hVIVO

better treatments, faster

The human solution

Annual Report and Financial Statements 2014

hVIVO plc
(formerly Retroscreen Virology Group plc)

Vision: revolutionise healthcare by putting humans at the heart of disease modelling.

Mission: overcome unmet medical need barriers by providing human models of disease which bridge the translation gap from animal to man, and which can illuminate the molecular and cellular causes of disease.

Better treatments, faster

The demand for new treatments in the drive towards a healthier world is a pressing one. There is a real need to understand better the true causes of debilitating and life threatening conditions and identify the best way to alleviate or cure them.

2014 at a glance

In preparation for our future growth and development as a leading edge clinical development and discovery platform technology company, 2014 saw us deepening our discovery research capabilities, strengthening our strategic leadership and building out our commercial expertise.

Headline financial information

- Revenue reduced to £18.5 million (2013: £27.5 million)
- Gross profit £5.5 million (2013: £8.3 million)
- Gross profit margin 29.6% (2013: 30.2%)
- Investment in R&D expense (excluding provision against virus inventory) rose to £10.7 million (2013: £1.2 million) reflecting expansion of our discovery research and product validation capabilities
- Cash outflow from operating activities of £16.6 million (2013: £2.2 million) and purchase of property, plant and equipment of £1.4 million (2013: £3.1 million)
- Successful fundraising completed in the year raising £33.6 million before expenses (2013: £25.5 million raised)
- Strong financial position with short-term deposits, cash and cash equivalents of £50.8 million at 31 December 2014 (2013: £35.8 million)

Operational highlights

- Added new Board members that bring market and corporate development expertise that align with our broader growth strategy
- Deepening our discovery research capabilities, strengthening our strategic leadership and building out our commercial expertise, including building a global sales team pursuing both clinical trial services and also collaborations around our pathomics capabilities
- Accelerated strategy for broadening our human challenge model ("HCM") platform to discover novel biomarkers and drug targets that will shepherd the next generation of therapeutics and diagnostic products
- Conducted landmark RSV product validation studies for Alios and Gilead
- Developed viral exacerbation challenge model for asthma
- Completed Activiomics acquisition, adding powerful technology and key expertise for protein identification as we progress our pathomics discovery products
- Successfully characterised new H3N2 virus for challenge model studies
- Established purpose built research and development laboratory facility in Welwyn Garden City
- Attracted more than 190,000 volunteers over the last three years to participate in clinical studies and achieved 97% on-time enrolment success rate
- Launched new name that reflects our pioneering vision: hVIVO

Introducing hVIVO

RETROSCREEN VIROLOGY
CONQUERING VIRAL DISEASE

On 3 May 2012 Retroscreen Virology Group plc was listed on the London Stock Exchange Alternative Investment Market ("AIM").

hVIVO
better treatments, faster

On 14 April 2015 Retroscreen Virology Group plc became hVIVO plc.

At a glance

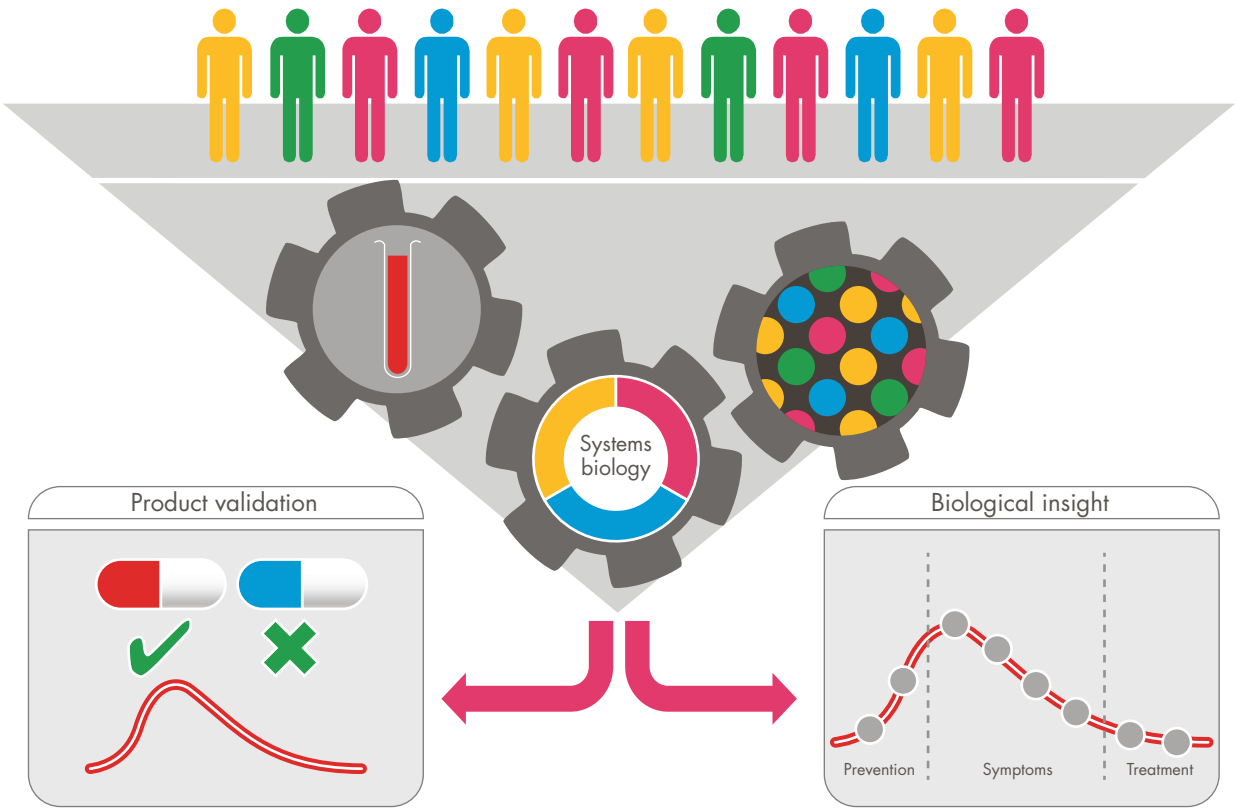
Discovery

Embracing the hVIVO spirit of helping organisations developing better therapies faster...

...this year we were able to fast-track our discovery research and development capabilities, specifically an approach to understand the biological pathways, or circuits, involved in modulating the human response and how this differs by disease. The approach is pioneering, with no real suitable name, so we coined a new term to describe it: pathomics, a diagnostic check for the wiring in the body's circuitry that is a conjugation of 'pathway' or signaling networks, and 'omics'.

Pathomics involves data mining and analysis, sample acquisition, product validation and disease research to elucidate and define the most influential signalling human pathways underlying the host response. In early 2015 we achieved our first pathomics map, describing the host response to flu.

At a glance
Discovery



Understanding human-host response is vital to select the best-fit therapies, but it also requires an understanding of complex biological processes and how they work. Our hVIVO platform allows the human biological system to be perturbed under tightly controlled, safe conditions and for the resulting changes to be measured at the cellular and molecular level. This provides insights into a broad range of human disease pathways that will lead to new understandings of other diseases that share similar pathways, enabling new treatment and diagnostic options to be developed.

To define signaling pathways we utilise data mined from our hVIVO platform to identify the signaling circuitry and the changes that occur in gene and protein samples between the healthy and symptomatic state of infected volunteers.

This groundbreaking scientific approach is targeted towards high-risk conditions, which generally respond poorly to therapies and have the greatest unmet medical need, the young and elderly and those with chronic respiratory diseases.

As the hVIVO platform evolves our discovery work to identify new biomarkers allows for more targeted volunteer recruitment in product validation and clinical testing, both in quarantine and field-based studies.

Our pathomics approach is changing the costs, time and risks associated with pre-discovery, pre-clinical and clinical development, dramatically accelerating the drug development process.

Laboratories and analysis at Welwyn Garden City

This groundbreaking scientific approach is targeted towards high-risk conditions, which generally respond poorly to therapies and have the greatest unmet medical need.

Discovery operations at Welwyn Garden City laboratory

Our new leased scientific discovery research laboratory facility in Welwyn Garden City is leveraging data analysis from the Human Challenge Model while concurrently developing our own studies and research analysis. The purpose built laboratory facility is designed to host and centralise our research and development operations.

The new facility accommodates a small expert team of both bench-based scientists as well as our bioinformaticians who provide the essential analysis of our gene and protein profiling work.

At a glance

Services

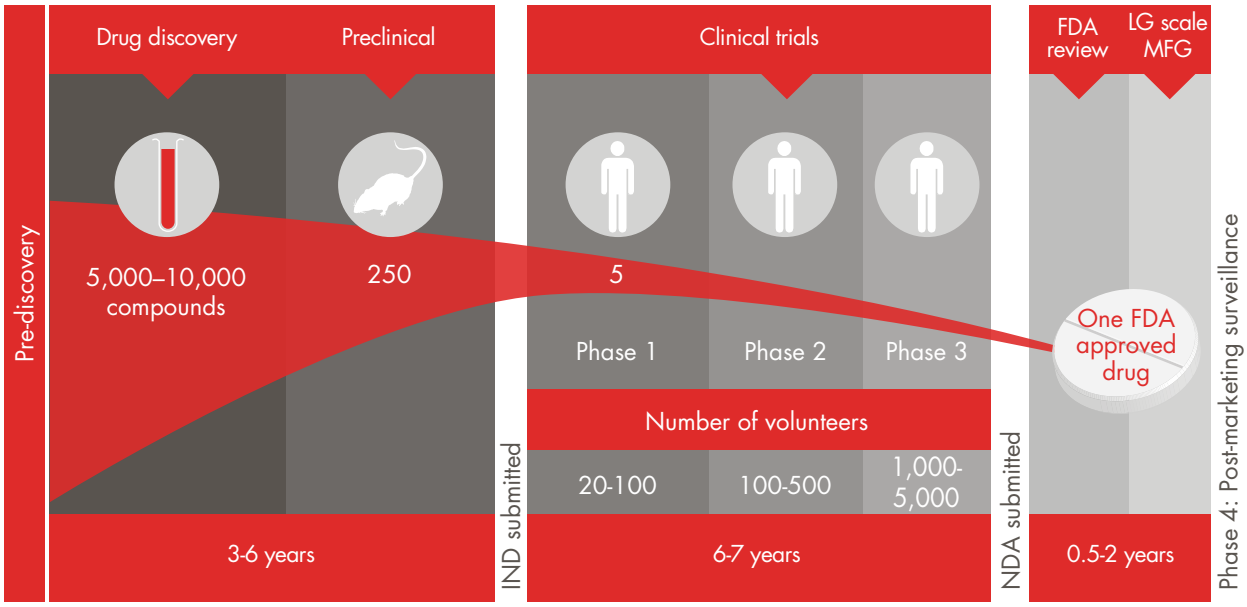
hVIVO is accelerating drug development. In our hVIVO human challenge studies, healthy volunteers are isolated in our specialist facility and infected with a suitable respiratory virus, which is manufactured according to the highest pharmaceutical standards.

They are then observed for 10 to 17 days typically, during which time, they may be treated with a new drug candidate, or a new vaccine.

Conducting the human challenge model in a controlled quarantine environment allows for an accelerated study of new antiviral drugs and vaccines, in far less time than field-based studies.

By carefully selecting human volunteers and monitoring them through a disease episode under tightly controlled medical quarantine conditions, we can demonstrate proof of concept for new investigational drugs in a much shorter time frame and in fewer subjects than traditional field-based trials.

At a glance
Services



Drug development is fundamentally flawed

We have built a robust, proven model around our hVIVO platform, which starts with carefully selected human volunteers being recruited into one of our quarantine based studies. The volunteers are inoculated with the appropriate challenge agent, either before or after they receive either a drug or placebo.

The course of the resulting infection, or disease episode, is monitored intensively by a team of on-site doctors and nurses until the volunteer has returned to a healthy state and data from the study utilised by our research and development team.

hVIVO also works on virus-only research programmes with the intention of understanding how a virus and the human body interact, with the exciting prospect that our research could lead to new discoveries.

We conduct and co-ordinate multiple clinical trials each year. Maintaining a database of volunteers is crucial to the success of these programmes, and we are at 190,000 strong and growing. The commitment and dedication of these volunteers to help pioneer new therapies has been a key factor in achieving our impressive 97% success rate for on-time delivery.

We believe that our hVIVO platform for human studies is a superior alternative to early stage, field-based trials and could provide important guidance in designing the large-scale licensing studies that are required to move forward through the subsequent phases of research.

Drug development fundamentally flawed

It is estimated that only one in every 50 compounds explored actually go from pre-clinical to clinical trials. While a growing number of new investigational drugs do reach the market, probability is still low. Of those approved, only one in five drugs achieve FDA approval.

Pre-approval costs, chasing the wrong drug compounds, results in $216-$432 billion wasted investment* and that escalating cost is adding greater financial pressures to the drug industry. Human challenge models help organisations identify promising drugs sooner in the process, accelerating drug development.

* Source: Drug Discovery and Development, UNDERSTANDING THE R&D PROCESS, Innovation.org 2007.

Strong presence at 'RSV 2014' congress


BBC film crew in quarantine unit for 'Bang Goes the Theory'

Pioneering human models of disease the hVIVO way

hVIVO represents our broad technology platform for the research and development of new therapies in human volunteers. It enables pharmaceutical and biotechnology companies, as well as world leading academic groups, to accelerate and reduce the cost of bringing anti-viral drugs, diagnostics, vaccines and immune modulators/immunodilators to market.

During the year we delivered a number of client sponsored studies including pivotal product validation studies for Gilead Sciences, Inc., and Alios BioPharma Inc., advancing Respiratory Syncytial Virus ("RSV") vaccine development dramatically. Revolutionary research in asthma and flu was also completed, providing new insights into the disease biology.

The hVIVO platform, developed over more than 25 years, provides an ideal opportunity for organisations to demonstrate proof of concept for new products and build licensing packages as part of a real drive to add greater commercial value.

Respiratory Syncytial Virus Symposium in South Africa

In November our Executive Scientific Adviser, Dr Rob Lambkin-Williams, spoke at the Respiratory Syncytial Virus Symposium in Stellenbosch, South Africa on the theme 'RSV: A global health challenge'.

He spoke about the hVIVO model, how it can be applied to help accelerate drug and vaccine development, and the transfer of data from human challenge studies to field studies.

Rob said: "I am passionate about the Human Challenge Model and was delighted to have the opportunity to speak during the industry session."

We also hosted a select group of very eminent scientific colleagues during the conference, who provided expert insight into their use of the hVIVO challenge model.

'The One Show' and 'Bang Goes the Theory' features

hVIVO (as Retroscreen) was featured in films for BBC1 flagship early evening programmes 'The One Show' and 'Bang Goes the Theory'. The films showcased how human challenge studies conducted in our quarantine facilities help organisations develop better drugs faster.

Focusing on the volunteer experience in our clinical trials, 'The One Show' film included interviews and video diaries with four volunteers participating in our asthma study.

hVIVO Senior Medical Director, Dr Martin Johnson, was on hand throughout filming to explain the rationale behind our human challenge studies and the nature of the quarantine process.

Chief Executive Officer's statement

We stayed focused on our overarching strategic objective to build long-term shareholder value by leveraging our hVIVO platform.

Kym Denny
Chief Executive Officer

In this section

2014 was a volatile year for infectious disease. Pharmaceutical organisations worked to stay ahead of viral disease outbreaks, such as Ebola, while public health officials grappled with a surprisingly severe flu season. Responding to these changes challenged the best prepared businesses, with pharmaceutical organisations shifting priorities to focus on developing new vaccines, and public health organisations re-evaluating their flu preparation processes.

In spite of the market turmoil, we stayed focused on our overarching strategic objective to build long-term shareholder value by leveraging our hVIVO platform to accelerate third party drug development programmes and through our own R&D programmes to harvest the biological insight of our 'disease in motion' samples, to create the next generation of treatments and diagnostics for respiratory diseases.

The shifting market dynamics this year meant we had the opportunity to accelerate our own R&D programmes, and with the support of our shareholders, we fast-tracked our initial sample collection in flu and asthma into 2014, allowing us to begin to unravel the key cellular and molecular causes of these diseases via our newly named process, 'pathomics.'

We conducted two landmark RSV trials, one which led to a leading journal publication and another that was tied to a substantial acquisition of a biotech company by a big pharma. At the same time, we watched with pride as our RSV challenge model took its rightful place as a leading drug development tool in the fight against RSV infection. There can be little doubt that our RSV hVIVO model has revolutionised the RSV research space, allowing researchers to test their products in a disease area that has historically been inaccessible to early phase subject recruitment, and encouraging the development of much needed vaccines and therapeutics for an infection that is the leading cause of hospitalisation* in children under the age of five in the UK alone. For both these studies, we pushed the speed limit we had established and delivered the trials in under eight months.

*De Clercq E. Chemotherapy of respiratory syncytial virus infections: the final breakthrough. Int J Antimicrob Agents (2015), http://dx.doi.org/10.1016/j.ijantimicag.2014.12.025

This funding enabled us to accelerate considerably ahead of plan for our work in influenza, and it will continue directly to fuel the subsequent pathomics projects that will lead to the identification of biomarkers and new drug targets.

Changing gears

For 2014, our revenue was £18.5 million with gross profit margin of 29.6% and cash as at 31 December 2014 of £50.8 million. Fewer than anticipated human challenge clinical trials were conducted in 2014, a result of significant drug class delays and, late in the year, the Ebola outbreak whereby many companies redirected their flu research teams onto their nascent Ebola treatments and vaccines. Given that a fundamental asset of our model is its ability to 'flip' from third party trials to internal pathomics discovery sample collection, we reacted quickly and took advantage of the gap created in our capacity to advance our flu pathomics programme at a much faster pace.

While we are seeing a slow return from third parties to flu programmes moving forward, it will take time for the industry's momentum to be regained. As a result we re-evaluated our spending, our staff skill mix and our planned investments in the light of unexpectedly being significantly further along in our discovery work and reprioritised our resources accordingly. Of key note was our decision to put on hold our Chesterford Research Park premises plans, prior to the initiation of building works. As a result, we were able to bring forward the investments necessary to achieve our first pathomics map (which describes the human host response to flu infection) in early 2015.

August 2014 fundraise and the hVIVO model of viral exacerbation of asthma

We first described our aspirations to map out the cellular and molecular causes of disease during our August 2014 fundraise, when we were delighted to raise £33.6 million from both existing and new shareholders, together with the tremendous support and encouragement we received. This funding, in addition to our reprioritised spending, enabled us to accelerate considerably ahead of plan our work in influenza, and it will continue directly to fuel the subsequent pathomics projects that will lead to the identification of biomarkers and new drug targets. In addition, the August 2014 fundraise also allowed us to accelerate our work in asthma, which is the first new human challenge model that we have built since the RSV model was launched in 2006. We chose our latest venture to be in an adjacent market to the respiratory infection space we have long since dominated: Asthma. It has been suggested that over 80% of all exacerbations of asthma are due to the HRV-16 cold virus, and thus a viral exacerbation model would be a welcome addition in the drug development tool kit for effective new asthma products.

