hVIVO plc
("hVIVO" or the "Company")

Unaudited Interim Results
For the Six Months Ended 30 June 2019

Positioning for profitability

- *Significant cost reductions and operational efficiencies implemented since FY18 expected to drive FY20 operating costs down by £11m compared to FY17*
- *Expanded service offerings enhance future revenue opportunities*
- *Strong pipeline of contract opportunities for 2020*
- *Targeting profitability in 2020*

London, UK - 19 September 2019: hVIVO plc (AIM: HVO), an industry leading clinical development services business pioneering human disease models based upon viral challenge, announces its interim results for the six months ended 30 June 2019.

Financial Highlights: Significant reductions in Admin and R&D costs combined with growing revenues, positions Company well for future profitability

- Revenue up 22% to £5.9 million (H1 2018: £4.9 million)
- Adjusted loss from operations* reduced 27% to £3.7 million (H1 2018: £5.0 million)
- Adjusted EBITDA loss reduced 29% to £3.1 million (H1 2018: £4.4 million) trending towards future profitability
- Cash and cash equivalents of £4.0 million at 30 June 2019 (31 December 2018: £13.4 million) impacted by contract cancellations
- Research and development expense down 60% to £1.1 million (H1 2018: £2.8 million)
- Admin expenses down 22% to £3.8 million (HY 2018: £4.9 million)
- Ongoing efficiency initiatives will protect gross profit margins going forward

Post period: An R&D tax credit refund of £2.4 million was received from HM Revenue & Customs on 4th September 2019.

* Adjusted loss from operations excludes provision against virus inventory of £0.6 million (H1 2018: nil)
** Adjusted EBITDA loss is equal to Adjusted loss from operations plus depreciation and amortisation of £0.5 million (H1 2018: £0.4 million) and share-based payment expense of £0.09 million (H1 2018: £0.3 million)

Operational Highlights: Good progress with further cost cutting and operational efficiencies supporting business turnaround, but cancellations of contracted work impacts cash position

- Continued progress on business turnaround and implementation of operational efficiency measures, primarily driven by headcount reductions and process improvements have significantly reduced the operating cost base. These actions are expected to deliver an £11 million reduction in operating costs in FY20 compared to FY17
- Key operational improvements will bring costs in line with services revenue, supporting business turnaround and enabling profitability
- Further validation of hVIVO's respiratory syncytial virus (RSV) challenge model
- Unprecedented levels of contract cancellations, due to client portfolio prioritisation, impacted cash position at a time when business turnaround and efficiencies are still to be fully realised
- Pipeline of opportunities for 2020 looking strong and the Company enters the second half of the year with a robust backlog of contracted work, despite cancellations, to enable full year revenue growth
- Active discussions ongoing for business development opportunities within Imutex Limited (joint venture) – FLU-v, AGS-v

Dr Trevor Phillips, Executive Chairman, commented:
"In the first half of 2019 we have continued to rationalise the Company's cost base to further reduce our operating costs and improved our operating efficiency. We have made progress in expanding our service

offerings to enhance revenue opportunities, delivered further successful client studies and extend our position as a leader in viral challenge studies. hVIVO is now operationally stronger, better positioned to both succeed in its core business and be profitable in 2020.

During the period, we experienced what for hVIVO, was, an unprecedented level of late contract cancellations as some of our clients reprioritised their pipelines, which will continue to impact revenue in the second half of the year. At the beginning of 2019, we were on track to show a substantial revenue increase on 2018, and whilst we still anticipate exceeding market expectations for revenue for the full year, these cancellations have tempered the revenue growth and had a negative impact on our cash position. As a service business, where quality and delivery are essential, we had already operationally geared up for this high level of study activity and this, combined with the lost revenues, has impacted our cash position. That said, we have continued to make progress on implementing efficiencies and process initiatives and expect the operating cost base to be significantly lower by year end, enabling us to become profitable and generate cash based on achievable revenue levels in 2020.

In addition to the core services business, we continue to explore options for the FLU-v vaccine programme. We have engaged in multiple business development discussions, some of which are still active. We are also establishing schedules for meetings with key regulatory authorities, FDA and EMEA, where we hope to gain further insight into some of the key areas of interest expressed by potential partners.

Following the significant adjustments to the business that we have implemented and despite the high level of contract cancellations, I am confident that hVIVO is now well positioned for further revenue growth and to achieve profitability."

