RETROSCREEN VIROLOGY

CONQUERING VIRAL DISEASE

ACCELERATING THE DEVELOPMENT OF **NEXT GENERATION** ANTIVIRALS AND VACCINES

ANNUAL REPORT AND ACCOUNTS **2012**

WHO WE ARE

Retroscreen is a virology healthcare business that is committed to conducting and supporting research to create the next generation of antiviral drugs and vaccines, and pushing the bounds of scientific knowledge and understanding in virology.

Through the commercialisation of the Viral Challenge Model ("VCM"), Retroscreen already dominates the early phase respiratory viral clinical testing market for a number of respiratory viral infections, including influenza, RSV and HRV (common cold), and intends to further exploit the VCM within the wider net of respiratory disorders, most notably respiratory airways diseases such as asthma and COPD.

Retroscreen enjoys a unique market position. Our extensive facilities, comprising a purpose-built clinical quarantine unit and specialist virology laboratories located within the same building in London, together with a regional screening centre and second quarantine unit in Cambridgeshire, means that Retroscreen is not only best placed to support the research programmes of global pharmaceutical and biotech companies, but also to conduct its own research to drive understanding of human response to viral infection and to harvest the potential of the VCM for discovery and the creation of proprietary intellectual property.

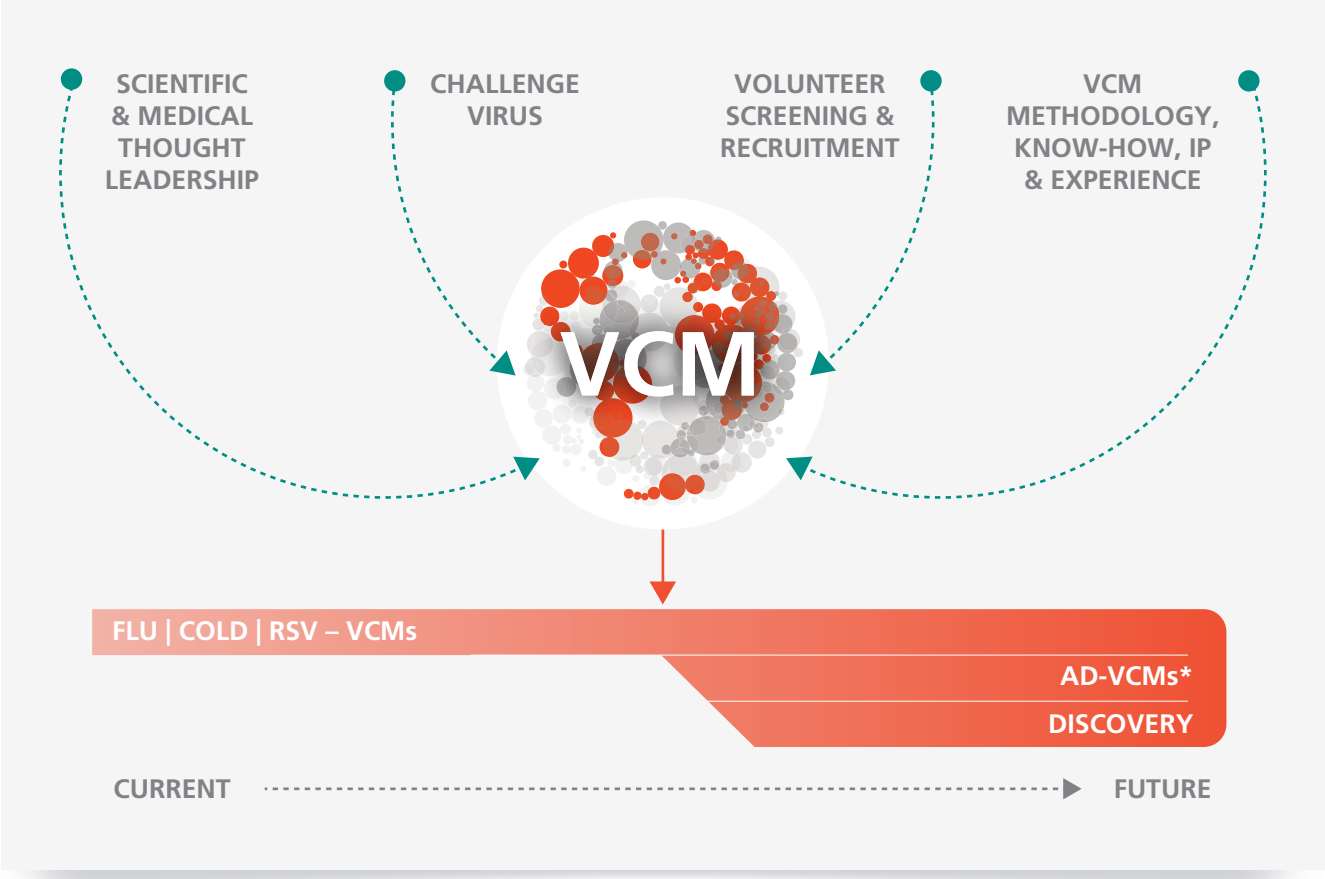
CONTENTS

WHAT WE DO

All of the clinical development work performed at Retroscreen is based on the VCM, where healthy volunteers are infected by a virus under strict, controlled quarantine conditions. The VCM enables **fundamental research into the human response to infection, the modes of infection and the transmission between individuals in the community**. The VCM provides a vehicle for pharmaceutical and biotechnology companies to determine both the **safety and efficacy of their new antiviral drugs and/or vaccine candidates**, usually to proof-of-concept.

The unique nature of the VCM and the high-quality data it produces, allows quicker decisions to be made on whether further, more extensive clinical evaluation is worthwhile, thus **accelerating the drug development timeline and reducing the cost of bringing antiviral drugs, vaccines, and diagnostics to market**. With over twelve years of experience, achieving in 2012 our 1,000th volunteer safely inoculated, our knowledge, experience and safety record in this area is unrivalled.

OUR STRUCTURE – THE VCM ENGINE AT ITS CORE



* Airways Disease Viral Exacerbation Challenge Model

YEAR AT A GLANCE
CONTINUING OUR PROGRESS

25 April 2012 – acquired stock of RSV challenge virus

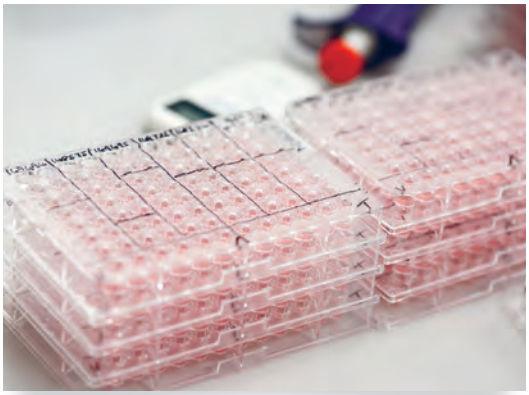
3 May 2012 – following successful IPO and fundraiser, commenced dealings on the AIM market of the London Stock Exchange

Summer 2012 – invested in technology and established Retroscreen's molecular biology capability for qPCR

Q2/Q3 2012 – conducted the quarantine phase of our largest VCM study to date, with a total of six quarantines and over 100 volunteers inoculated

24 September 2012 – reported revenue for H1 2012 of £5.1 million, compared to £4.3 million for the full year 2011

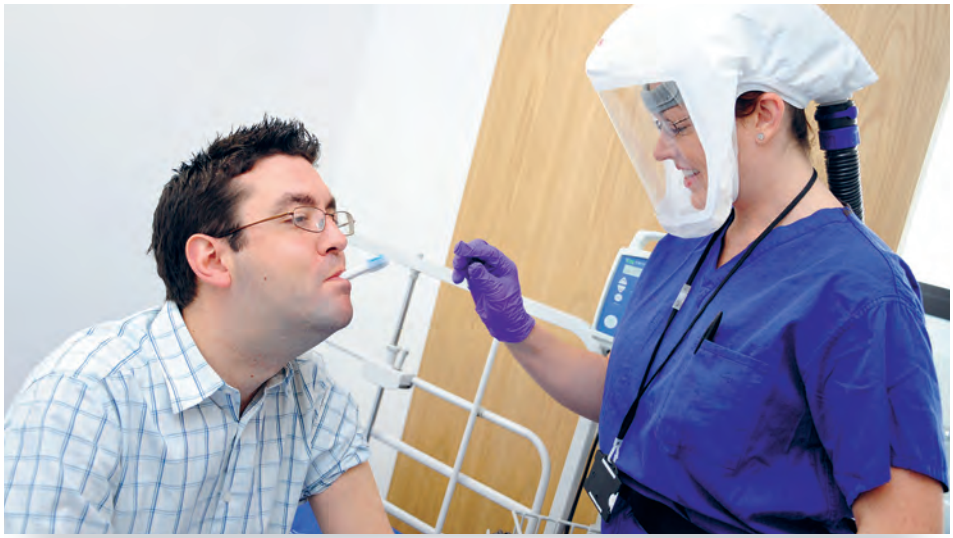
H2 2012 – evolution of operating methodology to conduct "viral visits", enabling multiple inoculation points within a quarantine session



We are the market leader in conducting the human Viral Challenge Model, a model which we are pioneering.

Q4 2012 – opened new FluCamp screening centre in Ely and second challenge unit in Cambridgeshire

Q4 2012 – final stages of selecting new flu challenge virus to bring into manufacturing, ready for use by end of 2013



10 December 2012 – inoculated Retroscreen's 1,000th volunteer

21 December 2012 – signed VCM contract for evaluating modes of influenza transmission and better understanding how flu is spread, funded by the US CDC

1 March 2013 – expanded into open-plan office facilities on 3rd floor QMB, with much more space and meeting rooms

10 April 2013 – reported 2012 revenue of £14.4 million representing 237% growth compared to 2011

CHIEF EXECUTIVE OFFICER'S STATEMENT
OUR STRATEGY IN ACTION

Kym Denny
Chief Executive Officer

I am delighted to present Retroscreen's maiden annual report and accounts as a publicly listed company. Since being admitted to the AIM market of the London Stock Exchange on 3 May 2012, a little less than a year ago, Retroscreen has focused its resources and exceptional medical and scientific talent on expanding our clinical trials service capabilities, while simultaneously building the foundations to unlocking the potential for drug discovery inherent within our proprietary virometric data and biological samples.

"I am thrilled by our revenue growth and delivery against a robust VCM pipeline, which continues to build steadily with clients holding firm against their VCM quarantine reservations booked months ahead."