As with our RSV model, we believe that our asthma viral exacerbation model will prove to be a new Gold Standard in early phase research for a previously out of reach area of study. Our first calibration experiment was performed with the aim of developing a safe, reproducible, and clinically relevant asthma human challenge model. 21 asthmatic volunteers participated in the study and we obtained our first samples from subjects during the course of an asthma exacerbation in response to viral infection with HRV-16 using our hVIVO platform. The samples collected during the study were used for developing the model and for performing pathomics analysis. We are now the only life science company to have a commercial asthma exacerbation challenge model capable of delivering on an industrial scale. In addition to new models, in 2014 we conducted important expansion experiments into the Over 45 age group, preparing us to develop a human model of COPD in the future, as well as expand our healthy volunteer panel to include the subsection of the population that fared so poorly during this unexpectedly harsh flu season.

Our market leader status was further strengthened with the successful characterisation and production of a new pharmaceutical grade H3N2 virus, whose symptomology and infectivity rates produces a more natural infection, making it a valuable tool for future influenza challenge studies. We continued to sustain our market leading volunteer enrolment success rate (97%) with a database of volunteers of 190,000 strong and growing.

Chief Executive Officer's statement
continued

2014 saw us deepening our discovery research capabilities, strengthening our strategic leadership and building out our commercial expertise.

Positioning for future growth

In preparation for our future growth and development as a leading edge clinical development and discovery platform technology company, 2014 saw us deepening our discovery research capabilities, strengthening our strategic leadership and building out our commercial expertise.

Scientific discovery and pathomics

In March 2014, we completed the £4.0 million acquisition of Activiomics Limited, a private UK-based proteomics company, which adds a powerful technology and key expertise under the leadership of Dr Neil Torbett, for protein identification as we progress our pathomics discovery projects.

We made a number of key executive appointments during the year to deepen our scientific expertise and prepare for our journey. Dr Anthony Lockett, our Senior Medical Director, took on an expanded role as Chief Medical Officer with responsibility for patient safety, medical governance and new model development. Two highly respected leaders from major global pharmaceutical companies joined our Discovery Research management team. Dr Chris Poll, Executive Vice President Research and Development, was appointed to lead our discovery activities, supported by Dr Paul Whittaker, Vice President, Discovery Research, Research and Development. We set out to establish cutting edge facilities for our expanded team. In August 2014 we leased a purpose built laboratory facility in Welwyn Garden City, designed to host and centralise our Research and Development operations. The new facility accommodates both bench-based scientists as well as our bioinformaticians who provide the essential analysis of our gene and protein profiling.

Case study:

Asthma challenge study success

Asthma is an area of considerable unmet medical need with over 40% of asthmatics reporting residual symptoms that have an impact on quality of life.

Some 235 million people currently suffer from asthma* and it is a common disease among children. Approximately 64% of this population is diagnosed and treated (c.150 million), but approximately 55% of those treated are still uncontrolled (c. 83 million). The leading charity, Asthma UK, report that asthma attacks kill three people each day in the UK alone‡.

Despite this unmet need, few new drugs have made it to the clinic in the last 50 years. The failure to translate new drug candidates from animal models to humans has led to questions about the utility of current models of asthma and demand for more predictive models based on the latest discoveries.

Discoveries like the presence of a different genotype of asthma have made it increasingly evident that asthma, and in particular severe asthma, is more than one disease state as there is a considerable variance in clinical presentations, physiologic characteristics and outcomes.

In December we announced the successful conclusion of our first ever asthma study seeking to develop a safe, reproducible and clinically relevant asthma human challenge model. The Company-sponsored study provided the first commercially available viral challenge model for the study of asthma and antiviral therapies in asthmatic volunteers. The model produced the first samples from subjects during the course of an asthma exacerbation using our hVIVO platform.

With the growing prevalence and health risks of virus exacerbated asthma, the randomised double-blind study aimed to validate the safety and tolerability of the HRV-16 virus and to assess the impact of infection with HRV-16. Following typical quarantine protocols, 20 mildly asthmatic volunteers were treated with short acting inhaled ß-agonists alone, and were inoculated with the challenge virus or placebo. The primary safety endpoint was to assess the incidence, number and severity of asthma exacerbations, determined by independent clinical review. Clinical assessments were performed prior to and throughout the study and the incidence and severity of asthma exacerbations and adverse events closely monitored.

In addition to these clinical assessments exploratory research and development sampling was performed pre and post-study with the objective of exploring the virus-to-human interaction.

Our post-challenge analyses allows us to apply and define host response which has, until now, not been clearly understood, but which is critical to the development of safe and effective therapies.

hVIVO is developing a range of new human challenge models, incorporating its hVIVO platform into new disease areas with high unmet medical needs. These include respiratory diseases such as asthma and chronic obstructive pulmonary disease, where exacerbations are typically caused by Human Rhinovirus (HRV-16) and other respiratory viruses.

* World Health Organisation ("WHO"), November 2013.
‡ Asthma UK.

Chief Executive Officer's statement
continued

To guide us forward, we added new Board members that bring market and corporate development expertise that align with our broader growth strategy.

Corporate leadership

To guide us forward, we added new Board members that bring market and corporate development expertise that align with our broader growth strategy. These additions include highly successful innovators, entrepreneurs and genomic pioneers.

Jaime Ellertson joined the Board in June 2014 as Non-Executive Chairman, succeeding David Norwood who continues as a Non-Executive Director. Jaime has a strong track record of leading fast growing, data and service driven companies through phases of rapid expansion, both in the private and public arena.

James F Winschel became a Non-Executive Director of the Company in October 2014 and is Chairman of the Audit Committee. Jim's commercial and global clinical research experience, with specific focus on market growth, will be invaluable going forward.

Trevor Nicholls joined the Board as a Non-Executive Director in May 2014 and brings an outstanding track record in building international businesses in the life science industry, and invaluable experience in the genomics and proteomics field.

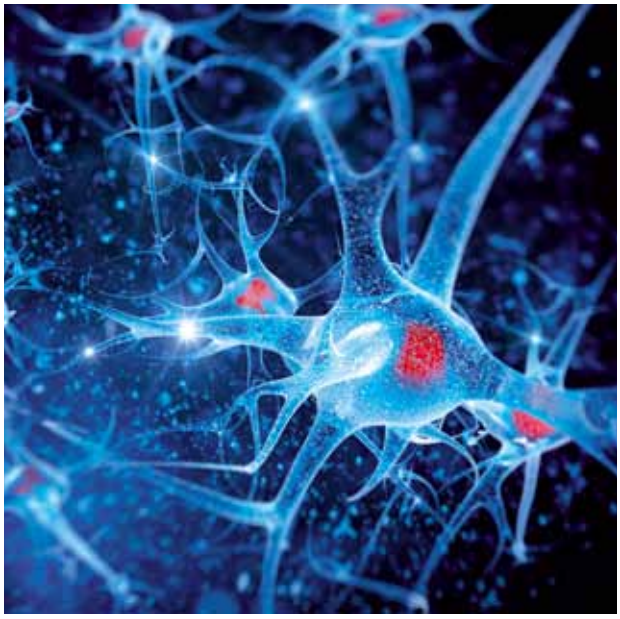
Alison Fielding joined the Board in July 2014 and is Chairman of the Remuneration Committee. A highly respected and entrepreneurial leader, Alison has a track record of creating and building high-performing companies based on scientific innovation.

At the close of the financial year, Graham Yeatman, our Finance Director, was promoted to Chief Financial and Business Officer with responsibilities to drive greater commercialisation of the business and to create a more flexible, scalable and efficient cost base for our developing operations.

Commercial expertise

To achieve our strategic ambitions, we are expanding our business and market development efforts through new and effective sales channels and developing further our partnerships with pharmaceutical clients, helping to drive revenues.

In November, Reid Tripp was appointed as Executive Vice President for Business Development and Marketing. Reid is based in the US and brings considerable commercial sales leadership experience, specialising in new product development. We are adding capabilities for promoting proactive outreach, market penetration and client engagement activities, with a global sales team pursuing both clinical trial services and also collaborations around our pathomics discoveries.



Case study:

Landmark study for Alios

Respiratory Syncytial Virus (RSV) is a lung infection responsible for as many as 125,000 hospitalisations annually of children under the age of one, according to the Centers for Disease Control and Prevention (USA). There are currently no effective drugs approved for RSV.

hVIVO's pioneering human challenge model the hVIVO platform provided positive results for a landmark human viral challenge study for Alios BioPharma, Inc. Following this study, Alios BioPharma was acquired by Johnson & Johnson for $1.7 billion including the RSV antiviral therapeutic, highlighting the value these types of studies can play in identifying safe, effective therapies.

Alios BioPharma, a US clinical stage biopharmaceutical company, is developing novel antiviral therapies for the treatment of respiratory diseases. They turned to hVIVO to provide an efficacy test, establish proof of concept and perform dose ranging studies using the hVIVO platform.

This viral challenge model study was conducted at our clinical quarantine unit in London, with a total of 62 volunteers enrolled across three quarantine periods, providing the opportunity to use an adaptive design, with client-led dosage changes mid-study.

The study was a randomised, double-blind, placebo-controlled Phase II challenge study of AL-8176 in healthy adult volunteers. AL-8176 achieved a reduction in viral load and improvement in symptom scores, and the drug is now progressing through the regulatory framework.

John Fry, Associate Director, Clinical Operations at Alios BioPharma, Inc., said: "It is an evolving field. We benefitted hugely from this (hVIVO challenge study) and I think our programme has moved at a faster pace than if we had gone out and tried to do a field-based study."

The study of Alios' AL-8176 product for RSV infection highlighted hVIVO's ability to surpass field-based studies in producing clean compelling data in an accelerated timeframe, through targeted subject recruitment and defined timing of infection. This underpins our expansion into new human challenge models including for respiratory diseases such asthma and Chronic Obstructive Pulmonary Disease (COPD).

Industry leaders are embracing the unique human challenge model, realising the effectiveness of taking on a viral challenge study to accelerate the process of testing new drugs on human volunteers in a respected, safe and proven environment.

Case study:

Rapid proof of concept for Gilead

Respiratory Syncytial Virus (RSV) can cause upper respiratory, such as colds, and lower respiratory tract infections, such as bronchiolitis and pneumonia.

It is prevalent in infancy as well as in elderly populations. When infants and children are exposed to RSV for the first time, it is likely that 25-40% will have signs of bronchiolitis or pneumonia, and 5-20 out of every 1,000 cases will require hospitalisation.*

In one of its largest clinical studies, hVIVO's pioneering hVIVO platform of human models of disease, provided early proof of concept and dose selection for a new antiviral drug in Respiratory Syncytial Virus (RSV) infection for Gilead Sciences, Inc.

Gilead Sciences, Inc., an American research-base biopharmaceutical company, sought hVIVO's expertise and our unique human viral challenge model to test its GS-5806, a small molecule antiviral in RSV infection, a common cause of infant hospitalisations with no existing antiviral treatment.

The study, which was the largest human viral challenge study at the time, was conducted at our purpose built, state-of-the-art clinical quarantine unit in Whitechapel, London. Pre-study suitability tests identified 140 volunteers to receive the experimental active virus during seven separate quarantines over the course of the study.

Working closely with Gilead, our scientific staff supported an adaptive design with double-blind placebo control, allowing for the alteration of doses mid-study, based on earlier positive test results. With the final anti-viral drug aimed at the paediatric population, the antiviral treatment was added to organic apple juice, imported especially from America, to mirror Gilead's original drug stability testing programme.

In spite of its scale, this important study was completed quickly – demonstrating proof of concept for Gilead's GS-5806 antiviral product for RSV infection in less than a year. The study was included in the New England Journal of Medicine which concluded that: "Treatment with GS-5806 reduced the viral load and the severity of clinical disease in a challenge study of healthy adults".

The pioneering hVIVO platform rapidly establishes proof of concept much earlier in the clinical research cycle, providing a cost and time effective approach to the lifecycle of drug testing. To date, hVIVO has conducted over 40 clinical studies, involving more than 1,950 volunteers for a range of leading industry, governmental and academic clients.

* National Center for Immunization and Respiratory Diseases (NICRD, USA).

This name change to hVIVO reflects our expanded vision and a new human dimension to the way we discover and develop drugs and diagnostics.

hVIVO – new name, pioneering vision

I am delighted to announce the formal launch of our new Company name hVIVO plc.

Human volunteers are at the heart of all we do. Changing the Company name to hVIVO plc reflects the revolutionary step of using human models of disease to develop treatments for humans. A pioneering concept in drug testing deserves a pioneering name to best describe it and we chose hVIVO.

The 'h' celebrates the human aspect of our unique process to accelerate drug development. Humans, in the shape of willing clinical trial volunteers, provide a living sample that we utilise in a clinically controlled environment in our pioneering Human Challenge Model.

VIVO represents the science of clinical testing on living organisms and in this case, the human sample, which is at the very heart of our business.

This name change to hVIVO reflects our expanded vision and a new human dimension to the way we discover and develop drugs and diagnostics.

Summary

hVIVO is embarking on the next stage of its exciting journey, broadening the human challenge model platform to discover novel biomarkers and drug targets that will shepherd the next generation of therapeutic and diagnostic products. The Alios and Gilead product validation studies clearly showed how we help organisations deliver better treatments, faster.

The Company is well placed to achieve its objectives for 2015 and remains fully engaged with its customers regarding both its product validation and pathomics capabilities and opportunities. We are excited to be expanding our platform into new disease areas, developing the industry's first commercial asthma model this year.

I would like to pay tribute to our management and staff throughout the Group who have worked so hard during the year to pioneer our space and position hVIVO for significant future growth. Also, to thank our investors for their continued support and encouragement during our journey to-date and with respect to our plans for the future.

As hVIVO plc going forward, we look forward to embracing fully the power of our human models of disease. I can't wait to see what we can achieve in 2015 and beyond.

Kym Denny
Chief Executive Officer
15 April 2015

Business model and strategy

...the next generation of treatments and diagnostics for respiratory diseases.

Market context

2014 was a volatile year for infectious disease. Pharmaceutical organisations worked to stay ahead of viral disease outbreaks, such as Ebola, while public health officials grappled with a surprisingly severe flu season. Responding to these changes challenged the best prepared businesses, with pharmaceutical organisations shifting priorities to focus on developing new vaccines, and public health organisations re-evaluating their flu preparation processes.

In spite of the market turmoil, we stayed focused on our overarching strategic objective to build long-term shareholder value by leveraging our hVIVO platform to accelerate third-party drug development programmes and through our own R&D programmes to harvest the biological insight of our 'disease in motion' samples, to create the next generation of treatments and diagnostics for respiratory diseases.

In context, it is estimated that only one in every 50 compounds explored actually goes from pre-clinical to clinical trials. While a growing number of new investigational drugs do reach the market, probability is still low. Of those approved, only one in five drugs achieve FDA approval. Pre-approval costs, chasing the wrong drug compounds, results in $216 – $432 billion wasted investment and that escalating cost is adding greater financial pressures to the drug industry.

$216-432bn

Estimated wasted annual investment* as result of companies chasing wrong drug compounds.

* Source: Drug Discovery and Development, UNDERSTANDING THE R&D PROCESS, Innovation.org 2007.

Business model

Discover new biomarkers and drug targets to shepherd in the next generation of therapeutic and diagnostic products

Diversify into adjacent markets by developing the hVIVO platform into new disease areas

Use pathomics to expand our discovery R&D capabilities to understand the biological pathways involved in the human response to disease

Use of service business to generate gross profits and part-fund our R&D

Objectives

- Address areas of high unmet medical need by providing human models of disease which can illuminate the molecular and cellular causes of human disease
- Expand hVIVO's pathomics development plan
- Develop our commercialisation options for pathomics
- Diversify our product validation capabilities to deliver the right project to the customer
- Grow our sales pipeline with active engagement with new potential third party study sponsors
- Preserve the Company's cash position

KPIs

Revenue

£18.5m

(2013: £27.5 million)

Gross profit

£5.5m

(2013: £8.3 million)

Gross profit margin

29.6%

(2013: 30.2%)

R&D expense (excluding virus provision)

£10.7m

(2013: £1.2 million)

Loss for the year

£(18.4)m

(2013: profit £1.5 million)

Short term deposits, cash and cash equivalents

£50.8m

(2013: £35.8 million)

Risks

- Biomarker development
- IP and patent protection
- Not achieving statistically significant results
- Longer-term commercialisation
- Collaboration and funding
- Delay, termination or cancellation of trials
- Sales pipeline
- Storage and handling of infective agents
- Harm to trial participants
- Protection of human challenge models

Financial review

The reduction in Human Challenge Model (HCM) client engagements during 2014 and our fundraise in August 2014 enabled significant acceleration of investment in our research and development programmes.

Graham Yeatman
Chief Financial and Business Officer

The reduction in Human Challenge Model (HCM) client engagements during 2014 and our fundraise in August 2014 enabled significant acceleration of investment in our research and development programmes. We continued to diversify our investments and strengthen our commercial capabilities and expertise, so we can discover and bring to market new opportunities faster and help our clients accelerate their drug development. The ongoing development of new hVIVO models of disease, the recruitment of senior experienced scientific expertise from big pharma and the acquisition of Activiomics has provided the platform for hVIVO to discover novel biomarkers that will enable the next generation of therapeutic and diagnostic products.

Financial KPIs	**2014**	2013
Revenue	**£18.5m**	£27.5m
Gross profit	**£5.5m**	£8.3m
Gross profit margin	**29.6%**	30.2%
R&D expense (excluding provision against virus inventory)	**£10.7m**	£1.2m
(Loss)/profit for the year	**£(18.4)m**	£1.5m
Short-term deposits, cash and cash equivalents	**£50.8m**	£35.8m

HCM client engagements

Revenue for the year ended 31 December 2014 was £18.5 million (2013: £27.5 million). hVIVO has a small number of high value HCM client engagements, such that delay or cancellation of client engagements has a significant effect on our revenue. Reduced revenue impacts operational efficiency, economies of scale and gross profit margin. However hVIVO has mitigated the impact by taking steps to adjust and make more flexible our cost base and utilising the capacity of staff and facilities to accelerate our internal research and development programmes.

Research and development expense

The Group's research and development expense (excluding provision against virus inventory) was £10.7 million this year (2013: £1.2 million). This increase reflects the expansion of our discovery research and product validation capabilities and in particular disease research (pathomics), data mining and analysis, sample acquisition and product validation processes.

Administrative expense

Administrative expense was £17.7 million (2013: £7.3 million). The increase is primarily due to a higher management and administrative staff cost base, higher premises and IT costs, and the use of external consultants to support the Group's pace of growth, increasing size and complexity. In addition, expenses include impairment of leasehold additions and increases in provisions (see note 22).

