

# evocutis



evolving skin science

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# Chairman's and Chief Executive Officer's Report

## INTRODUCTION

Evocutis plc is the new name for Syntopix Group plc. Following a General Meeting on 20 October 2011, the new name became effective on 25 October 2011 (ticker "EVO").

The Group continued to attract more business during the year, and the Board is pleased to report that the company achieved revenues of £227,000, an increase of £76,000 from the previous year. These revenues were as a result of agreements with major consumer healthcare companies.

Operating loss (before exceptional acquisition costs, share-based payment charges, depreciation and amortisation) was £1,086,000 (2010: £1,028,000).

# 3200

compounds in  
our proprietary  
database

# 50%

increase in revenues

**4** revenue  
generating sources

**11** granted  
UK patents

# £2m

raised for the purchase of Leeds Skin

Our website, [www.evocutis.com](http://www.evocutis.com), gives additional information about the Group. Except for references made in this Annual Report to this website, none of the information made available on the website constitutes part of this Annual Report or shall be deemed to be incorporated by reference herein.

# Chairman's and Chief Executive Officer's Report

continued



## ACQUISITION OF LEEDS SKIN CENTRE FOR APPLIED RESEARCH LTD ('LEEDS SKIN')

Following a fund raise of £2 million (before costs) by means of the issue of 50,000,000 ordinary shares at 4 pence each, Syntopix acquired the entire issued share capital of Leeds Skin on 24 May 2011. This is now allowing the Group's strategy to evolve and our vision is to become the most flexible and responsive skin R&D company, capable both of developing products and offering laboratory services to the dermatological industry.

Delivering clinically proven products to cosmetic and consumer healthcare companies continues to be a priority, and the acquisition has now provided the Group with near-term revenue-generating technologies. This bodes extremely well for the long-term viability of the Group.

In order to reflect the strengths and aspirations of both Syntopix and Leeds Skin and re-brand the

business, the Group was renamed Evocutis plc in October 2011.

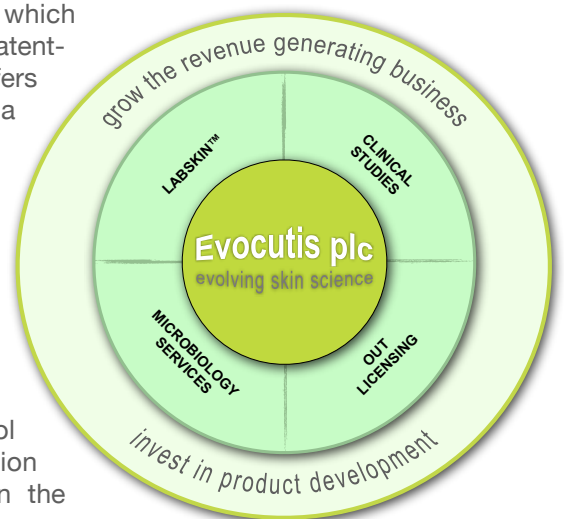
## COMMERCIAL AGREEMENTS

The business update issued on 27 April 2011 provided details on the agreements reached with several companies. Since that time, the Group has significantly improved the formulation of SYN1113 (for the treatment of acne). This compound has very positive clinical and consumer feedback data, which coupled with its enhanced, patent-protected formulation now offers an improved opportunity for a commercial agreement, which is being actively pursued.

The Group continues its dialogue with Sinclair IS Pharma and we are collaborating in the writing and subsequent filing of a patent regarding delmopinol and should commercialisation occur, Evocutis will share in the financial gains.

The synergistic combination of SYN0269 with SYN0693 is being considered by a partner company as a key antimicrobial system in a product for the prevention of body odour. A patent application has been submitted for this combination.

Additionally, SYN1039 is being considered by a large cosmetics and toiletries company for inclusion in a product for body odour and discussions are underway.



# Chairman's and Chief Executive Officer's Report

continued

## LEEDS SKIN – THE BUSINESS

Leeds Skin is a company located in Wetherby, Yorkshire that runs an independent commercial testing facility specialising in human skin microbiology, living skin equivalent tissue culture systems, and human volunteer and clinical dermatology research.

Leeds Skin provides laboratory service facilities for general microbiology applications and high quality contract research services and consultancy to the pharmaceutical, personal products and healthcare industries. The significant cell biology experience of Leeds Skin will complement the Group's microbiological expertise, aiding development of products.

A key attraction was Leeds Skin's world leading Living Skin Equivalent tissue culture system technology (LabSkin™), a unique human equivalent skin which can be used to model various properties associated with human skin (anti-inflammatory, anti-ageing etc.).

Together, the Group will have the capacity to run both clinical and laboratory studies to make rational choices of active compounds and confirm product claims. This will put the Group in an extremely strong position to identify and develop products in-house to treat a variety of skin problems. Leeds Skin is a profitable company with an impressive, blue-chip client base.

Dr Richard Bojar (who was the founder and is a director of Leeds Skin) and Dr Anthony Jeremy remain with the company, and Dr Bojar has joined the Evocutis Board as a director and Chief Scientific Officer.

The Group has now relocated and is based in Wetherby, benefitting from a facility with much more space and freedom to expand than the Group's former premises in Bradford.

The microbiological expertise of Syntopix will be complemented by the cell biology expertise of Leeds Skin, putting Evocutis in the

position to offer laboratory and clinical services. These services will include the detection and determination of antimicrobial compounds and product activity in laboratory models and clinical studies, as well as laboratory systems that model various properties associated with human skin (anti-inflammatory, anti-ageing etc.) to allow rational choices of active compounds and confirmation of product claims.

Evocutis will be able to offer a combination of technical expertise to both raw material suppliers of compounds and product development companies in the consumer healthcare and pharmaceutical arenas.

# Chairman's and Chief Executive Officer's Report

continued



## MARKETS AND OPPORTUNITIES

The skin care business continues to grow, with anti-acne and anti-ageing products leading the way (Global Industry Analysts Inc., Jan 2011). Evocutis will be in a position to exploit these trends with product offerings and support services.

The Group continues to believe that there is a major global demand for antimicrobial compounds in the consumer healthcare and cosmetic markets. The opportunities are principally in the areas of acne, oral hygiene, hair care and deodorants. With a proprietary database of over 3,200 compounds and a variety of laboratory and clinical services at its disposal, the Group believes it is well placed to provide innovative solutions to companies seeking antimicrobials.

In March 2009, the EU banned the sale of cosmetic products tested on animals. In March 2013, the EU is going to ban the sale of any product that contains any ingredient tested on animals (for the purposes of the Directive). Owing to the global nature of the cosmetic and consumer healthcare businesses, this is effectively a worldwide ban. The Group believes that LabSkin™ offers product suppliers and manufacturers a uniquely powerful tool for understanding the efficacy of their compounds and/or products for a variety of indications. With the combination of LabSkin™ testing and our Clinical and Laboratory facilities, we believe that Evocutis is in a unique position to be able to provide support to those companies wishing to innovate in skin science.

The key feature of LabSkin™ is that it can be colonised with microorganisms, thereby better reflecting true-life conditions of the skin surface. No other commercial laboratory skin model can do this. Additionally, LabSkin™ is being validated for use in the understanding of compounds and products that are efficacious as anti-inflammatories and anti-ageing agents. The applicability of LabSkin™ in understanding the action and efficacy of sunblock treatments will be established in 2012.

# Chairman's and Chief Executive Officer's Report

continued



## PRODUCT DEVELOPMENT

SYN1113, in its patented formulation designed to enhance speed of penetration and efficacy, continues to represent the Group's lead opportunity for the treatment of acne. The formulation approach used for SYN1113 is being examined for its ability to enhance the speed and efficacy of delivery of future compounds in the pipeline.

SYN0693 in combination with SYN0117 would be the next anti-acne candidate to enter development, since the combination has been shown to be synergistic and shows excellent pre-clinical efficacy.

Several candidates (e.g. SYN0017 for oral care and SYN1039 for body odour) are being assessed by various third parties and continue to represent promising opportunities for products requiring effective antimicrobials.

The Group is evaluating the possibility of developing products for the treatment of dry skin, using our own internal technology capability for the rational design and testing of efficacious products. Progress on this front will be reported as and when appropriate.

## INTELLECTUAL PROPERTY

Our patent portfolio continues to be strengthened by careful strategic management. The Group currently has 22 core families of patents/applications. Of these 11 are granted in the UK and they are all at various stages of application in key territories.

After careful review, the Group has taken the decision not to patent the LabSkin™ technology, preferring to keep the Intellectual Property as know-how rather than have it published.

## OUTLOOK

The Group enters the year with a cash balance of £2,316,000 and is well placed for sustained growth. The technology acquired with the Leeds Skin business provides us with immediate revenue streams, and in the longer term potential product sales and/or licensing deals particularly in the fields of acne and dry skin, offering the prospect of excellent long-term growth.

**Thomas Bannatyne -  
Chairman**

**Stephen P Jones -  
Chief Executive Officer**

**29 November 2011**

## Financial review

### Results for the year

#### Revenue

The Group achieved sales revenue of £227,000, an increase of £76,000 from the previous year. During the year the Group has broadened its customer base and has worked with a number of pharmaceutical and consumer healthcare companies on the advancement of its research and development programmes. Revenues have been generated from milestone and exclusivity payments and collaborative research studies. Leeds Skin Centre for Applied Research Limited, which was acquired shortly before the year end, contributed revenues of £11,000 in the post acquisition period.

#### Operating loss

The operating loss for the year was £1,181,000 (2010: £1,106,000). The operating loss before exceptional acquisition costs, share-based payment charges, depreciation and amortisation was £1,086,000 (2010: £1,028,000). Details of the key factors affecting the operating results are set out below.

#### Research and development costs

Research and development expenditure includes the costs of clinical and human use studies undertaken during the year, staff costs for staff undertaking R & D work and the patent costs incurred in protecting our intellectual property.

#### General and administration

General and administration costs were £671,000 for the year ended 31 July 2011 (2010: £558,000). Included within these costs is £96,000 (2010: £47,000) of exceptional costs as set out below.

#### Other operating income

Other operating income was £17,000 (2010: £58,000). This related to the remainder of a research and development grant that was awarded in the previous financial year. This income is being recognised in the Consolidated statement of comprehensive income in the period in which the related expenditure is incurred.

#### Exceptional operating costs

During the year the Group incurred costs of £42,000 (2010: £nil) in respect of the acquisition of Leeds Skin Centre for Applied Research Limited. These costs included legal fees, accountancy fees and other costs relating to the acquisition which accounting standards require to be charged in the Statement of comprehensive income as incurred. These costs are included within General and administration costs.

In addition, the Group has incurred a share-based payment charge of £54,000 (2010: £47,000) in respect of share options granted to certain directors and senior management as part of remuneration packages. This charge reflects the recognition of the service cost for which the share options were granted over the vesting period. This principally relates to options granted to Directors who waived their contractual entitlements to cash based Directors' fees in the year.

#### Loss before taxation

After adjusting operating loss for net finance income of £3,000 (2010: £nil), the loss before tax amounted to £1,216,000 (2010: £1,106,000).

#### Taxation

The tax credit for the year ended 31 July 2011 amounts to £137,000 (2010: £110,000). The tax position of the Group is significantly affected by Research & Development Tax Credits which the Group is able to reclaim in respect of qualifying expenditure incurred in the year on certain of our research and development programmes.

