Retroscreen Virology Group plc

HALF-YEAR FINANCIAL REPORT

for the six months ended
30 June 2013

Company Registration No. 08008725

Retroscreen Virology Group plc

Statement from the Chief Executive Officer

Introduction

I am very pleased to present Retroscreen's half-year financial report for the six months ended 30 June 2013, which highlight our continuing revenue growth and improving margin as the organisation begins to reap the benefits of investment in staff and infrastructure from the past 18 months. We successfully raised an additional £25.5m (gross) on 3 July 2013 from existing and new shareholders, in order that we continue our trajectory towards further core business expansion alongside the development of a new challenge model in Airways Disease, and the pioneering of our virometrics database; which turns our VCM into a very powerful, species-specific research and development tool.

Background

Retroscreen is a virology healthcare business that provides clinical research services, focused on the Viral Challenge Model ("VCM"), and pre-clinical analytical services to global pharmaceutical companies, biotechnology organisations, academic and government institutions. Retroscreen has grown and developed the VCM for evidencing the efficacy of antiviral and viral therapeutics in Influenza, RSV and HRV (common cold). In addition to our established viral clinical research service platform, Retroscreen aims to develop human challenge models for research into Asthma and Chronic Obstructive Pulmonary Disease (COPD), leading ultimately to a translational medicine platform that isolates patterns in the human response to major disease causing viruses and translates these patterns into revolutionary new treatments and diagnostics.

Overview

The first half of 2013 saw Retroscreen running VCM engagements at two different quarantine facilities: at our flagship London unit and at our new Cambridgeshire facility. During this time, we initiated trial design and study start-up for a multitude of new customers, in addition to completing the largest RSV challenge study ever performed with an investigational drug. Not only was this the largest RSV challenge study, but it was also Retroscreen's largest VCM full-stop — eclipsing last year's record holder, and yet another example of how far Retroscreen is pushing the boundaries of early phase research. In the first half of 2013 we also had the honour of conducting the largest and most definitive investigation into how flu is transmitted, in collaboration with Nottingham University and via funding from the United States Centers for Disease Control and Prevention ("CDC"). We also ran our VCM validation study for our newly manufactured HRV-16 cold virus, which we developed for use in our upcoming new Airways Disease Viral Exacerbation challenge model (AD-VCM), and which we are using in our standard VCM with a global pharmaceutical client in the second half of this year. We will shortly begin our VCM validation study for a new flu virus, anticipated to be available for commercial use in Q2 2014, and over the summer we opened our newest screening centre in Manchester, joining our existing centres in London and Cambridgeshire in screening volunteers for our VCM studies.

Our VCM sales pipeline continues to expand in line with our expectations surrounding revenue growth, with 31% more leads in our longer term sales pipeline than this time last year. Currently we are working on five fully qualified VCM study opportunities with an estimated value of £30 million, while leads under conversion include two opportunities under Start-up Agreement and three in final contract negotiation.

In addition to the expansion activities associated with our core VCM business, the first half of 2013 saw Retroscreen solidifying our plans to add a new challenge model to its VCM repertoire, and to unlock the additional value inherent in these VCMs. In order to validate our thinking in both of these areas, we undertook a scientific road show in late Q2 2013, presenting our plans to world leading experts in flu, RSV, common cold and airways diseases, as well as the global thought leaders in immunology, genomics, and bioinformatics. The overwhelmingly positive response we received from these sources — and the healthy progress we had made on our AD-VCM development plan — gave us the assurance that the timing was right to raise the additional funds we would need to fully validate the AD-VCM, and to build our viro-database and initially populate it with the outputs from our biological samples. As a result, we commenced a fund raising road show in June 2013, raising £25.5m (gross) via a cash placing from new and existing shareholders and which on 3 July 2013. The support we have received financially and strategically from our investor base has been invaluable, and I am immensely grateful to each and every one of them for enabling us to proceed with our next phase of growth without losing momentum.