Background

Retroscreen is a virology healthcare business that provides clinical 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

2012 has proven to be a transformational year for Retroscreen, as evidenced by our 237% growth in revenues from £4.3 million in 2011 to £14.4 million this year, together with the improvement in our margins. Scaling our VCM operations to meet client demand has been the primary focus of the Group, and has included opening both a new FluCamp screening centre and a second challenge unit in Cambridgeshire. In order to accommodate our significant employee growth, our support functions moved to our newly developed open-plan office facilities on the 3rd floor of the Queen Mary BioEnterprises Innovation Centre in March 2013. For the first time we have custom built, fit-for-purpose office space and meeting room facilities. We have expanded our laboratory operations, launching a new molecular virology service and opening a secondary laboratory site in North London. We have also selected and commenced implementation of a leading-edge professional services automation ERP system, which should prove transformational in Retroscreen's resource planning and financial management.

2012 saw us completing our largest VCM study ever, achieving proof-of-concept for our client within ten months of the first subject entering the study. Towards the end of 2012, armed with funding from the United States Centers for Disease Control

"Our 1,000th volunteer is a fantastic achievement and endorsement of Retroscreen's championing of the VCM and the pharmaceutical industry's increasing awareness of the benefits of the VCM in accelerating drug development and product decision-making."

and Prevention ("CDC"), we embarked on study set-up for the largest investigation ever into how flu is transmitted in humans with viral challenge studies commencing in Q1 2013. 2012 also saw Retroscreen reaching an important milestone when we safely inoculated our 1,000th volunteer, solidifying our position as the most experienced scientific research group performing viral challenge studies in the commercial and academic arena.

Our sales pipeline continues to grow at pace, as the VCM becomes more widely recognised as an important tool in early phase antiviral and vaccine development. Indeed, one of our key clients increased the number of quarantine sessions they had scheduled for their Retroscreen VCM study in 2013, after their conversations with the US Food and Drug Administration ("FDA") prompted them to maximise the unique opportunity afforded by the VCM to collect important product data at an earlier stage in the drug development timeline. Similarly, our longer term sales pipeline signals a wider uptake: currently we have 65% more leads in this category than we did this time last year. In addition, we are currently working on six fully qualified VCM study opportunities with an estimated total contract value of £29 million of which one is in final contract negotiation and four others are under Start-up Agreement and well progressed in contract discussions.

In order to maintain our market leading position in the conduct of VCMs, in 2012 we acquired a complete bulk stock of commercially available RSV challenge virus from a contract manufacturer. We also began manufacturing activities for a new flu challenge virus, which should be ready for use by the end of 2013, and we have plans to develop an alternative flu virus to be available in 2014. We remain on track for bringing our new HRV-16 cold virus into human use in the first half of 2013, in line with our development plans for an Airways Disease Viral Exacerbation Challenge model ("AD-VCM") in asthma.

We have made enormous strides forward in defining our intended focus for drug discovery, narrowing down our requirement for collaborators and key opinion leaders in the fields of immunology, infection, respiratory, genomics and bioinformatics. We are actively engaged in building the panel of internal and external experts who will define Retroscreen's discovery strategy.

I am extremely pleased by Retroscreen's results for the year ended 31 December 2012, which were due in no small part to our exceptionally hard working and dedicated staff base, in addition to a highly competent set of clients. Indeed, all of our 2012 clients managed their product development timelines to target, thereby ensuring their VCM studies could begin without the sorts of project delays that often tend to be experienced with early phase clinical research. As a result, Retroscreen was able to undertake a full complement of sessions in our quarantine schedule, without any significant delays or drop-offs out of the financial period. This, despite a slowdown in subject recruitment over the summer, which I explained in my H1 2012 statement and caused us to proactively delay several sessions by a few weeks.

Outlook

The momentum we established in 2012 is set to continue, with the first quarter in 2013 seeing Retroscreen operating concurrent VCM studies in two quarantine units for the first time. Our VCM pipeline continues to grow and we are developing plans for further units and satellite screening centres to meet this demand, together with our development plans for an AD-VCM in asthma.

We continue to focus on building solid foundations for significant revenue growth, promoting subject safety and high-quality science, while simultaneously furthering our plans for exploiting the innovation potential inherent within our human models of disease. I am confident that Retroscreen continues to be well placed to meet our growth plans, both in our existing market space and our target expansion areas.

Kym Denny
Chief Executive Officer
9 April 2013

THE VCM ENGINE / viral challenge, volunteer screening, translational research, discovery

With over twelve years of expertise in this area, we are the clear market leader in the conduct of the human viral challenge model. Early VCM studies were conducted in external temporary locations. However, since early 2011, VCM studies have been conducted in our unique, purpose-built quarantine unit in London. We recently opened a second challenge unit in Cambridgeshire, which from the start of 2013 gives us the capability to conduct multiple VCM studies concurrently.

VCM

The advantages of a safe, reproducible human model are incalculable. This model permits the relatively quick and efficient study of new therapeutics in humans, and assists in making critical decisions.

Source: American Journal of Respiratory and Critical Care Medicine, Vol 182, p1217-1219, 2010).

The VCM enables global pharmaceutical and biotechnology companies, as well as leading academic groups and government institutions, to undertake scientific research, accelerate the drug development timeline and reduce the cost of bringing antiviral drugs, vaccines, and diagnostics to market. The VCM also enables fundamental research into the human response to infection and crucial research into modes of infection and transmission between individuals in the community.

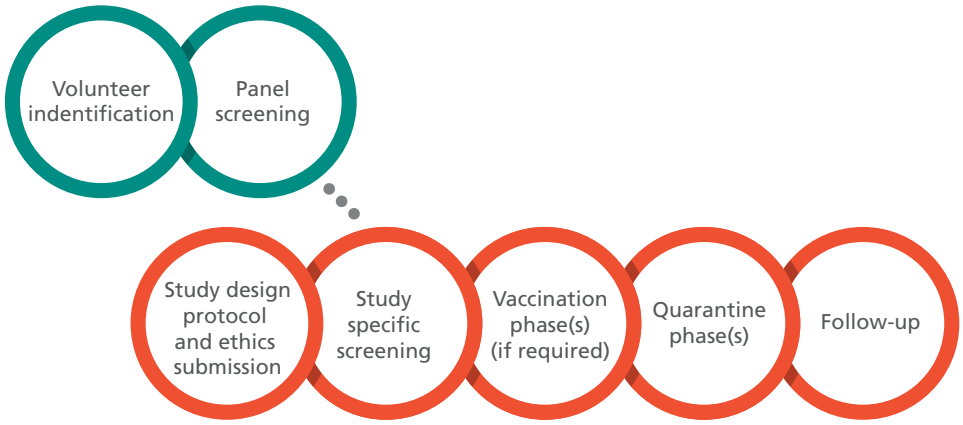
The conduct of a VCM study is a sequential process starting with the identification of interested medically fit volunteers, who then undergo an extensive screening process to determine their susceptibility to the challenge virus and evaluate their suitability for participation in the trial. This process usually involves thousands of volunteers and is a crucial stage that has been mastered by Retroscreen. In parallel, Retroscreen utilises its extensive know-how and experience to provide advice and assistance to our clients, to ensure that the study design and protocol will enable the study to deliver statistical significance against the primary and secondary endpoints targeted by the client.

Eligible volunteers enter the air-locked quarantine unit at the start of the study, where they remain in individual en-suite rooms (ensuring infection control) for a duration defined by each specific study protocol. In a typical non-vaccine study, on entry to the unit the volunteers are monitored for two days to ensure they have no concurrent infections, after which they are inoculated with the challenge virus.

They are monitored for another short period while they become sick with the virus and are then either given the experimental treatment or a placebo. Throughout the study, biological samples are taken for analysis and their symptoms are monitored, on the timeline from healthy to sick to healthy again. Following discharge from the unit, volunteers are required to attend at least one follow-up visit to ensure there have been no adverse effects from participating in the study.

The whole VCM methodology has been established and refined by Retroscreen over a twelve-year period, involving more than 25 VCM studies and over 1,000 volunteers safely inoculated. Retroscreen's experience and safety record with the VCM is unrivalled.

VCM timeline



Volunteer screening services

The Volunteer Screening Services ("VSS") division is responsible for identifying, recruiting and screening the volunteers who participate in the VCM. Volunteers need to be medically fit and susceptible to the challenge virus under test. Potential volunteers are identified by using a variety of marketing initiatives and media, including radio, newspaper, social media and internet.

The VSS division manages the multiple levels of screening required to provide clean, eligible volunteers. Depending on the virus type, it can typically require in the region of 600 leads to provide one eligible volunteer.

Translational research

Retroscreen's Translational Research division provides the crucial laboratory support to the VCM, which includes the performance of assays to support volunteer screening (i.e. susceptibility to virus) and the challenge studies (i.e. sample analysis during a virus infection life-cycle and volunteer timeline from healthy to sick to healthy).

The Translational Research division also incorporates Retroscreen's virology group. The virology group plays a key role in the design and conduct of VCM studies, ensuring all virological assays are performing optimally for the analysis of samples generated during the VCM. Their role is also vital for the development and maintenance of Retroscreen's inventory of challenge viruses.

The proximity of the virology laboratories to the quarantine unit is a significant contributory factor to Retroscreen's successful routine conduct of the VCM and rigour of scientific analysis.

Virus management

The VCM is crucially dependent on the availability of viruses, and ever since Retroscreen was established, Retroscreen has maintained its own suite of fully characterised virus strains. We possess the most comprehensive and diverse range of viruses suitable for use in VCM studies, including:

- influenza A
- influenza B
- respiratory syncytial virus ("RSV")
- human rhinovirus ("HRV")

All of Retroscreen's viruses are manufactured to the highest standards and undergo extensive adventitious testing and characterisation before they are used in a VCM challenge study. The use of Retroscreen's viruses in multiple studies across a spectrum of human volunteers generates invaluable data which provides scientific insight on the pathogenicity, virulence, and more importantly the nature of the disease they cause.

The vast accumulation of data from VCM studies also enables the evolution and continuing development of the power of the VCM engine and optimum design of future studies, including assessment of appropriate endpoints, volunteer numbers and study sample sizes. This extensive dossier of virus related data is currently unique to Retroscreen.

The VCM as a service model

There is no doubt that the pharmaceutical and biotechnology industries are increasingly recognising the application of the VCM as an important tool in the accelerated development of treatments for respiratory viral infections. This is evidenced by the increasing interest and demand for Retroscreen's VCM together with our significant growth.

Interestingly, there is also a trend towards clients requesting the design of increasingly complex trials involving dose-ranging and prophylactic arms.

Retroscreen's facilities are currently the only capability in the world that can undertake such extensive VCM studies.