#### Loss after taxation and loss per ordinary share

The loss after taxation for the year was £1,079,000 (2010: £996,000). This has resulted in a basic and diluted loss per ordinary share of 0.90p (2010: 1.14p).

### Financial position

#### Property, plant and equipment

The Group's business is science-based and technology-intensive. The Group operates from its leased property in Wetherby, West Yorkshire which has been fitted out with extensive laboratory facilities which enables the Group to undertake its research and development programme in-house.

At 31 July 2011 the total cost of Property, plant and equipment was £358,000 (2010: £183,000) with a net book value of £177,000 (2010: £29,000). The increase during the year was a result of the acquisition of Leeds Skin Centre for Applied Research Limited and the consequent relocation of all Group operations to the Wetherby premises shortly after the acquisition took place.

#### Goodwill

Goodwill has increased during the year to £489,000 (2010: £nil). This increase was entirely due to the goodwill arising on the acquisition of Leeds Skin Centre for Applied Research Limited during the year.

## Financial review continued

### Financial position continued

#### Other intangible assets

Other intangible assets include the cost of intangibles acquired from business combinations and relate to customer relationships and in-process research and development. The carrying value of these assets at 31 July 2011 was £444,000 (2010: £nil). These assets arose from the acquisition of Leeds Skin Centre for Applied Research Limited.

#### Trade and other receivables

Trade and other receivables of £201,000 have increased since the prior year (£60,000) due to the acquisition of Leeds Skin Centre for Applied Research Limited in the year and the increase in our customer base.

#### Cash and cash equivalents

Cash balances increased from £1,737,000 in 2010 to £2,316,000 at 31 July 2011. The Group has no bank overdrafts or other borrowings. The increase reflects the amount by which the proceeds from the placing of shares in May 2011 exceeded the trading losses incurred in the year and the amounts paid for the acquisition of Leeds Skin Centre for Applied Research Limited.

#### Trade and other payables

Trade and other payables have increased from £145,000 in 2010 to £176,000 at 31 July 2011. The increase reflects the amounts acquired through the business combination in the period.

#### Taxation

Amounts recoverable in respect of taxation comprise the taxation receivable from Research & Development tax credits. Amounts payable in respect of taxation represent corporation tax liabilities in respect of trading profits which cannot be offset by tax losses.

#### Total equity

A summary of the movements in total equity is set out below:

	<b>2011</b>	2010
	<b>£000</b>	£000
Total equity at beginning of year	<b>1,791</b>	816
Total comprehensive income for the year	<b>(1,079)</b>	(996)
Ordinary shares issued	<b>2,802</b>	2,007
Expenses of share issues	<b>(150)</b>	(83)
Share-based incentive schemes	<b>54</b>	47
Total equity at end of year	<b>3,418</b>	1,791

Prior to the placing of new shares, on 23 May 2011 a resolution was passed to subdivide each of the existing ordinary shares of 10p each into 10 ordinary shares of 1p each.

The Company issued 16,031,250 new ordinary shares on 23 May 2011 as part of the acquisition cost of Leeds Skin Centre for Applied Research Limited and 50,000,000 new ordinary shares to raise additional working capital in respect of a placing.

### Cash flow

A summary of the Consolidated cash flow statement is set out below:

	<b>2011</b>	2010
	<b>£000</b>	£000
Net cash outflow from operating activities	<b>(1,010)</b>	(1,077)
Net cash outflow from investing activities	<b>(169)</b>	(4)
Net cash inflow from financing activities	<b>1,758</b>	1,924
Increase in cash and cash equivalents	<b>579</b>	843
Cash and cash equivalents at beginning of year	<b>1,737</b>	894
Cash and cash equivalents at end of year	<b>2,316</b>	1,737

The net cash outflow from operating activities reduced by £67,000 during the year largely as a result of increased revenue.

The net cash outflow from investing activities increased by £165,000 primarily as a result of the net cash invested on the acquisition of Leeds Skin Centre for Applied Research Limited and expansion of the laboratory and office facilities at the Wetherby premises.

The net cash inflow from financing in both financial years reflects the issues of new ordinary shares in each year.

### Treasury management

The Group continues to manage its cash resources to maximise interest income whilst at the same time minimising any risk to those funds. Surplus cash balances are deposited for periods of between one month and three months with commercial banks which meet credit criteria approved by the board. The board uses published credit ratings from established credit agencies to assess the creditworthiness of banks used for depositing funds. At 31 July 2011 the Group had short term deposits amounting to £2,234,000 (2010: £1,646,000).

**JD Bamforth**  
Chief Financial Officer

29 November 2011

## Board of Directors

### **Tom Bannatyne (49)**

#### **Non-Executive Chairman**

Tom has over 20 years' experience of the investment industry. He spent nine years at S.G. Warburg Group (since acquired by UBS) in London and Geneva and was a Director of European Equities. In 1994, he joined the Tudor Group, a privately-owned major international hedge fund, establishing and managing its European Equities business. At Tudor he was a Partner, member of the Management Committee, and Chairman of the group's UK operation, as well as of the UK branch of the group's charitable foundation. Since retiring from Tudor at the end of 2007, he has been pursuing his own investment interests. Tom is a member of the Audit Committee, Nominations Committee and Remuneration Committee.

### **Dr Stephen Jones (54)**

#### **Chief Executive Officer**

Stephen is a highly experienced pharmaceutical industry executive with a track record in both branded medicines and consumer healthcare and a successful history of new product development. At Evocutis he develops and implements strategic initiatives for the Group and co-ordinates operational activities and commercial relationships. Stephen was most recently at GlaxoSmithKline (GSK) where he held the position of Vice President and Director of Consumer Healthcare Research and Development. Prior to joining GSK Stephen worked for companies including Scherer Drug Delivery Systems, Sterling Winthrop, Beecham Pharmaceutical's Research Division, Merck Sharp & Dohme and Amersham International.

### **Dr Richard Bojar (50)**

#### **Chief Scientific Officer**

Richard founded Leeds Skin Centre for Applied Research Limited as Managing Director in 2008 after 25 years working in the Skin Research Centre at the University of Leeds. A microbiologist by training, he has always specialised in Knowledge Transfer interface research in dermatology, focused on the requirements of the pharmaceutical, personal care, cosmetics and hygiene industries. His core expertise is in the interaction of microorganisms with human skin, with wide ranging experience of laboratory methods, human volunteer studies and living skin equivalent technologies. He also maintains active research collaborations through honorary positions at the University of Leeds and University of Huddersfield and close links with the National Blood Service and NHS Trusts.

### **Darren Bamforth (42)**

#### **Chief Financial Officer**

Darren has been the Chief Financial Officer of the Group, on a part-time basis, since the formation of Syntopix. He is a fellow of the Institute of Chartered Accountants in England and Wales and a Director of Atraxa Consulting Limited, his own business advisory practice which specialises in supporting early stage and growing companies. Prior to establishing his own practice in 2002, Darren was a Senior Manager with KPMG where he was responsible for a portfolio of clients in the SME sector.

### **Dr Gwyn Humphreys (65)**

#### **Non-Executive Director**

Gwyn has over 30 years of experience in biotechnology and early stage technology companies. After 10 years at Celltech Limited, Gwyn was a founder and CEO of the very successful UK university spin out company, Bradford Particle Design Limited, which he grew and sold for \$200 million to Nektar Therapeutics Inc. in 2001. Gwyn was Chairman of Evocutis when it floated on AIM and he is also Chairman of Avacta Group plc also listed on the AIM market. In January 2007, he took over the position of Senior Non-Executive Director. Gwyn is a member of the Audit Committee, Nomination Committee and Remuneration Committee.

### **Mike Townend (49)**

#### **Non-Executive Director**

Mike is Chief Investment Officer at IP Group plc, having been on the board at IP Group for four years as Director of Capital Markets. He has over 17 years of experience in all aspects of equity capital markets and joined IP Group from Lehman Brothers where he was Managing Director of European Equities and Head of Equity Sales to hedge funds. Mike was also a key member of the senior relationship management program. Prior to this, he was an Executive Director at Donaldson, Lufkin and Jenrette with responsibility for building the bank's business with hedge funds and alternative investors. Mike has sourced, co-led or led numerous private and public transactions. Mike is the IP Group representative on the boards of Modern Water plc, Evocutis plc and Revolmer Limited. He is also a Non-Executive of Green Urban Transport plc. Mike is a member of the Audit Committee, Nominations Committee and Remuneration Committee.

## Directors' report

The Directors present their report and the audited financial statements for the year ended 31 July 2011.

### Principal activity

The principal activity of the Group is the research, discovery and development of compounds for use in both medicinal and consumer healthcare markets principally in the areas of acne, oral hygiene and hair care. The Group provides independent research and testing facilities specialising in skin microbiology, living skin tissue culture and clinical dermatology.

### Change of name

On 20 October 2011 at a meeting of shareholders, a special resolution was passed to change the name of the Company from Syntopix Group plc to Evocutis plc.

### Business review and future developments

A review of the Group's operations and future developments is covered in the Chairman's and Chief Executive Officer's Report and the Financial Review. This includes a summary of the Group's strategy and the markets in which it operates.

### Directors

The Directors who served during the year, or until their date of resignation, were:

T Bannatyne  
 Dr SP Jones  
 Dr R Bojar (appointed 23 May 2011)  
 Dr JH Cove (resigned 1 July 2011)  
 JD Bamforth  
 Dr GO Humphreys  
 MCN Townend

Information in respect of directors' remuneration is given in the Directors' remuneration report on pages 12 to 13.

### Financial results

Details of the Group's financial results are set out in the Consolidated statement of comprehensive income, other primary statements and in the notes to the consolidated financial statements on pages 26 to 49.

### Dividends

The payment of dividends will be subject to the availability of distributable reserves and having regard to retaining sufficient funds to finance the Group's activities. Due to cumulative trading losses the Group does not have distributable reserves and consequently the Directors do not recommend the payment of a dividend.

### Disclosure of information to auditors

The Directors in office at the date of this report have each confirmed that:

- so far as they are aware, there is no relevant audit information of which the Company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a Director to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of Section 418 of the Companies Act 2006.

### Environment

The Group adheres to all environmental regulations and has, where possible, utilised environmental-sustaining policies such as recycling and waste reduction.

### Employment policy

It is the policy of the Group to operate a fair employment policy. No employee or job applicant is less favourably treated than another on the grounds of their sex, sexual orientation, age, marital status, religion, race, nationality, ethnic or national origin, colour or disability and all appointments and promotions are determined solely on merit. The Directors encourage employees to be aware of all issues affecting the Group and place considerable emphasis on employees sharing in its success through its employee share option scheme.

### Insurance for directors

The Company purchased and maintained during the financial year Directors' and Officers' liability insurance in respect of itself and its directors.

### Research and development

The Group is undertaking research and development work to support the compound discovery activities. During the year the Group has incurred expenditure amounting to £792,000 (2010: £757,000) in respect of research and development. This expenditure has been charged to the Statement of comprehensive income during the year.

### Payment of suppliers

It is the Group's policy to pay suppliers in accordance with the terms and conditions agreed in advance, providing all trading terms and conditions have been met. All payments are made in the ordinary course of business and the Group expects to pay all supplier debts as they become due.