Finance income

The Group invests its surplus funds in bank deposits and money market investments of up to one year. In the year ended 31 December 2014 interest income was £0.4 million (2013: £0.2 million).

Taxation

The Group makes claims each year for research and development tax credits and, since it is loss-making, elects to surrender these tax credits for a cash rebate. The amount credited to the consolidated income statement in respect of amounts received and receivable for the surrender of research and development expenditure is £3.9 million for the year ended 31 December 2014 (2013: £2.7 million) due to the increased research and development activity during the year. In addition, a £0.3 million deferred tax adjustment in respect of the acquisition of Activiomics Limited has been credited to the Consolidated Income Statement.

Consolidated Statement of Financial Position

As of 31 December 2014 total assets less liabilities amounted to £61.2 million (2013: £42.9 million) including short-term deposits of £28.0 million (2013: £22.5 million) and cash and cash equivalents of £22.8 million (2013: £13.3 million).

The principal movements in the Consolidated Statement of Financial Position during the year were:

- additions to goodwill and intangible assets of £1.7 million and £2.5 million respectively, as a result of the acquisition of Activiomics Limited;
- purchases of property, plant and equipment of £1.4 million;
- increase in inventories of £0.6 million;
- decrease in trade and other receivables of £2.9 million;
- increase in research and development tax credit receivable of £1.4 million;
- increase in short-term deposits of £5.5 million;
- increase in cash and cash equivalents of £9.5 million;
- increase in provisions of £3.0 million; and
- decrease in current trade and other payables of £3.7 million.

Cash flow

The principal cash flows in the year were as follows:

Inflows:

- net proceeds on issue of shares of £32.8 million (2013: £25.0 million); and
- finance income of £0.4 million (2013: £0.2 million).

Outflows:

- cash outflow from operating activities of £16.6 million (2013: £2.2 million); and
- purchase of property, plant and equipment of £1.4 million (2013: £3.1 million).

Key performance indicators

The Directors consider the principal financial performance indicators of the Group to be:

- revenue;
- gross profit;
- gross profit margin;
- research and development expense;
- net profit or loss; and
- short-term deposits, cash and cash equivalents.

The Directors consider the principal non-financial performance indicators of the Group to be:

- the expansion of the HCM and its increasing acceptance by global pharmaceutical companies and regulatory agencies;
- development of new human challenge models;
- research and development in other disease areas including asthma;
- development of intellectual property from our discovery research and product validation capabilities and in particular disease research (pathomics), data mining and analysis, sample acquisition and product validation processes; and
- collaboration opportunities with global pharmaceutical companies.

These elements are discussed within the Chief Executive Officer's statement.

Graham Yeatman
Chief Financial and Business Officer
15 April 2015

Principal risks and uncertainties

The principal risks and uncertainties that could have an adverse impact on the performance of the Group are detailed below:

Sales pipeline

hVIVO has a small number of high-value HCM client engagements, whereas its cost base (being primarily staff, premises and facilities) is relatively committed and fixed. Delays in HCM client engagement contract signatures and the creation of gaps in the quarantine schedule, with hVIVO's quarantine facilities not being fully utilised, would potentially have a material impact on hVIVO's revenue and profitability. In addition, our clients are at earlier stages of drug development (Phase Ib/IIa), so there is higher risk of delays or cancellation events for their compounds.

Clients will typically sign a Start-up Agreement, whereby hVIVO provides value-added consultancy to the client by designing a trial protocol to support the client's objectives. This initial consultancy stage will continue through to hVIVO supporting the client in its engagement with the appropriate Ethics Committees for approval of the HCM clinical trial. The start-up phase will conclude with a trial protocol and permission to proceed to a trial. Not all clients will proceed from the start-up phase as it may be concluded that a trial is not feasible, or there may be external factors that prevent a trial from progressing. Once this start-up phase has come to an end, in the event the client wishes to proceed, hVIVO will then agree with each client a binding contract for a defined, costed HCM engagement.

hVIVO continues to focus on building and diversifying the client pipeline and has strategies in place to (i) increase scheduling flexibility, (ii) accelerate the timeline to full contract signature, (iii) extend the time interval between contract signature and commencement of quarantines and (iv) develop long-term relationships with clients, with a view to conducting repeat business.

Delay, early termination or cancellation of trials and impact on pipeline

All HCM client engagement contracts allow postponement or cancellation of a trial by the client without cause, usually with a 30 to 60 day notice period. Reasons for postponement or delay may include (i) the failure of the client product to satisfy safety or efficacy requirements, (ii) unexpected or undesirable results of the client product, or (iii) a decision by the client that a particular study is no longer necessary. The loss of business or a significant decrease therein, due to short notice, unexpected postponement or cancellation would potentially have a material impact on revenue and profitability.

hVIVO mitigates the financial risk by including postponement and cancellation charges in our HCM contracts. Additionally, as noted above, hVIVO continues to focus on building and diversifying the client base and has strategies in place to (i) increase scheduling flexibility, (ii) accelerate the timeline to full contract signature, (iii) extend the time interval between contract signature and commencement of quarantines and (iv) develop long-term relationships with clients, with a view to conducting repeat business.

Challenges to achieving statistically significant volunteer numbers and infectivity rates

hVIVO maintains a dossier of historical infectivity rates from previous clinical trials (i.e. the proportion of subjects who, when inoculated with a virus, become infected and go on to develop symptoms). Client sponsors access this data and other published literature in order to make an assumption on the expected infectivity rate and thus the number of subjects that will need to be included in their trial in order to deliver statistically significant results. Infectivity rate is a natural feature of a virus/human interaction and while hVIVO can exploit current scientific best practice and knowledge to provide the most appropriate circumstances and environment for infection to occur, this cannot be guaranteed. If insufficient volunteers become infected, it may prevent the data generated being statistically significant and thus the primary objectives of the trial may not be achieved.

Challenges to achieving statistically significant volunteer numbers and infectivity rates continued

Infectivity rate is not a contracted deliverable and hVIVO includes clear language in contracts to disclaim this risk. While infectivity rate is an uncontrollable parameter, each HCM clinical study that is completed provides additional data for hVIVO's viral inoculum dossier, thus increasing the confidence level of the predicted infection rates. Additionally the Group monitors literature and regularly liaises with collaborators and scientific colleagues to remain at the forefront of current knowledge. hVIVO also actively collaborates and conducts research to determine the most robust and efficient method of virus inoculation.

Assuming the infectivity rate lies within the assumed range, hVIVO's ability to fulfil HCM contracts is then dependent upon being able to enrol the required number of subjects for the trial. The lead generation, recruitment and screening process is a multi-stage funnel, with each stage resulting in the exclusion of a percentage of the volunteer population. hVIVO utilises screening data from its previous clinical trials, as well as the study-specific requirements, to provide the client with an estimate of the number of leads that will need to be generated at the top of the funnel in order to provide the required number of clean volunteers at the bottom of the funnel. The estimates are inherently variable and dependent on factors outside of hVIVO's control, such as the prevalence of the virus in the population, environmental conditions (time of year, weather, major events) and volunteer availability. Although hVIVO's HCM client engagement contracts contain provisions for a change order, if the change in funnel assumptions is significant, it is possible that the client may choose not to progress with the study. Additionally it may not be possible to recruit sufficient volunteers in the timescales required.

To mitigate this risk, hVIVO has developed a regional screening programme and has established screening centres in London and Manchester. Not only does this increase throughput and capacity, but it also allows access to wider population centres and reduces the risk of geographically specific outbreaks of a particular virus strain.

Regulatory and ethics framework/market adoption

The development and marketing approval of the Group's product candidates are regulated by healthcare regulatory agencies, such as the FDA (USA), EMA (Europe), and MHRA (UK). During the development stage, regulatory reviews of clinical trial applications or amendments can prolong development timelines. Similarly, there can be no assurance of gaining the necessary marketing approvals to commercialise products in development. Regulatory authorities may impose restrictions on a product's use or may require additional data before granting approval. The Group's laboratories, viral challenge facility and conduct of clinical studies are also subject to regular audits by the MHRA to ensure that they comply with Good Clinical Practice (GCP) standards. Failure to meet such standards could result in the suspension of activities until corrective actions have been implemented and accepted by the regulator.

At present, in the UK, the regulation of viruses is a far simpler regime than the regulation of medicinal products and medical devices. Additionally, the HCM is currently viewed favourably by Ethics Committees. Were this situation to change, and viruses be regulated in a manner akin to medicinal products, then this could substantively increase the regulatory and administrative burden on hVIVO.

The HCM is attractive to clients as a means of reducing the time of trials and targeting their development spend. However, there is no guarantee that the HCM will continue to be adopted or will become a standard for Phase II trials. A failed viral challenge study, for example either due to poor infectivity or under-recruitment, would be detrimental to the industry acceptance of the model, thus impacting hVIVO's revenue, profitability and growth plan.

hVIVO is pioneering the HCM, so is in a unique position to discuss and help define regulatory and ethics policy, while promoting the HCM in the wider scientific community. hVIVO continues to push the rigour of its methodology, and the development of its challenge viruses, such that it is in a position to inform through good science, an increasing body of safety data and an unblemished safety record.

hVIVO has a very active programme of publication and conference attendance. hVIVO engages with key opinion leaders and thought leaders to promote the HCM, its acceptance and the importance of the data produced. hVIVO encourages collaboration with academic groups to perform HCM trials and to further the science behind the HCM.

Publication of trial results is a key route to adoption of the HCM. hVIVO is focused on delivering successful, large-scale trials and then actively participating in the publication of the study data and the promotion of the results. hVIVO ensures that its contracts allow full participation in the publication of data.

Principal risks and uncertainties
continued

Protection of the HCM and competition

Although hVIVO has been pioneering the HCM to date, operation of the HCM itself is not subject to any protection or restriction, nor can it be, due to the extensive prior art in the public domain.

Additionally, although hVIVO has rights relating to the viruses it owns and uses, there is no restriction on similar or new virus strains being manufactured and exploited. There can be no assurance that others have not developed or will not develop similar methodologies and services, nor duplicate any of the Group's services. As the understanding and acceptance of the HCM continues, we have begun to see the emergence of competition.

Competition has, and will continue, to come from the contract research organisation industry, ranging from large multi-nationals to smaller, niche businesses within clinical and academic institutions. Although there are a number of significant barriers to entry, the emergence of competition will continue, which in turn, could impact hVIVO's revenues and profitability.

hVIVO enjoys a significant advantage over existing and potential competition, due to hVIVO's wealth of know-how, proprietary information, experience and track record built over many years of successful operation of the HCM with its own viruses.

hVIVO continues to evolve, refine and leverage the HCM methodology, while driving cost efficiencies. The number of successful trials conducted and volunteers safely inoculated by hVIVO is unrivalled.

Potential liability or delays due to the nature of the Group's activities

The nature of the Group's activities creates risk of liability and/or may cause delays to the execution of the Group's business plan, for example:

- risks associated with storage, handling and administration of infective agents (albeit that those used in trials are in an attenuated form);
- errors or omissions that create harm (including personal injury or death) to participants in trials or, following trials, to recipients of the drugs developed pursuant to such trials; and
- errors and omissions during trials which may reduce or invalidate the usefulness of data.

Not all risks can be excluded or limited (for example where harm arises due to negligence or misconduct of the Group's staff). If the Group were to face a significant claim or were required to pay damages not covered by a contractual indemnity or by its insurance then it could be materially adversely affected. Reputational damage may also arise from such an event or claim and this may have a material impact on the Group's ability to retain or attract clients.

If the above occurrences and risks are manifested, further studies may be delayed or suspended until events can be investigated. Contractual payments due from clients may also be suspended whilst regulatory investigations are carried out.

Intellectual property and patent protection risk

The Group's success depends, amongst other things, on maintaining proprietary rights to its products and technologies and the Board gives high priority to the strategic management of the Group's intellectual property portfolio. However, there can be no guarantee that hVIVO's products and technologies are adequately protected.

Furthermore, if the Group's patents are challenged, the defence of such rights could involve substantial costs and have an uncertain outcome. Third-party patents may emerge containing claims that impact the Group's freedom to operate. There can be no assurance that the Group will be able to obtain licences to these patents at reasonable cost, if at all, or be able to develop or obtain alternative technology. Where copyright, design right and/or "know-how" protect the Group's products or technology, there can be no assurance that a competitor or potential competitor will not independently develop the same or similar products or technology.

Biomarker development risks

To develop a biomarker it may be necessary to conduct both pre-clinical studies and human clinical trials for biomarker candidates to demonstrate clinical validation and utility. The number of pre-clinical studies and clinical trials that will be required varies depending on the biomarker candidate, the biomarker platform being evaluated, the trial results and the regulations applicable to the particular product (research assay or diagnostic device). In addition, the Group or its partners will need to obtain regulatory approvals to conduct clinical trials before they can apply for authorisation to market the product. This development process takes many years.

Biomarker development risks continued

The Group may fail to develop successfully a biomarker candidate for many reasons, including:

- failure to validate biomarker or confirm clinical utility;
- failure to find a development partner or alternative funding;
- failure to obtain regulatory approvals to conduct clinical studies or, ultimately, to market the product; and
- failure to recruit sufficient patients into clinical studies.

The failure of the Group to develop successfully a biomarker candidate could adversely affect the future profitability of the Group.

Collaboration and funding risk

Collaborations and licensing are an important component of the Group's strategy to realise value and manage risk. The Group is likely to be dependent on collaborative relationships with third parties to facilitate and fund the research, development, commercialisation and marketing of hVIVO products. There is no guarantee that such collaborations and funding will continue to be found.

Circumstances may also arise where the failure by collaborators and third parties to perform their obligations in accordance with our agreements could delay, or halt entirely, development, production or commercialisation of our products, or adversely impact our cash flows.

Longer-term commercialisation risks

In the longer term, the success of the Group's products will depend on the regulatory and commercial environment several years into the future.

Future commercialisation risks include:

- the emergence of new and/or unexpected competitor products or technologies. The biotechnology and pharmaceutical industries are subject to rapid technological change which could affect the success of the Group's product candidates or make them obsolete; and
- the willingness of physicians and/or healthcare systems to adopt new biomarkers or diagnostic tools.

Any or all of these risks could result in the Group's future profitability being adversely affected as future royalties and milestones from commercial partners could be impacted.

Treasury policy and financial risk

The Group maintains a centralised treasury function, which operates under policies and guidelines approved by the Board. These cover funding, management of foreign exchange exposure and interest-rate risk. The purpose is to manage the financial risks of the business and to secure the most cost-effective funding.

The Group's principal financial assets are bank balances and short-term deposits, which are exposed to varying degrees to the following risks: liquidity risk, credit risk and foreign currency risk. The policy for managing these risks is outlined below:

- liquidity risk – the Group maintains good relationships with its banks, financial institutions with high credit ratings, and its working capital requirements are anticipated via the forecasting and budgetary process;
- credit risk – the Group is mainly exposed to credit risk from its trade and other receivables, short-term deposits and bank balances. An allowance for impairment is made where there is an identified loss event which, based on previous experience, is evidence of a reduction in the recoverability of the cash flows. Management considers the above measures to be sufficient to control the credit risk exposure; and
- foreign currency risk – the Group is exposed to minimal foreign currency risk. The functional currency of the Company is Sterling, which is the currency in which the Group's sales and the majority of its purchases are denominated. The Group seeks to negotiate the majority of its contracts with international clients in Sterling; however, where this is not possible, the Group will seek to hedge against the foreign currency risk. Some third party supplier purchases are made in Euros and US Dollars, although these are not considered to be significant.

Board of Directors

The Board of Directors has overall responsibility for the Group. Its aim is to represent the interests of the Group's shareholders and to provide leadership and control in order to ensure the growth and development of a successful business.

Jaime Ellertson

Non-Executive Chairman

Jaime Ellertson was appointed Non-Executive Chairman of hVIVO plc in June 2014. Jaime has lead numerous high growth, data and service driven companies through phases of rapid expansion, both in the private and public arena. Jaime currently holds the position of Chairman and Chief Executive Officer of Everbridge Inc., a provider of multi-dimensional critical communications solutions to leading Health Care, Corporate and Government organisations globally. He lives in Massachusetts and is a citizen of the United States of America. Jaime has previously served as the Chief Executive Officer, President and a Director of Gomez Inc., a company specialising in monitoring and managing website data and web application performance. During his tenure he led Gomez Inc. through an IPO registration that resulted in the successful sale of the company for $295 million to Compuware Corporation (NASDAQ: CPWR). He served as Chief Executive Officer, President and Director of S1 Corporation Inc. (NASDAQ: SONE), a software provider to the financial services marketplace. Jaime also orchestrated the successful turnaround of Interleaf, Inc. (NASDAQ: LEAF), a provider of software tools for e-content management, culminating in its acquisition for $852 million by BroadVision Inc. in 2000. Earlier in his career he founded several high growth software companies including Openware Technologies Inc., Document Automation Corporation and Purview Technologies Inc. Jaime is currently a Director of PeopleFluent and Everbridge in addition to having held numerous directorships on both public and private US and UK based companies.

Kym Denny

Chief Executive Officer

Kym Denny was appointed CEO of hVIVO Services Limited in December 2010 and became CEO of hVIVO plc in April 2012. Kym has over 15 years senior management experience of international clinical trials including Phase I-IV clinical operations, project management, drug safety, data management and site management. This experience was gained in a wide range of therapeutic areas including infectious disease and respiratory, CNS, oncology and women's health.

Kym began her career as a Clinical Research Associate at Kendle Research. She went on to found InSite Clinical Trials, a hybrid CRO and site management company in Atlanta, Georgia, USA, and then to the UK where she was appointed to the Board of Profiad Limited where she also oversaw the Clinical Operations function. She later became Managing Director, UK, for Harrison Clinical Research and then joined Origin as Head of International Clinical Operations, being promoted to Vice President of Clinical Research when the company was acquired by Constella LLC and later, SRA International.

Graham Yeatman

Chief Financial and Business Officer

Graham Yeatman joined hVIVO Services Limited as Finance Director in May 2011 and became Finance Director of hVIVO plc in April 2012. He was promoted to Chief Financial and Business Officer in January 2015. Graham has significant experience of building businesses for rapid growth and profitability. He is a Chartered Accountant and trained and worked with PricewaterhouseCoopers for 13 years across its audit, tax, consultancy, business process re-engineering and outsourcing divisions. In 2001 he joined buyingTeam Limited (subsequently renamed Proxima) as Finance and Operations Director and was influential in growing the business to become one of the UK's leading purchasing services providers. In 2006 he joined Neuropharm Group plc as Chief Financial Officer. Graham has a First class degree in Economics and Maths from Bristol University.