The immediate beneficiary of the fundraise is our first new challenge model in many, many years: the AD-VCM, which is an airways disease viral exacerbation challenge model. We are on track to begin the AD-VCM validation studies in Q1 2014. The key disease areas for the AD-VCM are Asthma and COPD, two prevalent conditions with significant unmet medical needs which are very specific to us as a species. Asthmatics at risk of having asthma attacks when they have a viral infection will be the first patient population to enter the AD-VCM, with concept design for infection-induced COPD attacks commencing by Q3 2014. In consultation with many of our clients, we see the addition of the AD-VCM to Retroscreen's capabilities as being pivotal to accessing sizable adjacent markets and encouraging additional significant growth potential for us as a company.

We also presented to investors Retroscreen's plans to unlock additional value from all our VCMs by using them in a novel way, as *human models of disease* ("HMD"). By conducting VCMs without investigational drug, Retroscreen aims to study the mechanics of viral disease in both healthy subjects and in patients suffering from respiratory disease in a way that will pioneer a better understanding of the disease pathways and biomarkers that could eventually lead to novel treatments and diagnostics. To facilitate this goal, we will create a multidimensional map within our viro-database of the human response to infection, allowing us to identify common correlates of protection across viruses and healthy and vulnerable patient populations alike. We are currently in the throes of setting up the IT infrastructure needed for this proprietary database, and plans are in development for the conduct of HMDs in RSV, flu, cold and virally exacerbated asthma over the next 12 to 18 months.

Financial Review

<u>Statement of Comprehensive Income</u>

Revenue for the six months ended 30 June 2013 was £12.01 million (H1'12 - £5.07 million; 2012 - £14.40 million). Revenue was principally from Retroscreen operating concurrent VCM engagements in two quarantine units for the first time, together with the study set-up for new VCM engagements with quarantines commencing in the next twelve months.

Gross profit was £3.40 million and gross margin 28.3% (H1'12 - £1.19 million and 23.5%; 2012 - £3.70 million and 25.7%).

Profit before taxation was £32,000 (H1'12 – Loss before taxation of £0.26 million; 2012 – Loss before taxation of £0.43 million).

<u>Balance Sheet and Cash Flow</u>

As at 30 June 2013 net assets amounted to £16.92m (H1'12 £15.53 million; 2012 £16.34 million), including cash and cash equivalents of £13.19 million (H1'12 - £16.93 million; 2012 -

£16.34 million). Retroscreen raised £25.50 million (before expenses) by way of a placing on 3 July 2013, immediately after the period end.

Net cash used in operating activities over the six months was £1.07 million (H1'12 – Net cash generated of £1.98 million; 2012 Net cash generated of £2.10 million).

Outlook

As Retroscreen settles into its second year as an AIM-listed organisation, we remain focused on developing our operational infrastructure to meet market demand and to accommodate exciting new challenge models for asthma and COPD. At the same time, we have initiated the all-important IT infrastructure development that will allow us to leverage the VCM as a human model of disease.

I am confident that the momentum we established in the first half of 2013 is set to continue, and that Retroscreen remains well placed to meet its growth plans over the next year.

Kym Denny

Chief Executive Officer

25 September 2013

Retroscreen Virology Group plc

Consolidated Statement of Comprehensive Income
For the six months ended 30 June 2013

	Note	6 Months ended 30 Jun 13 Unaudited £'000	6 Months ended 30 Jun 12 Unaudited £'000	Year ended 31 Dec 12 Audited £'000
Revenue		**12,009**	**5,066**	**14,395**
Cost of sales		(8,611)	(3,875)	(10,694)
Gross profit		**3,398**	**1,191**	**3,701**
Research and development		(496)	(87)	(307)
Administration expenses		(2,928)	(1,354)	(3,873)
Share-based payment charge		(11)	(24)	(48)
Loss from operations		**(37)**	**(274)**	**(527)**
Finance income		74	27	111
Finance costs		(5)	(9)	(12)
Profit/ (loss) before taxation		**32**	**(256)**	**(428)**
Taxation	4	540	-	957
Profit/ (loss) for the period		**572**	**(256)**	**529**
Other comprehensive income, net of tax		-	-	-
Total comprehensive loss for the period/ year attributable to shareholders		**572**	**(256)**	**529**
Profit/ (loss) per share – basic (pence)	5	1.4p	(0.9)p	1.5p
Profit/ (loss per share – diluted (pence)	5	1.3p	(0.9)p	1.4p

All results derive from continuing operations.