Trade creditor days for the Group and Company at 31 July 2011 were 27 days (2010: 26 days).

## Directors' report continued

### Substantial shareholdings

At 21 November 2011, being the latest practicable date prior to the publication of this document, the Company has been advised of the following shareholdings of 3% or more in the issued share capital of Evocutis plc:

	Number of shares	% of issued shares
IP2IPO Limited (together with Techtran Group Limited)	29,255,350	16.90%
XCap Nominees Limited	16,851,120	9.73%
Mr Thomas Bannatyne	13,964,670	8.06%
IP Venture Fund Limited	13,856,790	8.00%
Nortrust Nominees Limited	11,779,860	6.80%
Dr Richard Bojar	11,390,203	6.58%
Mr Mark V Houghton-Berry	10,485,070	6.05%
The University of Leeds	8,119,425	4.69%
Pershing Nominees Limited	5,522,210	3.19%
The Wellcome Trust	5,191,680	3.00%

### Financial instruments

Details of the Group's exposure to financial risks are set out in Note 26 to the financial statements.

### Financial and non-financial key performance indicators (KPIs)

The Group's main KPIs are:

- Monthly review of the sales pipeline, commercial deals under negotiation and review of progress of ongoing deals;
- Monthly review of actual results against the annual budget and review of significant variances;
- Monitoring of cash balances and working capital requirements against forecast cash requirements for its development programme; and
- Monitoring the number of compounds taken through to clinical studies, assessing the quality of results arising from those studies and assessing the extent to which data and results can be progressed to commercial opportunities.

### Auditors

The Company's independent auditor, BDO LLP, has expressed its willingness to continue in office and resolutions for its reappointment and to authorise the Directors to determine its remuneration will be proposed at the forthcoming AGM.

### Risk factors

There are risks and uncertainties relevant to the Group's operations, financial condition and results that may affect the Group's performance and ability to achieve its

objectives. The risk factors below are the principal ones that the Directors believe could cause the Group's actual results to differ materially from expected and historical results. There are other risks and uncertainties that may similarly affect the Group's performance that are either not currently known to the Group or are not deemed to be material.

The Board of Directors reviews and assesses significant risks on a regular basis to ensure that the Group is in a position to address and respond to risks arising. It is not possible for the Group to implement controls to respond to all the risks arising and there can be no assurance that the steps the Group has taken to address certain risks will manage these risks effectively or at all.

The principal risk factors are:

#### **Risk that our Research & Development programme will not deliver commercial success**

The Group is engaged in the discovery and development of drugs in complex scientific areas. Industry experience indicates a very high incidence of delay or failure to produce results. The Group may not be able to initiate new drug discovery and development opportunities beyond its current product development plan. A key element supporting the Group's strategy is the screening of compounds with appropriate activities for further development. There can be no assurance that the Group will continue to identify such compounds and this could have an adverse effect on the ability of the Group to identify lead candidates for further pre-clinical development and clinical trials.

In addition, results in pre-clinical development and clinical trials may be different from those obtained in long-term testing or inconclusive results may delay or halt the further development of lead candidates. The projected timetable for continued development of the technologies and the lead candidates by the Group and/or its partners or licensees may otherwise be subject to delay and suspension. Development of new products and product candidates can be an expensive and uncertain process and compounds subjected to human use and clinical studies can fail at any point in the development process.

Additionally, whilst results from our research work and clinical studies may appear very promising, there can be no assurance that any of the Group's products and data will be successfully developed in any commercially viable way. The Group intends to enter arrangements with third parties in respect of such commercial development where appropriate and an inability to enter into such arrangements could lead to delays in the Group's commercial strategy.

## Directors' report continued

### Risk factors continued

#### **Risk that our Intellectual property will not be adequately protected**

The commercial success of the Group will depend in part on its ability to protect its intellectual property and to preserve the confidentiality of its own and its collaborators' know-how. The Group may not be able to protect and preserve its intellectual property rights or to exclude competitors with similar products.

The Group may seek to rely on patents to protect its assets. These rights act to prevent a competitor from copying and from independently developing products that fall within the scope of the patent claims. No assurance can be given that others will not gain access to the Group's non-patented proprietary knowledge or disclose such knowledge or that the Group can ultimately protect meaningful rights to such non-patented proprietary knowledge.

No assurance can be given that any pending or future patent or trade mark applications will result in granted patents or trade mark registrations, that the scope of any copyright, trade mark or patent protection will exclude competitors or provide advantages to the Group, that in the future any patent granted in favour of the Group will be held valid on being challenged or that third parties will not in the future claim rights in or ownership of the copyright, patents and other proprietary rights from time to time held by the Group.

Further, there can be no assurance that others have not developed or will not develop similar products, duplicate any of the Group's products or design around any pending patent applications or patents (if any) subsequently granted in favour of the Group. Other persons may hold or receive patents which contain claims having a scope that covers products developed by the Group (whether or not patents are issued to the Group).

The commercial success of the Group may also depend in part on non-infringement by the Group of intellectual property owned by third parties, including compliance by the Group with the terms of any licences granted to it. If this is the case, the Group may have to obtain appropriate intellectual property licences or cease or alter certain activities or processes or develop or obtain alternative products or challenge the validity of such intellectual property in the courts. Any claims made against the Group's intellectual property rights, even if without merit, could be time-consuming and expensive to defend and could have a materially detrimental effect on the Group given its limited cash resources.

A third party asserting infringement claims against the Group and its customers could require the Group to cease the infringing activity and/or require the Group to enter into licensing and royalty arrangements. The third party could also take legal action which could be costly. In addition, the Group may be required to develop alternative non-infringing solutions that may require significant time and substantial unanticipated resources. There can be no assurance that such claims will not have a material adverse effect on the Group's business, financial condition or results.

#### **Attraction and retention of key staff**

The Group is reliant on recruiting and retaining key staff with specific skills needed to carry out the research and development programmes and to develop commercial agreements for our products and services. The inability to recruit staff with these skills or to retain our existing key employees in critical positions may materially and adversely affect the Group's performance and financial results.

By order of the Board

**Darren Bamforth**  
**Company Secretary**  
 29 November 2011

## Directors' remuneration report

### Remuneration Committee

The Remuneration Committee is described in the report on Corporate Governance. The remuneration for each Executive Director is determined by the Remuneration Committee, which is composed solely of the Chairman and the other Non-Executive Directors. None of the committee members has any personal financial interest, other than as shareholders, in the matters to be decided.

### Service contracts

It is the Group's policy to enter into service contracts or letters of appointment with all Directors. Specific terms, in respect of the Directors holding office at 31 July 2011 are:

	Date of contract	Commencement date	Unexpired term	Notice period
<b>Executive Directors</b>				
Dr SP Jones	1.7.06	1.7.06	Indefinite	6 months
Dr R Bojar	24.5.11	24.5.11	Indefinite	6 months
JD Bamforth	23.3.06	1.12.05	Indefinite	3 months
<b>Non-Executive Directors</b>				
T Bannatyne	2.2.10	2.2.10	Indefinite	3 months
Dr GO Humphreys	23.3.06	1.11.05	Indefinite	3 months
MCN Townend	22.6.10	22.6.10	Indefinite	3 months

None of the service contracts or letters of appointment provide for any termination payments.

### Remuneration policy

The remuneration packages for Directors and senior management have been structured so as to fairly compensate them for their contribution to the Group and to encourage them to remain within the Group. The basic components of these packages include: Each Director receives an annual salary or Directors' fee for his/her services. These salaries are reviewed annually by the Remuneration Committee. The Group operates a discretionary bonus scheme. The Remuneration Committee is entitled to decide whether any bonuses are payable, and if so, what amount should be granted to Executive Directors.

### Directors' remuneration

During the year Mr T Bannatyne, Dr GO Humphreys, Mr JD Bamforth and Mr MCN Townend agreed to waive their entitlement to fees for the year in return for the granting of share options. Directors' remuneration for the year ended 31 July 2011 is set out below:

	Basic salary £000	Bonus £000	Benefits in kind and pensions £000	Total 2011 £000	Total 2010 £000
<b>Executive Directors</b>					
Dr SP Jones	130	-	14	<b>144</b>	139
Dr JH Cove (until 1 July 2011)	52	-	1	<b>53</b>	43
Dr EA Eady (until 2 February 2010)	-	-	-	-	24
Dr R Bojar (from 24 May 2011)	15	-	-	<b>15</b>	-
JD Bamforth	-	-	-	-	-
	197	-	15	<b>212</b>	206
<b>Non-Executive Directors</b>					
T Bannatyne	-	-	-	-	-
Dr GO Humphreys	-	-	-	-	-
MCN Townend	-	-	-	-	-
	-	-	-	-	-

## Directors' remuneration report continued

### Directors' interests in shares options in the EMI and Executive Share Option Schemes

	At 1 August 2010	Granted	Exercised	At 31 July 2011 (or earlier date of resignation)	Weighted average exercise price pence	Earliest date from which exercisable	Latest expiry date
T Bannatyne	-	476,000	-	476,000	5.25	1/12/2011	30/11/2020
Dr SP Jones	3,303,000	-	-	3,303,000	8.65	6/8/2010	6/8/2018
Dr JH Cove	419,900	-	-	419,900	8.65	6/8/2009	6/8/2018
Dr R Bojar	-	-	-	-	-	-	-
JD Bamforth	765,320	380,950	-	1,146,270	7.52	6/8/2009	30/11/2020
Dr GO Humphreys	266,670	380,950	-	647,620	6.65	6/8/2009	30/11/2020
MCN Townend	-	-	-	-	-	-	-

### Directors' interests in shares

Directors' beneficial interests in the shares of the Company, including family interests, for directors holding office at 31 July 2011, were as follows:

	Number of shares	% of issued share capital
T Bannatyne	<b>13,964,670</b>	8.06%
Dr SP Jones	<b>608,110</b>	0.35%
Dr R Bojar	<b>11,390,203</b>	6.58%
JD Bamforth	<b>68,250</b>	0.04%
Dr GO Humphreys	<b>1,844,410</b>	1.07%
MCN Townend	-	-

None of the directors had any interest in the share capital of any subsidiary company.

### External appointments

The Committee recognises that its directors may be invited to become executive or non-executive directors of other companies or to become involved in charitable or public service organisations. As the Committee believes that this can broaden the knowledge and experience of the Company's directors to the benefit of the Group, it is the Company's policy to approve such appointments provided that there is no conflict of interest and the commitment is not excessive. The director concerned can retain the fees relating to any such appointment.

### Pensions and benefits in kind

All staff, Executive Directors and senior management are entitled to participate in the stakeholder pension plan established by the Group. Benefits are provided to certain Executive Directors, including life assurance, private health cover and relocation allowances. The Group does not provide any company cars to any of its Directors or employees.

On behalf of the Board

### Dr GO Humphreys

Chair of the Remuneration Committee

29 November 2011

## Corporate governance

This report sets out the Group's board and management structure and corporate governance policy and procedures. The Group recognises the importance of, and is committed to, high standards of corporate governance. Evocutis plc, as an AIM Company, is not required to comply with the 2008 Combined Code on Corporate Governance (the Combined Code), although it has adopted many of the Combined Code principles as set out below.

### The Board

The Directors are listed on page 8 of this Annual Report. The Board is responsible for the Group's corporate governance and is ultimately responsible for all aspects of the Group's activities including assessment and management of risk, determination of the Group's strategy and financial performance.