Analyst meeting

A presentation and webcast for analysts will be held at 11.00am BST this morning, 19 September 2019 at the offices of FTI Consulting, 200 Aldersgate, Aldersgate Street, London, EC1A 4HD, with registration and coffee from 10.45am. A webcast recording of the event will be available on the Company's website – http://hvivo.com/investors/presentations-webcasts/. For further details, please contact FTI on 020 3727 1000.

For further information please contact:

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Notes to Editors:

hVIVO is an industry leading clinical development services business supporting product development for customers developing antivirals, vaccines and respiratory therapeutics. Leveraging human disease models in human rhinovirus (HRV), RSV, Influenza (Flu) Asthma and chronic obstructive pulmonary disease (COPD), the hVIVO platform illuminates the entire disease cycle in people from healthy to sick and back to health. Based in the UK, market leader hVIVO has conducted 56 clinical studies and inoculated over 2900 volunteers.

Forward-looking statements

This announcement includes statements that are, or may be deemed to be, forward-looking statements. These forward-looking statements can be identified by the use of forward-looking terminology, including the terms anticipates, believes, estimates, expects, intends, may, plans, projects, should or will, or, in each case, their negative or other variations or comparable terminology, or by discussions of strategy, plans, objectives, goals, future events or intentions. These forward-looking statements include all matters that are not historical facts.

Any forward-looking statements in this announcement reflect the Group's (or, as the case may be, the hVIVO directors') current view with respect to future events and are subject to risks relating to future events and other risks, uncertainties and assumptions relating to the Group's operations, results of operations and growth strategy. Investors should specifically consider the factors identified in this announcement which could cause actual results to differ before making an investment decision.

Executive Chairman's Statement

Introduction

While hVIVO saw a number of challenges during the first half of 2019, the Company is on-track to report top-line growth for the full year as we continue to successful deliver client studies.

We have worked hard to take actions to significantly reduce the Company's cost base as well as expand our service offerings and we have made and are making significant progress. Since 2018, changes made across the business are delivering operational cost savings that are expected to reach £11 million by 2020, compared with 2017 and these, combined with the anticipated growth in revenues, position hVIVO for profitability next year.

Based on our contract backlog, sales pipeline and reduced cost base, I am optimistic we can deliver our 2020 growth targets. We continue to execute on our strategy of focusing on services, specifically on the opportunities supporting product development for companies developing antivirals, vaccines and respiratory therapeutics.

Operational Review

Progress across contracted pipeline

<u>Human challenge studies</u>

The Company has conducted studies and provided services to clients utilising a range of clinical trial and laboratory methodologies across different viral challenge models.

In particular, we were pleased to have been able to support Enanta in the development of its novel N-protein inhibitor EDP-938 with positive topline results announced from the RSV challenge study conducted by hVIVO. The study highlights the value that can be obtained from challenge studies to rapidly establish clear indications of clinical efficacy and dose-response whilst delivering supporting safety data in a cost-effective, controlled study, at an early stage of a product's development. The data also further validates the value of hVIVO's RSV challenge model.

Post period, hVIVO successfully completed an RSV challenge study in older adults that represents a new model available to customers as part of the Company's clinical trial services offering and broadens the Company's commercial offering in RSV.

Flu challenge model

The Company is competitive again in this market and we are encouraged by the level of discussions with potential customers currently underway that we anticipate will lead to start up agreements and contracts in the near term.

Wider respiratory opportunities

We have also directed sales and marketing efforts to develop relationships with companies developing products targeted at COPD and asthma. The pipeline of opportunities looks promising. This is an opportunity to drive incremental revenue growth and broaden the range of revenue generating capabilities in the near to medium term.

Continued progress on business turnaround with operational efficiency measures and headcount reductions implemented

The management team has continued to address the Company's cost base with further headcount reductions and operational efficiency measures implemented across the business. These measures will have a positive net impact for the remainder of 2019 and into 2020 and will support our margins going forwards. We expect to continue to improve our operations and benefit from the resulting efficiencies during 2020 and beyond.

Alliances/joint ventures

Progress regarding strategic discussions related to the assets (FLU-v and AGS-v) in our joint venture Imutex, and, in particular, around the continued development of the FLU-v vaccine, has been slower than we would have liked. Business development discussions with interested parties are still ongoing and we are continuing to explore a number of options to enable continued development of the FLU-v vaccine. We are in the process of setting up meetings with key regulatory authorities (FDA and EMEA) to discuss the status of and development pathway for FLU-v and anticipate these meetings will take place in Q42019. These meetings are expected to deliver answers to some of the questions raised by potential interested parties and management believes this could lead to further positive traction in those strategic discussions.