Dr Trevor Nicholls

Non-Executive Director

Dr Trevor Nicholls became a Non-Executive Director in May 2014. Trevor has over 30 years of experience building international businesses in the life science industry, with a strong focus on genomics and proteomics. In particular, he was previously Chairman of Oxford Nanopore Technologies Limited, is currently Chairman of Avacta Group plc and was the Chairman of Activiomics Limited prior to its acquisition by hVIVO. Trevor is also Chief Executive Officer of CABI, a not-for-profit inter-governmental organisation owned by 48 member countries worldwide. Prior to his current role with CABI, he was Chief Commercial Officer for Affymetrix Inc with accountability for global operations, delivering $330 million revenue with 600 staff across eight locations worldwide.

Dr Alison Fielding

Non-Executive Director

Dr Alison Fielding became a Non-Executive Director in July 2014 and is Chairman of the Remuneration Committee. Alison is Director of IP Impact at IP Group plc, a leading UK intellectual property commercialisation company, where she focuses on coaching and mentoring and non-executive duties on portfolio companies. She co-founded Techtran Group Limited and was the Chief Operating Officer of Techtran when it was acquired by IP Group in January 2005. She was a Director of IP Group from January 2005 to June 2013, promoted to Chief Technology officer in March 2007 and then Chief Operating Officer in May 2011. She spent six years at McKinsey & Co from 1994 to 2000, where she consulted primarily to the pharmaceutical and health care sectors. Prior to McKinsey, she spent four years as a development chemist for Zeneca, performing technical roles in the speciality chemicals and agrochemicals divisions. Alison holds an MBA from Manchester Business School, a Ph.D. in Organic Chemistry and a first class degree in Chemistry from the University of Glasgow.

David Norwood

Non-Executive Director

David Norwood was appointed Chairman of hVIVO Services Limited in February 2011 and became Chairman of hVIVO plc in April 2012, until June 2014 when he was succeeded as Chairman by Jaime Ellertson. David continues on the Board as a Non-Executive Director with a focus on the Company's business growth and investor strategy. David has had a long career building a number of science, technology and investment companies. He is the founder of IP Group plc, one of the UK's leading technology commercialisation businesses. Previously, he was Chief Executive of stockbroker Beeson Gregory (acquired by Evolution Group plc) after its acquisition of IndexIT Partnership, a technology advisory boutique he had founded in 1999. He was a founding shareholder of Evolution Group plc (recently acquired by Investec), and also co-founder of Ora Capital plc. David has been a founder and/or director of many UK technology companies including Oxford Nanopore Technologies, Proximagen (acquired by Upsher-Smith Laboratories, Inc), Synairgen, Ilika Technologies, Oxford Catalysts and Plectrum Petroleum (acquired by Cairn Energy). He has also acted as seed investor and/or adviser to Wolfson Microelectronics, Nanoco Technologies, Tissue Regenix and Arc International (now part of Synopsys). He is also Non-Executive Chairman of Oxford Pharmascience Group plc.

James F Winschel

Non-Executive Director

James F Winschel became a Non-Executive Director in October 2014 and is Chairman of the Audit Committee. Jim retired in June 2014 as Executive Vice President at PAREXEL International Corporation ("PAREXEL"), a US publicly-traded healthcare services company (NASDAQ: PRXL) with $1.9 billion in annual service revenue. He previously served as Senior Vice President and Chief Financial Officer of PAREXEL from 2000 to 2013, with responsibility for directing all financial activities, during a period when PAREXEL's revenue grew by $1.5 billion and market capitalisation increased from $225 million to $2.7 billion. Jim is currently CFO of Novimmune SA, a Swiss pharmaceutical company based in Geneva, Switzerland. He is also a Director of Cambrex Corporation, a US company offering products, services and technologies to accelerate the development and commercialisation of small molecule therapeutics. Earlier in his career, Jim spent five years at BTM Capital Corporation, a Bank of Tokyo-Mitsubishi Ltd. subsidiary, initially as Executive Vice President and Chief Financial Officer for three years before being promoted to President, U.B. Vehicle Leasing, Inc. Prior to these roles, he was the Vice President – Finance, Physician Services Division, at Caremark International, Inc. for two years from 1993 and spent the previous four years at Whirlpool Financial Corporation (WFC), both as the Vice President & Managing Director, Commercial Financing Division and prior to that as the Vice President and Chief Financial Officer. Jim worked for five years in various roles at General Electric Capital Corporation, in the Transportation and Industrial Financing Division and prior to that at General Electric Company for eleven years. Jim holds an MBA in Accounting and a BSc in Finance from Syracuse University in the USA.

Directors' report

Financial statements

The Directors present their Annual Report and audited Financial Statements for the Company and Group for the year ended 31 December 2014.

Principal activities

On 25 April 2012 the Company was re-registered as a public limited company. On 14 April 2015 the Company changed its name to hVIVO plc (formerly Retroscreen Virology Group plc).

hVIVO is a life sciences business developing human disease models to accelerate drug development in respiratory and infectious diseases, primarily selling to pharmaceutical companies and biotechnology organisations. The Group is pioneering the use of the HCM for evidencing the efficacy of antiviral and viral therapeutics for diseases such as RSV, flu and cold and discovering novel biomarkers to help organisations deliver better treatments, faster.

The operational activities of the Group are carried out through hVIVO Services Limited, a 100% owned subsidiary of hVIVO plc. The principal activity of the Company is that of a holding company.

Business review and key performance indicators

The Group's results are set out in the Consolidated Statement of Comprehensive Income on page 40 and are explained in the Financial Review report on pages 20 and 21. A detailed review of the business, its results and future direction is included in the Chief Executive Officer's statement on pages 10 to 17.

Capital structure

The Company is primarily financed through equity provided by its shareholders.

Research and development

The Group considers that the majority of its activities constitute research and development, whether as separate independent research and development (separately identified as research and development expense in the Consolidated Statement of Comprehensive Income), or as a natural consequence of operating and pioneering the HCM during client HCM studies (included within cost of sales). In the opinion of the Directors, continuity of the investment in this area is essential for the development of the HCM, maintenance of the Group's market position and for achieving long-term significant value.

Dividends

The Directors do not recommend the payment of a dividend (2013: £nil).

Directors

The Directors of the Company are as follows:

Kym Denny	
Graham Yeatman	
David Norwood	
Jaime Ellertson	Appointed 11 June 2014
Alison Fielding	Appointed 11 July 2014
Trevor Nicholls	Appointed 21 May 2014
James Winschel	Appointed 6 October 2014
Duncan Peyton	Retired 21 May 2014
Professor John Oxford	Retired 21 May 2014
Charles Winward	Retired 25 June 2014

At 31 December 2014, the Directors had the following beneficial interests in the Company's shares:

	31 December 2014 Number	31 December 2013 Number
Executive Directors		
Kym Denny	**347,680**	347,680
Graham Yeatman	**185,200**	185,200
Non-Executive Directors		
David Norwood	**3,219,520**	3,219,520
Jaime Ellertson	**5,423**	–
Alison Fielding	**24,320**	–

Biographical details of the Directors are given on pages 26 and 27.

Directors' interests

The interests of Directors in the shares and options of the Company are given above and in the Directors' Remuneration Report on pages 34 to 36.

None of the Directors had a material interest at any time during the year in any contract of significance with the Group other than a service contract. Information regarding Directors' service contracts is given on page 34 within the Directors' Remuneration Report.

Third-party indemnity provision for Directors

Qualifying third-party indemnity provision is in place for the benefit of all Directors of the Company.

Share capital

On 3 March 2014, 996,901 ordinary shares of 5 pence were issued to acquire the entire issued share capital of Activiomics Limited (see note 30).

On 1 September 2014 12,923,077 ordinary shares were issued via a placing at a price of 260 pence per ordinary share raising £33.6 million which after share issue expense of £0.8 million gave net consideration of £32.8 million.

During November 2014, 5,423 ordinary shares were allotted pursuant to the quarterly purchase of shares by Jaime Ellertson, under the terms of Mr Ellertson's letter of appointment.

As at 31 December 2014, the issued share capital of the Company was:

	Number of ordinary 5p shares	Nominal value £
Issued and fully paid up	67,652,321	3,383,000

The average market price of the Company's ordinary shares at close of business on 31 December 2014 was 245 pence.

The maximum share price during the year was 330 pence per share (12 August 2014) and the minimum price was 231 pence per share (25 November 2014).

On 8 January 2015 and 7 April 2015, 7,122 and 7,231 new ordinary shares, respectively were allotted pursuant to the quarterly purchase of shares by Jaime Ellertson and James Winschel, under the terms of their letters of appointment.

On 3 March 2015, 233,187 ordinary shares were issued in relation to deferred consideration for the acquisition of Activiomics Limited and 204,885 ordinary shares were issued following the exercise of warrants.

Directors' report
continued

Substantial share interests

At 14 April 2015, the Company had been advised or is aware of the following interests of 3% or more in the Company's issued share capital:

	Number of shares	Percentage of issued share capital
Invesco Limited	19,208,648	28.2%
IP2IPO Limited	11,963,883	17.6%
IP Venture Fund	2,171,371	3.2%
Woodford Investment Management LLP	5,469,517	8.0%
Lansdowne Partners (UK) LLP	5,149,038	7.6%
Henderson Global Investors Limited	3,638,645	5.3%
Sand Aire Limited	3,628,255	5.3%
Ruffer LLP	3,621,538	5.3%
David Norwood	3,219,520	4.7%
Baillie Gifford & Co	2,223,083	3.3%
Queen Mary & Westfield College, University of London	2,053,379	3.0%

Employees

The Group is committed to providing equal opportunities in employment and creation of a work environment where everyone is treated with dignity and respect. All job applicants and employees receive equal treatment regardless of sex, race, age, disability, sexual orientation, religion or belief, nationality or ethnic origin.

The Group places considerable value on the involvement of our employees and keeps them informed on matters affecting them as employees and on the various factors affecting the performance of the Group. This is achieved through newsletters, formal and informal meetings, either directly with employees, or through an Employee Representatives Group ("ERG") – consisting of representatives from various business constituencies appointed by and acting on behalf of our employees. ERG is actively involved in the work of Employee Forum, a collaborative platform for the engagement of employees and sharing of management information. The Annual Report and half-year Financial Statements are also key milestones in communicating with our employees.

hVIVO recognises that commercial success depends on the full commitment of all our employees and commits to respecting their human and employment rights, to provide them with a good, challenging and fulfilling working environment, free from unnecessary risk, and to maintain fair and competitive terms and conditions of employment at all times.

Statement as to disclosure of information to the auditor

The Directors who were in office on the date of approval of these Financial Statements have confirmed that, as far as they are aware, there is no relevant audit information of which the auditor is unaware. Each of the Directors have confirmed that they have taken all the steps that they ought to have taken as Directors in order to make themselves aware of any relevant audit information and to establish that it has been communicated to the auditor.

Auditor

Deloitte LLP has expressed its willingness to continue in office as auditors and a resolution to re-appoint them will be proposed at the forthcoming Annual General Meeting.

Annual General Meeting

The Notice convening the Annual General Meeting, which will take place at 10.00am on 21 May 2015 at the Company's registered office, has been sent out to shareholders with the Annual Report. Details of the business to be transacted at the AGM can be found in the Notice.

By order of the Board

Graham Yeatman
Chief Financial and Business Officer
15 April 2015

Corporate governance statement

Principles of corporate governance

As a company admitted to trading on AIM, the Company is not subjected to compliance of the UK Corporate Governance code (the "Code"). The Board has nonetheless taken steps to consider the main provisions of the code insofar as practical and reasonable given the size of the Group and the nature of its operations.

The Company's Board appreciates the value of good corporate governance not only in the areas of accountability and risk management but also as a positive contribution to business performance. It believes that corporate governance involves more than a simple "box ticking" approach to establish whether a company has met the requirements of a number of specific rules and regulations. Rather the issue is one of applying corporate governance principles (including those set out in the Corporate Governance Code for Small and Mid-Size Quoted Companies published by the Quoted Companies Alliance) in a sensible and pragmatic fashion having regard to the individual circumstances of a particular company's business. The key objective is to enhance and protect shareholder value.

Board of Directors

The Board of hVIVO plc comprises two Executive Directors and five Non-Executive Directors, one of whom is the Chairman. The roles of Chairman and Chief Executive Officer are distinct and are held by different people to ensure a clear division of responsibility. The role of the Non-Executive Directors is to bring valuable judgement and insight to Board deliberations and decisions. The Non-Executive Directors are all experienced and influential individuals whose blend of skills and business experience contributes to the proper functioning of the Board and its Committees, ensuring that matters are fully debated and that no individual or group dominates the Board's decision-making processes.

All Directors have access to the advice and services of the Company Secretary and in the course of their duties, if necessary, are able to take independent professional advice at the Company's expense. Committees have access to such resources as are required to fulfil their duties.

The Board receives regular reports detailing the progress of the Group, the Group's financial position and projections, as well as business development activities and operational issues, together with any other material deemed necessary for the Board to discharge its duties. The Chairman is primarily responsible for the effective operation and chairing of the Board and for ensuring that it receives appropriate information to make informed judgements.

The Board has a formal schedule of matters reserved to it for decision but otherwise delegates specific responsibilities to Committees, as described below. The terms of reference of the Committees are provided on the investor section of the Company's website. The Board is responsible for the review and approval of key policies and decisions in respect of business strategy and operations, Board appointments, budgets and forecasts, items of substantial investment and acquisitions.

Under the Articles of Association, all Directors must offer themselves for re-election at least once every three years. One third of the Directors retire by rotation at every Annual General Meeting and are eligible for re-appointment.

Board Committees

The Board has established an Audit Committee and a Remuneration Committee with written terms of delegated responsibilities for each.

Audit Committee

The Audit Committee comprises three Non-Executive Directors: James Winschel, who chairs the Committee, Alison Fielding and Trevor Nicholls. The external auditor, Chief Executive Officer and Chief Financial and Business Officer may be invited to attend Audit Committee meetings and, following each meeting, the Audit Committee and external auditor have the opportunity to meet without the Executive Directors present. The Audit Committee meets at least three times each year.

The Committee reviewed the half-year and full year results as well as the Half-year Report and Annual Report and Financial Statements prior to their submission to the Board and considered any matters raised by the external auditor. All scheduled Committee meetings were quorate and the conclusions from those meetings were presented to the Board.

In certain circumstances it is permitted by the Board for the auditor to supply non-audit services (for example, in the provision of tax advice). The Audit Committee has approved and monitored the application of this policy in order to safeguard auditor objectivity and independence. The overall fees paid to the auditor are not deemed significant enough to them so as potentially to impair their independence. The auditor is awarded assignments on a competitive basis and the Audit Committee pre-approves all permitted non-audit expenditure incurred and during the year reviews the cost-effectiveness, independence and objectivity of the external auditor. A formal Statement of Independence is received from the external auditor each year.

Remuneration Committee

The Remuneration Committee is chaired by Alison Fielding and comprises all the Non-Executive Directors. The Remuneration Committee meets at least twice each year.

The Committee is responsible for considering the Executive Directors' and senior management's remuneration packages and makes its recommendations to the Board.

The Chief Executive Officer and Chief Financial and Business Officer may be invited to attend Remuneration Committee meetings, other than when their own remuneration is discussed. No Director is involved in deciding his own remuneration.

Further details of Directors' remuneration are disclosed in the Directors' Remuneration Report.

Internal control and risk management

The Board acknowledges its responsibility for safeguarding shareholders' investments and the Group's assets. In applying this principle, the Board recognises that it has overall responsibility for ensuring that the Group maintains a system of internal control that provides it with reasonable assurance regarding effective and efficient operations, internal financial control and compliance with laws and regulations. The system of internal control is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

Through the Audit Committee, the Directors have reviewed the effectiveness of the internal controls. The key features of the internal control environment are described below:

- **control procedures and environment** – the Group has an organisational structure with clearly drawn lines of accountability and authority. Employees are required to follow well-defined internal procedures and policies appropriate to the business and their position within the business and management promotes the highest levels of professionalism and ethical standards;
- **identification and evaluation of risks** – the Group employs Executive Directors and senior management with the appropriate knowledge and experience required for a medical and scientific research group. Identification and evaluation of risk is a continuous process;
- **financial information** – the Group prepares detailed budgets and working capital forecasts annually. These are based upon the strategy and business planning of the Group and are approved by the Board. Detailed management accounts and working capital re-forecasts are reviewed at least quarterly for each Board meeting, with any variances from budget investigated thoroughly and a summary provided to the Board. Annual Reports, Preliminary Statements and Half-year Reports prepared by the Group are reviewed by the Audit Committee prior to approval by the Board;
- **monitoring** – the Board monitors the activities of the Group through the supply of reports from various areas of the business as contained in the Board papers. The Executive Committee performs a more detailed review, taking corrective action if required. The Board, through the Audit Committee, reviews the effectiveness of the systems of internal control.

Given the Group's relative small size, the Board does not consider it either necessary or practical at present to have its own internal audit function. The Board will continue to monitor the requirement to have an internal audit function.

Communication with shareholders

The Board attaches great importance to communication with both institutional and private shareholders.

Regular communication is maintained with all shareholders through Company announcements, the Annual Report and Financial Statements, Preliminary Statements and Half-year Report.

The Directors seek to build on a mutual understanding of objectives between the Company and its shareholders, especially considering the long-term nature of the business. Institutional shareholders are in contact with the Directors through presentations and meetings to discuss issues and to give feedback regularly throughout the year. With private shareholders this is not always practical. The Board, therefore, likes to use the Company's Annual General Meeting as the opportunity to meet private shareholders who are encouraged to attend, after which the Chief Executive Officer will give a presentation on the activities of the Group. Following the presentation there will be an opportunity to ask questions of the Executive Directors on a formal and informal basis and to discuss development of the business.

The Company operates a website at www.hvivo.com. The website contains details of the Group and its activities, regulatory announcements and Company announcements, Annual Reports and Half-year Reports, and the Terms of Reference of the Audit and Remuneration Committees.

Going concern

As disclosed in note 2 to the Consolidated Financial Statements, having made relevant and appropriate enquiries, including consideration of the Company and Group current resources and working capital forecasts, the Directors have a reasonable expectation that, at the time of approving the Financial Statements, the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, the Board continues to adopt the going concern basis in preparing the Financial Statements.

Directors' remuneration report

Introduction

hVIVO plc has elected voluntarily to prepare a Directors' Remuneration Report as set out below.

As a company admitted to trading on AIM, the company is not required to provide a formal remuneration report. This report is provided to give greater transparency to the Group's remuneration policy.

Remuneration policy overview

The aim of the remuneration policy is to encourage and reward superior performance by the Executive Directors and senior management, with performance being measured by reference to the achievement of corporate goals, strong financial performance and the delivery of value to shareholders.

The policy is designed to offer rewards that:

- enable the Group to attract and retain the management talent it needs to ensure its success;
- incentivise the achievement of the Group's strategy and the delivery of sustainable long-term performance of the Group by the executives; and
- have flexibility to accommodate the changing needs of the Group as it grows and its strategy evolves.