Thomas Bannatyne has been the Chairman of the Company since February 2010 and was Chairman throughout the financial year. His role is to lead and manage the Board.

Dr Stephen Jones has been the Chief Executive Officer of the Company since July 2006. His role is to manage the Group and to implement the policies and strategies adopted by the Board. He is also responsible for management of the other executive management of the Group.

Dr Gwyn Humphreys is the Senior Non-Executive Director and is Chairman of a number of Board committees as set out below.

Other Board members include Darren Bamforth (Chief Financial Officer), Dr Richard Bojar (Chief Scientific Officer) and Michael Townend (Non-Executive Director). Dr Jon Cove served as Chief Research Director until his resignation from the Company on 1 July 2011.

Biographies of each Director are set out on page 8. The Directors each have diverse backgrounds and a wide range of experience is available to the Group.

### Board process

The Board meets on a monthly basis to review the Group's performance and to review and determine strategies for future growth. The Board has delegated specific responsibilities to its committees as set out below.

Board meetings were held on 11 occasions during the year. Members of the board attended as follows, either in person or by telephone.

	Number of meetings held whilst a board member	Number of meetings attended
Thomas Bannatyne	11	10
Dr Stephen Jones	11	11
Darren Bamforth	11	10
Dr Richard Bojar	2	2
Dr Jonathan Cove	9	9
Dr Gwyn Humphreys	11	11
Michael Townend	11	9

### Directors' conflicts of interest

Directors have a statutory duty to avoid situations in which they have, or can have, an actual or possible conflict of interest with the Company.

The Company's Articles of Association include a general power for the Board to authorise such conflicts. There is no breach of duty if the relevant matter has been authorised by the Board in advance.

Conflicts of interest are recorded in the minutes of Board meetings and generally the Director with the conflict of interest is excluded from participating in the discussions of the matter concerned and any voting situation.

## Corporate governance continued

### Board committees

The Board has established three committees as outlined below. These committees comprise only the Chairman and other Non-Executive Directors, although Executive Directors may also be invited to attend committee meetings. The Company Secretary is entitled to attend all committee meetings. Dr Gwyn Humphreys chairs each committee meeting.

Committee	Role and terms of reference	Number of meetings per year
Audit	Reviewing the Group's external audit process, including appointment and compensation of the independent auditor. The Committee reviews the level of non-audit engagements carried out by the external auditors and performs an assessment of their independence. The Audit Committee is also responsible for ensuring the accuracy of the interim and annual reports, as well as compliance with all applicable standards and regulations.	2
Nomination	Reviewing the structure and balance of the board and screening and proposing recommendations to the board for new director appointments.	As required
Remuneration	Reviewing and determining the salaries, benefits and all other elements of remuneration packages for the Executive Directors.	2

### Non audit services

In accordance with its policy on non audit services provided by the Company's independent auditor, the Audit Committee reviews and approves the award of any such work. The Audit Committee refers to the Board for approval of any work comprising non audit services where the fees for such work represent more than 25% of the annual audit fee. No non-audit services were provided in the year.

### Auditor independence and conflicts of interest

The Audit Committee continues to evaluate the independence and objectivity of the external auditors and takes into consideration all United Kingdom professional and regulatory requirements. Consideration is given to all relationships between the Company, the Group and the audit firm (including in respect of the provision of non audit services).

The Audit Committee considers whether, taken as a whole, and having regard to the views, as appropriate, of the external auditors and management, those relationships appear to impair the auditors' judgement or independence. The Audit Committee feels they do not.

### Internal audit

The Audit Committee agrees that there should be no internal audit function of the Group at this time considering the size of the Group and the close involvement of senior management over the Group's accounting systems. However, the Committee will keep this matter under review in the event that circumstances warrant an internal function for the Group in the future.

### Internal control procedures

The Board has responsibility for reviewing and approving the adequacy and effectiveness of internal controls. The internal control framework includes approval of an annual operating budget, monthly monitoring of the Group's results and financial position and the performance compared to budget and forecast. Forecasts are reviewed on a regular basis.

This process allows the Board to identify key performance targets and risks expected during the upcoming year. The Board also considers the agreed budget when reviewing trading updates and considering expenditures throughout the year. Progress against budget is monitored at Group level via monthly reporting of actual financial performance against budget and prior year actual results.

The Group has clear authority limits deriving from the list of matters reserved for decision by the Board including capital expenditure approval procedures.

### Relations with shareholders

The Board recognises and understands that it has a fiduciary responsibility to the Group's shareholders. The Chairman's and Chief Executive's Statement include detailed analysis of the Group's performance and future expectations.

Information about the Company including details of the share price is made available to shareholders on its website at [www.evocutis.com](http://www.evocutis.com). Information made available on the website does not constitute part of this Annual Report.

## Corporate governance continued

### Annual General Meeting

The AGM is the Company's main forum for communication with shareholders. In addition to the formal business of the meeting, shareholders will have the opportunity to ask questions to the Board of Directors.

The AGM will be held at the offices of IP Group plc, 24 Cornhill, London, EC3V 3ND on Tuesday 24 January 2012 at 1.00pm. The business to be transacted at the meeting will include:

- Receiving and adopting the 2011 Annual Report
- Approving the 2011 Remuneration Report

A resolution will be proposed to approve the Remuneration Report as set out on pages 12 to 13.

- Retirement and re-appointment of Directors

Dr Richard Bojar, who was appointed before the AGM will retire in accordance with the Articles of Association and, being eligible, will offer himself for election at the AGM. One-third of the continuing Directors will retire by rotation at the 2011 AGM and will offer themselves for re-election.

- Re-appointment and remuneration of auditors

A resolution will be proposed to authorise the Audit Committee to re-appoint BDO LLP as auditor and to determine their remuneration.

- Special business

The Company will seek authority to:

- give the Directors authority to allot Ordinary Shares in the Company.
- give the Directors authority to disapply pre-emption rights when allotting new shares in connection with rights issues or otherwise up to a maximum of 10% of the current issued share capital and to purchase its own Ordinary Shares up to a maximum of 10% of the current issued share capital.

### T Bannatyne

Chairman

29 November 2011

## Directors' statement of responsibilities

### Directors' statement of responsibilities in relation to the financial statements

The Directors are responsible for preparing the Annual Report, the Remuneration Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the Group and Company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. 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 Company and of the profit or loss of the Group and Company for that period.

The Directors are also required to prepare financial statements in accordance with the rules of the London Stock Exchange for companies trading securities on the Alternative Investment Market.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the European Union, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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

The Group and Company financial statements for the year ended 31 July 2011, comprising principal statements and supporting notes are set out on pages 19 to 48 of this report.

The responsibilities of the auditors in relation to the Group and Company financial statements are set out in the Independent Auditors' Report on page 18.

The Group financial statements for the year ended 31 July 2011 are included in the Annual Report, which is published in hard-copy printed form and made available on the Company's website. The Directors are responsible for the maintenance and integrity of the Annual Report on the website in accordance with UK legislation governing the preparation and dissemination of financial statements. Access to the website is available from outside the UK, where comparable legislation may be different.

Each of the current Directors, whose names and functions are listed on page 8 of the Annual Report 2011 confirms that, to this best of his knowledge:

- the Group and Company financial statements, which have been prepared in accordance with IFRS as adopted by the EU and IFRS as issued by IASB, give a true and fair view of the assets, liabilities, financial position and profit of the Group; and
- the Directors' Report section of the Annual Report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that it faces.

### Going concern basis

The Chairman and Chief Executive Officer's Report and the Financial Review on pages 3 to 7 contains information on the performance of the Group, its financial position, cash flows and net funds position. Further information, including treasury risk management policies and exposure to market and credit risk is given in Note 26 to the financial statements, 'Financial instruments and related disclosures'.

After making enquiries, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

### Internal control

The Board has reviewed the assessment of risks and the internal control framework that operates within the Group and has considered the effectiveness of the system of internal control in operation for the Group for the year covered by this report and up to the date of its approval by the Board of Directors.

### Thomas Bannatyne

Chairman

29 November 2011

## Independent Auditors' Report to the members of Evocutis plc

We have audited the financial statements of Evocutis plc for the year ended 31 July 2011 which comprise the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Financial Position, the Consolidated Statement of Changes in Equity, the Consolidated Statement of Cash Flows, the Company Statement of Financial Position, the Company Statement of Changes in Equity, the Company Statement of Cash Flows and the related notes.

The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) 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 auditors

As explained more fully in the Statement of Directors' Responsibilities, 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/UKP.cfm](http://www.frc.org.uk/apb/scope/UKP.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 July 2011 and of the Group's loss for the year then ended;

- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- The Parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

### Opinion on other matters 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.

**Nicholas Giles Wharton (senior statutory auditor)**

**For and on behalf of BDO LLP, statutory auditor**

Leeds

United Kingdom

29 November 2011

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

## Consolidated statement of comprehensive income

for the year ended 31 July 2011

	Notes	2011 £000	2010 £000
<b>Revenue</b>	5	<b>227</b>	151
Research and development		<b>(792)</b>	(757)
General and administration		<b>(671)</b>	(558)
Other operating income	6	<b>17</b>	58
<b>Analysis of operating loss:</b>			
Operating loss before share-based payment charges, acquisition costs, depreciation and amortisation		<b>(1,086)</b>	(1,028)
Share-based payment charges		<b>(54)</b>	(47)
Acquisition costs		<b>(42)</b>	-
Depreciation and amortisation		<b>(37)</b>	(31)
<b>Operating loss</b>	7	<b>(1,219)</b>	(1,106)
Finance income	9	<b>3</b>	-
<b>Loss before taxation</b>		<b>(1,216)</b>	(1,106)
Taxation	10	<b>137</b>	110
<b>Loss after taxation for the year and total comprehensive income attributable to equity shareholders</b>		<b>(1,079)</b>	(996)
<b>Loss per ordinary share</b>			
Basic and diluted (pence)	11	<b>(0.90p)</b>	(1.14p)

## Consolidated statement of financial position

as at 31 July 2011

	Note	2011 £000	2010 £000
<b>Non-current assets</b>			
Property, plant and equipment	12	177	29
Goodwill	13	489	-
Other intangible assets	14	444	-
<b>Total non-current assets</b>		<b>1,110</b>	29
<b>Current assets</b>			
Current tax recoverable	10	120	110
Trade and other receivables	16	201	60
Cash and cash equivalents	17	2,316	1,737
<b>Total current assets</b>		<b>2,637</b>	1,907
<b>Total assets</b>		<b>3,747</b>	1,936
<b>Current liabilities</b>			
Trade and other payables	18	(176)	(145)
Current tax payable	10	(34)	-
<b>Total current liabilities</b>		<b>(210)</b>	(145)
<b>Non-current liabilities</b>			
Deferred tax liabilities	10	(119)	-
<b>Total non-current liabilities</b>		<b>(119)</b>	-
<b>Total liabilities</b>		<b>(329)</b>	(145)
<b>Net assets</b>		<b>3,418</b>	1,791
<b>Equity attributable to equity holders of the company</b>			
Called up share capital	19	1,732	1,071
Share premium reserve	19	7,632	6,282
Share based payments reserve	20	279	225
Merger reserve	20	979	338
Retained earnings	20	(7,204)	(6,125)
<b>Total equity</b>		<b>3,418</b>	1,791

The financial statements were approved and authorised for issue by the Board of Directors on 29 November 2011 and were signed on its behalf by:

**Stephen P Jones**  
Chief Executive Officer

**J Darren Bamforth**  
Group Finance Director

Company number: 05656604

## Consolidated statement of changes in equity

for the year ended 31 July 2011

	Share capital £000	Share premium reserve £000	Share-based Payments Reserve £000	Merger reserve £000	Retained earnings £000	Total £000
<b>At 1 August 2009</b>	772	4,657	178	338	(5,129)	816
Loss for the year and total comprehensive income	-	-	-	-	(996)	(996)
Transactions with owners:						
Share-based payment charge	-	-	47	-	-	47
Issue of shares	299	1,708	-	-	-	2,007
Expenses of share issue	-	(83)	-	-	-	(83)
<b>At 31 July 2010</b>	<b>1,071</b>	<b>6,282</b>	<b>225</b>	<b>338</b>	<b>(6,125)</b>	<b>1,791</b>
<b>At 1 August 2010</b>	1,071	6,282	225	338	(6,125)	<b>1,791</b>
Loss for the year and total comprehensive income	-	-	-	-	(1,079)	<b>(1,079)</b>
Transactions with owners:						
Share-based payment charge	-	-	54	-	-	<b>54</b>
Issue of shares	661	1,500	-	641	-	<b>2,802</b>
Expenses of share issue	-	(150)	-	-	-	<b>(150)</b>
<b>At 31 July 2011</b>	<b>1,732</b>	<b>7,632</b>	<b>279</b>	<b>979</b>	<b>(7,204)</b>	<b>3,418</b>

Details of the nature of each component of equity are set out in Notes 19 and 20.