"There is no doubt that the pharmaceutical and biotechnology industries are increasingly recognising the application of the VCM as an important tool in the accelerated development of treatments for respiratory viral infections."

Discovery

Retroscreen has established a Translational Medicine Division ("TMD") which is responsible for Retroscreen's scientific discovery and commercialisation strategy. The TMD will leverage Retroscreen's extensive collection of biological samples and corresponding clinical symptom database, together with scientific research capabilities afforded by the VCM, to develop a portfolio of programmes targeting revolutionary new treatments and diagnostics.

The TMD will operate using a combination of its own dedicated research laboratories, academic and commercial partnerships and through outsourcing.

The TMD aims to identify new human drug targets and biomarkers to develop novel diagnostics and therapeutics, by leveraging the VCM. The VCM is a Human Model of Disease which will enable Retroscreen to identify relevant targets and biomarkers directly in humans during the entire life-cycle of virus infection.

Retroscreen will use this scientific insight to develop and validate new model systems so that early stage drug development can be performed using highly predictive systems. This concept is applicable to a range of human diseases, although Retroscreen's initial focus will be on diseases caused by respiratory viral infections.

Our people

Our employees are our greatest asset. We employ a dedicated team of professionals across viral challenge, volunteer screening, translational research, project operations, quality assurance and support functions.

Our facilities

Retroscreen has cutting-edge, purpose built facilities for quarantine units, volunteer screening centres and laboratories in multiple locations. We currently have the only capability in the world that can undertake such extensive VCM studies.

Our volunteers

VCM clinical studies are reliant on volunteers who are medically fit and susceptible to the challenge virus under test. We use many marketing initiatives and media to recruit, including **www.flucamp.com.**

CASE STUDY / Accelerated development of a novel flu treatment

The application and relevance of the VCM has been highlighted in an influenza challenge trial conducted by Retroscreen during 2012 to evaluate the antiviral properties of a new treatment for influenza.

From an initial telephone screening process during which over 80,000 prospective volunteers were contacted, the trial recruited over 100 volunteers and was performed over a five-month period across the summer months, highlighting the major advantage of the VCM regarding study timing. Database lock was obtained only eight months after the first subject entered the study, emphasising the huge timeline benefit of the VCM model.

Apart from being the largest influenza challenge trial ever conducted at a single site, this study enabled the Sponsor to make quick and important decisions on the future development of the product only ten months after the first subject entered the study. Based on the data from the challenge trial, the Sponsor is now exploring collaborative opportunities to support the further development of this product in larger field-based trials.

"2012 saw us completing our largest VCM study ever, achieving proof-of-concept for our client withing ten months of the first subject entering the study."

FINANCE DIRECTOR'S REPORT
STRONG GROWTH

Graham Yeatman
Finance Director

The financial statements for the year ended 31 December 2012 are presented in accordance with the Group's accounting policies based on International Financial Reporting Standards ("IFRS") as adopted by the European Union.

"2012 has proven to be a transformational year for Retroscreen as evidenced by our 237% growth in revenues from £4.27 million in 2011 to £14.39 million in 2012, together with the improvement in our margins."

Consolidated statement of comprehensive income

Revenue for the year ended 31 December 2012 was £14.39 million (2011: £4.27 million). Revenue was primarily from two large VCM client engagements, together with the study set-up of new VCM engagements with quarantines commencing in the next twelve months.

Gross profit was £3.70 million and gross margin 25.7% (2011: gross profit £0.61 million and gross margin 14.4%).

Loss before taxation was £0.43 million (2011: £1.16 million).

Profit for the year was £0.53 million (2011: loss of £0.66 million).

Research and development expenses

The Group's separate independent research and development expenses were £0.31 million this year (2011: £0.12 million), primarily in respect of scientific studies developing the VCM, virus and assays, together with the Group starting to invest in crafting its virometrics and research strategy.

In addition, significant research and development was undertaken as a natural consequence of operating and pioneering the VCM during client VCM studies and which are included within cost of sales.

Administrative expenses

Administrative expenses were £3.87 million (2011: £1.64 million). The increase is primarily due to the Group's significant growth, increasing staff cost base and expanding infrastructure.

Share option expense

A share option expense of £48k has been charged for the year (2011: £3k).

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 2012 interest receivable was £0.11 million (2011: £3k). The increase is due to the Group's increased cash balances, primarily as a result of £14.12 million (net) raised on admission to AIM on 3 May 2012.

Financial KPIs

	2012	2011
Revenue	**£14.39m**	£4.27m
Gross profit	**£3.70m**	£0.61m
Gross margin	**25.7%**	14.4%
Loss before tax	**(£0.43m)**	(£1.16m)
Profit/(loss) for the year	**£0.53m**	(£0.66m)
Cash and cash equivalents	**£16.34m**	£1.59m

Taxation

The Group makes claims each year for research and development tax credits and, as 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 receivable for the surrender of research and development expenditure is £0.96 million for the year ended 31 December 2012 (2011: £0.50 million).

Consolidated statement of financial position

As at 31 December 2012 net assets amounted to £16.34 million (2011: £1.63 million) including cash and cash equivalents of £16.34 million (2011: £1.59 million). The principal movements in the consolidated statement of financial position during the year were:

- purchases of property, plant and equipment of £1.21 million;
- increase in inventories of £0.17 million;
- increase in research and development tax credit receivable of £0.57 million;
- increase in cash and cash equivalents of £14.75 million; and
- increase in trade and other payables of £1.94 million.

Cash flow

The principal cash flows in the year were as follows:

Inflows:

- cash generated by operating activities of £2.10 million (2011: £0.25 million);
- proceeds on issue of shares of £14.13 million (2011: £1.15 million); and
- finance income of £0.11 million (2011: £3k).

Outflows:

- purchases of property, plant and equipment of £1.21 million (2011: £0.24 million); and
- loans repaid of £0.37 million (2011: loans advanced of £0.12 million).

Key performance indicators

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

- revenue;
- gross margin;
- net profit; and
- cash and cash equivalents.

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

- the expansion of the VCM and its increasing acceptance by global pharmaceutical companies and regulatory authorities;
- organic growth and building of capacity (people and facilities);
- expansion of the VCM into adjacent areas; and
- development of a discovery business and investment in research and development programmes.

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

Graham Yeatman
Finance Director
9 April 2013

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.

David Norwood
Non-Executive Chairman

David Norwood was appointed as Chairman of Retroscreen Virology Limited in February 2011. 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 it acquired 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, Synairgen, Ilika, Oxford Catalysts and Plectrum Petroleum (acquired by Cairn Energy). He has also acted as seed investor and/or adviser to Wolfson Microelectronics, Nanoco, Tissue Regenix and ArcInternational (now part of Synopsys). He is also Non-Executive Chairman of Oxford Pharmascience Group plc.

Kym Denny
Chief Executive Officer

Kym Denny was appointed CEO of Retroscreen Virology Limited in December 2010 after serving Retroscreen Virology Limited as Vice President, Clinical Services for a little over a year prior. Kym has over 15 years of international clinical trials senior management experience in Phase I-IV clinical operations, project management, drug safety, data management and site management in therapeutic areas as diverse as infectious disease and respiratory, to 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 on to the UK where she was appointed to the Board at Profiad Limited in addition to running the Clinical Operations function there. She later became Managing Director, UK, for Harrison Clinical Research before joining Origin as Head of International Clinical Operations, and then as Vice President of Clinical Research when the company was acquired by Constella LLC and later, SRA International.

Graham Yeatman
Finance Director

Graham Yeatman joined as Finance Director in May 2011. Graham has significant experience of building businesses for rapid growth and profitability. He is a Chartered Accountant and trained and worked with PricewaterhouseCoopers for thirteen years across its audit, tax, consultancy, business process reengineering and outsourcing divisions.

In 2001 he joined buyingTeam Limited (subsequently renamed Proxima) as Finance & 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 in Economics and Maths from Bristol University.

Professor John Oxford
Non-Executive Director

Professor John Oxford is President, Scientific Director and founder of Retroscreen Virology Limited and Professor of Virology at St Bartholomew's and the Royal London Hospital, Queen Mary's School of Medicine and Dentistry.

He has co-authored two standard texts: 'Influenza, the Viruses and the Disease' with Sir Charles Stuart-Harris and G C Schild and most recently, "Human Virology, a Text for Students of Medicine, Dentistry and Microbiology", published by Oxford University Press. Professor Oxford has also published over 250 scientific papers.

Duncan Peyton
Non-Executive Director

Duncan Peyton became a Non-Executive Director on 3 April 2012, having previously represented the Northern Entrepreneurs Fund on the Board of Retroscreen Virology Limited since its investment in October 2009. Duncan is a founder of Aquarius Equity Partners, a specialist investor in businesses within the life science sector, and provides investors access to innovative, high-growth potential companies that can deliver significant capital growth.

Charles Winward
Non-Executive Director

Charles Winward joined Retroscreen Virology Limited, as the Board representative of IP2IPO Services Limited in early 2009 and became a Non-Executive Director of the Company on 3 April 2012.

Charles is a director of IP Group plc, one of the investors in the Company. Charles joined IP Group in April 2007 to manage investments by Top Technology Ventures Limited, the Group's venture capital fund management subsidiary. Previously Charles was Vice President Technology Infrastructure at JPMorgan Chase & Co, where he worked in a variety of roles in London, New York and Brussels, and Investment Manager at Axiomlab, an AIM-listed early stage investment specialist. Charles is a CFA charterholder and has an MBA from the University of California at Berkeley.

DIRECTORS' REPORT

Financial statements

The Directors present their report and financial statements for the Company and Group for the year ended 31 December 2012.

Principal activities

The Company was incorporated on 27 March 2012 under the name of PIMCO 2917 Limited. On 3 April 2012 the Company changed its name to Retroscreen Virology Group Limited. On 13 April 2012 the Company subsequently shortened its accounting reference date to 31 December.

On 25 April 2012 the Company was re-registered as a public limited company and its name was changed to Retroscreen Virology Group plc.

Retroscreen is a virology healthcare business that provides clinical services, focused on the Viral Challenge Model ("VCM") primarily to pharmaceutical companies and biotechnology organisations. The Group has grown and developed the VCM for evidencing the efficacy of antiviral and viral therapeutics in RSV, flu and cold.

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

Group reconstruction

Under a group reconstruction on 20 April 2012 the Company acquired the whole of the issued ordinary share capital of Retroscreen Virology Limited, satisfied by the issue or transfer of 1,101,971 ordinary shares of £1.00 in the Company.

The reconstruction 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.

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 financial statements have been prepared as if Retroscreen Virology Limited had been owned and controlled by the Company throughout the years ended 31 December 2011 and 31 December 2012.