Retroscreen Virology Group plc

Consolidated Statement of Financial Position
As at 30 June 2013

	30 Jun 13 Unaudited £'000	30 Jun 12 Unaudited £'000	31 Dec 12 Audited £'000
Assets			
Property, plant and equipment	3,226	726	1,377
Non-current assets	**3,226**	**726**	**1,377**
Inventories	3,036	1,808	1,613
Trade and other receivables	4,211	1,244	2,695
R&D tax credit receivable	1,615	500	1,075
Cash and cash equivalents	13,194	16,934	16,338
Current assets	**22,056**	**20,486**	**21,721**
Total assets	**25,282**	**21,212**	**23,098**
Liabilities			
Trade and other payables	(7,625)	(5,685)	(6,762)
Current liabilities	**(7,625)**	**(5,685)**	**(6,762)**
Net current assets	**14,431**	**14,801**	**14,959**
Financial liabilities	(738)	-	-
Non-current liabilities	**(738)**	**-**	**-**
Net assets	**16,919**	**15,527**	**16,336**
Equity			
Share capital	2,049	2,049	2,049
Share premium account	13,013	13,013	13,013
Share-based payment reserve	228	193	217
Merger reserve	4,199	4,199	4,199
Retained earnings	(2,570)	(3,927)	(3,142)
Equity attributable to shareholders	**16,919**	**15,527**	**16,336**

The interim consolidated financial statements of Retroscreen Virology Group plc (registered company number 08008725) were approved by the Board of Directors and authorised for issue on 26 September 2013 and signed on its behalf by:

Graham E Yeatman
Finance Director

Retroscreen Virology Group plc

Consolidated Statement of Changes in Equity
As at 30 June 2013

	Ordinary Share Capital £ £	Share Premium Account £	Share-Based Payment Reserve £	Merger Reserve £	Retained Earnings £	Total £
At 1 January 2012	**1,096**	**-**	**5**	**4,196**	**(3,671)**	**1,626**
Issued equity share capital:						
Issued in subsidiary undertakings	6	-	-	3	-	9
Placing on admission to AIM	947	13,177	-	-	-	14,124
Total transactions with owners in their capacity as owners	953	13,177	-	3	-	14,133
Total comprehensive loss for the period	-	-	-	-	(256)	(256)
Share-based payment expense	-	-	24	-	-	24
Warrants issued	-	(164)	164	-	-	-
Balance at 30 June 2012	**2,049**	**13,013**	**193**	**4,199**	**(3,927)**	**15,527**
Total comprehensive profit for the period	-	-	-	-	785	785
Share-based payment expense	-	-	24	-	-	24
Balance at 31 December 2012	**2,049**	**13,013**	**217**	**4,199**	**(3,142)**	**16,336**
Total comprehensive profit for the period	-	-	-	-	572	572
Share-based payment expense	-	-	11	-	-	11
Balance at 30 June 2013	**2,049**	**13,013**	**228**	**4,199**	**(2,570)**	**16,919**

Retroscreen Virology Group plc
Consolidated Statement of Cash Flows
For the six months ended 30 June 2013

	6 Months ended 30 Jun 13 Unaudited £'000	6 Months ended 30 Jun 12 Unaudited £'000	Year ended 31 Dec 12 Audited £'000
Cash flow from continuing operating activities			
Profit/ (loss) before taxation	32	(256)	(428)
Adjustments for:			
Depreciation of plant, property and equipment	292	80	230
Loss on disposal of plant, property and	-	-	2
Share-based compensation	11	24	48
Increase in inventories	(1,423)	(363)	(168)
(Increase)/ decrease in trade and other receivables	(1,516)	1,643	192
Increase in trade and other payables	1,601	865	1,941
Finance costs	5	9	12
Finance income	(74)	(27)	(111)
Cash (used in)/ from operations	**(1,072)**	**1,975**	**1,718**
Corporation tax refund	-	-	383
Net cash (used in)/ generated by operating activities	**(1,072)**	**1,975**	**2,101**
Investing activities			
Acquisition of plant, property and equipment	(2,141)	(411)	(1,214)
Finance income	74	27	111
Net cash used in investing activities	**(2,067)**	**(384)**	**(1,103)**
Financing activities			
Net proceeds from issue of shares	-	14,133	14,133
Loans repaid	-	(374)	(374)
Finance costs	(5)	(9)	(12)
Cash (used in)/ generated from financing activities	**(5)**	**13,750**	**13,747**
Net (decrease)/ increase in cash and cash equivalents	**(3,144)**	**15,341**	**14,745**
Cash and cash equivalents at beginning of financial period	**16,338**	**1,593**	**1,593**
Cash and cash equivalents at end of financial period	**13,194**	**16,934**	**16,338**