Post period, in July, it was confirmed that AGS-v PLUS, an experimental vaccine designed to protect against many different mosquito-borne diseases, is progressing into the clinic and will be tested in a new Phase 1 clinical trial by the NIH at the University of Maryland School of Medicine. The continuing development of this asset will come from NIAID-funded researchers testing the vaccine and additional funding for the study by Innovate UK.

Financial Review

Income Statement

Revenue for the six-month period ended 30 June 2019 increased 22% to £5.9 million (H1 2018: £4.9 million) from human challenge studies and laboratory services. Gross profit fell to £0.8 million (H1 2018: £1.2 million) as the business incurred costs ahead of anticipated revenue from studies scheduled to enter the quarantine unit during 2019 but which were subsequently cancelled, impacting H1 2019 gross margin. We enter the second half of the year with a robust backlog of contracted work despite the cancellations, and we continue to anticipate exceeding market expectations for revenue for the full year.

Other income reduced to £0.5 million (H1 2018: £1.5 million) due to completion of our flu contagiousness project with DARPA in H1 2019, with the final cost-share grant from DARPA of £0.1 million being received (H1 2018: £1.4 million). The remainder of Other income in H1 2019 is primarily a Research & Development Expenditure Credit ("RDEC") of £0.3 million (H1 2018: £0.1 million).

R&D expense decreased by £1.7 million to £1.1 million (H1 2018: £2.8 million). The reduction was a result of the termination of hVIVO's discovery projects, with the majority of spend in H1 2019 relating to activities supporting the Company's clinical development services offering, including the manufacture of new virus stock to meet scheduled client study demand.

Administrative expenses decreased by £1.1 million to £3.8 million (H1 2018: £4.9 million), reflecting ongoing process efficiencies and cost saving initiatives. We expect administrative expenses for the remainder of the year and into 2020 to reduce further as more cost savings, already initiated, are realised.

Adjusted loss from operations improved 27% to £3.7 million (H1 2018: £5.0 million) reflecting the ongoing rationalisation of the Company's cost base combined with growing revenues. Similarly, Adjusted EBITDA loss improved 29% to £3.1 million (H1 2018: £4.4 million) due to the above and was also positively impacted as a result of adopting IFRS 16 *Leases* on 1 January 2019 (see Note 2a). Loss for the year was £3.8 million (H1 2018: £4.4 million).

Balance Sheet

Following adoption of IFRS 16 *Leases*, the Company has recognised a right-of-use asset of £3.3 million in non-current assets, and a lease liability of £3.4 million of which £2.3 million is presented within non-current liabilities and £1.1 million is presented within current liabilities (see Note 2a).

As at 30 June 2019, net assets amounted to £13.6 million (31 December 2018: £17.3 million).

Cash Flow

Loss before tax was £4.3 million (H1 2018: £5.3 million) but after adjusting for non-cash items of £0.9 million, the pre-tax cash outflow from the income statement reduced to £3.5 million. However, working capital movements of £5.0 million and onerous lease and dilapidation payments of £0.6 million resulted in net cash used in operating activities of £9.0 million (H1 2018: £9.5 million).

Net cash generated from investing activities was £0.03 million (H1 2018: £0.08 million outflow) due to reduced capital expenditure. Net cash used in financing activities was £0.3 million (H1 2018: £nil) primarily reflecting the new classification for leases adopted under IFRS 16.

The net decrease in cash in the period was £9.3 million (H1 2018: £9.6m) resulting in cash and cash equivalents as at 30 June 2019 of £4.0 million (31 December 2018: £13.4 million).

Post period, a R&D tax credit refund of £2.4 million was received from HM Revenue & Customs on 4 September 2019.

Going Concern

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 the 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 interim condensed consolidated financial statements (see Note 1). Looking ahead there is material uncertainty related to the conversion of the sales pipeline into contracted work that may cast significant doubt upon the Company's ability to continue to adopt the going concern basis of accounting in the future.

Summary and outlook

We believe the markets in which we operate continue to be attractive and the Board remains confident in the strategy to focus on providing clinical trial services which we continue to expand to drive revenue growth.

The cost savings introduced by management since 2018 are expected to deliver reductions to the operating cost base of £11 million by 2020 with additional efficiency opportunities identified that can further reduce our operating cost base.