Business review and key performance indicators

The Group's results are set out in the consolidated statement of comprehensive income on page 26 and are explained in the Finance Director's report on pages 10 and 11. A detailed review of the business, its results and future direction is included in the Chief Executive Officer's statement on pages 4 and 5.

Capital structure

The Company is primarily financed through equity extended from its shareholders.

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

Retroscreen has a small number of high value VCM client engagements, whereas its cost base (being primarily staff, premises and facilities) is relatively committed and fixed. Delays in VCM client engagement contract signatures and the creation of gaps in the quarantine schedule, with Retroscreen's quarantine facilities not being fully utilised, would potentially have a material impact on Retroscreen'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 Retroscreen provides value-added consultancy for the client by designing a trial protocol to support the client's objectives. This initial consultancy stage will continue through to Retroscreen supporting the client in its engagement with the appropriate Ethics Committees for approval of the VCM clinical trial. The start-up phase will conclude with a test 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, Retroscreen will then agree with each client a binding contract for a defined, costed VCM engagement.

Retroscreen 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, and (iii) develop long-term relationships with our clients, with a view to conducting repeat business.

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

All VCM 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 products to satisfy safety or efficacy requirements, (ii) unexpected or undesirable results of the client compound, or (iii) a decision 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.

Retroscreen mitigates the financial risk by including postponement and cancellation charges in our VCM contracts. Additionally, as noted above, Retroscreen 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, and (iii) develop long-term relationships with clients, with a view to conducting repeat business.

Challenges to achieving statistically significant volunteer numbers

Retroscreen 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 Retroscreen can exploit current scientific best practice and knowledge to provide the most appropriate circumstances and environment for infection to occur, this can not 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.

Infectivity rate is not a contracted deliverable and Retroscreen includes clear language in contracts to disclaim this risk. While infectivity rate is an uncontrollable parameter, each VCM clinical study that is completed provides additional data for Retroscreen'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. Retroscreen 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, Retroscreen's ability to fulfil VCM contracts is then dependent upon being able to enrol the required sufficient 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. Retroscreen 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 outside of Retroscreen's control, due to factors such as the prevalence of the virus in the population, environmental conditions (time of year, weather, major events) and volunteer availability. Although Retroscreen's VCM client engagement contracts contain provisions for a change order process, in which additional screening numbers can be secured and paid for by the client, 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 generate sufficient volunteers in the timescales required.

To mitigate this risk, Retroscreen has developed, and is in the process on implementing, a regional screening programme. The first regional screening centre is already operational (Ely) and commissioning of the second is in progress (Manchester). Not only will this increase throughput and capacity, but it will also allow access to new population centres and lessen the impact of geographically specific outbreaks of a particular virus strain.

Regulatory and ethics framework/market adoption

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 VCM 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 Retroscreen.

The VCM is attractive to clients in reducing the time of trials and targeting their development spend. However, there is no guarantee that the VCM 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 Retroscreen's revenue, profitability and growth plan.

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

Retroscreen has a very active programme of publication and conference attendance. Retroscreen engages with Key Opinion Leaders and thought leaders to promote the VCM, its acceptance and the importance of the data produced. Retroscreen encourages collaboration with academic groups to perform VCM trials and to further the science behind the VCM.

DIRECTORS' REPORT CONTINUED

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

Protection of the VCM and competition

Although Retroscreen's commercial exploitation of the VCM is unique, operation of the VCM 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 Retroscreen has rights relating to the viruses it owns and uses, there is no restriction on 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, or duplicate any of the Group's services. Assuming the understanding and acceptance of the VCM, and the value it provides, continues as expected the emergence of competitors should be expected.

Competition may come from the contract research organisation industry, ranging from large multi-nationals, to smaller, niche businesses and also from clinical and academic institutions. Although there are a number of significant barriers to entry in a competitor seeking to undertake VCM client engagements, the emergence of competition should be expected which may result in the loss of clients or increased pricing pressure which, in turn, could impact the Retroscreen's revenues and profitability.

Retroscreen enjoys a significant advantage over potential competition, due to the huge body of know-how, proprietary information and experience that it has built over many years of successful operation of the VCM. Retroscreen continues to evolve, refine and leverage the VCM methodology, while driving cost efficiencies. The number of successful trials conducted, and volunteers safely inoculated, by Retroscreen is unrivalled.

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 effectively and to secure the most cost effective funding.

The Group's principal financial assets are bank balances and long-term deposits and it is exposed to the following risks to varying degrees; 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 bank, a financial institution with high credit rating and its cash requirements are anticipated via the budgetary process;
- credit risk – the Group is mainly exposed to credit risk from its trade and other receivables, 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 purchases are made in Euros and US Dollars, although these are not considered to be significant.

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 a line in the consolidated statement of comprehensive income), or as a natural consequence of operating and pioneering the VCM during client VCM 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 VCM, maintenance of the Group's market position and for continued growth.

Charitable and political donations

The Group made no charitable or political donations during the year (2011: £nil).

Dividends

The Directors do not recommend the payment of a dividend (2011: £nil).

Directors

The Directors of the Company are as follows:

Kym Denny	(appointed 3 April 2012)
Graham Yeatman	(appointed 3 April 2012)
David Norwood	(appointed 3 April 2012)
Professor John Oxford	(appointed 3 April 2012)
Duncan Peyton	(appointed 3 April 2012)
Charles Winward	(appointed 3 April 2012)

At 31 December 2012, the Directors had the following beneficial interests in the Company's shares:

	31 December 2012 Number	At 27 March 2012 Number[1]
Executive Directors		
Kym Denny	**347,680**	122,680
Graham Yeatman	**185,200**	122,700
Non-Executive Directors		
David Norwood	**3,219,520**	3,094,520
Professor John Oxford	**1,285,760**	1,285,760
Duncan Peyton	**—**	—[2]
Charles Winward	**66,080**	66,080

1. This is the equivalent number of shares held in Retroscreen Virology Limited. On 20 April 2012 the Company agreed a share-for-share exchange and on 25 April 2012 the shares were subdivided into 20 ordinary shares of 5 pence each.
2. Duncan Peyton is a participant in the Northern Entrepreneurs Fund Co-Investment LLP, which originally owned 224,100 shares in the Company but which were sold pursuant to the Company's Placing Agreement.

Biographical details of the Directors are given on pages 12 and 13.

David Norwood and Kym Denny retire by rotation and being eligible offer themselves for re-election at the forthcoming Annual General Meeting.

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 22 to 23.

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 22 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.

DIRECTORS' REPORT CONTINUED

Share capital

On 27 March 2012 the Company was incorporated with one ordinary share of £1.00 subscribed for £nil paid.

On 20 April 2012 the Company entered into an agreement to acquire the entire share capital of Retroscreen Virology Limited, satisfied by the issue of 1,101,970 ordinary shares of £1.00 and the original one ordinary share credited as being fully paid.

On 25 April 2012 each of the issued ordinary shares of £1.00 were subdivided into 20 ordinary shares of 5 pence each.

On 3 May 2012 following admission to the Alternative Investments Market of the London Stock Exchange, 18,937,500 ordinary shares of 5 pence were issued at a price of 80 pence per ordinary share.

As at 31 December 2012, the issued share capital of the Company was:

	Number of ordinary 5p shares	Nominal value £
Issued and fully paid up	40,976,920	£2,048,846

The average market price of the Company's ordinary shares at close of business on 31 December 2012 was 137.5 pence.

The maximum share price during the period was 137.5 pence (31 December 2012) and the minimum price was 80 pence per share (admission to AIM, 3 May 2012).

Substantial share interests

At 9 April 2013, 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
IP2IPO Limited	9,309,500	22.7%
Invesco Asset Management Limited	7,804,500	19.1%
IP Venture Fund	3,788,920	9.2%
David Norwood	3,219,520	7.9%
Sand Aire Limited	2,540,696	6.2%
Lansdowne Partners Limited	2,187,500	5.3%
Queen Mary & Westfield College, University of London	1,840,480	4.5%
Ruffer Investment Management Limited	1,710,000	4.2%
Henderson Global Investors Limited	1,379,980	3.4%
Professor John S Oxford	1,285,760	3.1%

Employees

The Group is committed to providing equal opportunities in employment. All job applicants and employees receive equal treatment regardless of sex, race, colour, age, and nationality or ethnic origin.

The Group places considerable value on the involvement of its 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 formal and informal meetings, together with the Annual Report and Accounts. Employees are consulted regularly on a wide range of matters affecting their current and future interests.

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

Creditor payment policy

The Group's standard payment policy is to pay suppliers at the end of the month following the month of invoice, where no other agreement is in place. Trade creditors are typically paid on 30 to 45 day terms.

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

During the period Baker Tilly UK Audit LLP were appointed as the first auditor of the Company and have expressed their willingness to continue in office as auditor. A resolution to reappoint 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 2pm on 22 May 2013 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
Company Secretary
9 April 2013

CORPORATE GOVERNANCE STATEMENT

The Board fully supports the principles of the UK Corporate Governance Code (the "Code"). As an AIM-listed company, Retroscreen Virology Group plc is not required to comply in full with the Code. However, it is the objective of the Board to make every effort to comply with the Code where appropriate to the Company's size and maturity on AIM. This report sets out how the principles in the Code are applied by the Group.

Board of Directors

The Board of Retroscreen Virology Group plc comprises of two Executive Directors and four 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 are able in the course of their duties, if necessary, 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 available on request from the Company Secretary. The Board is responsible for decisions, and 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 retires by rotation at every Annual General Meeting and is 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: Duncan Peyton, who chairs the Committee, David Norwood and Charles Winward. The external auditor, Chief Executive Officer and Finance Director may be invited to attend Audit Committee meetings and, following each meeting, the Audit Committee and external auditor have the opportunity to meet with no Executive Directors present. The Audit Committee meets at least twice each year.

The Committee reviewed the half year and full year results and the Half-year Report and Annual Report and Accounts 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 full 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 comprises three Non-Executive Directors: Charles Winward, who chairs the Committee, David Norwood and Duncan Peyton. 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 may be invited to attend Remuneration Committee meetings, other than when her 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 the 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 to provide 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. Since admission to AIM in May 2012, Management has invested significant time in further developing the Group's internal control environment. 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 clearly laid out 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 running in parallel with the significant organic growth of the Group;
- financial information – the Group prepares detailed budgets and working capital forecasts annually. These are based upon the strategy of the Group and are approved by the Board. Detailed management accounts and working capital re-forecasts are undertaken at least quarterly for each Board Meeting, compared to budgets, with any variances investigated thoroughly and with 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; and
- 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, at present the Board does not consider it either necessary or practical 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 Accounts, 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, intends 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 Directors on a formal and informal basis and to discuss development of the business. In particular there will be an opportunity to ask questions of the Chairs of the Audit and Remuneration Committees.

