	(7)	(9)
Profit/(loss) on ordinary activities before taxation	5	(615)	(669)
Tax credit on loss on ordinary activities	-	95	752
Total Comprehensive Income for the financial period	5	(520)	83
Earnings per share (pence)			
- basic	0p	(7)p	1p
- fully diluted	0p	n/a	1p

Consolidated Statement of Changes in Equity

For the six months ended 31 December 2009

	Share Capital £'000	Share Premium Account £'000	Share Options Reserve £'000	Reverse Acquisitions Reserve £'000	Retained Earnings £'000	Total Shareholder Equity £'000
At 1 July 2008	108	8,437	547	(2,484)	(4,026)	2,582
Allotment of ordinary shares	–	9	–	–	–	9
Recognition of equity settled share-based payments	–	–	45	–	–	45
Total Comprehensive Income for the financial period	–	–	–	–	(520)	(520)
At 31 December 2008	108	8,446	592	(2,484)	(4,546)	2,116
Allotment of ordinary shares	–	15	–	–	–	15
Exercise/lapse of options	–	6	(12)	–	6	–
Recognition of equity settled share-based payments	–	–	26	–	–	26
Total Comprehensive Income for the financial period	–	–	–	–	603	603
At 30 June 2009	108	8,467	606	(2,484)	(3,937)	2,760
Allotment of ordinary shares	11	2,873	–	–	–	2,884
Share issue costs	–	(135)	–	–	–	(135)
Recognition of equity settled share-based payments	–	–	14	–	–	45
Total Comprehensive Income for the financial period	–	–	–	–	5	5
At 31 December 2009	119	11,205	620	(2,484)	(3,932)	5,528

Consolidated Balance Sheet

As at 31 December 2009

	31 Dec 2009 (unaudited) £'000	31 Dec 2008 (unaudited) £'000	30 June 2009 (audited) £-000
Non-current assets			
Intangible assets	137	53	139
Plant and equipment	587	403	465
Deferred taxation	594	–	594
	1,318	456	1,198
Current assets			
Trade and other receivables	1,107	725	820
Tax receivables	150	270	150
Cash and cash equivalents	5,598	1,240	3,748
	6,855	2,235	4,718
Liabilities			
Current liabilities			
Deferred income	1,380	–	1,380
Trade and other payables	895	471	721
Obligations under finance leases	46	49	46
Bank overdrafts and loans	77	–	52
	2,398	520	2,199
Net current assets	4,457	1,715	2,519
Total assets less current liabilities	5,775	2,171	3,717
Non-current liabilities			
Deferred income	(230)	–	(920)
Obligations under finance leases	(17)	(55)	(37)
Net assets	5,528	2,116	2,760
Capital and reserves			
Called-up equity share capital	119	108	108
Share premium account	11,205	8,446	8,467
Share options reserve	620	592	606
Reverse acquisition reserve	(2,484)	(2,484)	(2,484)
Retained earnings	(3,932)	(4,546)	(3,937)
Total shareholders' equity	5,528	2116	2,760

Consolidated Statement of Cash Flows

For the six months ended 31 December 2009

	31 Dec 2009 (unaudited) £'000	31 Dec 2008 (unaudited) £'000	30 June 2009 (audited) £'000
Cash flows from operating activities			
Profit/(loss) on ordinary activities before taxation	5	(644)	(701)
Depreciation, amortisation and impairment	80	59	131
Share-based payment expense	14	45	71
Operating profit/ (loss) before changes in working capital and provisions	99	(540)	(499)
(Increase) in trade and other receivables	(287)	(288)	(383)
(Decrease)/increase in deferred income	(690)	–	2,300
increase in trade and other payables	174	43	293
Cash generated from operations	(704)	(785)	1,711
Finance costs	–	(7)	–
Finance income	7	36	41
Tax received	–	–	183
Net cash (outflow)/inflow from operating activities	(697)	(756)	1,935
Cash flows from investing activities			
Acquisition of intangible assets, plant and equipment	(200)	(108)	(328)
Net cash outflow from investing activities	(200)	(108)	(328)
Cash flows from financing activities			
Proceeds from issue of share capital	2,884	9	24
Expenses of share issue	(135)	–	–
Repayment of borrowings	(27)	(23)	(53)
Net cash inflow/(outflow) from financing activities	2,722	(14)	(29)
Net increase/(decrease) in cash equivalents	1,825	(878)	1,578
Cash and cash equivalents at beginning of period	3,696	2,118	2,118
Cash and cash equivalents at end of period	5,521	1,240	3,696
Analysis of Net Funds			
Cash at bank and in hand	5,598	1,240	3,748
Bank overdrafts	(77)	–	(52)
Net Funds	5,521	1,240	3,696

Notes to the Interim Financial Statements

Six months ended 31 December 2009

1. General Information

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

These interim financial statements have not been audited and do not constitute statutory accounts within the meaning of section 435 of the Companies Act 2006. The comparative figures for the financial year ended 30 June 2009 are not the statutory accounts for the financial year but are abridged from those accounts which have been reported on by the Group's auditors and delivered to the Registrar of Companies. The report of the auditors was unqualified.

These interim financial statements were approved by the Board of Directors on 8 March 2010.

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

2. Significant Accounting Policies

Basis of consolidation

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

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

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

Revenue recognition

a. Contract Revenue

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

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

b. Collaboration and licensing revenue

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

Segment reporting

A segment is a group of assets, liabilities and operations engaged in providing products or services that are subject to risks and returns that are different from those of other parts of the business. The Group's primary format for segment reporting is based on business segments.

Research and development

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

Share-based payments

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

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

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

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

2. Segment information

	Contract Research Services £'000	Bio- marker £'000	Novel Therapies £'000	Unallocated Expenses £'000	Total £'000
Six months ending 31 December 2009					
Revenue	1,166	307	1,290	–	2,763
Segment trading result	328	(134)	584	(685)	93
Less depreciation and amortisation	(12)	(18)	(38)	(10)	(78)
Less equity settled share-based payments	–	(6)	(3)	(5)	(14)
Operating profit/(loss)	316	(158)	543	(700)	1
Six months ending 31 December 2008					
Revenue	1,123	330	–	–	1,453
Segment trading result	267	15	(364)	(458)	(540)
Less depreciation and amortisation	(18)	(11)	(23)	(7)	(59)
Less equity settled share-based payments	(13)	(8)	(2)	(22)	(45)
Operating profit/(loss)	236	(4)	(389)	(487)	(644)
Twelve months ending 30 June 2009					
Revenue	2,295	670	1,003	–	3,968
Segment trading result	607	51	(103)	(1,054)	(499)
Less depreciation and amortisation	(37)	(24)	(53)	(17)	(131)
Less equity settled share-based payments	(7)	(19)	(2)	(43)	(71)
Operating profit/(loss)	563	8	(158)	(1,114)	(701)