Remuneration levels will be benchmarked against a subset of companies in the UK life sciences and biotechnology sectors with the aim of achieving the following:

Base salary	between average and upper quartile
Performance-based bonus	between average and upper quartile
Share incentives	industry average
Total compensation	between average and upper quartile

The Remuneration Committee intends to establish a policy that enables the Group to retain and motivate the Executive Directors and senior management appropriately while still maintaining a strong "pay-for-performance" culture within the Group.

The remuneration policy is reviewed by the Remuneration Committee on an annual basis to ensure that it is in line with the Group's objectives and shareholders' interests.

Executive Directors

Kym Denny has a service agreement with hVIVO plc dated 26 April 2012, with continuous employment from 28 September 2009. Her appointment is terminable on six months' notice by either party.

Graham Yeatman has a service agreement with hVIVO plc dated 15 April 2015, with continuous employment from 3 May 2011. His appointment is terminable on six months' notice by either party.

Non-Executive Directors

The Non-Executive Directors have entered into letters of appointment with the Company, with the Board determining any fees paid. The appointments are terminable on three months' notice by either party. The Non-Executive Directors do not participate in the Group's pension, bonus or option schemes. Options previously awarded to Trevor Nicholls by Activiomics Limited were, following acquisition, exchanged for hVIVO options on a like-for-like basis.

Remuneration

The Executive Directors, Kym Denny and Graham Yeatman, are entitled to receive base salary, car allowance, employer pension contributions, share options and a discretionary performance-related bonus.

Salary

Base salaries are reviewed annually and effective from the beginning of April.

The Remuneration Committee seeks to assess the market competitiveness of pay primarily in terms of total remuneration, with less emphasis on base salary.

Bonuses

The timing and amount of bonuses are decided by the Remuneration Committee with reference to the individual's performance and contribution to the Group. The maximum bonus that can be earned by an Executive Director is 100% of base salary.

No bonuses have been awarded in respect of the year ended 31 December 2014.

Pensions

The Group operates a Group personal pension scheme which is a defined contribution scheme. Under the scheme rules, the Group pays an employer pension contribution of between 3% and 9% of base salary. The scheme is open to the Executive Directors and employees.

Directors' remuneration

The Directors received the following remuneration during the year:

	Salary and fees[1] £'000	Taxable benefits £'000	Bonus £'000	**2014 total excluding pensions £'000**	2014 pensions £'000	2013 total excluding pensions £'000	2013 pensions £'000
Kym Denny	172	54	–	**226**	14	261	13
Graham Yeatman	157	–	–	**157**	13	208	11
Executive Directors	329	54	–	**383**	27	469	24
David Norwood	25	–	–	**25**	–	6	–
Professor John Oxford[2]	–	–	–	**–**	–	–	–
Duncan Peyton[3]	6	–	–	**6**	–	10	–
Charles Winward[4]	5	–	–	**5**	–	10	–
Jaime Ellertson[5]	69	–	–	**69**	–	–	–
James Winschel[6]	13	–	–	**13**	–	–	–
Trevor Nicholls[7]	16	–	–	**16**	–	–	–
Alison Fielding[8]	7	–	–	**7**	–	–	–
Non-Executive Directors	141	–	–	**141**	–	26	–
Total	470	54	–	**524**	27	495	24

1. Salary and fees including car allowances.
2. Professor Oxford has no fee in relation to his appointment as a Non-Executive Director of the Company. He separately provided services to hVIVO Services Limited pursuant to a secondment agreement between hVIVO Services Limited and Queen Mary, University of London. Professor Oxford retired from the Board on 21 May 2014.
3. Duncan Peyton became a Non-Executive Director of the Company on 3 April 2012, representing the Northern Entrepreneurs Fund as a Corporate Director of hVIVO Services Limited. Duncan Peyton retired from the Board on 21 May 2014.
4. Charles Winward became a Non-Executive Director of the Company on 3 April 2012, representing IP2IPO Services Limited as a Corporate Director of hVIVO Services Limited. Charles Winward resigned from the Board on 25 June 2014.
5. Jaime Ellertson was appointed Chairman of the Board on 11 June 2014. His disclosed remuneration includes an amount which is contractually committed by him quarterly to purchase shares of hVIVO plc.
6. James Winschel was appointed Non-Executive Director of the Company on 6 October 2014. His disclosed remuneration includes an amount which is contractually committed by him quarterly to purchase shares of hVIVO plc.
7. Trevor Nicholls was appointed Non-Executive Director of the Company on 21 May 2014.
8. Dr Alison Fielding became a Non-Executive Director of the Company on 11 July 2014.

Directors' remuneration report
continued

Share options

The Company issues share options to the Executive Directors and employees to reward performance, to encourage loyalty and to enable valued employees to share in the success of the Company.

Aggregate emoluments disclosed above do not include any amounts for the value of options to acquire ordinary shares in the Company granted to or held by the Directors.

The Share Scheme was established immediately following the Company's acquisition of the entire issued share capital of hVIVO Sevices Limited (formerly Retroscreen Virology Limited) on 20 April 2012. The Share Scheme replicates the terms of the hVIVO Share Option Scheme (the "Old Share Scheme") which was operated by hVIVO Sevices Limited prior to the acquisition. Options over ordinary shares in hVIVO Sevices Limited outstanding under the Old Share Scheme at the time of the acquisition were exchanged by option holders for options on the same terms.

	Options as at 31 December 2013	Number of options granted during the year	**Options as at 31 December 2014**	Date of grant	Expiry of option	Exercise price	% vested
Kym Denny	145,540	—	**145,540**	13 Jan 2010	12 Jan 2020	6.25p	100%
Kym Denny	1,366,320	—	**1,366,320**	23 Dec 2011	22 Dec 2021	8.15p	100%
Graham Yeatman	644,600	—	**644,600**	23 Dec 2011	22 Dec 2021	8.15p	100%
Trevor Nicholls[1]	—	26,540	**26,540**	3 Mar 2014	18 Dec 2022	101.63p	100%

1 Under the terms of the agreement to purchase 100% of the ordinary shares of Activiomics Limited, the options in Activiomics Limited were exchanged for options in the Company on a like-for-like basis.

On 26 April 2012, following the share-for-share exchange and 20 for 1 share split, the original options on shares in hVIVO Sevices Limited were exchanged for new options on shares in the Company on an equivalent basis.

No options held by the Directors were exercised or lapsed during the year.

Directors' responsibilities statement

The Directors are responsible for preparing the Annual Report and the Financial Statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Group and Company Financial Statements for each financial year. The Directors are required by the AIM Rules of the London Stock Exchange to prepare Group Financial Statements in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU") and have elected under company law to prepare the Company Financial Statements in accordance with IFRS as adopted by the EU.

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 the Company and of the profit or loss of the Group for that period. In preparing each of the Group and Company Financial Statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with applicable IFRS as adopted by the EU; and
- prepare the Financial Statements on the going concern basis unless it is inappropriate to presume that the Group and the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's and the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and the Company and enable them to ensure that the Financial Statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Group and the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

Independent auditor's report

to the members of hVIVO plc (formerly Retroscreen Virology Group plc)

We have audited the financial statements of hVIVO plc (formerly Retroscreen Virology Group plc) for the year ended 31 December 2014 which comprise the Consolidated Statement of Comprehensive Income, the Consolidated and Company Statement of Financial Position, the Consolidated and Company Cash Flow Statements, the Consolidated and Company Statements of Changes in Equity and the related notes 1 to 30. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRS) 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 auditor

As explained more fully in the Directors' Responsibilities Statement, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit 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 Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and the Parent Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2014 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRS as adopted by the European Union;
- the Parent Company financial statements have been properly prepared in accordance with IFRS 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.

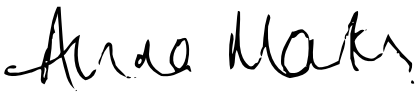
Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

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

- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company financial statements 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.



Anna Marks FCA (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
Reading, United Kingdom
15 April 2015

Consolidated statement of comprehensive income

for the year ended 31 December 2014

	Note	2014 £'000	2013 £'000
Revenue		**18,472**	27,490
Cost of sales		**(12,999)**	(19,177)
Gross profit		**5,473**	8,313
Research and development expense (excluding provision against virus inventory)		**(10,733)**	(1,198)
Research and development expense – provision against virus inventory	6	**(58)**	(1,270)
Administrative expense		**(17,730)**	(7,253)
Loss from operations	7	**(23,048)**	(1,408)
Finance income	9	**358**	226
Finance costs	10	**(15)**	(11)
Loss before taxation		**(22,705)**	(1,193)
Taxation	11	**4,269**	2,705
(Loss)/profit for the year		**(18,436)**	1,512
Total comprehensive (loss)/profit for the year attributable to owners of the parent		**(18,436)**	1,512
(Loss)/earnings per share – basic (pence)	12	**(31.3p)**	3.2p
(Loss)/earnings per share – diluted (pence)	12	**(31.3p)**	2.9p

All activities relate to continuing operations.

The Group has no recognised gains or losses other than the (loss)/profit for the year.

The accompanying notes are an integral part of the Consolidated Statement of Comprehensive Income.

Consolidated statement of financial position

at 31 December 2014

	Note	2014 £'000	2013 £'000
Assets			
Non-current assets			
Goodwill	13	**1,722**	–
Intangible assets	14	**3,333**	1,079
Property, plant and equipment	15	**3,153**	3,667
		8,208	4,746
Current assets			
Inventories	16	**3,731**	3,116
Trade and other receivables	17	**2,904**	5,851
Research and development tax credit receivable		**3,806**	2,425
Short-term deposits	18	**28,007**	22,500
Cash and cash equivalents	19	**22,826**	13,310
		61,274	47,202
Total assets		**69,482**	51,948
Equity and liabilities			
Equity			
Share capital	24	**3,383**	2,686
Share premium account		**72,498**	37,363
Share-based payment reserve		**249**	239
Merger reserve		**4,199**	4,199
Other reserve		**921**	–
Retained deficit		**(20,066)**	(1,630)
Total equity		**61,184**	42,857
Non-current liabilities			
Other payables	21	**550**	625
Provisions	22	**3,130**	110
		3,680	735
Current liabilities			
Trade and other payables	20	**4,618**	8,356
		4,618	8,356
Total liabilities		**8,298**	9,091
Total liabilities and equity		**69,482**	51,948

The Consolidated Financial Statements of hVIVO plc (registered company number 08008725) on pages 40 to 65 were approved and authorised for issue by the Board on 15 April 2015 and signed on its behalf by:

Kym Denny
Chief Executive Officer

Graham Yeatman
Chief Financial and Business Officer

The accompanying notes are an integral part of the Consolidated Statement of Financial Position.

Consolidated statement of changes in equity

for the year ended 31 December 2014

	Share capital £'000	Share premium account £'000	Share-based payment reserve £'000	Merger reserve £'000	Other reserve £'000	Retained deficit £'000	Total equity £'000
As at 1 January 2013	2,049	13,013	217	4,199	—	(3,142)	16,336
Proceeds from shares issued:							
Placing net of related expenses (see note 24)	637	24,350	—	—	—	—	24,987
Total transactions with owners in their capacity as owners	637	24,350	—	—	—	—	24,987
Profit for the year	—	—	—	—	—	1,512	1,512
Share-based payment expense	—	—	22	—	—	—	22
As at 31 December 2013	**2,686**	**37,363**	**239**	**4,199**	**—**	**(1,630)**	**42,857**
Proceeds from shares issued:							
Acquisition of subsidiary	50	2,987	—	—	921	—	3,958
Issue of new shares	—	15	—	—	—	—	15
Placing net of related expenses (see note 24)	647	32,133	—	—	—	—	32,780
Total transactions with owners in their capacity as owners	697	35,135	—	—	921	—	36,753
Loss for the year	—	—	—	—	—	(18,436)	(18,436)
Share-based payment expense	—	—	10	—	—	—	10
As at 31 December 2014	**3,383**	**72,498**	**249**	**4,199**	**921**	**(20,066)**	**61,184**

The accompanying notes are an integral part of the Consolidated Statement of Changes in Equity.

Consolidated statement of cash flows

for the year ended 31 December 2014

	2014 £'000	2013 £'000
Cash flow from operating activities		
Loss before income tax	**(22,705)**	(1,193)
Adjustments for:		
Depreciation of property, plant and equipment	**1,221**	812
Impairment of property, plant and equipment	**672**	–
Amortisation of intangible assets	**435**	2
Payment of Non-Executive Director fees by issue of shares	**15**	–
Share-based payment expense	**10**	22
Finance costs	**15**	11
Finance income	**(358)**	(226)
Loss/(gain) on foreign exchange	**8**	(48)
Increase in provisions	**3,020**	110
Changes in working capital:		
Increase in inventories	**(615)**	(1,503)
Decrease/(increase) in trade and other receivables	**2,965**	(3,156)
(Decrease)/increase in trade and other payables	**(3,835)**	1,640
Cash used in operations	**(19,152)**	(3,529)
Finance costs	**(15)**	(11)
Income tax refund	**2,568**	1,355
Net cash used in operating activities	**(16,599)**	(2,185)
Cash flows from investing activities		
Acquisition of intangible assets	**(148)**	(1,081)
Acquisition of property, plant and equipment	**(1,355)**	(3,102)
Increase in balances on short-term deposit	**(5,507)**	(22,500)
Acquisition of subsidiary	**67**	–
Finance income	**361**	105
Net cash used in investing activities	**(6,582)**	(26,578)
Cash flows from financing activities		
Net proceeds from issue of shares	**32,780**	24,987
Cash flow from other payables	**–**	750
Other payables repaid	**(75)**	(50)
Net cash generated from financing activities	**32,705**	25,687
Net (decrease)/increase in cash and cash equivalents	**9,524**	(3,076)
Exchange (loss)/gain on cash and cash equivalents	**(8)**	48
Cash and cash equivalents at the start of year	**13,310**	16,338
Cash and cash equivalents at the end of year	**22,826**	13,310

The accompanying notes are an integral part of the Consolidated Statement of Cash Flows.

Notes to the consolidated financial statements

1. General information

hVIVO plc (the "Company") and its subsidiaries (together, the "Group") is a life sciences business developing human disease models to accelerate drug development in respiratory and infectious diseases, primarily selling to pharmaceutical companies and biotechnology organisations. The Group is pioneering the use of HCM for evidencing the efficacy of antiviral and viral therapeutics for diseases such as RSV, flu and cold and discovering novel biomarkers to help organisations deliver better treatments, faster. The Group carries out its core activities from the United Kingdom. Sales and marketing support is provided by the US based subsidiary of the Company, hVIVO Inc.

The Company is incorporated and domiciled in the United Kingdom and its shares are listed on the London Stock Exchange's AIM market ("HVO"). The Company's registered office address is Queen Mary BioEnterprises Innovation Centre, 42 New Road, London, United Kingdom, E1 2AX.

On 14 April 2015 the Company changed its name to hVIVO plc (formerly Retroscreen Virology Group plc). The Company was incorporated on 27 March 2012 and on 20 April 2012 ownership of hVIVO Services Limited (formerly Retroscreen Virology Limited) was transferred to the Company in exchange for the issue of ordinary shares in the Company (hereinafter referred to as the "Reorganisation"). The Reorganisation is not deemed to be a business combination within the scope of IFRS 3 Business Combinations and accordingly these Consolidated Financial Statements reflect the merger basis of accounting whereby:

- the carrying amount of assets and liabilities included are based on the historical carrying amounts of such assets and liabilities recognised by hVIVO Services Limited;
- the results and cash flows are presented as though the Reorganisation occurred on 1 January 2012 and reflects the results and cash flows of hVIVO Services Limited; and
- the amount recognised in equity is based on the historical carrying amounts recognised by hVIVO Services Limited. However, the share capital balance is adjusted to reflect the equity structure of the outstanding stock of the Company, and any corresponding differences are reflected as an adjustment to additional paid in capital.

2. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these Consolidated Financial Statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Basis of preparation

The Financial Statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union and as issued by the International Accounting Standards Board ("IASB"). The Group Financial Statements also comply with the requirements of the Companies Act 2006 applicable to companies reporting under IFRS.

The Company has elected to take the exemption under section 408 of the Companies Act 2006 not to present the Parent Company's statement of comprehensive income. The Company's result for the year was a loss of £325,000 (2013: profit £23,000).

The Group Financial Statements are presented in pounds Sterling (£) and all values are rounded to the nearest thousand (£'000) except where indicated otherwise.

The Financial Statements have been prepared under the historical cost convention.

Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report and Directors' Report on pages 10 to 25 and pages 28 to 30.

In determining the basis for preparing the Financial Statements, the Directors are required to consider whether the Company can continue in operational existence for the foreseeable future, being a period of not less than twelve months from the date of the approval of the Financial Statements. As at 31 December 2014 the Group had short-term deposits, cash and cash equivalents of £50.8 million (2013: £35.8 million) and net current assets of £56.7 million (2013: £38.8 million).

Management prepares detailed working capital forecasts which are reviewed by the Board on a regular basis. The forecasts include assumptions regarding the status of client engagements and sales pipeline, future revenues and costs together with various scenarios which reflect growth plans, opportunities, risks and mitigating actions. The forecasts also include assumptions regarding the timing and quantum of investment in the Company's research and development programme. Whilst there are inherent uncertainties regarding the cash flows associated with the development of the hVIVO platform, together with the timing of signature and delivery of client engagements, the Directors are satisfied that there is sufficient discretion and control as to the timing and quantum of cash outflows to ensure that the Company and Group are able to meet their liabilities as they fall due for the foreseeable future.

As part of its going concern review the Board has followed the guidelines published by the Financial Reporting Council entitled "Going Concern and Liquidity Risk Guidance for UK Companies 2009". Having made relevant and appropriate enquiries, including consideration of the Company's and Group's current cash resources and the working capital forecasts, the Directors have a reasonable expectation that the Company and Group will have adequate cash resources to continue to meet the requirements of the business for at least the next twelve months. Accordingly, the Board continues to adopt the going concern basis in preparing the Financial Statements.

Basis of consolidation

The Consolidated Financial Statements incorporate the Financial Statements of the Company and entities controlled by the Company (its subsidiaries) made up to 31 December each year. Control is achieved when the Company has the power over the investee; is exposed, or has rights, to variable return from its involvement with the investee; and, has the ability to use its power to affect its returns. The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above. Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company losses control of the subsidiary. Specifically, the results of subsidiaries acquired or disposed of during the year are included in the Consolidated Statement of Comprehensive Income from the date the Company gains control until the date when the Company ceases to control the subsidiary.

Where necessary, adjustments are made to the Financial Statements of subsidiaries to bring the accounting policies used into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between the members of the Group are eliminated on consolidation.