While the level of cancelled contracts this year was disappointing, these were a result of strategic portfolio decisions, on the back of strategic programme reviews, by certain of our clients and not a judgment on the value or quality of our services. The timing of the cancellations, occurring post implementation of activities to gear up for a significant level of unit occupancy, has had an impact on the Company's cash position. The Company is exploring options to support its working capital requirements, if needed. We are confident in our ability to convert our sales pipeline into contracted work and will end the year with a modest positive net cash balance, which we believe will then increase over the course of 2020 as we generate cash and our revenue builds.

The pipeline of opportunities for 2020 looks strong, demand for our services is significant and with the new model additions, is broader than it has ever been. The aim is to establish a profitable business leader in the field of viral challenge services and the Board is confident of our ability to deliver on our objectives.

Dr Trevor Phillips
Executive Chairman
18 September 2019

hVIVO plc

Condensed Consolidated Statement of Comprehensive Income
For the six months ended 30 June 2019

	Note	6 months ended 30 June 2019 Unaudited £'000	***Re-presented**** 6 months ended 30 June 2018 Unaudited £'000	*Re-presented** Year ended 31 December 2018 Audited £'000
Revenue from contracts with customers	3	**5,918**	**4,850**	11,025
Cost of sales		**(5,128)**	**(3,687)**	(8,901)
Gross profit		**790**	**1,163**	2,124
Other income		**491**	**1,520**	2,601
Research and development expense		**(1,107)**	**(2,762)**	(4,786)
Administrative expense		**(3,834)**	**(4,902)**	(9,511)
Impairment of intangible assets		-	-	(2,632)
Provision against virus inventory	4	**(564)**	-	(1,223)
Loss from operations		**(4,224)**	**(4,981)**	(13,427)
Finance income		**26**	**30**	58
Finance costs		**(97)**	**(27)**	(51)
Impairment of investment in associate		-	-	(4,698)
Share of loss of associates and joint ventures	5	**(24)**	**(362)**	(738)
Loss before taxation		**(4,319)**	**(5,340)**	(18,856)
Taxation	6	**486**	**922**	2,023
Loss for the period		**(3,833)**	**(4,418)**	(16,833)
Other comprehensive income, net of tax				
Items that may be reclassified subsequently to profit or loss				
Share of other comprehensive income of associates and joint ventures		-	**47**	100
Exchange differences arising on translating foreign operations		**1**	**4**	9
Total comprehensive loss for the period attributable to owners of the parent		**(3,832)**	**(4,367)**	(16,724)
Loss per share - basic (pence)	7	**(4.6p)**	**(5.6p)**	(21.3p)
Loss per share - diluted (pence)	7	**(4.6p)**	**(5.6p)**	(21.3p)

All results derive from continuing operations.

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

** Management has determined that the Group's investment in associates and joint ventures are not core operating assets related to the core services business therefore the share of loss of associates and joint ventures and the impairment of investment in associate are now presented underneath Loss from operations in the Income Statement. The comparative periods have been re-presented accordingly.*

30 June 2019 Unaudited	30 June 2018 Unaudited	31 December 2018 Audited

	Note	£'000	£'000	£'000
Assets				
Non-current assets				
Goodwill		**1,722**	**1,722**	1,722
Intangible assets		**259**	**3,131**	308
Property, plant and equipment		**288**	**378**	392
Right of use assets	2	**3,346**	-	-
Investment in associates and joint ventures	8	**7,192**	**12,238**	7,216
		12,807	**17,469**	9,638
Current assets				
Inventories		**1,158**	**1,553**	887
Trade and other receivables	9	**1,580**	**2,105**	1,782
Contract assets	10	**1,340**	**13**	57
Research and development tax credit receivable		**3,341**	**3,686**	2,501
Cash and cash equivalents		**4,046**	**10,693**	13,368
		11,465	**18,050**	18,595
Total assets		**24,272**	**35,519**	28,233
Equity and liabilities				
Equity				
Share capital		**4,150**	**3,911**	4,030
Share premium account		**93,421**	**93,310**	93,434
Other reserve		**211**	**211**	211
Share-based payment reserve		**819**	**637**	779
Merger reserve		**4,199**	**4,199**	4,199
Retained deficit		**(89,209)**	**(72,963)**	(85,320)
Total equity		**13,591**	**29,305**	17,333
Non-current liabilities				
Lease liabilities	2	**2,305**	-	-
Provisions		**20**	**1,608**	20
		2,325	**1,608**	20
Current liabilities				
Trade and other payables	11	**2,205**	**2,393**	3,156
Contract liabilities	12	**4,458**	**2,213**	6,546
Lease liabilities	2	**1,108**	-	-
Provisions		**585**	-	1,178
		8,356	**4,606**	10,880
Total liabilities		**10,681**	**6,214**	10,900
Total liabilities and equity		**24,272**	**35,519**	28,233