1. Basis of preparation and accounting policies

The interim financial statements have been prepared in accordance with the AIM rules and the basis of accounting policies set out in the accounts of the Group for the year ended 31 December 2012 and on the basis of all International Financial Reporting Standards as endorsed by the EU ("IFRS") that are expected to be applicable to the Group's statutory accounts for the year ended 31 December 2013. The interim financial statements are unaudited and were approved by the Board of Directors for issue on 26 September 2013. The information set out herein is abbreviated and does not constitute statutory accounts within the meaning of Section 434 of the Companies Act 2006. The results for the year ended 31 December 2012 are in abbreviated form and have been extracted from the published financial statements of the Group. These were audited and reported upon without qualification by Baker Tilly UK Audit LLP and did not contain a statement under Section 498(2) or (3) of the Companies Act 2006.

The Group has not applied IAS 34 "Interim Financial Reporting" (which is not mandatory for UK Groups) in the preparation of these interim financial statements.

The Company is a limited liability company incorporated and domiciled in England & Wales and whose shares are quoted on AIM, a market operated by The London Stock Exchange. The Group financial statements are presented in pounds Sterling, which is the Group's presentational currency, and all values are rounded to the nearest thousand (£'000) except where indicated otherwise.

2. Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiary undertakings. The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the date of their acquisition.

The purchase method of accounting is used for the acquisition of subsidiaries. The cost of acquisition is measured at the aggregate fair values of assets given, equity instruments issued and liabilities incurred or assumed by the Group to obtain control and any directly attributable acquisition costs.

Intra-group balances, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

Retroscreen Virology Group plc acquired Retroscreen Virology Limited on 20 April 2012 through a share for share exchange that does not meet the definition of a business combination. It is noted that such transactions are outside the scope of IFRS 3 and there is no other guidance elsewhere in IFRS covering such transactions.

IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors, requires that where IFRS does not include guidance for a particular issue, the Directors may also consider the most recent pronouncements of other standard setting bodies that use a similar conceptual framework to develop accounting standards when developing an appropriate accounting policy.

2. Basis of consolidation (continued)

In this regard, it is noted that the UK Accounting Standards Board has, in issue, an accounting standard covering business combinations (FRS 6) that permits the use of the merger accounting principles for such transactions. The Directors have therefore chosen to adopt these principles and the accounts have been prepared as if Retroscreen Virology Limited had been owned and controlled by the Company throughout the 6 months ended 30 June 2012 and the year ended 31 December 2012. Accordingly, the assets and liabilities of Retroscreen Virology Limited have been recognised at their historical carrying amounts, the results for the periods prior to the date the Company legally obtained control have been recognised and the financial information and cash flows reflect those of Retroscreen Virology Limited.

3. Segmental information

The Directors consider that there are no identifiable business segments that are engaged in providing individual products or services or a group of related products and services that are subject to risks and returns that are different to the core business. The information reported to the Group's Chief Executive Officer, who is considered the chief operating decision maker, for the purposes of resource allocation and assessment of performance is based wholly on the overall activities of the Group. The Group has therefore determined that it has only one reportable segment under IFRS8, which is 'medical and scientific research services'. The Group's revenue and results and assets for this one reportable segment can be determined by reference to the Group's consolidated statement of comprehensive income and consolidated statement of financial position.