## Consolidated statement of cash flows

for the year ended 31 July 2011

		2011 £000	2010 £000
<b>Cash flow from operating activities</b>			
Cash outflow from operations	22	(1,122)	(1,218)
Taxation received		112	141
Net cash outflow from operating activities		(1,010)	(1,077)
<b>Cash flow from investing activities</b>			
Purchase of property, plant and equipment	12	(67)	(4)
Purchase of business, net of cash acquired	24	(105)	-
Finance income		3	-
Net cash outflow from investing activities		(169)	(4)
<b>Cash flow from financing activities</b>			
Issue of share capital	19	2,000	2,007
Expenses of share issue	19	(150)	(83)
Repayment of short term loans		(92)	-
Net cash flow from financing activities		1,758	1,924
Net increase in cash and cash equivalents	23	579	843
Cash and cash equivalents at the beginning of the year		1,737	894
<b>Cash and cash equivalents at the end of the year</b>	<b>17</b>	<b>2,316</b>	<b>1,737</b>

## Company statement of financial position

as at 31 July 2011

	Note	2011 £000	2010 £000
<b>Non-current assets</b>			
Property, plant and equipment	12	25	29
Investments	15	1,060	-
<b>Total non-current assets</b>		<b>1,085</b>	29
<b>Current assets</b>			
Current tax recoverable	10	120	110
Trade and other receivables	16	130	60
Cash and cash equivalents	17	2,263	1,737
<b>Total current assets</b>		<b>2,513</b>	1,907
<b>Total assets</b>		<b>3,598</b>	1,936
<b>Current liabilities</b>			
Trade and other payables	18	(126)	(145)
<b>Total current liabilities</b>		<b>(126)</b>	(145)
<b>Non-current liabilities</b>			
Deferred tax liabilities	10	(6)	-
<b>Total non-current liabilities</b>		<b>(6)</b>	-
<b>Total liabilities</b>		<b>(132)</b>	(145)
<b>Net assets</b>		<b>3,466</b>	1,791
<b>Equity attributable to equity holders of the company</b>			
Called up share capital	19	1,732	1,071
Share premium reserve	19	7,632	6,282
Share based payments reserve	20	279	225
Merger reserve	20	641	-
Retained earnings	20	(6,818)	(5,787)
<b>Total equity</b>		<b>3,466</b>	1,791

The financial statements were approved and authorised for issue by the Board of Directors on 29 November 2011 and were signed on its behalf by:

**Stephen P Jones**  
Chief Executive Officer

**J Darren Bamforth**  
Group Finance Director

Company number: 05656604

## Company statement of changes in equity

for the year ended 31 July 2011

	Share capital £000	Share premium reserve £000	Share-based payments reserve £000	Merger reserve £000	Retained earnings £000	Total £000
<b>At 1 August 2009</b>	772	4,657	178	-	(4,850)	757
Loss for the year and total comprehensive income	-	-	-	-	(937)	(937)
Transactions with owners:						
Share-based payment charge	-	-	47	-	-	47
Issue of shares	299	1,708	-	-	-	2,007
Expenses of share issue	-	(83)	-	-	-	(83)
<b>At 31 July 2010</b>	1,071	6,282	225	-	(5,787)	1,791
<b>At 1 August 2010</b>	1,071	6,282	225	-	(5,787)	<b>1,791</b>
Loss for the year and total comprehensive income	-	-	-	-	(1,031)	<b>(1,031)</b>
Transactions with owners:						
Share-based payment charge	-	-	54	-	-	<b>54</b>
Issue of shares	661	1,500	-	641	-	<b>2,802</b>
Expenses of share issue	-	(150)	-	-	-	<b>(150)</b>
<b>At 31 July 2011</b>	<b>1,732</b>	<b>7,632</b>	<b>279</b>	<b>641</b>	<b>(6,818)</b>	<b>3,466</b>

Details of the nature of each component of equity are set out in Notes 19 and 20.

## Company statement of cash flows

for the year ended 31 July 2011

	Note	2011 £000	2010 £000
<b>Cash flow from operating activities</b>			
Cash outflow from operations	22	(1,165)	(1,217)
Taxation received		112	141
<b>Net cash outflow from operating activities</b>		<b>(1,053)</b>	<b>(1,076)</b>
<b>Cash flow from investing activities</b>			
Purchase of property, plant and equipment	12	(16)	(4)
Purchase of business	24	(258)	-
Cash transferred from subsidiary on hive up of business		-	6
Finance income		3	-
<b>Net cash (outflow)/inflow from investing activities</b>		<b>(271)</b>	<b>2</b>
<b>Cash flow from financing activities</b>			
Issue of share capital	19	2,000	2,007
Expenses of share issue	19	(150)	(83)
<b>Net cash inflow from financing activities</b>		<b>1,850</b>	<b>1,924</b>
Net increase in cash and cash equivalents	23	526	850
Cash and cash equivalents at the beginning of the year		1,737	887
<b>Cash and cash equivalents at the end of the year</b>	17	<b>2,263</b>	<b>1,737</b>

# Notes to the financial statements

## 1 Presentation of the financial statements

### Description of business

Evocutis plc is public limited company domiciled in the United Kingdom. It is a specialist research group focused on topical antimicrobial innovations for products in the medicinal and consumer healthcare markets. The Group provides independent research and testing facilities specialising in skin microbiology, living skin tissue culture and clinical dermatology. The Group's registered office is Evocutis plc, Sandbeck Lane, Wetherby, LS22 7TW.

### Compliance with applicable law and IFRS

The financial statements have been prepared in accordance with the Companies Act 2006, Article 4 of the IAS Regulation and International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS) and related interpretations, as adopted by the European Union.

The financial statements are also in compliance with IFRS as issued by the International Accounting Standards Board.

### Composition of the financial statements

The consolidated and Parent Company financial statements are drawn up in Sterling, the functional currency of Evocutis plc and in accordance with IFRS accounting presentation. The level of rounding for financial information is the nearest thousand pounds. The financial statements comprise:

- Consolidated statement of comprehensive income
- Consolidated statement of financial position
- Consolidated statement of changes in equity
- Consolidated cash flow statement
- Parent Company statement of financial position
- Parent Company statement of changes in equity
- Parent Company cash flow statement
- Notes to the financial statements.

### Accounting convention

The financial statements have been prepared using the historical cost convention, as modified by the revaluation of certain items, as stated in the accounting policies.

### Financial period

These financial statements cover the financial year from 1 August 2010 to 31 July 2011, with comparative figures for the financial years from 1 August 2009 to 31 July 2010 and, where appropriate, from 1 August 2008 to 31 July 2009.

### Composition of the Group

A list of the subsidiary undertakings which, in the opinion of the Directors, principally affected the amount of profit or the net assets of the Group is given in Note 28, 'Principal Group companies'.

### Accounting principles and policies

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The financial statements have been prepared in accordance with the Group's accounting policies approved by the Board and described in Note 2, 'Accounting principles and policies'. Information on the application of these accounting policies, including areas of estimation and judgement is given in Note 3, 'Key accounting judgements and estimates'. Where appropriate, comparative figures are reclassified to ensure a consistent presentation with current year information.

## Notes to the financial statements continued

### 2 Accounting principles and policies

#### Consolidation

The consolidated financial statements for the year ended 31 July 2011 comprise the Company and its subsidiaries (together referred to as the 'Group').

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account.

The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date control ceases.

Transactions and balances between Group companies are eliminated and no profit before tax is taken on sales between Group companies until the products or services are sold to customers outside the Group.

Goodwill is capitalised as a separate item for subsidiaries acquired. Where the cost of acquisition is below the fair value of the net assets acquired, the difference is recognised directly in the statement of comprehensive income.

#### Business combinations

The Group accounts for business combinations using the acquisition method. Identifiable assets, liabilities and contingent liabilities acquired are measured at fair value at acquisition date. The purchase consideration is measured at fair value and includes the fair value of any contingent consideration. The costs of acquisition are charged to the statement of comprehensive income in the period in which they were incurred.

Business combinations that took place prior to 1 August 2006 have not been restated. The Group previously used merger accounting under UK GAAP to consolidate the results and assets of its subsidiary company, Syntopix Limited as the combination met the criteria of a group reconstruction. The Group has applied the exemptions of IFRS1 to not restate prior period acquisitions on transition to IFRS.

#### Revenue

Revenue is recognised when persuasive evidence of an arrangement exists, delivery has occurred or services have been rendered, prices are fixed or determinable and there is a probability that economic benefits will flow to the Group. Certain revenues are generated from licensing and exclusivity agreements under which the Group grants third parties rights to certain products or technologies.

Upfront payments and other similar non-refundable payments received under these agreements are recorded as deferred revenue and are recognised in the statement of comprehensive income over the performance period stipulated in the agreement.

Non-refundable milestone payments which represent the achievement of a significant technical/regulatory hurdle in the research and development process, pursuant to collaborative agreements, are recognised as revenue upon the achievement of the specified milestone.

The Group may also generate revenues from collaborative research and development as well as co-promotion arrangements. Such agreements may consist of multiple elements and provide for varying consideration terms, such as upfront, milestone and similar payments, which are complex and require significant analysis by management in order to determine the most appropriate method of revenue recognition.

Royalty income is recognised on an accruals basis in accordance with the economic substance of the agreement and is reported as part of revenue.

Other revenues are recorded as earned or as the services are performed.

#### Expenditure

Expenditure is recognised in respect of goods and services received when supplied in accordance with contractual terms. Provision is made when an obligation exists for a future liability relating to a past event and where the amount of the obligation can be reliably estimated.

#### Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker has been identified as the Board of Directors. Further details are set out in Note 5.