The Company operates a website at www.retroscreen.com. The website contains details on the Group and its activities, details of 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 cash 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 at least the next twelve months. Accordingly, the Board continues to adopt the going concern basis in preparing the financial statements.

DIRECTORS' REMUNERATION REPORT

Introduction

Retroscreen has elected voluntarily to prepare the Directors' remuneration report, in compliance with Schedule 8 to the Accounting Regulations under the Companies Act 2006, even though not required to as an AIM-listed company.

Remuneration policy overview

The Remuneration Committee is in the process of updating and developing the Company's remuneration policy, following admission to AIM. The aim of the remuneration policy will be 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 will be 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 that can accommodate the changing needs of the Group as it grows and its strategy evolves.

Remuneration levels will be benchmarked against a sub-set 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 wants 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. Once the Company's remuneration policy is established, the Remuneration Committee will review the policy 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 Retroscreen Virology Group 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 Retroscreen Virology Limited dated 20 February 2012, with continuous employment from 3 May 2011. His appointment is terminable on three 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 the fees paid to the Non-Executive Directors. The Non-Executive Directors do not participate in the Group's pension, bonus or option schemes. The appointments are terminable on three months' notice by either party.

Remuneration

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

Salary

Once the Company's remuneration policy is established, the Remuneration Committee intends that base salaries will be reviewed annually and effective from the beginning of April.

The Remuneration Committee will seek 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 targeted to be 50% of base salary, with exceptional performance being rewarded by a bonus payment above 50% of base salary.

Pensions

The Group operates a Group Personal Pension 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[1]:

	Salary and fees[2] £'000	Bonus £'000	Monetary value of benefits £'000s	**2012 total excluding pensions £'000**	2012 Pensions £'000	2011 total excluding pensions £'000	2011 Pensions £'000
Kym Denny	122	60	—	**182**	11	105	6
Graham Yeatman	122	60	—	**182**	11	80	4
Executive Directors	244	120	—	**364**	22	185	10
David Norwood[3]	—	—	—	**—**	—	—	—
Prof. John Oxford[4]	—	—	—	**—**	—	—	—
Duncan Peyton[5]	7	—	—	**7**	—	—	—
Charles Winward[6]	7	—	—	**7**	—	—	—
Non-Executive Directors	14	—	—	**14**	—	—	—
Total	258	120	—	**378**	22	185	10

1. For the ease of comparison, remuneration has been disclosed for a full year 2012 (and 2011 comparatives) in respect of both Retroscreen Virology Group plc and Retroscreen Virology Limited.
2. Salary and fees including travel allowances.
3. David Norwood has waived his annual fee of £12,000 per annum.
4. Professor Oxford has no fee in relation to his appointment as a Non-Executive Director of the Company. He separately provides services to Retroscreen Virology Limited pursuant to a secondment agreement between Retroscreen Virology Limited and Queen Mary, University of London.
5. Duncan Peyton became a Non-Executive Director of the Company on 3 April 2012, representing the Northern Entrepreneurs Fund as a Corporate Director of Retroscreen Virology Limited.
6. Charles Winward became a Non-Executive Director of the Company on 3 April 2012, representing IP2IPO Services Limited as a Corporate Director of Retroscreen Virology Limited.

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 Retroscreen Virology Limited on 20 April 2012. The Share Scheme replicates the terms of the Retroscreen Virology Share Option Scheme (the "Old Share Scheme") which was operated by Retroscreen Virology Limited prior to the acquisition. Options over ordinary shares in Retroscreen Virology Limited outstanding under the Old Share Scheme at the time of the acquisition were exchanged by optionholders for options on the same terms.

	Options at 27 March 2012	Number of options granted during the year[1]	**Options as at 31 December 2012**	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	33.3%
Graham Yeatman	—	644,600	**644,600**	23 Dec 2011	22 Dec 2021	8.15p	33.3%

1. On 26 April 2012, following the share-for-share exchange and 20 for 1 share split, the original options on shares in Retroscreen Virology 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.

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

DIRECTORS' RESPONSIBILITIES STATEMENT

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.

The financial statements are required by law and IFRS adopted by the EU to present fairly the financial position of the Group and the Company and the financial performance of the Group. The Companies Act 2006 provides in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation.

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 Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

INDEPENDENT AUDITOR'S REPORT

to the members of Retroscreen Virology Group plc

We have audited the Group and Parent Company financial statements (the "financial statements") which comprise the Group and Parent Company statements of financial position, the Group statement of comprehensive income, the Group and Parent Company statements of cash flows, the Group and Parent Company statements of changes in equity and the related notes. 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 more fully explained in the Directors' responsibilities statement set out on page 24, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and the Parent Company's affairs as at 31 December 2012 and of the Group's profit 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 Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

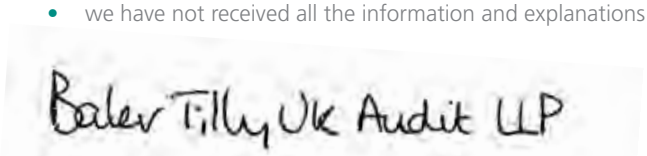
Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the 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.



GRAHAM BOND FCA (Senior Statutory Auditor)

For and on behalf of Baker Tilly UK Audit LLP, Statutory Auditor

Chartered Accountants
3 Hardman Street
Manchester M3 3HF

9 April 2013

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2012

	Notes	Year ended 31 December 2012 £'000	Year ended 31 December 2011 £'000
Revenue		**14,395**	4,271
Cost of sales	6	**(10,694)**	(3,657)
Gross profit		**3,701**	614
Research and development	6	**(307)**	(121)
Administrative expenses	6	**(3,873)**	(1,644)
Share-based payment charge		**(48)**	(3)
Loss from operations		**(527)**	(1,154)
Finance income	8	**111**	3
Finance costs	9	**(12)**	(13)
Loss before taxation		**(428)**	(1,164)
Taxation	10	**957**	501
Profit/(loss) for the year		**529**	(663)
Other comprehensive income net of tax		**—**	—
Total comprehensive profit/(loss) for the year attributable to owners of the Company		**529**	(663)
Earnings/(loss) per share – basic (pence)	11	**1.5p**	(3.6)p
Earnings/(loss) per share – diluted (pence)	11	**1.4p**	(3.6)p

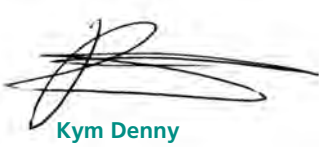
All income is derived from continuing operations.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 31 December 2012

	Notes	At 31 December 2012 £'000	At 31 December 2011 £'000
Assets			
Non-current assets			
Property, plant and equipment	12	**1,377**	395
Current assets			
Inventories	13	**1,613**	1,445
Trade and other receivables	14	**2,695**	2,887
Research and development tax credit receivable		**1,075**	500
Cash and cash equivalents	15	**16,338**	1,593
		21,721	6,425
Total assets		**23,098**	6,820
Liabilities			
Current liabilities			
Trade and other payables	16	**(6,762)**	(4,820)
Loans	17	**—**	(374)
		(6,762)	(5,194)
Net current assets		**14,959**	1,231
Net assets		**16,336**	1,626
Equity			
Share capital	19	**2,049**	1,096
Share premium account		**13,013**	—
Share-based payment reserve		**217**	5
Merger reserve		**4,199**	4,196
Retained earnings		**(3,142)**	(3,671)
Total equity		**16,336**	1,626

The consolidated financial statements of Retroscreen Virology Group plc (registered company number 08008725) on pages 26 to 47 were approved and authorised for issue by the Board on 9 April 2013 and signed on its behalf by:



Kym Denny
Chief Executive Officer

Graham Yeatman
Finance Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2012

	Ordinary share capital £'000	Preference share capital £'000	Share premium account £'000	Share-based payment reserve £'000	Merger reserve £'000	Retained earnings £'000	Total £'000
At 1 January 2011 as previously stated	—	2,340	1,802	6	—	(3,012)	1,136
Merger adjustment	390	(2,340)	(1,802)	—	3,752	—	—
At 1 January 2011 as restated	390	—	—	6	3,752	(3,012)	1,136
Issued equity share capital	706	—	—	—	444	—	1,150
Total transactions with owners in their capacity as owners	706	—	—	—	444	—	1,150
Total comprehensive loss for the year	—	—	—	—	—	(663)	(663)
Transfer on lapse of options	—	—	—	(4)	—	4	—
Share-based payment expense	—	—	—	3	—	—	3
Balance at 31 December 2011	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 profit for the year	—	—	—	—	—	529	529
Share-based payment expense	—	—	—	48	—	—	48
Warrants issued	—	—	(164)	164	—	—	—
Balance at 31 December 2012	**2,049**	**—**	**13,013**	**217**	**4,199**	**(3,142)**	**16,336**

For an explanation of components of shareholders' equity see note 19.

CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 31 December 2012

	Year ended 31 December 2012 £'000	Year ended 31 December 2011 £'000
Cash flow from continuing operating activities		
Loss before taxation	**(428)**	(1,164)
Adjustments for:		
Depreciation of plant, property and equipment	**230**	132
Loss on disposal of plant, property and equipment	**2**	—
Share-based compensation	**48**	3
Increase in inventories	**(168)**	(292)
Decrease/(increase) in trade and other receivables	**192**	(1,954)
Increase in trade and other payables	**1,941**	2,690
Finance costs	**12**	13
Finance income	**(111)**	(3)
Cash from/(used) in operations	**1,718**	(575)
Corporation tax refund	**383**	825
Net cash generated by operating activities	**2,101**	250
Investing activities		
Acquisition of plant, property and equipment	**(1,214)**	(244)
Finance income	**111**	3
Net cash used in investing activities	**(1,103)**	(241)
Financing activities		
Net proceeds from issue of shares	**14,133**	1,150
Loans (repaid)/advanced	**(374)**	115
Finance costs	**(12)**	(4)
Cash generated by financing activities	**13,747**	1,261
Net increase in cash and cash equivalents	**14,745**	1,270
Cash and cash equivalents at beginning of year	**1,593**	323
Cash and cash equivalents at end of year	**16,338**	1,593

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2012

1. General information

Retroscreen Virology Group plc (the "Company") is incorporated and domiciled in the UK and its shares are listed on the London Stock Exchange's AIM market ("RVG"). The address of its registered office address is shown on page 54.

The Group's principal activity is medical and scientific research services.