The accompanying notes are an integral part of the Condensed Consolidated Statement of Financial Position.
The Condensed Consolidated Interim Financial Statements of hVIVO plc (registered company number 08008725) were approved by the Board of Directors and authorised for issue on 19 September 2019 and signed on its behalf by:

Dr Trevor Phillips
Executive Chairman

	Share capital £'000	**Share premium account £'000**	**Share-based payment reserve £'000**	**Merger reserve £'000**	**Other reserve £'000**	**Retained deficit £'000**	**Total equity £'000**
As at 1 January 2018	**3,909**	**93,290**	**382**	**4,199**	**211**	**(68,596)**	**33,395**
Share-based payments	-	-	454	-	-	-	454
Proceeds from shares issued:							

Issue of new shares	3	28	-	-	-	-	31
Exercise of warrants and share options	118	116	(57)	-	-	-	177
Total transactions with owners in their capacity as owners	121	144	397	-	-	-	662
Loss for the year	-	-	-	-	-	(16,833)	(16,833)
Share of other comprehensive income of associates and joint ventures	-	-	-	-	-	100	100
Total comprehensive income	121	144	397	-	-	(16,733)	(16,733)
Exchange differences on translation of foreign assets	-	-	-	-	-	9	9
As at 31 December 2018	**4,030**	**93,434**	**779**	**4,199**	**211**	**(85,320)**	**17,333**
Change in accounting policy (Note 2)	-	-	-	-	-	(57)	(57)
As at 1 January 2019	**4,030**	**93,434**	**779**	**4,199**	**211**	**(85,377)**	**17,276**
Loss for the period	-	-	-	-	-	(3,833)	(3,833)
Other comprehensive income	-	-	-	-	-	1	1
Total comprehensive income	-	-	-	-	-	(3,832)	(3,832)
Issue of new shares	86	(78)	-	-	-	-	8
Share-based payments	-	-	85	-	-	-	85
Exercise of warrants and share options	34	65	(45)	-	-	-	54
As at 30 June 2019	**4,150**	**93,421**	**819**	**4,199**	**211**	**(89,209)**	**13,591**

As at 1 January 2018	**3,909**	**93,290**	**382**	**4,199**	**211**	**(68,596)**	**33,395**
Loss for the period	-	-	-	-	-	(4,418)	(4,418)
Other comprehensive income	-	-	-	-	-	51	51
Total comprehensive income	-	-	-	-	-	(4,367)	(4,367)
Issue of new shares	2	20	-	-	-	-	22
Share-based payments	-	-	255	-	-	-	255
As at 30 June 2018	**3,911**	**93,310**	**637**	**4,199**	**211**	**(72,963)**	**29,305**

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

		6 months ended 30 June 2019 Unaudited £'000	**6 months ended 30 June 2018 Unaudited £'000**	Year ended 31 December 2018 Audited £'000
Net cash used in operating activities	13	**(9,045)**	**(9,514)**	(6,881)
Cash flows from investing activities				
Acquisition of intangible assets		-	**(89)**	(89)
Acquisition of property, plant and equipment		**(1)**	**(23)**	(186)
Interest received		**29**	**30**	58
Net cash generated from/(used in) investing activities		**28**	**(82)**	(250)
Cash flows from financing activities				
Net proceeds from issue of shares		**54**	**-**	177
Payment of lease liabilities		**(359)**	-	-
Net cash (used in)/generated from financing activities		**(305)**	**-**	177
Net decrease in cash and cash equivalents		**(9,322)**	**(9,596)**	(6,921)

Cash and cash equivalents at the start of financial period	**13,368**	**20,289**	20,289
Cash and cash equivalents at the end of financial period	**4,046**	**10,693**	13,368

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

1. Accounting policies

Basis of preparation and approval of the Interim Financial Statements

The accounting policies adopted in the preparation of the Interim Financial Statements are consistent with those set out in the Group's Annual Report and Financial Statements 2018, which were prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union and as issued by the International Accounting Standards Board ("IASB"), and are expected to be consistent with the accounting policies that will be applied in the Group's Annual Report and Financial Statements 2019. They are prepared in accordance with IAS 34, "Interim Financial Reporting".