Business combinations

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition date fair values of assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interest issued by the Group in exchange for control of the acquiree. Acquisition related costs are recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value at the acquisition date, except that:

- deferred tax assets or liabilities and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with International Accounting Standard ("IAS") 12 Income Taxes and IAS 19 Employee Benefits respectively; and
- assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with that Standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition date fair value and included as part of the consideration transferred in a business combination. Changes in fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not re-measured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is re-measured at subsequent reporting dates in accordance with IAS 39 Financial Instruments, or IAS 37 Provisions, Contingent Liabilities and Contingent Assets, as appropriate, with the corresponding gain or loss being recognised in profit or loss.

When a business combination is achieved in stages, the Group's previously-held interests in the acquired entity is re-measured to its acquisition date fair value and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss, where such treatment would be appropriate if that interest were disposed of.

2. Summary of significant accounting policies continued

Business combinations continued

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date.

Foreign currencies

The individual financial statements of each group company are presented in the currency of the primary economic environment in which it operates (its functional currency). For the purpose of the Consolidated Financial Statements, the results and financial position of each group company are expressed in pounds Sterling, which is the functional currency of the Company, and the presentation currency for the Consolidated Financial Statements.

In preparing the financial statements of the individual companies, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchange prevailing at the date of transaction. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

For the purpose of presenting Consolidated Financial Statements, the assets and liabilities of the Group's foreign operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the date of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity.

Revenue recognition

Revenue is recognised at the fair value of the consideration received or receivable for sale of goods and services in the ordinary course of business and is shown net of Value Added Tax.

The Group primarily earns revenues by undertaking HCM client engagements. A HCM engagement typically comprises a number of quarantines. Each quarantine lasts two to three weeks, but the timeline of work involved in building up to undertaking a quarantine is in the range of three to twelve months. Whether a HCM engagement is for one quarantine or for a number of quarantines the overall timeline of the HCM is much the same, apart from the additional time for the quarantines themselves and the time lags in between quarantines (with some volunteer cohorts offset in parallel and some sequential), as much of the upfront work is the same whether for one or a number of quarantines. HCM revenue is recognised on a percentage of completion method using output measures. Depending on the contractual terms, revenue is recognised based on the level of work completed to date in respect of each individual element of the HCM contract.

Contracts generally contain provisions for renegotiation in the event of changes in the scope, nature, duration, volume of services or conditions of the contract. Renegotiated amounts are recognised as revenue by revision to the total contract value arising as a result of an authorised customer change order. Provisions for losses to be incurred on contracts are recognised in full in the period in which it is determined that a loss will result from performance of the contractual arrangement.

The difference between the amount of revenue recognised and the amount invoiced on a particular contract is included in the Consolidated Statement of Financial Position as deferred income. Normally amounts become billable in advance upon the achievement of certain milestones, in accordance with pre-agreed payment schedules included in the contract or on submission of appropriate detail. Any cash payments received as a result of this advance billing are not representative of revenue earned on the contract as revenues are recognised over the period during which the specified contractual obligations are fulfilled. Amounts included in deferred income are expected to be recognised within one year and are included within current liabilities.

In the event of contract termination, if the value of work performed and recognised as revenue is greater than aggregate milestone billings at the date of termination, cancellation clauses provide for the Group to be paid for all work performed to the termination date.

Internally generated intangible assets – research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred. Development costs are capitalised when the related products meet the recognition criteria of an internally generated intangible asset, the key criteria being as follows:

- technical feasibility of the completed intangible asset has been established;
- it can be demonstrated that the intangible asset will generate probable future economic benefits;
- adequate technical, financial and other resources are available to complete the development;
- the expenditure attributable to the intangible asset can be reliably measured; and
- management has the ability and intention to use or sell the intangible asset.

Expenses for research and development include associated wages and salaries, material costs, depreciation on non-current assets and directly attributable overheads. Development costs recognised as assets are amortised over their expected useful life.

Intangible assets

The cost of a purchased intangible asset is the purchase price plus any cost directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended. Intangible assets acquired in a business combination and recognised separately from goodwill are recognised at their fair value at the acquisition date (which is regarded as their cost). Intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight line bases over their estimated useful lives. The estimated life and the amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and any impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All repairs and maintenance costs are charged to the Consolidated Statement of Comprehensive Income during the period in which they are incurred.

Depreciation is charged, on a straight-line basis, so as to write off the costs of assets less their residual values, over their estimated useful lives, on the following basis:

Leasehold improvements	the shorter of five years or the life of the lease
Plant and machinery	four years straight line
Computer equipment	three years straight line

The assets' estimated useful lives, depreciation basis and residual values are reviewed, and adjusted if appropriate, at the end of each reporting period.

The gain or loss arising on the disposal of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the Consolidated Statement of Comprehensive Income.

Impairment of tangible and intangible assets

At each reporting date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash generating unit to which the asset belongs.

The recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash generating unit) is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Impairment of goodwill

Goodwill is not amortised but is reviewed for impairment at each reporting date. For the purposes of impairment testing goodwill is allocated to each of the Group's cash generating units expected to benefit from the synergies of the combination. Cash generating units to which goodwill has been allocated are tested for impairment at each reporting date, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Inventories

Inventories are reported at the lower of cost (purchase price and/or production cost) and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and applicable variable selling expenses.

Inventories comprise completed manufactured grade viruses, work in process in relation to the manufacture of viruses, and laboratory and clinical consumables. The cost of virus inventory is calculated using the weighted average cost method for each individual strain, with cost including direct materials and, where applicable, direct labour costs and an attributable portion of production overheads that have been incurred in bringing the inventories to their present location and condition. Adjustments are made for any inventories where net realisable value is lower than cost, or which are considered to be obsolete. Any inventories which management consider are not usable on future commercial engagements are written off in the Consolidated Statement of Comprehensive Income.

2. Summary of significant accounting policies continued

Financial instruments

Financial assets and financial liabilities are recognised in the Consolidated Statement of Financial Position when the Group becomes party to the contractual provisions of the instrument. Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire or when the contractual rights to those assets are transferred. Financial liabilities are derecognised when the obligation specified in the contract is discharged, cancelled or expired.

Trade receivables

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. Appropriate provisions for estimated irrecoverable amounts are recognised in the Consolidated Statement of Comprehensive Income when there is objective evidence that the assets are impaired. The carrying amount of these assets approximates their fair value.

Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. The carrying amount of these assets approximates their fair value.

Short-term deposits

Short term deposits comprise money market deposits which are convertible to known amounts of cash and have an original maturity of between three months and twelve months.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recorded at the proceeds received, net of direct issue costs.

Trade and other payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are recognised initially at their fair value and are subsequently measured at their amortised cost using the effective interest rate method. Due to the short-term nature of these balances, the carrying amount of trade payables approximates to their fair value.

Borrowings

Borrowings, including advances received from related parties are initially recognised at the fair value of the consideration received less directly attributable transaction costs. After initial recognition borrowings are subsequently measured at amortised cost using the effective interest method.

Current and deferred tax

The tax credit represents the sum of the tax currently payable or recoverable and the movements in deferred tax assets and liabilities.

The tax currently payable is based on taxable profit or loss for the year. Taxable profit or loss differs from net profit or loss before income tax as reported in the Consolidated Statement of Comprehensive Income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated by using tax rates that have been enacted or substantively enacted by the reporting date.

Credit is taken in the accounting period for research and development tax credits, which will be claimed from HM Revenue & Customs, in respect of qualifying research and development costs incurred in the same accounting period.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the Financial Statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled based upon tax rates that have been enacted or substantively enacted by the reporting date. Deferred tax is charged or credited in the Consolidated Statement of Comprehensive Income, except when it relates to items credited or charged directly to equity, in which case the deferred tax is also dealt with in equity.

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity, respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Operating leases

Rentals payable under operating leases are charged to income on a straight-line basis over the term of the relevant lease. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Share-based payment transactions

Options

The Group operates an equity-settled share-based compensation plan, under which the Group receives services from employees (including Directors) as consideration for equity instruments (options) of the Company. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense over the vesting period.

The total amount to be expensed is determined by reference to the fair value of the options granted at the grant date. The fair value excludes the effect of non-market-based vesting conditions. Details regarding the determination of the fair value of equity-settled share-based transactions are set out in note 25.

The fair value determined at the date of grant is expensed on a straight-line basis over the vesting period, based upon the Group's estimate of the number of equity instruments that will eventually vest. At each reporting date, the Group revises its estimate of the number of equity instruments expected to vest as a result of the effect of non-market-based vesting conditions. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to equity reserves.

Warrants

The Group enters into equity-settled share-based payment transactions, involving the issuance of warrants, with parties other than employees. Pursuant to these transactions, the Group receives services from such parties as consideration for equity instruments (warrants) issued. The fair value of such services received in exchange for the grant of warrants is recognised as an expense over the service period.

Pension costs

The Group operates a defined contribution pension scheme for all employees. The assets of the scheme are held separately from those of the Group. Payments into the scheme are charged as an expense as they fall due.

Provisions

Provisions for dilapidations and onerous lease commitments are recognised when: the Group has a present legal or constructive obligation as a result of past events, it is probable that the Group will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material). When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

3. Critical accounting estimates and judgements

In the application of the Group's accounting policies, which are described in note 2, the Group makes estimates and assumptions concerning the future based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. The estimates and assumptions that have a significant effect on the amounts recognised in Financial Statements are addressed below.

Revenue, deferred income and accrued income

Revenue is recognised based on the level of work completed to date under the percentage of completion method. The recognition of revenue (and hence the related deferred and accrued income balances) requires management to make estimates in relation to the level of work done to date and assumptions of the costs to complete each project.

At each period end, management reviews each individual contract to assess whether any anticipated losses should be recognised immediately.

Impairment of intangible assets and goodwill

The Group's balance sheet includes goodwill and intangible assets. Impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of fair value less costs of disposal and its value in use. Determining whether an asset is impaired requires estimation of the fair value of the asset or cash generating unit and estimation of the value in use of the cash generating unit to which the asset has been allocated.

Virus inventory

The cost of inventories requires assumptions to be made in relation to accounting for the costs of directly attributable internal costs and overheads in developing new virus for commercial use. These assumptions are based primarily on management's estimates of employee average annual utilisation and overhead absorption multiple, in determining the valuation of internal costs and overheads incurred in bringing the inventories to their present location and condition.

In valuing virus inventory, management is required to make assumptions in relation to the future commercial use, being both external client revenue engagements and internal research and development engagements, for each virus. This includes consideration of both the current business pipeline and management's estimates of the future virus requirements, based on its significant knowledge and experience in the field of virology.

Provision

Provisions for dilapidations and onerous lease commitments are recognised when the Group has a present or constructive obligation as a result of past events. The recognition of provision requires management to make best estimates of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. There is reasonable uncertainty around the likelihood and timing of the exit of the lease as negotiations will involve third parties.

Research and development tax credit

The Group's research and development tax claim is complex and requires management to make significant assumptions in building the methodology for the claim, interpreting research and development tax legislation to the Group's specific circumstances, and agreeing the basis of the Group's tax computations with HM Revenue & Customs.

4. Interpretations of accounting standards

Amendments to published standards effective for the year ended 31 December 2014

During the year no amendments to standards that became effective during the year were relevant to the Group.

Standards adopted early by the Group

The Group has not adopted any standards or interpretations early in either the current or the preceding financial year.

Standards, amendment and interpretations effective in 2014 but not relevant

The following standards, amendments and interpretations were effective during 2014 but not relevant to the Group:

- IAS 27 (revised) Separate Financial Statements
- IAS 28 (revised) Associates and Joint Ventures
- IFRS 11 Joint Arrangements
- IFRS 12 Disclosures of interests in other entities
- IFRS 10, IFRS 12 and IAS 27 (amendments) Exception from consolidation for 'investment entities'
- IAS 32 (Amendment) Financial Instruments: Presentation–Offsetting financial assets and financial liabilities
- IAS 39 (Amendments) Financial instruments–recognition, measurement and novation of derivatives and continuation of hedge accounting

Interpretations to existing standards and new standards that are not yet effective and have not been early adopted by the Group:

- IFRIC 21 Levies
- IAS 19 (Amendments) Employee Benefits–defined benefit plans
- IFRS 2 (Amendments) Share-Based Payments
- IFRS 3 (Annual Improvements 2012) Business Combinations
- IFRS 8 (Annual Improvements 2012) Operating Segments
- IAS 16 (Annual Improvements 2012) Property Plant and Intangbiles
- IAS 38 (Annual Improvements 2012) Intangibles Assets
- IAS 24 (Improvements) Related Party Disclosure
- IFRS 3 (Annual Improvements 2013) Business Combinations
- IFRS 13 (Annual Improvements 2013) Fair Value Measurement
- IFRS 40 (Annual Improvements 2013) Investment Property
- IFRS 14 Regulatory Deferral Accounts
- IFRS 9 Financial Instruments
- IFRS 15 Revenue Recognition

The Directors are of the opinion, with the exception of IFRS 15, that the application of these standards is unlikely to have any significant impact, other than increased disclosures, on the Financial Statements of the Group or Company. The impact of adoption of IFRS 15 Revenue recognition is under review.

5. Segmental information

The Group's Chief Operating Decision Maker, the Chief Executive Officer, is responsible for resource allocation and the assessment of performance. In the performance of this role, the Chief Executive Officer reviews the Group's activities, in the aggregate. The Group has therefore determined that it has only one reportable segment under IFRS 8 Operating Segments, which is "medical and scientific research services".

The Group carries out its main activities from the United Kingdom. The Group conducts sales activity in the US and in Europe which is carried out through hVIVO Inc and hVIVO Services Limited respectively. All revenue is derived from activities undertaken in the UK.

During the year ended 31 December 2014 the Group had five customers who generated revenues greater than 10% of total revenue. These customers generated 28%, 22%, 16%, 15% and 11% of revenue.

During the year ended 31 December 2013 the Group had five customers who generated revenues greater than 10% of total revenue. These customers generated 24%, 20%, 17%, 15% and 13% of revenue.

6. Provision against virus inventory

Following a review of the virus inventory valuations as at 31 December 2013, a provision in full of £1.3 million against the carrying value of "Virus – work in progress" was recognised relating to a virus to be used in the development and commercialisation of new HCM models, where the new HCM models have not yet demonstrated technical feasibility. This expense was recorded within research and development expense and is presented separately in the Consolidated Statement of Comprehensive Income. As at 31 December 2014, the provision has increased by £58,000 as further costs were incurred developing the virus strain during the year.

A provision of £246,000 (2013: £301,000) against the carrying value of "Virus – finished goods" has been recognised due to management's assessment that the carrying values exceeded the net realisable values of such inventories resulting from changes in forecasted usage. A provision release of £55,000 has been recognised during the year within cost of sale.

7. Loss from operations

Loss before tax is stated after charging/(crediting):

	Year ended 31 December 2014 £'000	Year ended 31 December 2013 £'000
Employee benefit expense (note 8)	**16,430**	14,346
Recruitment and other human resources	**890**	968
Agency and interim consultants	**4,514**	2,066
Share-based payment charge	**10**	22
Premises and equipment	**3,931**	2,470
Volunteer costs	**2,893**	2,955
Inventories used	**1,407**	1,457
Virus inventory written off (note 16)	**–**	70
Virus inventory provision (cost of sales, finished goods, note 16)	**(55)**	301
Virus inventory provision (research and development, work in progress, note 16)	**58**	1,270
Insurance	**258**	199
Professional fees	**1,870**	1,096
Marketing	**137**	136
Information technology, including telecommunications	**1,940**	1,186
Depreciation of property, plant and equipment	**1,221**	812
Impairment of property, plant and equipment	**672**	–
Amortisation of intangible assets	**435**	2
Dilapidations and onerous lease expense (note 22)	**3,020**	110

Amounts payable to the Company's external auditor and its associates were as follows:

	Year ended 31 December 2014 £'000	Year ended 31 December 2013 £'000
Auditor fee:		
Fees payable to the Company's auditor for audit of the Company's annual Financial Statements	**33**	14
Fees payable to the Company's auditor and its associates for other services		
– the audit of the Company's subsidiaries pursuant to legislation	**38**	18
Total audit fees	**71**	32
Audit-related fees		
– audit-related assurance services	**135**	8
Total audit and audit-related fees (included within the loss for the year)	**206**	40
All other fees:		
– other services	**12**	–
Total non-audit fees	**12**	8
	218	40

8. Employees

	Year ended 31 December 2014 Number	Year ended 31 December 2013 Number
The average number of people (including Executive Directors) employed was:		
Management, administration and business development	**42**	40
Operations and project management	**355**	233
	397	273

	Year ended 31 December 2014 £'000	Year ended 31 December 2013 £'000
The aggregate employee benefit expense comprised (including Directors):		
Wages and salaries	**14,609**	12,755
Social security costs	**1,336**	1,341
Pension cost – defined contribution plans	**485**	228
Share option expense	**10**	22
	16,440	14,346

The remuneration of the Directors, who are the key management personnel of the Group, is shown within note 27.

9. Finance income

	Year ended 31 December 2014 £'000	Year ended 31 December 2013 £'000
Interest received	**358**	226

10. Finance costs

	Year ended 31 December 2014 £'000	Year ended 31 December 2013 £'000
Other bank charges	**15**	11

11. Taxation

	Year ended 31 December 2014 £'000	Year ended 31 December 2013 £'000
Current tax:		
Current year research and development tax credit	**(3,806)**	(2,425)
Adjustments in respect of previous periods	**(143)**	(280)
Deferred tax:		
Origination and reversal of temporary timing differences	**(320)**	—
	(4,269)	(2,705)
Factors affecting the tax charge for the period:		
The income assessed for the year differs from the theoretical amount that would arise by applying the UK corporation tax rate of 21.49% (2013: 23.25%), as explained below:		
Loss before taxation	**(22,705)**	(1,193)
Tax at the UK corporation tax rate of 21.49% (2013: 23.25%)	**(4,880)**	(277)
Expenses not deductible in determining taxable profit	**160**	18
Fixed asset timing differences not recognised	**57**	(779)
Current year research and development tax credit	**(1,707)**	(1,425)
Movement in unrecognised deferred tax asset	**1,700**	—
Temporary timing differences not recognised	**544**	38
Adjustments in respect of prior periods	**(143)**	(280)
Tax for the year	**(4,269)**	(2,705)

The Group has recognised a deferred tax liability of £0.3 million in respect of the fair value of intangible assets acquired during the year (see note 30) and a deferred tax asset of £0.3 million in respect of available losses resulting in a deferred tax credit to the income statement of £0.3 million (2013: £nil) in the year.

Factors affecting current and future taxation

The rate of UK corporation tax for the period to 31 March 2014 was 23%, and 21% with effect from 1 April 2014. A further reduction to 20% takes effect from 1 April 2015.

As at 31 December 2014, the Group had tax losses available for carry forward of approximately £13.91 million (2013: £2.62 million). The Group has not recognised deferred tax assets of £3.45 million (2013: £2.00 million) relating to carried forward losses and other temporary differences. These deferred tax assets have not been recognised as the Group's management considers that there is insufficient future taxable income, taxable temporary differences and feasible tax-planning strategies to utilise all of the cumulative losses and therefore it is probable that the deferred tax assets will not be realised in full. If future income differs from current projections, this could significantly impact the tax charge or benefit in future periods.