2. Summary of significant accounting policies

The principal accounting policies adopted are:

Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards and IFRIC interpretations as endorsed by the EU ("IFRS") and the requirements of the Companies Act 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 period was a profit of £21,000.

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

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

The financial statements have been prepared under the historical cost convention.

Going concern

The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Chief Executive Officer's statement, Finance Director's report and Directors' report on pages 4 and 5, pages 10 and 11, and pages 14 to 19.

In determining the appropriate basis of 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. During the year ended 31 December 2012, the Group has continued to focus on building solid foundations for significant revenue growth and a strong pipeline of VCM client engagements. As at 31 December 2012 the Group had cash and cash equivalents of £16.3 million (2011: £1.6 million) and net current assets of £15.0 million (2011: £1.2 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. Whilst there are inherent uncertainties regarding the cash flows associated with the development of the VCM, together with the timing of signature and delivery of VCM 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 at least the next twelve months.

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 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.

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 year ended 31 December 2011 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.

Foreign currencies

(a) Functional and presentational currency

Items included in the financial information are measured using the currency of the primary economic environment in which the Group operates (the "functional currency") which is UK Sterling (£). The financial information is presented in UK Sterling (£), which is the Group's presentational currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in net profit or loss in the consolidated statement of comprehensive income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

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 VCM client engagements. A VCM engagement typically comprises of 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 VCM engagement is for one quarantine or for a number of quarantines the overall timeline of the VCM is much the same, apart from the additional time for the quarantines themselves and the time lags in between quarantines (since sequential), as much of the upfront work is the same whether for one or a number of quarantines. VCM revenue is recognised on a percentage of completion method. 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 VCM 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 advanced billing are not representative of revenue earned on the contract as revenues are recognised over the period in 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.

The Group also provides translational research (laboratory) services and other consultancy to clients. Laboratory and consulting revenue is recognised on a fee-for-service basis.

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 only capitalised when the related products meet the recognition criteria of an internally generated intangible asset, the key criterion being as follows:

- technical feasibility of the completed intangible asset;
- the probability of future economic benefits;
- the availability of resources to complete the development;
- the reliable measurement of costs; and
- the ability and intention of the Group to use or sell the intangible asset.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
CONTINUED

2. Summary of significant accounting policies continued

Internally generated intangible assets – research and development expenditure continued

Expenses for research and development include associated wages and salaries, material costs, depreciation on non-current assets and directly attributable overheads.

Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and any impairment losses. Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for its intended use. Depreciation is charged so as to write off the costs of assets over their estimated useful lives, on the following basis:

Leasehold improvements	five years straight line
Plant and machinery	four years straight line
Long term plant and machinery	ten years straight line
Computer equipment	three years straight line

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 non-current assets

At each reporting date, the Group reviews the carrying amounts of its property, plant and equipment 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 (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Inventories

Inventories are reported at the lower of cost (purchase price and/or production cost) and net realisable value. In determining net realisable value, any costs of completion and selling costs are deducted from the realisable value.

Inventories are comprised of completed GMP manufactured and research 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. The cost included within inventories comprises 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 with a lower net realisable value or which are considered to be obsolete. Any inventories which Management consider are not useable on future commercial engagements are fully written off to profit or loss.

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 de-recognised 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 de-recognised when the obligation specified in the contract is discharged, cancelled or expired.

Trade receivables

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. Interest income is recognised by applying the effective interest rate, except for short term receivables when the recognition of interest would be immaterial.

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.

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 initially measured at their fair value and are subsequently measured at their amortised cost using the effective interest rate method; this method allocates interest expense over the relevant period by applying the "effective interest rate" to the carrying amount of the liability.

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, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

Current and deferred tax

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

Current tax is based on taxable profit for the year. Taxable profit differs from net profit 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 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.

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.

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.

Operating leases

Rentals payable under operating leases are charged to income on a straight-line basis over the term of the relevant lease except where another more systematic basis is more representative of the time pattern in which economic benefits from the lease asset are consumed. Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight-line basis over the lease term.

Share-based payment transactions

The Group issues equity-settled share-based payments to certain employees (including Directors) and advisers.

Equity-settled share-based payments are measured at fair value at the date of grant and expensed on a straight-line basis over the vesting period, based upon the Group's estimate of equity instruments that will eventually vest, along with a corresponding increase in equity. 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.

The fair value of share options is determined using a Black Scholes model, taking into consideration Management's best estimate of the expected life of the option and the estimated number of shares that will eventually vest.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
CONTINUED

3. Critical accounting estimates and judgements

Details of the Group's significant accounting judgements and critical accounting estimates are set out in this financial information and include:

Going concern

The assessment of the Group's ability to execute its strategy by funding future working capital requirements involves judgement. The Directors monitor future cash requirements to assess the Group's ability to meet these future funding requirements. Further information regarding going concern is outlined in note 2.

Revenue, deferred income and accrued income

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

In carrying out this task, Management considers the contract value for each individual element of the contract and splits this amount on a straight line basis over the anticipated time period in which that element is to be completed.

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

Research and development tax credit

The Group's research and development tax claim is complicated 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 and Customs.

Virus inventory

The cost of inventories requires a number of assumptions to be made in relation to the absorption of directly attributable overheads in relation to the internal costs in preparing virus strains for commercial use. These assumptions are based primarily on Management's estimates of employee utilisation and annual working days.

In valuing virus inventory, Management are required to make assumptions in relation to the future commercial use for each virus strain. This includes consideration of both the current business pipeline and Management's best estimates of the future client requirements based on its significant knowledge and experience in the field of virology.

Recoverability of deferred tax assets

Deferred tax assets are recognised only to the extent that it is considered probable that those assets will be recoverable. This involves an assessment of when those deferred tax assets are likely to reverse, and a judgement as to whether or not there will be sufficient taxable profits available to offset the tax assets when they do reverse. This requires assumptions regarding future profitability and is therefore inherently uncertain. To the extent assumptions regarding future profitability change, there can be an increase or decrease in the level of deferred tax assets recognised which can result in a charge or credit to the consolidated statement of comprehensive income in the period in which the change occurs.

4. Interpretations of accounting standards

Amendments to published standards effective for the year ended 31 December 2012

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 2012 but not relevant

The following standards, amendments and interpretations were effective during 2012 but not relevant to the Group:

- IAS 1 Presentation of Financial Statements – Amendment, Presentation of Items of Other Comprehensive Income;
- IFRS 13 Fair Value Measurement;
- IFRS 7 Financial Instruments Disclosure – Amendment, Offsetting Financial Assets and Financial Liabilities;
- IAS 32 Offsetting Financial Assets and Financial Liabilities;
- IAS 28 Investments in Associates and Joint Ventures (amended 2011);
- IFRS 10 Consolidated Financial Statements;
- IFRS 11 Joint Arrangements; and
- IFRS 12 Disclosure of Interests.

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

- IAS 1 Presentation of Other Comprehensive Income;
- IFRS 10 Consolidated Financial Statements;
- IFRS 12 Disclosure of Interest;
- IAS 12 (Revised) Income Taxes;
- IAS 27 (Improvements) Consolidated and Separate Financial Statements;
- IAS 34 (Improvements) Interim Financial Reporting;
- IAS 32 Offsetting Financial Assets and Financial Liabilities; and
- IFRS 9 Financial Instruments.

The Directors are of the opinion 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.

5. 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 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 IFRS 8, which is "medical and scientific research services". The Group's revenue, results and assets for this one reportable segment can be determined by reference to the Group's statement of comprehensive income and statement of financial position.

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

During the year ended 31 December 2012 the Group had three customers in which revenues generated were greater than 10% of total revenue. These customers respectively generated 54%, 26% and 12% of revenue.

During the year ended 31 December 2011 the Group had three customers in which revenues generated were greater than 10% of total revenue. These customers respectively generated 40%, 26% and 11% of revenue.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
CONTINUED

6. Loss from operations

The loss for the year has been arrived at after charging:

	Year ended 31 December 2012 £'000	Year ended 31 December 2011 £'000
Staff costs (see note 7)	**6,937**	2,834
Research and development	**307**	121
Depreciation on owned property, plant and equipment	**230**	132
Loss on disposal of property, plant and equipment	**2**	—
Auditor's remuneration (see below)	**36**	20
Operating lease costs		
– land and buildings	**812**	553
Inventories used	**567**	172
Inventories written off	**352**	—
Net foreign exchange loss	**16**	—

The aggregate of cost of sales, research and development, and administrative expenses by nature is as follows:

	Year ended 31 December 2012 £'000	Year ended 31 December 2011 £'000
Staff costs, recruitment and other human resources	**8,581**	3,206
Premises and equipment	**1,010**	703
Volunteer costs	**1,638**	176
Inventories used	**567**	172
Inventories written off	**352**	—
Insurance	**179**	141
Professional fees and marketing	**548**	196
IT and telecoms	**377**	168
Depreciation	**230**	132
Other expenses	**1,392**	528
	14,874	5,422

Amounts payable to Baker Tilly UK Audit LLP and its associates in respect of both audit and non-audit services:

	Year ended 31 December 2012 £'000	Year ended 31 December 2011 £'000
Auditor services:		
Fees payable to the Company's auditor for audit of the Company's annual accounts	**11**	—
Other services:		
Fees payable to the Company's auditor and its associates for other services		
– the audit of the Company's subsidiaries pursuant to legislation	**16**	20
– audit related assurance services	**9**	—
Included within the loss for the year	**36**	20
– as reporting accountant for AIM admission[1]	**73**	—
– other services[1]	**9**	—
	118	20

1. Amounts payable in relation to services provided as reporting accountant for AIM admission and the other services have been taken to reserves.