## Notes to the financial statements continued

### 2 Accounting principles and policies continued

#### Research and development expenditure

Research and development expenditure is charged to the statement of comprehensive income as incurred. Development expenditure is capitalised if it can be demonstrated that:

- it is technically feasible to develop the product for it to be sold;
- adequate resources are available to complete the development;
- there is an intention to complete and sell the product;
- the group is able to sell the product;
- sale of the product will generate future economic benefits; and
- expenditure on the project can be measured reliably.

Capitalised development costs are amortised over the periods that the Group expects to benefit from selling the products developed. The amortisation expense is included within general and administration costs in the statement of comprehensive income.

#### Other operating income (grant income)

Revenue grants for the reimbursement of costs charged to the statement of comprehensive income are credited to that statement in the year in which the costs are incurred. Grants receivable in connection with expenditure on tangible fixed assets are accounted for as deferred income, which is credited to statement of comprehensive income over the estimated useful economic life of the related assets on a basis consistent with the depreciation policy.

#### Property, plant and equipment

Items of property, plant and equipment are initially recognised at cost. As well as the purchase price, cost includes directly attributable costs. Items of property, plant and equipment are carried at depreciated cost.

Depreciation is provided on all items of property, plant and equipment so as to write off the carrying value of items over their expected useful economic lives. It is applied at the following rates:

Leasehold land and buildings	- Lease term
Plant & machinery	- 3 to 5 years
Fixtures & fittings	- 5 years

On disposal of property, plant and equipment, the cost and related accumulated depreciation and impairments are removed from the financial statements and the net amount, less any proceeds, is accounted for in the statement of comprehensive income.

#### Investments

Investments are held at cost less any provisions for impairment.

#### Goodwill

Goodwill represents the excess of the cost of a business combination over the total acquisition date fair values of the identifiable assets, liabilities and contingent liabilities acquired. Goodwill is deemed to have an indefinite useful life and is tested for impairment annually.

Where the fair value of the interest acquired in an entity's assets, liabilities and contingent liabilities exceeds the purchase consideration paid, this excess is recognised immediately as a gain in the statement of comprehensive income.

#### Other intangible assets

Intangible assets are stated at cost or deemed cost less provisions for amortisation and impairments.

Customer-related intangibles separately acquired or acquired as part of a business combination are amortised over their estimated useful lives, generally not exceeding 20 years, using the straight line basis. The estimated useful lives for determining the amortisation charge take into account the nature of the relationships and are reviewed and, where appropriate, adjusted annually.

Technology-based intangibles comprise unpatented technology, in-process research and development, know-how and trade secrets. Where these are separately acquired or acquired as part of a business combination, they are amortised over their estimated useful lives, generally not exceeding 20 years, using the straight-line basis. The estimated useful lives for determining the amortisation charge take into account the nature of the relationships and are reviewed and, where appropriate, adjusted annually. Research costs which do not meet the criteria for recognition of an internally generated intangible asset are written off to the statement of comprehensive income when incurred.

## Notes to the financial statements continued

### 2 Accounting principles and policies continued

#### Leases

Lease agreements which transfer substantially all the benefits and risks of ownership of an asset to the Group are accounted for as finance leases, as if the asset had been purchased outright. The assets are included within property, plant and equipment. The capital element of the lease commitment is included within obligations under finance leases. Assets held under finance leases are depreciated on a basis consistent with similar owned assets. The interest element of the lease is included in the statement of comprehensive income.

All other leases are operating leases and the rental costs are charged to the statement of comprehensive income on a straight line basis over the term of the lease.

#### Share capital

Financial instruments issued by the Group are treated as equity only to the extent that they do not meet the definition of a financial liability. The Group's ordinary shares are classified as equity instruments.

#### Retirement benefits: Defined Contribution Schemes

Contributions to defined contribution pension schemes are charged to the statement of comprehensive income in the year to which they relate.

#### Share-based payments

The Group has applied the requirements of IFRS 2 Share-based payments. In accordance with the transitional provisions, IFRS 2 has been applied to all grants of equity instruments that were unvested as of 1 August 2006.

Where equity settled share options are awarded to employees, the fair value of the options at the date of grant is charged to the statement of comprehensive income over the vesting period. Non-market vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at each balance sheet date so that, ultimately, the cumulative amount recognised over the vesting period is based on the number of options that eventually vest.

Market vesting conditions are factored into the fair value of the options granted. As long as all other vesting conditions are satisfied, a charge is made irrespective of whether the market vesting conditions are satisfied. The cumulative expense is not adjusted for failure to achieve a market vesting condition.

Where the terms and conditions of options are modified before they vest, the increase in the fair value of the options, measured immediately before and after the modification, is also charged to the statement of comprehensive income over the remaining vesting period.

Where equity instruments are granted to persons other than employees, the statement of comprehensive income is charged with the fair value of goods and services received.

#### Trade and other receivables

Trade and other receivables are accounted for at original invoice amount less any provisions for doubtful debts. Provisions are made where there is evidence of a risk of non-payment, taking into account the age of the debt, historical experience and general economic conditions. If a trade debt is determined to be uncollectable, it is written off, firstly against any provisions already held and then to the statement of comprehensive income. Subsequent recoveries of amounts previously provided for are credited to the statement of comprehensive income.

#### Trade and other payables

Trade and other payables are held at amortised cost which equates to nominal value.

#### Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, current balances with banks and similar institutions and liquid investments generally with maturities of three months or less. They are readily convertible into known amounts of cash and have an insignificant risk of changes in values.

#### Taxation

Current tax is provided at the amounts expected to be paid applying tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax assets and liabilities are recognised where the carrying amount of an asset or liability in the balance sheet differs from its tax base, except for differences arising from:

- the initial recognition of goodwill;
- the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither accounting or taxable profits; and
- investments in subsidiaries and jointly controlled entities where the Group is able to control the timing of the reversal of the difference and it is probable that the difference will not reverse in the foreseeable future.

## Notes to the financial statements continued

### 2 Accounting principles and policies continued

#### Taxation continued

Recognition of deferred tax assets is restricted to those instances where it is probable that taxable profit will be available against which the difference can be utilised. The amount of the asset or liability is determined using tax rates that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the deferred tax liabilities/(assets) are settled/(recovered).

Deferred tax assets and liabilities are offset when the Group has a legally enforceable right to offset current tax assets and liabilities and the deferred tax assets and liabilities relate to taxes levied by the same tax authority on either:

- the same taxable group company; or
- different group entities which intend either to settle current tax assets and liabilities on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax assets or liabilities are expected to be settled or recovered.

#### Impairment of non-current assets

The carrying values of all non-currents assets are reviewed for impairment when there is an indication that the assets might be impaired. Additionally, goodwill, intangible assets with indefinite useful lives and intangible assets which are not yet available for use are tested for impairment annually. Any provision for impairment is charged to the statement of comprehensive income in the year concerned.

Impairments of goodwill are not reversed. Impairment losses on other non-current assets are only reversed if there has been a change in estimates used to determine recoverable amounts and only to the extent that the revised recoverable amounts do not exceed the carrying values that would have existed, net of depreciation or amortisation, had no impairments been recognised.

### 3 Key accounting judgements and estimates

The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources.

Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision only affects that period, or in the period of the revision and future periods if the revision affects both current and future periods.

#### Property, plant and equipment

Property, plant and equipment is depreciated over the useful lives of the assets. Useful lives are based on the management's estimates of the period that the assets will generate revenue, which are periodically reviewed for continued appropriateness. The carrying values are tested for impairment where there is an indication that the value of the assets might be impaired. Such impairment tests would be based on assessments of future cash flow forecasts and these forecasts would be based on judgemental assumptions. Future events could cause the assumptions to change, with a consequent adverse effect on the future results of the Group.

#### Share-based payments

The Group has equity settled share-based remuneration schemes for employees. The fair value of share options is estimated by using the Black-Scholes valuation model, on the date of grant based on certain assumptions. These assumptions include, among others, expected volatility, expected life of the options and number of options expected to vest. Further information is set out in Note 27.

#### Income taxes

The Group is recognising research & development tax credits receivable in the statement of comprehensive income in respect of the significant expenditure on research and development activity during the period. The amount recognised is an estimate of the amount which the Group believes it is entitled to claim. Until the claim is submitted to the tax authorities and the amounts are actually received there is a risk that the tax credit claim could be challenged by the tax authorities. The Group believes that the receivable for income tax repayments is appropriate based on its assessment of several factors including past experience and interpretations of tax law. To the extent that the final tax outcome is different from the amounts recorded, such differences will impact on the income tax expense in the period in which such determination is made.

#### Investment in subsidiaries

The Directors have made a judgement relating to the carrying value of the investments in subsidiary undertakings and related inter-company balances within the financial statements of the parent company. Further information is set out in Note 15, 'Investments' and Note 16, 'Trade and other receivables'.

## Notes to the financial statements continued

### 3 Key accounting judgements and estimates

continued

#### Goodwill

Goodwill arising on business combinations is capitalised and allocated to an appropriate cash generating unit. It is deemed to have an indefinite life and so is not amortised. Annual impairment tests of the relevant cash generating units are undertaken. Impairment tests are based on established market factors or risk-adjusted future cash flows discounted using appropriate interest rates. These future cash flows are based on management forecasts and therefore inherently contain judgements. Future events could cause the assumptions used in these impairment tests to change with a consequent adverse effect on the future results of the Group. Further details are set out in Note 13, 'Goodwill'.

#### Other intangible assets

As set out in Note 2, 'Accounting principles and policies', intangible assets acquired in a business combination are capitalised and amortised over their useful lives. Both initial valuations and valuations for subsequent impairment tests are based on risk-adjusted future cash flows discounted using appropriate discount rates. These future cash flows are based on business forecasts which are inherently judgemental. Future events could cause the assumptions used in these forecasts and impairment tests to change which could adversely effect the future results of the Group.

### 4 New accounting requirements

The following new and amended Accounting Standards and IFRIC interpretations have been issued by the International Accounting Standards Board (the IASB), have been adopted by the EU but have not yet been adopted within these financial statements:

IAS 24 (Revised), 'Related party disclosures' was issued in November 2009 and is effective for accounting periods beginning on or after 1 January 2011. It clarifies the definition of a related party.

The following new standards and interpretations have been issued but have not yet been endorsed by the EU:

Amendment to IFRS 7, 'Financial Instruments: Disclosures'. This was published in October 2010 and is effective for accounting periods beginning on or after 1 July 2011.

IFRS 9, 'Financial Instruments (2010)'. IFRS 9, 'Financial Instruments' was first issued in November 2009 and was subsequently amended on October 2010.

This is the first phase of the replacement of IAS 39 and covers the requirements for classification, measurement, derecognition and disclosure of financial assets and liabilities. It is effective for accounting periods beginning on or after 1 January 2013.

IFRS 10, 'Consolidated financial statements' was published in May 2011. It introduces new requirements for determining which investee companies to consolidate and provides a single model to determine control aspects of investments. It is effective for accounting periods beginning on or after 1 January 2013.

IFRS 11, 'Joint arrangements' was published in May 2011. This sets out the accounting requirements for joint ventures and is effective for accounting periods beginning on or after 1 January 2013.

IFRS 12, 'Disclosures of interests in other entities' was published in May 2011 and covers disclosure requirements of entities that have interests in subsidiaries, joint ventures and associates; It is effective for accounting periods beginning on or after 1 January 2013.