The Interim Financial Statements for the six months ended 30 June 2019 do not include all the information required for full Annual Financial Statements and should be read in conjunction with the Consolidated Financial Statements for the year ended 31 December 2018. The financial information for the six months ended 30 June 2019 and for the six months ended 30 June 2018 is unaudited.

The Interim Financial Statements do not comprise statutory accounts within the meaning of Section 434 of the Companies Act 2006. Statutory accounts for the year ended 31 December 2018 were approved by the Board on 11 April 2019 and delivered to the Registrar of Companies. The report of the auditors on those accounts was unqualified, did not contain an emphasis of matter paragraph and did not contain any statement under Section 498(2) or Section 498(3) of the Companies Act 2006.

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

The Interim Financial Statements were approved by the Board of Directors on 18 September 2019.

Going concern

In determining the basis for preparing the consolidated 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 consolidated financial statements. As at 30 June 2019, the Group had cash and cash equivalents of £4.0 million (31 December 2018: £13.4 million) and net current assets of £3.1 million (31 December 2018: £7.7 million). As at 6 September 2019 the Company's cash balance had increased to £4.3 million with net inflows of £0.3 million through that date. The Company has historically been loss making primarily due to the level of Research & Development activity and has no borrowing facilities.

In line with other CROs, the Company has a relatively fixed cost base and typically does not hold cash significantly in excess of expected near-term requirements, which means that in order to continue to operate as a going concern it has to win and deliver sufficient contracts to cover its cost base and operate within the cash resources it has.

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. Management have reviewed the contracts in the Company's order pipeline, discussed the likelihood of the contracts being placed with the counterparties and in the light of that assessed the likelihood of the forecast revenue being achieved.

Management's forecasts indicate that the Company will continue to incur net cash outflows in the second half of 2019 but that thereafter the Company will start to generate cash and that its current cash resources will be sufficient to enable it to continue to operate. All of the 2019 financial year forecast revenue is contracted however the majority of revenue in H1 2020 and all of the revenue beyond then is dependent on winning and delivering new contracts therefore there is material uncertainty over the Company's forecasts beyond 2019 and over the likelihood that the Company will win any individual contract. Notwithstanding this, the pipeline of prospective studies for 2020 is strong with several opportunities anticipated to advance to contract or start-up agreement before year-end and the Directors are satisfied that there are sufficient opportunities in the pipeline such that they are satisfied that sufficient revenue will be generated to allow the Company to operate within its cash resources.

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 the 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 interim condensed consolidated financial statements. Looking ahead, there is material uncertainty related to the conversion of the sales pipeline into contracted work that may cast significant doubt upon the Company's ability to continue to adopt the going concern basis of accounting in the future. Should the Company and Group be unable to obtain further finance such that the going concern basis of preparation were no longer appropriate, adjustments would be required which would include reducing the balance sheet values of assets to their recoverable amounts and to provide for further liabilities that might arise.

2. New standards, interpretations and amendments adopted by the Group

The Group has not early adopted any standards, interpretations or amendments.

The Group applies, for the first time, IFRS 16 Leases which does not require restatement of previous financial statements. As required by IAS 34, the nature and effect of this application is disclosed below.

Several other amendments and interpretations apply for the first time in 2019, but do not have an impact on the Condensed Consolidated Interim Financial Statements of the Group.

a. IFRS 16 Leases

IFRS 16 was issued in January 2016 and it replaces IAS 17 Leases, IFRIC 4 Determining whether an arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g. personal computers) and short-term leases (i.e. leases with a lease term of twelve months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e. the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e. the right-of-use asset).

Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

IFRS 16, which is effective for annual periods beginning on or after 1 January 2019, requires lessees and lessors to make more extensive disclosures than under IAS 17.

Transition to IFRS 16

The Group adopted IFRS 16 using the simplified retrospective method of adoption with the date of initial application of 1 January 2019. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application. The Group also elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option ('short-term leases'), and lease contracts for which the underlying asset is of low value ('low-value assets').