7. Staff costs

	Year ended 31 December 2012 Number	Year ended 31 December 2011 Number
The average number of employees (including Executive Directors) employed was:		
Management, administration and business development	**22**	14
Operations and project management	**101**	43
	123	57

	Year ended 31 December 2012 £'000	Year ended 31 December 2011 £'000
The aggregate remuneration comprised (including Directors):		
Wages and salaries	**6,014**	2,459
Social security costs	**682**	293
Pension contributions	**193**	79
Share option expense	**48**	3
	6,937	2,834

The remuneration of the Directors, who are the key management personnel of the Group, is shown within note 23.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
CONTINUED

8. Finance income

	Year ended 31 December 2012 £'000	Year ended 31 December 2011 £'000
Interest on bank deposits	**111**	3

9. Finance costs

	Year ended 31 December 2012 £'000	Year ended 31 December 2011 £'000
Interest on borrowings	**12**	13

10. Taxation

	Year ended 31 December 2012 £'000	Year ended 31 December 2011 £'000
Current tax:		
Research and development tax credit	**(947)**	(500)
Adjustments in respect of previous periods	**(10)**	(1)
	(957)	(501)
Factors affecting the tax charge for the period:		
The tax assessed for the period is lower than the UK corporation tax rate of 25% (2011: 26.5%), as explained below:		
Loss before taxation	**(428)**	(1,164)
Tax at the UK corporation tax rate of 25% (2011: 26.5%)	**(107)**	(308)
Expenses not deductible for tax purposes	**4**	13
Fixed asset timing differences not recognised	**3**	—
Research and development relief	**(857)**	(276)
Movement on unrecognised deferred tax balances	**10**	21
Change in deferred tax rate	**—**	50
Adjustments in respect of prior periods	**(10)**	(1)
Tax for the year	**(957)**	(501)

As at 31 December 2012, the Group had unrecognised deferred tax assets totalling £0.57 million (2011: £0.62 million) which primarily relates to losses. The Group has not recognised this as an asset in the consolidated statement of financial position due to the uncertainty in the timing of its crystallisation.

11. Earnings/(loss) per share

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

	Year ended 31 December 2012 £'000	Year ended 31 December 2011 £'000
Earnings		
Earnings/(loss) for the purposes of basic and diluted EPS/(LPS) being net profit/(loss) attributable to owners of the Parent Company	**529**	(663)
Number of shares		
Weighted average number of ordinary shares for the purposes of basic EPS/(LPS)	**34,580,451**	18,447,280
Effect of dilutive potential ordinary shares:		
– share options	**3,582,103**	—
– warrants	**56,596**	—
Weighted average number of ordinary shares for the purposes of diluted EPS/(LPS)	**38,219,150**	18,447,280

In the prior year, 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 diluted loss per share were the same.

12. Property, plant and equipment

	Leasehold improvements £'000	Plant and machinery £'000	Long-term plant and equipment £'000	Computer equipment £'000	Total £'000
Cost:					
At 1 January 2011	116	330	91	86	623
Additions	123	78	—	43	244
At 31 December 2011	239	408	91	129	867
Additions	479	503	—	232	1,214
Disposals	—	(105)	(1)	(2)	(108)
At 31 December 2012	**718**	**806**	**90**	**359**	**1,973**
Accumulated depreciation:					
At 1 January 2011	—	264	24	52	340
Charge for the year	40	54	9	29	132
At 31 December 2011	40	318	33	81	472
Charge for the period	65	99	10	56	230
Disposals	—	(104)	(1)	(1)	(106)
At 31 December 2012	**105**	**313**	**42**	**136**	**596**
Carrying amount:					
At 1 January 2011	116	66	67	34	283
At 31 December 2011	199	90	58	48	395
At 31 December 2012	**613**	**493**	**48**	**223**	**1,377**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
CONTINUED

13. Inventories

	31 December 2012 £'000	31 December 2011 £'000
Laboratory and clinical consumables	**89**	63
Virus – finished goods	**1,122**	1,117
Virus – work in progress	**402**	265
	1,613	1,445

Inventories expensed in the consolidated statement of comprehensive income are shown within cost of sales. All inventories are carried at the lower of cost and net realisable value. In the year to 31 December 2012 inventories with a book value of £352,000 were written off (31 December 2011: £nil) and this expense is recognised in cost of sales.

14. Trade and other receivables

	31 December 2012 £'000	31 December 2011 £'000
Trade receivables	**633**	2,384
Allowance for impairment losses	**—**	(105)
	633	2,279
VAT recoverable	**223**	100
Other receivables	**346**	155
Prepayments	**409**	310
Accrued income	**1,084**	43
	2,695	2,887

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

At 31 December 2012 the Group had a debt due to it of £454,000 from a single client which has been received in full since that date. There were no other significant concentrations of credit risk at the reporting date.

The movement on the allowance for impairment losses on trade and other receivables is as follows:

	31 December 2012 £'000	31 December 2011 £'000
Balance at beginning of the year	**(105)**	(74)
Impairment losses recognised through the consolidated statement of comprehensive income for the year	**—**	(92)
Amounts written off as unrecoverable during the year	**105**	61
	—	(105)

The Directors believe that the carrying value of trade and other receivables represents its fair value. 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 18.

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

15. Cash and cash equivalents

	31 December 2012 £'000	31 December 2011 £'000
Cash and cash equivalents	**16,338**	1,593

All of the Group's cash and cash equivalents at 31 December 2012 are at floating interest rates. Included in the cash and cash equivalents of the Group at 31 December 2012 was the equivalent of £157,000 (31 December 2011: £275) denominated in US Dollars and £7,000 denominated in Euros (31 December 2011: £nil); the balance was denominated in pounds Sterling (£).

The Directors consider that the carrying value of cash and cash equivalents approximates their fair value. For details on the Group's credit risk management, refer to note 18.

16. Trade and other payables

	31 December 2012 £'000	31 December 2011 £'000
Trade payables	**1,690**	446
Other tax and social security	**305**	121
Other payables	**22**	1,242
Accruals	**1,102**	384
Deferred income	**3,643**	2,627
	6,762	4,820

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

As at 31 December 2011, other payables included the sum of £1,211,826 which had been overpaid in error by a client. This was repaid by the Group immediately following the 2011 year end.

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

The Group has financial risk management policies in place to ensure that all payables are paid within the credit timeframe and no interest has been charged by any suppliers as a result of late payment of invoices during the year.

17. Loans

	31 December 2012 £'000	31 December 2011 £'000
Amounts to be settled within one year		
Loans	—	374

The unsecured loans due as at 31 December 2011 were repaid in the year to 31 December 2012. The Group had no outstanding loans as at 31 December 2012.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
CONTINUED

18. Financial instruments

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.

Further quantitative information in respect of these risks is presented throughout this financial information.

Capital risk 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 short-term loans have been utilised from time to time. As at 31 December 2012, no short-term loans were outstanding. The capital structure of the Group consists of cash, cash equivalents and equity, comprising issued capital.

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.

Principal financial instruments

The Group'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 Group held the following financial assets, all of which were classified as loans and receivables:

	31 December 2012 £'000	31 December 2011 £'000
Cash and cash equivalents	**16,338**	1,593
Trade receivables	**633**	2,279
Other receivables	**346**	155
	17,317	4,027

Financial liabilities

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

	31 December 2012 £'000	31 December 2011 £'000
Trade payables	**1,690**	446
Loans	**—**	374
Other payables	**22**	1,242
	1,712	2,062

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 2012, both these risks are considered to have been minimal.

Credit risk

Credit risk arises principally from the Group's cash balances 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 balances 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.

At 31 December 2012 the Group had a debt due to it of £454,000 from a single client which has been received in full since that date. There were no other significant concentrations of credit risk at the reporting date. At 31 December 2012, the Group's trade receivables balance was £633,000 (31 December 2011: £2,384,000).

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 2012, the allowance for impairment losses totalled £nil (31 December 2011: £105,000). In the opinion of the Directors, there has been no impairment of financial assets during the year.

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 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 prepared by Management.

At 31 December 2012, the Group had cash and cash equivalents of £16,338,000 (31 December 2011: £1,593,000).

Foreign currency risk management

Historically, the Group's exposure to foreign currency risk has been limited, all of its invoicing and the majority of its payments are in Sterling. The balance held in foreign currencies to the balance sheet date was negligible and it 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

All of the Group's non-derivative financial liabilities and its financial assets at 31 December 2012 are either payable or receivable within one year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
CONTINUED

19. Share capital

	Number	£'000
Issued and fully paid:		
Issued subscriber shares	1	—
Issued to former shareholders of Retroscreen Virology Limited	1,101,970	1,102
Subdivision of ordinary shares	20,937,449	—
Issued under placing agreement	18,937,500	947
	40,976,920	**2,049**

On 27 March 2012 the Company was incorporated with one ordinary share of £1.00 subscribed for £nil paid.

On 20 April 2012 the Company entered into an agreement to acquire the entire share capital of Retroscreen Virology Limited, satisfied by the issue of 1,101,970 ordinary shares of £1.00 and the original one ordinary share credited as being fully paid.

On 25 April 2012 each of the issued ordinary shares of £1.00 were subdivided into 20 ordinary shares of 5 pence each.

On 3 May 2012 following admission to the Alternative Investment Market of the London Stock Exchange, 18,937,500 ordinary shares of 5 pence were issued at a price of 80 pence per ordinary share raising £15.15 million which after share issue expenses of £1.03 million gave net consideration of £14.12 million.

Options

At 31 December 2012 the Company had 3,867,660 (2011: 3,867,660) unissued ordinary shares of 5 pence each under the Company's share option schemes, details of which are as follows:

Grant date	Number ('000)	Option price (pence)	Date from which exercisable	Expiry date
7 April 2009	111	5.0	7 April 2010	6 April 2019
7 April 2009	111	5.0	7 April 2011	6 April 2019
7 April 2009	112	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	1,045	8.2	3 May 2012	22 December 2012
23 December 2011	1,045	8.2	23 December 2012	22 December 2012
23 December 2011	1,046	8.2	23 December 2013	22 December 2012
	3,868			

Details of share options are disclosed in note 20 to the accounts.

Components of shareholders' equity

The components of shareholders' equity are as follows:

- the share capital and the share premium account arising on the issue of shares;
- the retained deficit reflecting losses incurred to date;
- the share-based payment reserve resulting from the Company's grant of equity-settled share options to selected employees and measured in accordance with IFRS 2 Share-based Payment; and
- the merger reserve arising on the Company's acquisition of Retroscreen Virology Limited.

20. Share-based payments

Retroscreen Virology Group 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. The share option plan was established immediately following the Company's acquisition of Retroscreen Virology Limited. The share scheme replicates the terms of the Retroscreen Virology share option scheme which was operated by Retroscreen Virology Limited prior to the acquisition.

Options are exercisable at a price equal to the market price of the Company's shares on the date of the grant. The vesting period for shares is usually three years. 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 2012		31 December 2011	
	Number ('000)	WAEP £	Number ('000)	WAEP £
Outstanding at the beginning of the year	**3,868**	**0.08**	**1,102**	**0.07**
Granted during the year	—	—	3,136	0.08
Exercised during the year	—	—	—	—
Expired during the year	—	—	(370)	0.10
Outstanding at the end of the year	**3,868**	**0.08**	**3,868**	**0.08**
Exercisable at year end	**1,698**	**0.07**	**490**	**0.05**

The options outstanding at 31 December 2012 had a weighted average exercise price of £0.08 and a weighted average remaining contractual life of 8.5 years.