12. Earnings per share (EPS)

Basic earnings per share is calculated by dividing profit or loss for the year by the weighted average number of ordinary shares in issue during the year. Diluted EPS is computed based on the weighted average number of ordinary shares plus the effect of dilutive potential ordinary shares outstanding during the period based on the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options and warrants.

Dilutive potential ordinary shares include share options and warrants as described in note 2.

The calculation of the basic and diluted EPS as included in the Consolidated Statement of Comprehensive Income is based on the following data:

	Year ended 31 December 2014 £'000	Year ended 31 December 2013 £'000
Earnings		
(Loss)/profit for the year	**(18,436)**	1,512
Number of shares		
Weighted average number of ordinary shares for the purposes of basic EPS	**58,839,405**	47,963,221
Effect of dilutive potential ordinary shares:		
– share options	**–**	3,744,509
– warrants	**–**	143,449
Weighted average number of ordinary shares for the purposes of diluted EPS	**58,839,405**	51,851,179

In the current year, the potential ordinary shares were not treated as dilutive as the Group is loss making, therefore the weighted average number of ordinary shares for the purposes of the basic and diluted loss per share were the same.

13. Goodwill

	2014 £'000	2013 £'000
At 1 January	**–**	–
Recognised on acquisition of subsidiary (note 30)	**1,722**	–
At 31 December	**1,722**	–

The Group tests annually for impairment, or more frequently if there are indications that goodwill might be impaired.

Consistent with our segmental reporting, the business has one cash generating unit to which all goodwill arising on acquisitions has been allocated. The recoverable amount of the cash generating unit is determined by reference to fair value of the cash generating unit less estimated costs of disposal. As at 31 December 2014, the recoverable amount of the cash generating unit was considered to be significantly in excess of its book value.

14. Intangible assets

	2014 £'000	2013 £'000
At 1 January	**1,079**	–
Additions at cost	**148**	1,081
Recognised on acquisition of subsidiary (note 30)	**2,541**	–
Amortisation charge for the year	**(435)**	(2)
At 31 December	**3,333**	1,079

Intangible assets comprise software and acquired intellectual property.

15. Property, plant and equipment

	Leasehold improvements £'000	Plant and machinery £'000	Computer equipment £'000	Total £'000
Cost:				
At 1 January 2013	718	896	359	1,973
Additions	974	1,617	511	3,102
At 31 December 2013	1,692	2,513	870	5,075
Additions	727	455	173	1,355
Acquisition of subsidiary	—	22	2	24
At 31 December 2014	**2,419**	**2,990**	**1,045**	**6,454**
Accumulated depreciation:				
At 1 January 2013	105	355	136	596
Charge for the year	277	356	179	812
At 31 December 2013	382	711	315	1,408
Charge for the year	293	650	278	1,221
Impairment loss	672	—	—	672
At 31 December 2014	**1,347**	**1,361**	**593**	**3,301**
Carrying amount:				
At 1 January 2013	613	541	223	1,377
At 31 December 2013	1,310	1,802	555	3,667
At 31 December 2014	**1,072**	**1,629**	**452**	**3,153**

During the year, due to a change in the intended future use of leasehold premises, the Group carried out a review of the recoverable amount of leasehold improvements and recognised an impairment loss of £672,000 within Consolidated Statement of Comprehensive Income. The leasehold improvements cannot be sold hence the recoverable amount of the relevant assets has been determined on the basis of their value in use.

16. Inventories

	31 December 2014 £'000	31 December 2013 £'000
Laboratory and clinical consumables	**67**	104
Virus – finished goods	**2,212**	2,527
Virus – work in progress	**1,452**	485
	3,731	3,116

Inventories expensed in the Consolidated Statement of Comprehensive Income are shown within cost of sales or research and development expense. All inventories are carried at the lower of cost and net realisable value.

In the year to 31 December 2014 finished goods inventories with a carrying value of £nil were written off (31 December 2013: £70,000) due to obsolescence and this expense is recognised in cost of sales.

A provision of £246,000 (2013: £301,000) against the carrying value of "Virus – finished goods" has been recognised due to management's assessment that the carrying values exceeded the net realisable values of such inventories resulting from changes in forecasted usage. A provision release of £55,000 has been recognised during the year within cost of sales.

Following a review of the virus inventory valuations as at 31 December 2013, a provision in full of £1.3 million against the carrying value of "Virus – work in progress" was recognised relating to a virus to be used commercially in HCM models, where the new HCM models have not yet demonstrated technical feasibility. As at 31 December 2014, the provision has increased by £58,000 as further costs were incurred developing the virus strain during the year.

17. Trade and other receivables

	31 December 2014 £'000	31 December 2013 £'000
Trade receivables	**446**	3,511
VAT recoverable	**295**	585
Other receivables	**667**	484
Prepayments	**1,334**	769
Accrued income	**162**	502
	2,904	5,851

Contractual payment terms with the Group's clients are typically 30 to 45 days.

The Group recognises an allowance for doubtful debts against trade receivables based on estimated irrecoverable amounts determined by reference to past default experience of the counterparty and an analysis of the counterparty's current financial position. The movement on the allowance for doubtful debts on trade receivables and other receivables is as follows:

	31 December 2014 £'000	31 December 2013 £'000
Balance at beginning of the year	**–**	–
Impairment losses recognised through the Consolidated Statement of Comprehensive Income for the year	**–**	–
Amounts written off as unrecoverable during the year	**–**	–
Balance at end of the year	**–**	–

As at 31 December 2014 trade and other receivables of £280,000 (2013: £3,511,000) were past due but not impaired. The age profile of these balances is as follows:

	31 December 2014 £'000	31 December 2013 £'000
Up to three months	**279**	3,472
Three to six months	**1**	39
	280	3,511

The Directors believe that the carrying value of trade and other receivables represents its fair value. All trade receivables are denominated in pounds Sterling (£). In determining the recoverability of trade receivables the Group considers any change in the credit quality of the receivable from the date credit was granted up to the reporting date.

For details on the Group's credit risk management policies, refer to note 23.

The Group does not hold any collateral as security for its trade and other receivables.

18. Short-term deposits

	31 December 2014 £'000	31 December 2013 £'000
Short-term deposits	**28,007**	22,500

Balances held on short-term deposits have maturity dates between six and twelve months from the point of investment.

19. Cash and cash equivalents

	31 December 2014 £'000	31 December 2013 £'000
Cash at bank and in hand	**22,826**	13,310

All the Group's cash and cash equivalents at 31 December 2014 are at floating interest rates. Included in the cash and cash equivalents of the Group at 31 December 2014 was the equivalent of £204,000 (31 December 2013: £329,000) denominated in US Dollars and £100,000 denominated in Euros (31 December 2013: £98,000); the remaining cash and cash equivalents balance was denominated in pounds Sterling (£).

The Directors consider that the carrying value of cash and cash equivalents approximates fair value. For details on the Group's credit risk management, refer to note 23.

20. Trade and other payables

	31 December 2014 £'000	31 December 2013 £'000
Trade payables	**2,754**	2,083
Other taxes and social security	**414**	490
Other payables	**177**	186
Accruals	**903**	2,705
Deferred income	**370**	2,892
	4,618	8,356

Trade payables principally comprise amounts outstanding for trade purchases and ongoing costs. Trade payables are non-interest bearing and are typically settled on 30 to 45 day terms.

The Directors consider that the carrying value of trade and other payables approximates fair value. All trade and other payables are denominated in pounds Sterling (£).

The Group has financial risk management policies in place to ensure that trade payables are settled within the credit timeframe and no interest has been charged by any suppliers as a result of late payment of invoices during the reporting periods presented herein. For details on the Group's financial risk management, refer to note 23.

21. Other payables

	31 December 2014 £'000	31 December 2013 £'000
Amounts to be settled beyond one year	**550**	625

On 11 March 2013, the Group signed an Agreement for Lease with Queen Mary BioEnterprises Limited to develop the 3rd floor of the QMB Innovation Centre with a five-year term and an option to extend for another five years. As part of the agreement, QMB advanced the Group a repayable interest-free lease incentive of £750,000 to develop the 3rd floor, with £75,000 per annum repayable over a ten-year period. The lease incentive is recognised as a liability. In the event the Group does not exercise its option to extend the lease agreement for another five years, the remaining unpaid principal of the advance (£375,000) must be repaid at the end of the five-year contractual lease term.

22. Provisions

	31 December 2014 £'000	31 December 2013 £'000
Dilapidations provision	**130**	110
Onerous lease provision	**3,000**	—
	3,130	110

	Onerous lease provision £'000	Dilapidations provisions £'000	Total £'000
At 1 January 2014	—	110	110
Additional provision in the year	3,000	20	3,020
At 31 December 2014	**3,000**	**130**	**3,130**

Onerous lease provision of £3,000,000 (31 December 2013: £nil) represents the present value of costs to be incurred for the exit of premises leased by the Group. There is reasonable uncertainty around the likelihood and timing of the exit of the lease as negotiations will involve third parties. The provision is expected to be used during 2015 and 2016. Total expected costs to be incurred are £3,000,000.

Buildings dilapidations of £130,000 (31 December 2013: £110,000) represent the present value of costs to be incurred for the restoration of premises occupied by the Group. The provision is expected to be used during 2015 and 2018. Total expected costs to be incurred are £130,000.

23. Financial risk management

The Group is exposed to the risks that arise from its use of financial instruments. This note describes the objectives, policies and processes of the Group for managing those risks and the methods used to measure them. Risk management is carried out by management under the supervision of the Board of Directors. Management identifies and evaluates financial risks in close co-operation with the business' department heads.

Capital management

The Group manages its capital to ensure that it will be able to continue as a going concern while maximising the return to stakeholders. The Group is funded principally by equity although long-term and short-term loans have been utilised from time to time. As at 31 December 2014, a repayable lease incentive of £625,000 was outstanding (31 December 2013: £700,000).

Financing decisions are made by the Board of Directors based on forecasts of the expected timing and level of capital and operating expenditure required to meet the Company's commitments and development plans.

Financial assets

At the reporting date, the Group held the following financial assets:

	31 December 2014 £'000	31 December 2013 £'000
Cash and cash equivalents	**22,826**	13,310
Short-term deposits	**28,007**	22,500
Trade receivables	**446**	3,511
Other receivables	**667**	484
Accrued income	**162**	502
	52,108	40,307

Financial liabilities

At the reporting dates, the Group held the following financial liabilities, all of which were classified as other financial liabilities at amortised cost:

	31 December 2014 £'000	31 December 2013 £'000
Trade payables	**2,754**	2,083
Accruals	**903**	2,705
Repayable lease incentive from related parties	**625**	700
Other payables	**177**	111
	4,459	5,599

Market risk

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates. In the year ending 31 December 2014, both these risks are considered to have been minimal.

23. Financial risk management continued

Credit risk

Credit risk arises principally from the Group's short-term deposits, cash and cash equivalents and trade and other receivables.

The Group gives careful consideration to which organisations it uses for its banking services in order to minimise credit risk. The Group seeks to limit the level of credit risk on cash and cash equivalents by only depositing surplus liquid funds with counterparty banks that have high credit ratings.

The nature of the Group's business and the current stage of its development are such that individual customers can comprise a significant proportion of the Group's trade and other receivables at any point in time. The Group mitigates the associated risk by ensuring that its contracting terms provide for invoices to be raised in advance of the work being carried out and through the close monitoring of the debtor ledger. In addition, many of the Group's clients are either large, global, publicly listed companies or are owned by such entities.

There were no other significant concentrations of credit risk at the reporting date. At 31 December 2014, the Group's trade receivables balance was £446,000 (31 December 2013: £3,511,000).

The carrying amount of financial assets recorded in the Financial Statements, net of any allowances for losses, represents the Group's maximum exposure to credit risk. At 31 December 2014, the allowance for impairment losses totalled £nil (31 December 2013: £nil). In the opinion of the Directors, there has been £nil impairment of financial assets during the year ended 31 December 2014 (31 December 2013: £nil).

An allowance for impairment is made where there is an identified loss event which, based on previous experience, is evidence of a reduction in the recoverability of the cash flows. Management considers the above measures to be sufficient to control the credit risk exposure.

No collateral is held by the Group as security in relation to its financial assets.

Liquidity risk management

Liquidity risk is the risk that the Group will encounter difficulty in meeting its financial obligations as they fall due. Ultimate responsibility for liquidity risk management rests with the Board of Directors. The Board of Directors manages liquidity risk by regularly reviewing the Group's cash requirements by reference to short-term cash flow forecasts and medium-term working capital projections.

At 31 December 2014, the Group had short-term deposits, and cash and cash equivalents of £50,833,000 (31 December 2013: £35,810,000).

Foreign currency risk management

Historically, the Group's exposure to foreign currency risk has been limited, as all of its invoicing and the majority of its payments are in pounds Sterling. The balance held in foreign currencies at the end of the reporting period was not material and the Group has made no payments in foreign currencies other than US Dollars and Euros. As such, management has not presented any sensitivity analysis in this area as this is immaterial.

Maturity of financial assets and liabilities

With the exception of the lease incentive from a related party (see note 21), all of the Group's non-derivative financial liabilities and its financial assets at 31 December 2014 are either payable or receivable within one year.

24. Share capital

	Number	£'000
Issued and fully paid:		
At 1 January 2013	40,976,920	2,049
Issued under placing agreement – 14 June 2013	12,750,000	637
At 31 December 2013	53,726,920	2,686
Issued of new ordinary shares – 3 March 2014	996,901	50
Issued under placing agreement – 1 September 2014	12,923,077	647
Issued pursuant to purchase by Jaime Ellertson – 5 November 2014	5,423	–
At 31 December 2014	**67,652,321**	**3,383**

On 3 March 2014, 996,901 ordinary shares of 5 pence were issued to acquire the entire issued share capital of Activiomics Limited (see note 30).

On 1 September 2014, 12,923,077 ordinary shares were issued via a placing at a price of 260 pence per ordinary share raising £33.6 million which after share issue expenses of £0.8 million gave net consideration of £32.8 million.

On 5 November 2014, 5,423 ordinary shares were allotted pursuant to the quarterly purchase of shares by Jaime Ellertson, Chairman of the Company, under the terms of Mr Ellertson's letter of appointment.

Options

Share options outstanding at 31 December 2014 have the following expiry date and exercise prices:

Grant date	Number ('000)	Option price (pence)	Date from which exercisable	Expiry date
7 April 2009	108	5.0	7 April 2010	6 April 2019
7 April 2009	108	5.0	7 April 2011	6 April 2019
7 April 2009	108	5.0	7 April 2012	6 April 2019
14 September 2009	53	6.3	14 September 2010	13 September 2019
14 September 2009	53	6.3	14 September 2012	13 September 2019
14 September 2009	54	6.3	3 May 2012	13 September 2019
13 January 2010	79	6.3	13 January 2011	12 January 2020
13 January 2010	79	6.3	13 January 2012	12 January 2020
13 January 2010	80	6.3	3 May 2012	12 January 2020
23 December 2011	1,036	8.2	3 May 2012	22 December 2021
23 December 2011	1,037	8.2	23 December 2012	22 December 2021
23 December 2011	1,037	8.2	23 December 2013	22 December 2021
3 March 2014	69	101.63	3 March 2014	18 December 2022
	3,901			

Details of share options are disclosed in note 25 to the Financial Statements.

Components of equity

The components of equity are as follows:

- share capital and the share premium account, both of which arise on the issue of shares;
- share-based payment reserve, which results from the Company's grant of equity-settled share options to selected employees and Directors;
- merger reserve, which was created as a result of the acquisition by the Company of the entire issued share capital of hVIVO Services Limited in 2012 (see note 1). This reserve is not considered to be distributable;
- other reserve, which relates to deferred consideration in respect of the acquisition of Activiomics Limited (see note 30); and
- retained deficit, which reflects losses incurred to date.

25. Share-based payments

hVIVO plc share option plan

The Group has a share option plan under which it grants options and shares to certain Directors and employees of the Group.

Options are exercisable at a price equal to the estimated value of the Company's shares on the date of the grant. The options are settled in equity once exercised. If the options remain unexercised for a period after ten years from the date of grant, the options expire. Options are forfeited if the employee leaves the Group before the options vest.

Details of the number of share options and the weighted average exercise price ("WAEP") outstanding during the period are as follows:

	31 December 2014		31 December 2013	
	Number ('000)	WAEP £	Number ('000)	WAEP £
Outstanding at the beginning of the year	**3,858**	**0.08**	3,868	0.08
Expired during the year	**(26)**	**0.08**	(10)	0.05
Outstanding at the end of the year	**3,832**	**0.08**	3,858	0.08
Exercisable at year end	**3,832**	**0.08**	2,733	0.08

The options outstanding at 31 December 2014 had a weighted average exercise price of £0.08 and a weighted average remaining contractual life of 6.5 years.

The fair values of options granted were calculated using the Black Scholes pricing model. The Group used historical data to estimate option exercise and employee retention within the valuation model. All options outstanding were granted prior to the Company's admission to AIM, consequently expected volatilities on the grant date were based on implied volatilities of a sample of listed companies based in similar sectors. The risk-free rate for the period within the contractual life of the option was based on the UK gilt yield curve at the time of the grant.

The Group recognised a charge of £10,000 (31 December 2013: £22,000) related to equity-settled share-based payment transactions during the year.

Acquisition of Activiomics

Under the terms of the agreement to purchase 100% of the ordinary shares of Activiomics Limited, the options in Activiomics Limited were exchanged for options on 69,229 shares in the Company on a like for like basis.

Adviser warrants

In part settlement of adviser fees in the year ending 31 December 2012, warrants over 204,885 ordinary shares were granted at an exercise price of 80 pence per ordinary share. On 3 March 2015, 204,885 ordinary shares were issued following the exercise of these warrants.

26. Pensions

The Group operates a defined contribution pension scheme whose assets are held separately from those of the Group in an independently administered fund. The pension charge represents contributions payable by the Group and amounted to £485,000 for the year (31 December 2013: £228,000). Contributions totalling £95,000 were payable to the fund at the year end and are included within trade and other payables (31 December 2013: £86,000).

27. Related party transactions

Remuneration of key personnel

The remuneration of the Directors, who are the key management personnel of the Group, is shown below:

	Year ended 31 December 2014 £'000	Year ended 31 December 2013 £'000
Executive Directors – aggregate		
Short-term employee benefits and fees	**383**	469
Employer's National Insurance contributions	**70**	41
Post-employment benefits	**28**	24
Share-based compensation charge	**6**	14
	487	548
Non-Executive Directors – aggregate		
Short-term employee benefits and fees	**130**	6
Payments to third parties	**11**	20
Total short-term employee benefits and fees	**141**	26
Total Directors' remuneration	**628**	574

Remuneration and benefits paid to the highest paid Director totalled £226,000 (31 December 2013: £192,000).