The Group carries out all its activities from the UK and as such only has a single geographic segment.

4. Taxation on ordinary activities

	6 Months ended 30 Jun 13 Unaudited £'000	6 Months ended 30 Jun 12 Unaudited £'000	Year ended 31 Dec 12 Audited £'000
Current tax:			
R&D tax credit	(250)	-	(947)
Adjustments in respect of prior periods	(290)	-	(10)
	(540)	-	(957)

5. Earnings/ (loss) per share

The calculation of the basic and dilutes EPS/ (LPS) is based on the following data:

	6 Months ended 30 Jun 13 Unaudited £'000	6 Months ended 30 Jun 12 Unaudited £'000	Year ended 31 Dec 12 Audited £'000
Earnings:			
Earnings/ (loss) for the purposes of basic and diluted EPS/ (LPS) being net profit/ (loss) attributable to owners of the Company	572	(256)	529
Number of shares:			
Weighted average number of ordinary shares for the purpose of basic EPS/ (LPS)	40,976,920	28,077,963	34,580,451
Effect of dilutive potential ordinary shares:			
- share options	3,851,268	-	3,582,103
- warrants	-	-	56,596
	44,828,188	28,077,963	38,219,150

In the 6 months ended 30 June 2012, the potential ordinary shares were not treated as dilutive as the Group was loss making, therefore the weighted average number of ordinary shares for the purposes of the basic and dilutive loss per share were the same.

6. Post balance sheet events

On 3 July 2013, the Company raised £25.5 million (before expenses) by way of a placing of 12,750,000 new ordinary shares with both new and existing institutional shareholders at a price of 200 pence per ordinary share. Following admission of the new ordinary shares to trading on AIM, the total number of ordinary shares in issue became 53,726,920.

7. Interim announcement

The interim report was approved by the Board of Directors for issue on 26 September 2013. A copy will be posted on the Company's website at www.Retroscreen.com.

Retroscreen Virology Group plc

Independent review report to Retroscreen Virology Group plc

Introduction
We have been engaged by the Company to review the condensed set of financial statements in the half-year financial report for the six months ended 30 June 2013 which comprises Consolidated Statement of Comprehensive Income, Consolidated Statement of Financial Position, Consolidated Statement of Changes in Equity, Consolidated Statement of Cash Flows and the related explanatory notes. We have read the other information contained in the half-year financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the Company in accordance with International Standard on Review Engagements (UK and Ireland) 2410 “'Review of Interim Financial Information performed by the Independent Auditor of the Entity” issued by the Auditing Practices Board. Our review work has been undertaken so that we might state to the Company those matters we are required to state to them in an independent review 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, for our review work, for this report, or for the conclusions we have formed.

Directors’ Responsibilities
The half-year financial report, is the responsibility of, and has been approved by the Directors. The Directors are responsible for preparing and presenting the half-year financial report in accordance with the AIM Rules of the London Stock Exchange.

As disclosed in note 1, the annual financial statements of the Group are prepared in accordance with International Financial Reporting Standards and International Financial Reporting Interpretations Committee pronouncements as adopted by the European Union. The condensed set of financial statements included in this half-year financial report has been prepared in accordance with the presentation, recognition and measurement criteria of International Financial Reporting Standards and International Financial Reporting Interpretations Committee pronouncements, as adopted by the European Union.

Our Responsibility
Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

Scope of Review
We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Basis for Qualified Conclusion
The Group has made an accrual in Administrative Expenses for 2013 employee performance-based bonus, amounting to £0.56m in respect of the six months ended 30 June 2013. We consider that in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* there is no constructive obligation arising as at 30 June 2013.

Qualified Conclusion
Based on our review, with the exception of the matter described in the preceding paragraph, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-year financial report for the six months ended 30 June 2013 is not prepared, in all material respects, in accordance with the presentation, recognition and measurement criteria of International Financial Reporting Standards and International Financial Reporting Interpretations Committee pronouncements as adopted by the European Union, and the AIM Rules of the London Stock Exchange.

Baker Tilly UK Audit LLP

Baker Tilly UK Audit LLP
Chartered Accountants
3 Hardman Street
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25 September 2013