IFRS 13, 'Fair value measurement' was published in May 2011. It sets out a single framework for measuring fair value and the disclosure requirements of fair value measurements and is effective for accounting periods beginning on or after 1 January 2013.

IAS 27, 'Separate financial statements' was published in May 2011. This contains accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates where an entity prepares separate financial statements. Effective for accounting periods beginning on or after 1 January 2013.

IAS 28, 'Investments in associates and joint ventures' prescribes accounting requirements for associates and is effective for accounting periods beginning on or after 1 January 2013.

Amendment to IAS 1, 'Presentation of items of other comprehensive income' amends the presentation of the comprehensive income statement and is effective for accounting periods beginning on or after 1 July 2012.

IAS 19, 'Employee benefits (2010)' introduces requirements for actuarial gains or losses and is effective from 1 January 2013.

The possible impact on the financial statements in the initial period of application of the above standards or interpretations is not reasonably estimatable.

**Notes to the financial statements** continued**5 Segment information**

Operating segment information is reported based on the financial information provided to the Board of Directors, which is regarded as the 'Chief Operating Decision Maker' (CODM). The CODM considers that the Group has one operating segment, being 'Pharmaceutical and consumer healthcare'. No geographic information is regularly provided to the CODM.

The CODM assesses the performance of the Group by reference to group-wide results. The group-wide measures of results are 'operating loss' and 'loss for the year'. Both these measures are disclosed on the face of the Statement of comprehensive income. No differences exist between the basis of preparation of the performance measures used by the CODM and the figures presented in the consolidated financial statements.

**Geographical information**

The UK is the Group's country of domicile.

	2011 £000	2010 £000
<b>Revenue by location of customer</b>		
UK	142	141
USA	35	10
France	8	-
Germany	42	-
Total revenue	227	151

	2011 £000	2010 £000
<b>Revenue by location of group entity</b>		
UK	227	151
Total revenue	227	151

**Other information**

Revenue for both the current and previous financial year was generated from the rendering of services.

For the year ended 31 July 2011, our three largest customers accounted for approximately 64%, 19% and 12% of total revenues respectively. In the year ended 31 July 2010, our single largest customer accounted for approximately 98% of total revenues.

Non-current assets all relate to the Group's single operating segment.

**6 Other operating income**

	2011 £000	2010 £000
Grants receivable	17	58

## Notes to the financial statements continued

### 7 Operating loss

The following items have been included in operating loss:

	2011 £000	2010 £000
Employee costs (Note 8)	642	585
Depreciation of property, plant and equipment	27	31
Amortisation of intangible assets	10	-
Net foreign exchange losses	-	1
Operating lease rentals: Minimum lease payments	7	-
Fees payable to the company's auditors in relation to the Group (see below)	26	21
	2011 £000	2010 £000
<b>Fees payable to the company's auditor</b>		
Audit of parent company and consolidated financial statements	26	20
Audit and assurance services	26	20
Other tax services	-	1
	26	21

At 31 July 2011, the amount due to BDO LLP for fees yet to be invoiced was £26,000, comprising statutory audit of £26,000.

### 8 Employee costs

	2011 £000	2010 £000
Wages and salaries	506	463
Social security costs	56	51
Pension costs	26	24
Share-based scheme costs	54	47
	642	585

The Group provides benefits to employees including healthcare insurance and personal life assurance.

	2011 Number	2010 Number
<b>Average number of persons employed by the Group (including Directors) during the year</b>		
General and administration	7	8
Research and development	9	8
	16	16

**Notes to the financial statements** continued**8 Employee costs** continued

The compensation of the Directors, in aggregate, was as follows:

	2011 £000	2010 £000
Wages and salaries	197	193
Social security costs	24	23
Pension costs	13	13
Benefits in kind	2	-
Share-based scheme costs	50	47
	<b>286</b>	<b>276</b>

Full details of the remuneration of individual Directors, including the highest paid Director, are set out in the Remuneration Report on pages 12 to 13. There were 2 (2010: 1) Directors in the Group's stakeholder money purchase pension schemes in the year.

**9 Finance income**

	2011 £000	2010 £000
Interest income arising from cash and cash equivalents	3	-

**10 Taxation**

	2011 £000	2010 £000
<b>Taxation credit based on losses for the year</b>		
UK Corporation tax	(122)	(110)
Deferred taxation	(15)	-
	<b>(137)</b>	<b>(110)</b>

	2011		2010	
	£000	%	£000	%
<b>Reconciliation of the taxation rate on Group profits</b>				
Loss before tax	(1,216)	100.0	(1,106)	100.0
UK Corporation tax at the statutory UK rate	(332)	(27.3)	(310)	(28.0)
Expenses not deductible for tax purposes	27	2.2	13	1.2
Research and development enhancement	(114)	(9.4)	(97)	(8.8)
Losses utilised against R & D tax credits received	126	10.4	113	10.2
Depreciation in excess of capital allowances not provided for within deferred taxation	-	-	8	0.7
Losses carried forward	149	12.2	166	15.0
Other permanent differences	10	0.8	(3)	(0.3)
Prior year adjustments	(3)	(0.2)	-	-
Total	<b>(137)</b>	<b>(11.3)</b>	<b>(110)</b>	<b>(10.0)</b>

The lower tax rate for the year ended 31 July 2011 is due to enhancement of research and development expenditure and the availability of R & D tax credits on the Group's research activities.

## Notes to the financial statements continued

## 10 Taxation continued

	Group		Company	
	2011 £000	2010 £000	2011 £000	2010 £000
Corporation tax recoverable	120	110	120	110
Corporation tax payable	(34)	-	-	-

## Movement in deferred tax liabilities

Group	Accelerated capital allowances £000	Other receivables £000	Intangibles £000	Total £000
At 1 August 2010	-	-	-	-
Additions through business combinations	6	15	113	134
Charge/(credit) to statement of comprehensive income – arising from the origination and reversals of temporary differences	2	(15)	(2)	(15)
At 31 July 2011	8	-	111	119

Company	Accelerated capital allowances £000	Total £000
At 1 August 2010	-	-
Charge to statement of comprehensive income – arising from the origination and reversals of temporary differences	6	6
At 31 July 2011	6	6

Tax losses – Group	Recognised		Unrecognised	
	2011 £000	2010 £000	2011 £000	2010 £000
Trading losses available indefinitely	-	-	4,896	4,371
Deferred tax asset	-	-	1,224	1,180

Share-based payments – Group	Recognised		Unrecognised	
	2011 £000	2010 £000	2011 £000	2010 £000
Accumulated share-based payments	-	-	279	225
Deferred tax asset	-	-	70	60

## Factors affecting the tax charge in future years

Changes to tax legislation could impact on the Group's effective tax rate. The UK Government has proposed some significant changes to the UK taxation system. In March 2011 the UK Government announced a phased reduction in the main rate of corporation tax from 28% to 23% over 4 years from April 2011. The deferred tax balances reflect the reduction in the UK tax rate from 28% to 25% as it has been substantively enacted. In November 2010 the UK Government reconfirmed its intention to introduce the 'patent box' regime which would apply a reduced rate of corporation tax to income from patents with effect from April 2013 following a period of consultation.

**Notes to the financial statements** continued**11 Loss per share**

Basic loss per share is calculated by dividing the loss attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the year.

Diluted loss per share is calculated by adjusting the weighted average number of ordinary shares in issue to assume the conversion of all potentially dilutive ordinary shares.

The Group has one class of potentially dilutive ordinary shares: those share options granted to employees where the exercise price is less than the average market price of the Company's ordinary shares during the year. However, due to losses incurred in the year there is no dilutive effect from the potential exercise of these share options.

<b>Basic and diluted loss per share</b>	<b>Loss for the year £000</b>	<b>Weighted average number of shares</b>	<b>Loss per share (pence)</b>
Year ended 31 July 2011	(1,079)	119,631,060	(0.90p)
Year ended 31 July 2010	(996)	87,195,720	(1.14p)

The weighted average number of shares for the year ended 31 July 2010 has been adjusted to reflect the 10 for 1 subdivision of shares which took place on 23 May 2011 as if that subdivision had been effective for the whole financial period.

**12 Property, plant and equipment**

<b>Group</b>	<b>Leasehold land and buildings £000</b>	<b>Plant and equipment £000</b>	<b>Fixtures and fittings £000</b>	<b>Total £000</b>
Cost at 1 August 2009	-	169	10	<b>179</b>
Additions	-	4	-	<b>4</b>
Cost at 31 July 2010	-	173	10	<b>183</b>
Additions	48	18	1	<b>67</b>
Additions through business combinations	78	30	-	<b>108</b>
Cost at 31 July 2011	126	221	11	<b>358</b>
Depreciation at 1 August 2009	-	118	5	<b>123</b>
Charge for the year	-	30	1	<b>31</b>
Depreciation at 31 July 2010	-	148	6	<b>154</b>
Charge for the year	3	22	2	<b>27</b>
Depreciation at 31 July 2011	3	170	8	<b>181</b>
Net book value at 1 August 2009	-	51	5	<b>56</b>
Net book value at 31 July 2010	-	25	4	<b>29</b>
Net book value at 31 July 2011	123	51	3	<b>177</b>

The Group's leasehold land and buildings comprise a leased property with a lease less than 50 years.

## Notes to the financial statements continued

## 12 Property, plant and equipment continued

<b>Company</b>	Plant and equipment £000	Fixtures and fittings £000	<b>Total £000</b>
Cost at 1 August 2009	-	-	-
Transfers from subsidiary undertakings	169	10	<b>179</b>
Additions	4	-	<b>4</b>
Cost at 31 July 2010	173	10	<b>183</b>
Additions	16	-	<b>16</b>
Cost at 31 July 2011	189	10	<b>199</b>
Depreciation at 1 August 2009	-	-	-
Transfers from subsidiary undertakings	118	5	<b>123</b>
Charge for the year	30	1	<b>31</b>
Depreciation at 31 July 2010	148	6	<b>154</b>
Charge for the year	18	2	<b>20</b>
Depreciation at 31 July 2011	166	8	<b>174</b>
Net book value at 1 August 2009	-	-	-
Net book value at 31 July 2010	25	4	<b>29</b>
Net book value at 31 July 2011	23	2	<b>25</b>

**Notes to the financial statements** continued**13 Goodwill**

	<b>2011</b>	2010
	<b>£000</b>	£000
Cost at 1 August	-	-
Additions through business combinations	<b>489</b>	-
Cost at 31 July	<b>489</b>	-
Net book value at 1 August	-	-
Net book value at 31 July	<b>489</b>	-

The additions in the year arose on the acquisition of Leeds Skin Centre for Applied Research Limited as set out in Note 24, 'Acquisitions'.

The carrying value of goodwill is made up of balances arising on acquisitions as follows:

Entity	Cash generating unit	<b>2011</b>	2010
		<b>£000</b>	£000
Leeds Skin Centre for Applied Research Ltd	Leeds Skin Centre	<b>489</b>	-

Goodwill is allocated to cash generating units which are tested for impairment at least annually. The Group has two cash-generating units being 'Evocutis' and 'Leeds Skin Centre'. The goodwill arising on the acquisition of Leeds Skin Centre for Applied Research Limited has been allocated to the Leeds Skin Centre CGU for impairment testing purposes.