Amounts outstanding to key personnel

As at 31 December 2014, £46,000 was due in relation to employer pension contributions (31 December 2013: £31,000).

Transactions with the Group's shareholders

The Group has entered into a number of arrangements with Queen Mary, University of London ("QMUL"), a shareholder, and an entity related to QMUL, Queen Mary BioEnterprises Limited ("QMB") including:

- on 11 March 2013, the Group commenced a five-year lease with QMB on the 2nd and 3rd floors of the QMB Innovation Centre at a rent of £925,000 per annum. This lease includes an option to extend the lease for a further five year period, with the option exercisable by the Group during the period of six months following the fourth anniversary of the lease; and
- on 1 March 2013 the Group commenced a five year lease with QMB for three units on the 1st floor of the QMB Innovation Centre at a rent of £21,375 per annum.

Charles Winward retired as a Non-Executive Director of the Company on 25 June 2014. Fees from 1 January 2014 to the retirement date were £5,000 and were invoiced by IP2IPO Limited.

Duncan Peyton retired as a Non-Executive Director of the Company on 21 May 2014. Fees from 1 January 2014 to the retirement date were £6,000 and were invoiced by Aquarius Equity Partners Limited.

Professor John Oxford received no fee in relation to his appointment as a Non-Executive Director. He was seconded from QMUL who invoiced fees. Professor John Oxford retired on 21 May 2014. Fees for the year to the retirement date were £16,000.

27. Related party transactions continued

Transactions with the Group's shareholders continued

The amounts paid to shareholders and their connected parties in each year (including VAT) were as follows:

	Year ended 31 December 2014 £'000	Year ended 31 December 2013 £'000
Rent and facilities	**1,302**	1,143
Director salary recharged	**19**	47
Non-Executive Director fees	**13**	16
Other expenses recharged	**15**	5
	1,349	1,211

The balances outstanding to related parties at the end of the period were as follows:

	Year ended 31 December 2014 £'000	Year ended 31 December 2013 £'000
Shareholders		
Repayable lease incentive	**625**	700
Invoices outstanding included in trade and other payables in the Consolidated Statement of Financial Position	**304**	281
	929	981

28. Operating lease arrangements

At the reporting date, the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	31 December 2014 £'000	31 December 2013 £'000
Within one year	**1,510**	1,313
In the second to fifth years inclusive	**5,099**	3,940
After five years	**200**	252
	6,809	5,505

As detailed in note 27, on 18 February 2011 the Company commenced a five-year lease with QMB of the 2nd floor of the QMB Innovation Centre. On 11 March 2013, this lease was replaced by a five-year lease with QMB of the 2nd and 3rd floor of the QMB Innovation Centre. The operating lease commitments include £4.5m in respect of a lease which had been identified as being onerous at year end and accordingly, a provision has been made (see note 22).

29. Capital commitments

At the reporting date, the Group had £nil capital commitments (31 December 2013: £nil).

30. Acquisition of subsidiary

On 3 March 2014, the Company acquired 100 per cent of the share capital of Activiomics Limited ("Activiomics"). Activiomics was a private UK based proteomics company founded in 2010 and spun out of the Institute of Cancer at Saint Bartholomew's Hospital ("Barts") and the London Medical School, part of Queen Mary University of London. Activiomics developed a powerful technology for protein identification which should help enable hVIVO to mine its biological samples for novel insights into target diseases. During 2014 the business and assets of Activiomics were transferred into hVIVO Services Limited, such that as at 31 December 2014 Activiomics is a dormant company.

	Book value £'000	Fair value adjustments £'000	Fair value £'000
Net assets acquired			
Cash and cash equivalents	108	—	108
Other receivables	21	—	21
Property, plant and equipment	24	—	24
Intangible assets	—	2,541	2,541
Deferred tax liability	—	(320)	(320)
Financial liabilities	(96)	—	(96)
	57	2,221	2,278
Goodwill			1,722
			4,000
Satisfied by:			
Cash			41
Equity instruments			3,037
Grant of share options			211
Deferred consideration			711
			4,000

Cash and cash equivalent balances of £108,000 were acquired with the acquisition. The goodwill of £1,722,000 arising from the acquisition consists of proprietary knowledge and the value of the workforce acquired. None of the goodwill is expected to be deductible for income tax purposes.

The fair value of the intangible asset was estimated using a discounted cash flow model forecasting the reduction in costs to the Group by utilising the intangible assets acquired. Key assumptions included the volume of samples analysed and the useful life of the intangible asset. Reasonable changes to the key assumptions would not result in a material difference to the fair value assessed. The carrying value of the intangible asset as at 31 December 2014 was £2,118,000.

The fair value of the 996,901 ordinary shares issued as part of the consideration paid for Activiomics was determined as the average middle market quotations of ordinary shares of the Company for the 30 days immediately preceding completion of the transaction.

The deferred consideration of 233,187 ordinary shares was issued on 3 March 2015, on the first anniversary of the date of completion of the transaction.

Acquisition related costs (included within administrative expenses) amount to £76,000.

If the acquisition of Activiomics had been completed on the first day of the financial year, Group revenues for the period would have been £18.5 million and the Group loss would have been £18.5 million.

Company statement of financial position

at 31 December 2014

	Note	2014 £'000	2013 £'000
Assets			
Non-current assets			
Investments	3	**19,703**	17,707
		19,703	17,707
Current assets			
Trade and other receivables	4	**120**	124
Amounts due from Group undertakings		**23,611**	6,596
Short-term deposits	5	**28,007**	22,500
Cash and cash equivalents	6	**22,053**	9,980
		73,791	39,200
Total assets		**93,494**	56,907
Equity and liabilities			
Equity			
Share capital	9	**3,383**	2,686
Share premium account		**72,498**	37,363
Share-based payment reserve		**249**	239
Merger reserve		**16,530**	16,530
Other reserve		**921**	—
Retained (deficit)/earnings		**(281)**	44
Total equity		**93,300**	56,862
Current liabilities			
Trade and other payables	7	**194**	45
Total liabilities		**194**	45
Total equity and liabilities		**93,494**	56,907

The Financial Statements of hVIVO plc (registered company number 08008725) on pages 66 to 71 were approved and authorised for issue by the Board on 15 April 2015 and signed on its behalf by:

Kym Denny
Chief Executive Officer

Graham Yeatman
Chief Financial and Business Officer

Company statement of changes in equity

for the year ended December 2014

	Share capital £'000	Share premium account £'000	Share-based payment reserve £'000	Merger reserve £'000	Other reserve £'000	Retained earnings £'000	Total equity £'000
As at 1 January 2013	**2,049**	**13,013**	**217**	**16,530**	**–**	**21**	**31,830**
Proceeds from shares issued:	637	24,350	–	–	–	–	24,987
Total transactions with owners in their capacity as owners	637	24,350	–	–	–	–	24,987
Profit for the year	–	–	–	–	–	23	23
Share-based payment expense	–	–	22	–	–	–	22
As at 31 December 2013	**2,686**	**37,363**	**239**	**16,530**	**–**	**44**	**56,862**
Proceeds from shares issued:							
Issue of new shares	–	15	–	–	–	–	15
Placing net of related expenses	647	32,133	–	–	–	–	32,780
Total transactions with owners in their capacity as owners	647	32,148	–	–	–	–	32,795
Loss for the year	–	–	–	–	–	(325)	(325)
Acquisition of subsidiary	50	2,987	–	–	921	–	3,958
Share-based payment expense	–	–	10	–	–	–	10
As at 31 December 2014	**3,383**	**72,498**	**249**	**16,530**	**921**	**(281)**	**93,300**

Company statement of cash flows
for the year ended December 2014

	2014 £'000	2013 £'000
Cash flow from operating activities		
(Loss)/profit before income tax	**(325)**	23
Adjustments for:		
Payment of Non-Executive Director fees by issue of shares	**15**	—
Finance income	**(350)**	(97)
Changes in working capital:		
Decrease in trade and other receivables	**(2)**	(118)
Increase in trade and other payables	**149**	8
Cash from operations	**(513)**	(184)
Net cash used in operations	**(513)**	(184)
Investing activities		
Loans to subsidiaries	**(15,000)**	(6,596)
Increase in balances on short-term deposits	**(5,507)**	(22,500)
Payment to acquire subsidiary	**(41)**	—
Finance income	**354**	97
Net cash used in investing activities	**(20,194)**	(28,999)
Financing activities		
Net proceeds from issue of shares	**32,780**	24,987
Net cash generated from financing activities	**32,780**	24,987
Net (decrease)/increase in cash and cash equivalents	**12,073**	(4,196)
Cash and cash equivalents at the start of year	**9,980**	14,176
Cash and cash equivalents at the end of year	**22,053**	9,980

1. Principal accounting policies

The separate Financial Statements of the Company are presented as required by the Companies Act 2006. As permitted by the Act, the separate Financial Statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") adopted by the European Union.

The Financial Statements have been prepared on the historical cost basis. The principal accounting policies adopted are the same as those set out in note 2 of the Group's Financial Statements, except where noted below.

Investments

Investments are initially recorded at cost including directly attributable acquisition costs. Investments are reviewed for impairment if events or changes in circumstances indicate that the carrying value may not be recoverable.

Share-based payments

Refer to note 2 of the Group's Financial Statements for the principal accounting policy relating to share-based payments.

Any share-based payment expense arising in relation to employee share options is recharged to the Company's trading subsidiary, hVIVO Services Limited.

2. Company results

On 25 April 2012 the Company was re-registered as a public limited company. On 14 April 2015 the Company changed its name to hVIVO plc (formerly Retroscreen Virology Group plc).

The Company has taken the exemption under section 408 of the Companies Act 2006 not to present the Parent Company's income statement. The Parent Company's result for the period ended 31 December 2014 was a loss of £325,000 (2013: £23,000 profit).

The audit fee for the Company is set out in note 7 of the Group's Financial Statements.

3. Investments

	31 December 2014 £'000	31 December 2013 £'000
Investments in subsidiaries:		
Balance at beginning of year	**17,707**	17,685
Additions	**4,000**	–
Dividend in specie	**(2,014)**	–
Share-based compensation adjustment	**10**	22
Balance at end of year	**19,703**	17,707

Details of subsidiaries, all wholly owned and included in the Consolidated Financial Statements, are:

	Country of incorporation	Holding	Proportion of voting rights and shares held	Nature of business
hVIVO Services Limited	United Kingdom	Ordinary shares	100%	Medical and scientific research services
hVIVO Inc	United States of America	Ordinary shares	100%	Sales and marketing services
Activiomics Limited	United Kingdom	Ordinary shares	100%	Medical and scientific research services
Retroscreen Virology Services Limited	United Kingdom	Ordinary shares	100%	Dormant

On 20 April 2012 ownership of hVIVO Services Limited (formerly Retroscreen Virology Limited) was transferred to the Company in exchange for the issue of ordinary shares in the Company. The Company opted to hold its investment in its subsidiary companies at cost in accordance with IAS 27 Consolidated and Separate Financial Statements. As a consequence, the investment has been adjusted from the nominal value of the shares issued to the fair value of the shares issued in exchange for the shares acquired as a result of the business combination. A corresponding adjustment was made to equity by recognition of a merger reserve given the criteria for relief under section 131 of the Companies Act 1985 had been met at that time.

On 3 March 2014, the Company acquired 100 per cent of the share capital of Activiomics Limited ("Activiomics") for a total consideration of up to £4.0 million in new ordinary shares of 5 pence each in the Company (see note 30).

Notes to the Company financial statements
continued

4. Trade and other receivables

	31 December 2014 £'000	31 December 2013 £'000
Other receivables	**—**	1
Prepayments and accrued income	**120**	123
	120	124

5. Short-term deposits

	31 December 2014 £'000	31 December 2013 £'000
Short-term deposits	**28,007**	22,500

Balances held on short-term deposits have maturity dates between six and twelve months from the point of investment.

6. Cash and cash equivalents

	31 December 2014 £'000	31 December 2013 £'000
Cash at bank and in hand	**22,053**	9,980

All of the Group's cash and cash equivalents at 31 December 2014 are at floating interest rates and are all denominated in pounds Sterling (£).

The Directors consider that the carrying value of cash and cash equivalents approximates their fair value. For details on the Company's credit risk management, refer to note 23 to the Group's Financial Statements.

7. Trade and other payables

	31 December 2014 £'000	31 December 2013 £'000
Trade payables	**94**	—
Social security and other taxes	**22**	5
Accruals	**76**	40
Other payables	**2**	—
	194	45

8. Financial instruments

Principal financial instruments

The Company's financial instruments that principally expose it to financial risks are as follows:

- trade and other receivables;
- trade and other payables; and
- cash and cash equivalents.

Financial assets

At the reporting date, the Company held the following financial assets.

	31 December 2014 £'000	31 December 2013 £'000
Short-term deposits, cash and cash equivalents	**50,060**	32,480
Other receivables	**117**	1
	50,177	32,481

Financial liabilities

At the reporting dates, the Company held the following financial liabilities, all of which were classified as other financial liabilities:

	31 December 2014 £'000	31 December 2013 £'000
Trade payables	**94**	–
Accruals	**76**	20
Other payables	**2**	–
	172	20

Refer to note 23 to the Group's Financial Statements for more information.

9. Share capital

Refer to note 24 to the Group's Financial Statements.

10. Share-based payments

Refer to note 25 to the Group's Financial Statements.

11. Related party transactions

Remuneration of key personnel

The remuneration of the Directors, who are the key management personnel of the Group, is shown at note 27 to the Group Financial Statements.

Transactions with the Group's shareholders

The amounts paid to shareholders and their connected parties (including VAT) were as follows:

	31 December 2014 £'000	31 December 2013 £'000
Non-Executive Director fees	**13**	16
Other expenses recharged	**2**	5
	15	21

The balances outstanding to shareholders at the end of the year were as follows:

	31 December 2014 £'000	31 December 2013 £'000
Invoices outstanding	**–**	–

Glossary

antiviral a drug effective against viruses which cause disease

attenuated virus reduction of the ability of a virus to induce disease (virulence)

CDC (Centers for Disease Control and Prevention) a US government public health agency

characterised having distinguishing features identified and described (for example a virus may be characterised by features such as activity and ability to induce disease)

clinical trial (or trial) a formal study of a therapeutic in order to demonstrate safety and efficacy and required in order to obtain regulatory approval of a therapeutic

COPD (Chronic Obstructive Pulmonary Disease) is a disease of the lungs in which the airways narrow over time, limiting airflow to and from the lungs, causing shortness of breath

efficacy the ability of a drug to produce a desired outcome or effect

EMA European Medicines Agency

Ethics Committee an independent committee responsible for the approval of clinical trials and their ethical conduct (also referred to as an institutional review board in the US)

FDA (Food and Drug Administration) the US government body responsible for the regulation of, testing and approval of therapeutics and medical devices in the US

field-based trials for cold and flu research, studies where volunteers already showing symptoms of cold or flu are recruited – often via a patient's presentation at a clinic, hospital or pharmacy

GCP (Good Clinical Practice) an international quality standard for clinical trials

H3N2 a subtype of influenza viruses that can infect birds and mammals. In birds, humans, and pigs, the virus has mutated into many strains and is increasingly abundant in seasonal influenza

HCM Human challenge models – utilise the ability of challenge agents, for example respiratory viruses, to elicit common self-limiting diseases such as flu, cold (Human Rhinovirus, "HRV") and Respiratory Syncytial Virus ("RSV") in otherwise healthy volunteers. By watching the entire disease lifecycle as subjects move from healthy to sick and recover back to healthy again, high quality, longitudinal data from the before, during and after phases of disease can be obtained. These models can be used to study the efficacy of new therapies such as antiviral drugs and vaccines and also to study the target disease itself

HRV (human rhinovirus) the group of viruses predominantly responsible for causing the common cold

influenza a contagious virus infection that affects the respiratory system. Symptoms commence after an incubation period of 1-4 days and include headache, fever, loss of appetite and general aches and pains. Influenza viruses are subject to a high degree of mutation, creating different strains

inoculum the controlled quantity of attenuated virus administered to a volunteer

IP (intellectual property) patents, rights to inventions, utility models, copyright and related rights, trade marks, service marks, trade, business and domain names, rights in goodwill or to sue for passing off, unfair competition rights, rights in designs, rights in computer software, database right, rights in biological materials, rights in confidential information (including know-how and trade secrets) and any other intellectual property rights, in each case whether registered or unregistered and including all applications for and renewals or extensions of such rights, and all similar or equivalent rights or forms of protection in any part of the world

MHRA (Medicines and Healthcare Products Regulatory Authority) the UK government body responsible for the regulation of, testing and approval of therapeutics and medical devices in the UK

pathomics the terms used to describe the identification of the physiological pathways that are activated or inactivated as a result of an insult to a specific point within a biological circuit

Phase I the phase of the approval process for a new therapeutic in which it is first given to healthy volunteers and tests carried out for safety and adverse effects

Phase II the phase of the approval process for a new therapeutic in which clinical trials are performed on larger groups to assess how well the therapeutic works, as well as to continue Phase I safety assessments in a larger group. Phase II studies may be divided into:

- **Phase IIa** intended primarily to investigate what is the most effective dose; and
- **Phase IIb** further work to investigate and demonstrate efficacy

Phase III the phase of the approval process for a new therapeutic that in Phase I and Phase II has been shown to be efficacious with tolerable side effects

prophylactic a medicine or course of action used to prevent disease

protocol the detailed plan and description setting out how a clinical study is to be carried out

QMB Queen Mary BioEnterprises Innovation Centre, 42 New Road, London E1 2AX or, in a separate context, the landlord Queen Mary BioEnterprises Limited

qPCR (quantitative polymerase chain reaction) a sensitive technique for measuring the number of specific DNA molecules in a biological matrix – an amplification step allows one (or a few) specific DNA molecules to generate many copies of itself and therefore achieve unparalleled sensitivity of detection

quarantine the stage of an HCM under which volunteers are screened for infection and studied within a residential unit under controlled conditions, quarantined from infectious contamination from the environment or from persons other than their fellow volunteers. A study under such quarantine conditions helps reduce interference from external factors such as drug and alcohol consumption, diet and environmental conditions which would otherwise exist in a field based trial

RSV (respiratory syncytial virus) a type of virus which causes infections of the nose and throat and is a major cause of pneumonia in young children

sponsor a company or organisation which commissions hVIVO to carry out a clinical trial or related work on its behalf

therapeutic a drug used for treatment or cure of a disease – therapeutic may also refer to a drug with prophylactic effect, preventing or restricting the development of a disease

vaccine a biological preparation that improves immunity to a particular disease

virology the study or science of viruses

virucidal an agent (physical or chemical) that has the capacity to or tending to deactivate or destroy viruses

virus an infective agent generally consisting of a nucleic acid molecule within a protein shell, only able to multiply within the cells of a host

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