The effect of adoption of IFRS 16 is as follows:

Impact on the statement of financial position as at 31 December 2018:

	31 Dec 2018 £'000
Assets	
Property, plant and equipment (right-of-use assets)	**200**
Prepayments	**(18)**
Liabilities	
Lease liabilities	**(239)**
Net impact on equity	**57**

Impact on the statement of profit or loss (increase/(decrease)) for the six months ended 30 June 2018:

	6 months ended 30 June 2018 £'000
Depreciation expense (included in Cost of sales)	**26**
Rent expense (included in Cost of sales)	**(37)**
Loss from operations	**11**
Finance costs	**8**
Profit for the period	**(3)**

Impact on the statement of cash flows (increase/(decrease)) for the six months ended 30 June 2018:

	6 months ended 30 June 2018 £'000
Net cash flows from operating activities	**37**
Net cash flows from financing activities	**(37)**

Summary of new accounting policies

Right of use assets
The Group recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment.

Lease liabilities
At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-

substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as expense in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

Short-term leases and leases of low-value assets
The Group applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered of low value (i.e., below £5,000). Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

Amounts recognised in the statement of financial position

	Right of use assets £'000	**Lease liabilities £'000**
As at 1 January 2019	**200**	**239**
Additions	**3,460**	**3,460**
Depreciation expense (included in Cost of sales)	**(314)**	**-**
Interest expense (included in Finance costs)	**-**	**73**
Payments	**-**	**(359)**
As at 30 June 2019	**3,346**	**3,413**
Current	**-**	**1,108**
Non-current	**3,346**	**2,305**

3. Revenue from contracts with customers and segmental information

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

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

4. Provision against virus inventory

Management has performed an assessment of the carrying value of virus inventory as at 30 June 2019 and determined that a provision of £0.6 million is required.

5. Share of loss of associates and joint ventures

hVIVO plc holds equity investments in development stage biopharmaceutical companies. As the invested companies are incurring expenditure to develop products no revenue will be generated, and losses will be presented, until the products are successfully developed.

At 30 June 2019, the Group held an investment in one associate, PrEP Biopharm Limited, and one joint venture, Imutex Limited (see Note 8). The carrying amount of PrEP Biopharm Limited was fully impaired to £nil as at 31 December 2018. The carrying amount of other investments are considered to be fully recoverable.

The Group's share of after-tax losses of its joint venture is set out below:

	6 Months ended 30 Jun 2019 Unaudited £'000	**6 Months ended 30 Jun 2018 Unaudited £'000**	Year ended 31 Dec 2018 Audited £'000
Share of loss of joint venture	**(24)**	**(362)**	(738)
Share of comprehensive income/(loss)	-	**47**	100
Share of total comprehensive loss	**(24)**	**(315)**	(638)

6. Taxation

	6 Months ended 30 Jun 2019 Unaudited £'000	**6 Months ended 30 Jun 2018 Unaudited £'000**	Year ended 31 Dec 2018 Audited £'000
Tax Benefit:			
R&D tax credit	**(492)**	**(934)**	(2,043)
Adjustments in respect of prior periods	-	**5**	5
Foreign current tax charge	**6**	**7**	15
	(486)	**(922)**	(2,023)

The Group continues to account for its recurring annual SME R&D tax credit as an income tax benefit due to the requirement to surrender tax losses in exchange for recoverable R&D credits.

The Group has not recognised any deferred tax assets including carried forward losses and other temporary differences. These deferred tax assets have not been recognised as the Group's management considers that there is insufficient taxable income, taxable temporary differences and feasible tax planning strategies to utilise all the cumulative losses and it is probable that the deferred tax assets will not be realised in full.

7. Loss per share (LPS)

The calculation of the basic and diluted LPS is based on the following data:

	6 Months ended 30 Jun 2019 Unaudited £'000	**6 Months ended 30 Jun 2018 Unaudited £'000**	Year ended 31 Dec 2018 Audited £'000
Loss:			
Loss for the period	**(3,833)**	**(4,418)**	(16,833)
Number of shares:			
Weighted average number of ordinary shares for the purpose of basic LPS	**82,467,589**	**78,205,609**	78,992,387
Effect of dilutive potential ordinary shares:			
- share options	**-**	**-**	-
- warrants	**-**	**-**	-
Weighted average number of ordinary shares for the purpose of diluted LPS	**82,467,589**	**78,205,609**	78,992,387

In the six months ended 30 June 2019 and in the comparative periods presented, the potential ordinary shares were not treated as dilutive as the Group is loss making, therefore the weighted average number of ordinary shares for the purposes of the basic and diluted loss per share were the same.