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

	31 December 2012 £'000	31 December 2011 £'000
Expected life of options – years	—	6.00
Weighted average exercise price – £	—	0.08
Weighted average share price at grant date – £	—	0.02
Expected volatility – %	—	40.00
Risk-free rate – %	—	1.18

The Group uses historical data to estimate option exercise and employee retention within the valuation model. Expected volatilities are based upon implied volatilities as determined by a simple average of a sample of listed companies based in similar sectors. The risk-free rate for the period within the contractual life of the option is based on the UK gilt yield curve at the time of the grant.

The Group recognised a charge of £48,000 (31 December 2011: £3,000) related to equity-settled share-based payment transactions during the year. Of this total, all related to employees including Executive Directors. The majority of the options in existence have no performance criteria.

Adviser warrants

In part settlement of adviser fees in the year, warrants over 204,885 ordinary shares were granted at an exercise price of 80 pence per ordinary share.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
CONTINUED

21. 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 £193,000 for the year (31 December 2011: £79,000). Contributions totalling £21,000 were payable to the fund at the year end and are included within current liabilities (31 December 2011: £29,000).

22. Ultimate controlling party

In the opinion of the Directors there is no single controlling party.

23. 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 2012 £'000	Period ended 31 December 2011 £'000
Executive Directors – aggregate		
Short-term employee benefits and fees	**364**	185
Employer's National Insurance contributions	**46**	24
Post-employment benefits	**22**	10
Share-based compensation charge	**22**	—
	454	219
Non-Executive Directors – aggregate		
Short-term employee benefits and fees	**—**	—
Payments to third parties	**14**	—
Total short-term employee benefits and fees	**14**	—
Total Directors' remuneration	**468**	219

Remuneration and benefits paid to the highest paid Director totalled £232,000 (31 December 2011: £124,000).

Amounts outstanding to key personnel

As at 31 December 2012, £nil was due to Directors of the Group in relation to reimbursement of expenses resulting in the ordinary course of business (31 December 2011: £9,000) and £17,000 in relation to employer pensions contributions (31 December 2011: £10,000).

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").

On 18 February 2011, the Group commenced a five year lease with QMB of the 2nd floor of the QMB Innovation Centre at a rent of £645,474 p.a. The lease included a break clause, after three years, subject to six months' notice.

On 2 November 2012, the Group signed an Agreement for Lease with Works to develop the 3rd floor of the QMB Innovation Centre. As part of the agreement, during Q1 2013, QMB advanced the Company an interest-free loan of £750,000 to develop the 3rd floor, with £75,000 p.a. repayable over a ten-year period.

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 p.a. This lease replaced the original lease of the 2nd floor. The 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.

During 2012, and up to moving into the 3rd floor, the Group had a number of leases for units on the 1st floor of the QMB Innovation Centre. These leases were for twelve months, but from six months terminated by giving one month's notice. Since March 2013, the Group has continued to rent three small units on the 1st floor, but the other leases of units have been terminated.

Professor John Oxford has no fee in relation to his appointment as a Non-Executive Director. He is seconded to the Group from QMUL at a cost of £40,000 p.a.

The appointment on 27 April 2012 of Charles Winward as a Non-Executive Director of the Company is invoiced by IP2IPO Limited at a cost of £10,000 p.a.

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

	Year ended 31 December 2012 £'000	Year ended 31 December 2011 £'000
Rent and facilities	**1,020**	351
Director salary recharged	**47**	29
Non-Executive Director fees	**4**	—
Fees and expenses relating to the IPO	**102**	—
Other expenses recharged	**5**	—
	1,178	380

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

	31 December 2012 £'000	31 December 2011 £'000
Shareholders		
Loans	**—**	259
Invoices outstanding	**128**	137
	128	396

24. 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 2012 £'000	31 December 2011 £'000
Within one year	**1,263**	680
In the second to fifth years inclusive	**3,038**	1,379
After five years	**472**	—
	4,773	2,059

As detailed in note 23, 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.

25. Capital committments

At the reporting date, the Group had capital commitments totalling £590,000 relating to the fit-out of the 3rd floor of the QMB Innovation Centre.

COMPANY STATEMENT OF FINANCIAL POSITION

at 31 December 2012

	Notes	At 31 December 2012 £'000
Assets		
Non-current assets		
Fixed asset investments	3	**17,685**
Current assets		
Trade and other receivables	4	**6**
Cash and cash equivalents	5	**14,176**
		14,182
Total assets		**31,867**
Liabilities		
Current liabilities		
Trade and other payables	6	**(37)**
Net current assets		**14,145**
Net assets		**31,830**
Equity		
Share capital	8	**2,049**
Share premium account		**13,013**
Share-based payment reserve		**217**
Merger reserve		**16,530**
Retained earnings		**21**
Total equity		**31,830**

The financial statements of Retroscreen Virology Group plc (registered company number 08008725) on pages 48 to 53 were approved and authorised for issue by the Board on 9 April 2013 and signed on its behalf by:

Kym Denny
Chief Executive Officer

Graham Yeatman
Finance Director

COMPANY STATEMENT OF CHANGES IN EQUITY

for the period ended 31 December 2012

	Ordinary share capital £'000	Share premium account £'000	Share-based payment reserve £'000	Merger reserve £'000	Retained earnings £'000	Total £'000
Issued equity for cash	947	13,177	—	—	—	14,124
Total transactions with owners in their capacity as owners	947	13,177	—	—	—	14,124
Total comprehensive profit for the period	—	—	—	—	21	21
Issued to acquire subsidiary company	1,102	—	—	16,530	—	17,632
Warrants issued	—	(164)	164	—	—	—
Share-based payment expense	—	—	53	—	—	53
Balance at 31 December 2012	**2,049**	**13,013**	**217**	**16,530**	**21**	**31,830**

COMPANY STATEMENT OF CASH FLOWS

for the period ended 31 December 2012

	Period ended 31 December 2012 £'000
Cash flow from continuing operating activities	
Loss before taxation	21
Adjustments for:	
Increase in trade and other receivables	(6)
Increase in trade and other payables	37
Finance income	(97)
Cash used in operations	**(45)**
Net cash used in operating activities	**(45)**
Investing activities	
Finance income	97
Cash generated by investing activities	**97**
Financing activities	
Net proceeds from issue of shares	14,124
Cash generated by financing activities	**14,124**
Net increase in cash and cash equivalents	14,176
Cash and cash equivalents at beginning of period	—
Cash and cash equivalents at end of period	**14,176**

NOTES TO THE COMPANY FINANCIAL STATEMENTS

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, Retroscreen Virology Limited.

2. Company results

The Company was incorporated and registered in England and Wales as a private company on 27 March 2012. On 25 April 2012 the Company was re-registered as a public limited company and changed its name to 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 2012 was a profit of £21,000.

The audit fee for the Company is set out in note 6 of the Group's financial statements.

3. Financial asset investments

	31 December 2012 £'000
Investments in subsidiaries:	
Additions	**17,632**
Share-based compensation adjustment	**53**
Investment in subsidiary	**17,685**

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
Retroscreen Virology Limited	England	Ordinary shares	100%	Medical and scientific research services
Retroscreen Virology Services Limited	England	Ordinary shares	100%	Dormant

On 27 March 2012 the Company was incorporated with one ordinary share of £1.00 subscribed for £nil paid.

On 20 April 2012 the Company entered into an agreement to acquire the entire share capital of Retroscreen Virology Limited, satisfied by the issue of 1,101,970 ordinary shares of £1.00 and the original one ordinary share credited as being fully paid.

The Company has chosen a policy 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.

NOTES TO THE COMPANY FINANCIAL STATEMENTS
CONTINUED

4. Trade and other receivables

	31 December 2012 £'000
Other receivables	4
Prepayments	2
	6

5. Cash and cash equivalents

	31 December 2012 £'000
Cash and cash equivalents	14,176

All of the Group's cash and cash equivalents at 31 December 2012 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 the note 18 of the Group's financial statements.

6. Trade and other payables

	31 December 2012 £'000
Trade creditors	5
Social security and other taxes	5
Accruals	11
Amounts due to Group undertakings	16
	37

7. 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, all of which were classified as loans and receivables:

	31 December 2012 £'000
Cash and cash equivalents	14,176
Other receivables	4
	14,180

Financial liabilities

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

	31 December 2012 £'000
Trade payables	5
Other payables	16
	21

Refer to note 18 of the Group's financial statements for more information.

8. Share capital

Refer to note 19 of the Group's financial statements.

9. Share-based payments

Refer to note 20 of the Group's financial statements.

10. 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 23 of 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 2012 £'000
Non-Executive Director fees	11
Fees and expenses relating to the IPO	102
Other expenses recharged	5
	118

The balances outstanding to shareholders at the end of the period are as follows:

	31 December 2012 £'000
Invoices outstanding	4
	4

11. Ultimate controlling party

In the opinion of the Directors there is no single controlling party.

ADVISERS

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Manchester
M3 3HF

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GLOSSARY

antiviral a drug effective against viruses which cause disease

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

characterised/characterisation 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

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

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

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

first-in-man a clinical trial where a therapeutic is tested on human subjects for the first time – in recent years, regulation of such studies has increased substantially following reassessment of the inherent riskiness of such studies

gene expression signature a particular pattern of protein production from nucleic material which can help identify or predict immune responses

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

GLP (Good Laboratory Practice) a quality system for research laboratories and organisations carrying out non-clinical safety tests

GMP (Good Manufacturing Practice) a quality system for the manufacturing and production of drugs and medical devices, together with the active components of these

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

- **H1N1** a subtype of influenza viruses which are a common cause of influenza. Strains of the H1N1 virus were responsible for the swine flu pandemic in 2009
- **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

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

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

GLOSSARY CONTINUED

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

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

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

RSV (respiratory synctial 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 Retroscreen 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

VCM (viral challenge model) a viral challenge quarantine clinical trial that includes the development and maintaining of a characterised virus, the screening and recruitment of volunteers, the development of clinical trial protocol and obtaining of ethics approval, the use of virology assays to screen volunteers, the use of quarantine(s) virology assays to analyse clinical trial samples, project management (from the start to the end of the VCM), data recording and data analysis. A VCM engagement may include one quarantine or 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 nine to twelve months. Whether a VCM engagement is for one quarantine or for a number of quarantines, the overall timeline of the VCM is much the same, apart from the additional time for the quarantines themselves and the time lags in between quarantines (since sequential), as a lot of the upfront work is the same whether for one or a number of quarantines

viral challenge quarantine the quarantine stage of a VCM 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

virology the study or science of viruses

virometrics a Retroscreen term to describe Retroscreen's activities and expertise in the collection, measurement and analysis of human biological data related to viruses and their effects on the human body

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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