8. Investment in associates and joint ventures

At 30 June 2019, the Group held investments in one associate, PrEP Biopharm Limited, and one joint venture, Imutex Limited. The carrying amount of PrEP Biopharm Limited was fully impaired to £nil as at 31 December 2018. The carrying amount of other investments are considered to be fully recoverable. A reconciliation of the carrying value of the Group's investments in joint ventures and associates is as follows:

	2019 £'000	2018 £'000
At 1 January	**7,216**	**12,552**
Loss after tax recognised in the consolidated statement of comprehensive income	(24)	(362)
Other comprehensive income recognised in the consolidated statement of comprehensive income	-	47
At 30 June	**7,192**	**12,238**

	2018 £'000
At 1 January	**12,552**
Loss after tax recognised in the consolidated statement of comprehensive income	(738)
Other comprehensive income recognised in the consolidated statement of comprehensive income	100
Impairment	(4,698)
At 31 December	**7,216**

9. Trade and other receivables

	30 Jun 2019 Unaudited £'000	30 Jun 2018 Unaudited £'000	31 Dec 2018 Audited £'000
Trade receivables	**298**	**764**	677
VAT recoverable	**182**	**113**	212
Other receivables	**451**	**479**	387
Prepayments	**649**	**749**	506
	1,580	**2,105**	1,782

10. Contract assets

	30 Jun 2019 Unaudited £'000	30 Jun 2018 Unaudited £'000	31 Dec 2018 Audited £'000
Contract assets	**1,340**	**13**	57

11. Trade and other payables

	30 Jun 2019 Unaudited £'000	30 Jun 2018 Unaudited £'000	31 Dec 2018 Audited £'000
Trade payables	**1,020**	**1,123**	1,106
Other taxes and social security	**253**	**287**	309

Other payables	**54**	**44**	81
Accruals	**878**	**939**	1,660
	2,205	**2,393**	3,156

12. Contract liabilities

	30 Jun 2019 Unaudited £'000	**30 Jun 2018 Unaudited £'000**	31 Dec 2018 Audited £'000
Contract liabilities	**4,458**	**2,213**	6,546

13. Net cash used in operating activities

Reconciliation of loss before taxation to net cash used in operating activities:

	6 months ended 30 Jun 2019 Unaudited £'000	**6 months ended 30 Jun 2018 Unaudited £'000**	Year Ended 31 Dec 2018 Audited £'000
Loss before taxation	**(4,319)**	**(5,340)**	(18,856)
Adjustments for:			
Share of loss of associates and joint ventures	**24**	**362**	738
Depreciation of property, plant and equipment and right of use assets	**419**	**180**	329
Amortisation and impairment of intangible assets	**49**	**190**	3,013
Impairment of investment in associate	-	-	4,698
Share-based payments	**85**	**255**	454
Payment of Non-Executive Director fees by issue of shares	**8**	**22**	31
Finance costs	**97**	**27**	51
Finance income	**(26)**	**(30)**	(58)
R&D Expenditure Credit included in other income	**(348)**	**(132)**	(318)
Provision against virus inventories	**564**	-	1,223
Operating cash flow before changes in working capital and provisions	**(3,447)**	**(4,466)**	(8,695)
(Increase)/decrease in inventories	**(835)**	**189**	(368)
(Increase)/decrease in trade and other receivables and contract assets	**(1,099)**	**70**	349
(Decrease)/increase in trade and other payables and contract liabilities	**(3,031)**	**(4,591)**	503
Decrease in provisions	**(593)**	**(672)**	(1,082)
Cash used in operations	**(9,005)**	**(9,470)**	(9,293)
Finance costs	**(24)**	**(27)**	(51)
Income tax refund	**-**	**-**	2,481
Foreign tax paid	**(16)**	**(17)**	(18)
Net cash used in operating activities	**(9,045)**	**(9,514)**	(6,881)

14. Share Incentive Plan

As part of the Company's commitment to encouraging all employees to be shareholders in the business, a total of 1,689,258 Ordinary Shares of 5 pence each (the "New Ordinary Shares") have been granted to employees pursuant to a new employee share incentive plan introduced by hVIVO on 21 January 2019 (the "Share Incentive Plan").

A total of 138 employees were found eligible and applied for the Share Incentive Plan and have been granted 12,241 free Ordinary Shares each representing approximately £3,600 at the market value on the award date. The free shares were awarded on 21 January 2019 and are subject to a 3-year forfeiture period.

Application was made to AIM for the admission of the New Ordinary Shares ("Admission"), which rank pari passu in all respects with the Company's existing shares in issue, and Admission occurred on 25 January 2019.