The valuation of the CGU for goodwill impairment testing has been prepared on a value in use basis. Value in use is calculated as the net present value of the projected risk-adjusted post tax cash flows plus a terminal value of the cash generating unit. Initially a post-tax discount rate is applied to calculate the net present value of the post tax cash flows. The discount rate is based on the Group's weighted average cost of capital.

Details relating to the discounted cash flow model used in the impairment tests are as follows:

Valuation basis	Value in use
Key assumptions	Sales growth rates Profit margins Discount rate
Determination of assumptions	Growth rates are based on management estimates and forecasts based on internal and external market information and past experience. Margins are based on past experience and cost estimates. Discount rate is based on weighted average cost of capital.
Period of specific projected cash flow used in forward cash flow forecasts	3 years
Discount rate	20%
Terminal growth rate	0%

At 31 July 2011 the impairment tests concluded that sufficient headroom exists such that reasonable changes to key assumptions used in the test are unlikely to result in an impairment of the related goodwill.

## Notes to the financial statements continued

**14 Other intangible assets**

<b>Group</b>	Customer relationships £000	Unpatented technology & In-process R & D £000	<b>Total £000</b>
Cost at 1 August 2009 and 31 July 2010	-	-	-
Additions through business combinations	179	275	<b>454</b>
Cost at 31 July 2011	179	275	<b>454</b>
Amortisation at 1 August 2009 and 31 July 2010	-	-	-
Charge for the year	5	5	<b>10</b>
Depreciation at 31 July 2011	5	5	<b>10</b>
Net book value at 1 August 2009	-	-	-
Net book value at 31 July 2010	-	-	-
Net book value at 31 July 2011	174	270	<b>444</b>

Customer relationships acquired relate to the ongoing contracts between customers and Leeds Skin Centre and information relating to those customers and these are amortised over 6 years. Unpatented technology and in-process R & D comprises living skin equivalent tissue culture technology models which have been developed by Leeds Skin Centre. This is being amortised over 10 years. The remaining amortisation period for customer relationships at 31 July 2011 is 5.83 years. The remaining amortisation period for unpatented technology and in-process R & D at 31 July 2011 is 9.83 years.

Amortisation has been charged to the statement of comprehensive income as follows:

	<b>2011 £000</b>	2010 £000
General and administration	<b>10</b>	-

**15 Investments**

<b>Company</b>	<b>Investments in subsidiary undertakings £000</b>
Cost at 1 August 2009 and 31 July 2010	<b>339</b>
Additions	<b>1,060</b>
Cost at 31 July 2011	<b>1,399</b>
Impairment at 1 August 2009 and 31 July 2010	<b>339</b>
Charge for the year	-
Impairment at 31 July 2011	<b>339</b>
Net book value at 1 August 2009	-
Net book value at 31 July 2010	-
Net book value at 31 July 2011	<b>1,060</b>

**Notes to the financial statements** continued**15 Investments** continued

The impairment provision of £339,000 made during the year ended 31 July 2009 was as a result of continued losses in the subsidiary company, Syntopix Limited. The value in use of this asset is currently estimated as being £nil. On 1 August 2009 the trade and assets of Syntopix Limited and Syntopix Services Limited were transferred up to the parent company, Evocutis plc, pursuant to a hive-up agreement. The assets and liabilities of the subsidiaries were transferred to Evocutis plc at net book values. The addition during the year ended 31 July 2011 related entirely to the acquisition of Leeds Skin Centre for Applied Research Limited.

**16 Trade and other receivables**

	Group		Company	
	2011 £000	2010 £000	2011 £000	2010 £000
Trade receivables	120	-	34	-
Other receivables	45	47	45	47
Amounts due from subsidiary undertakings	-	-	34	-
Prepayments	36	13	17	13
	<b>201</b>	<b>60</b>	<b>130</b>	<b>60</b>

As at 31 July 2011 £36,000 (2010: £nil) of the trade receivables were past due but were not impaired. The Group has no provisions for bad and doubtful debts. The Company's financial statements contain an inter-group receivable with a gross amount of £3,522,000 against which a provision of £3,522,000 has been made. No changes were made to this provision during the year ended 31 July 2011 (2010: reduction in the provision of £60,000).

**17 Cash and cash equivalents**

	Group		Company	
	2011 £000	2010 £000	2011 £000	2010 £000
Cash at bank and in hand	82	91	30	91
Short term deposits	2,234	1,646	2,233	1,646
	<b>2,316</b>	<b>1,737</b>	<b>2,263</b>	<b>1,737</b>

**18 Trade and other payables**

	Group		Company	
	2011 £000	2010 £000	2011 £000	2010 £000
Trade payables	104	93	54	93
Social security	24	18	24	18
Other payables	3	2	3	2
Accruals and deferred income	45	32	45	32
	<b>176</b>	<b>145</b>	<b>126</b>	<b>145</b>

All trade and other payables are due within one year in both the current and previous financial year.

## Notes to the financial statements continued

### 19 Share capital and share premium account

	Ordinary shares Number	£000	Share premium £000
<b>Share capital issued and fully paid</b>			
At 1 August 2009 – ordinary shares of 10p each	7,717,831	772	4,657
Issue of new ordinary shares	2,997,013	299	1,708
Expenses of share issue	-	-	(83)
At 31 July 2010 – ordinary shares of 10p each	10,714,844	1,071	6,282
Arising on sub-division of shares	96,433,596	-	-
Issue of new ordinary shares	66,031,250	661	1,981
Expenses of share issue	-	-	(150)
At 31 July 2011- ordinary shares of 1p each	173,179,690	1,732	8,113

Share capital represents the nominal value of the amount subscribed for shares. Share premium represents the amount subscribed for shares in excess of their nominal value. On 23 May 2011 the Company passed a resolution to subdivide each of the issued ordinary shares of £0.10 each into 10 ordinary shares of £0.01 each. On that same date the Company issued 16,031,250 ordinary shares of £0.01 each in consideration for the acquisition of Leeds Skin Centre for Applied Research Limited. On that same date the Company also issued 50,000,000 ordinary shares of £0.01 each at a price of £0.04 each pursuant to a placing for total cash consideration of £2,000,000.

Ordinary shares carry the rights to one vote per share at general meetings of the Company and the rights to share in any distributions of profits or returns of capital and to share in any residual assets available for distribution in the event of a winding up.

### 20 Movements in equity

The merger reserve is a reserve created on the combination of companies within the Group prior to 1 August 2006. During the year the merger reserve was increased by £641,000 as a consequence of applying merger relief criteria to the premium arising from the issue of ordinary shares as part of the cost of acquisition of Leeds Skin Centre for Applied Research Limited. The share-based payment reserve represents amounts arising from the requirement to expense the fair value of share-based remuneration in accordance with IFRS 2 'Share-based Payments'.

Retained earnings are the cumulative net losses recognised in the Consolidated statement of comprehensive income.

Movements on these reserves are set out in the Consolidated statement of changes in equity.

**Notes to the financial statements** continued**21 Related party transactions**

The Group and Company had the following transactions with related parties:

Name of related party	Relationship	Nature of transaction	Purchases from related party		Amounts owed to related party	
			2011 £000	2010 £000	At 31 July 2011 £000	At 31 July 2010 £000
The University of Leeds	Shareholder	Consumable costs, provision of staff and services of a director	9	45	-	1
Atraxa Consulting Limited	Controlled by a director	Accountancy services	60	39	10	6
Top Technology Ventures Limited	Connected to a significant shareholder	Corporate finance fee	-	46	-	-

In addition, on 1 December 2010, the Company granted 380,950 options over ordinary shares to a shareholder, IP2IPO Limited, in consideration of fees waived for the provision of the services of Mr MCN Townend as a director.

**Terms and conditions of transactions with related parties**

Outstanding balances that relate to trading balances are unsecured, interest free and settlement occurs in cash. There have been no guarantees provided or received for any related party receivables or payables. The Company has an outstanding amount of £3,522,000 due from a subsidiary undertaking. During the year ended 31 July 2010, the Company reduced its provision against this balance by £60,000 taking the total provision to £3,522,000. This assessment is undertaken each financial year through examining the financial position of the subsidiary company. No changes were made to this provision in the year ended 31 July 2011.

**Compensation of key management personnel of the Group**

The Group considers the directors to be its key management personnel. Full details of the remuneration of the directors are shown in the Directors' Remuneration Report and Note 8.

**Other transactions with Directors**

At the date of acquisition of Leeds Skin Centre for Applied Research Limited, that company had a director's loan outstanding due to one of its Directors, Dr Richard Bojar. The loan amounted to £92,259. This loan was subsequently settled post-acquisition on 10 June 2011.

## Notes to the financial statements continued

**22 Adjustments reconciling loss after tax to operating cash flows**

	Group		Company	
	2011 £000	2010 £000	2011 £000	2010 £000
Loss after tax	<b>(1,079)</b>	(996)	<b>(1,030)</b>	(937)
Tax on losses	<b>(137)</b>	(110)	<b>(117)</b>	(110)
Finance income net of finance costs	<b>(3)</b>	-	<b>(3)</b>	-
Depreciation	<b>27</b>	31	<b>20</b>	31
Amortisation of intangible assets	<b>10</b>	-	-	-
Share-based payment charges	<b>54</b>	47	<b>54</b>	47
Changes in working capital:				
(Increase)/decrease in trade receivables	<b>(32)</b>	14	<b>(34)</b>	14
Decrease/(increase) in other receivables	<b>54</b>	(16)	<b>(36)</b>	(16)
Impairment of investment in subsidiary undertaking	-	-	-	(58)
Increase/(decrease) in trade payables	<b>2</b>	(29)	<b>(39)</b>	(29)
(Decrease)/increase in other payables	<b>(18)</b>	(159)	<b>20</b>	(159)
Cash outflow from operations	<b>(1,122)</b>	(1,218)	<b>(1,165)</b>	(1,217)

**23 Reconciliation of net cash flow to movement in net funds**

	Group		Company	
	2011 £000	2010 £000	2011 £000	2010 £000
Net funds at beginning of the year	<b>1,737</b>	894	<b>1,737</b>	887
Increase in cash	<b>426</b>	843	<b>526</b>	844
Repayment of short term loans	<b>92</b>	-	-	-
Funds of subsidiary undertakings acquired	<b>153</b>	-	-	6
Debt of subsidiary undertakings acquired	<b>(92)</b>	-	-	-
Movement in net funds	<b>579</b>	843	<b>526</b>	850
Net funds at end of the year	<b>2,316</b>	1,737	<b>2,263</b>	1,737

**Analysis of changes in net funds**

	At 31 July 2010 £000	Acquisitions £000	Cash flow £000	At 31 July 2011 £000
Cash and cash equivalents	1,737	153	426	<b>2,316</b>
Debt due within one year: Director's loan	-	(92)	92	-
Net funds	1,737	61	518	<b>2,316</b>

**Notes to the financial statements** continued**24 Acquisitions**

On 23 May 2011, Evocutis plc acquired 100% of the issued share capital of Leeds Skin Centre for Applied Research Limited, an independent research and testing company specialising in skin microbiology, living skin tissue culture and clinical dermatology, based in the UK. The fair value of the purchase consideration for the acquisition was £1,060,000 which comprised £258,750 of cash and the remainder of £801,562 by way of the issue of 16,031,250 ordinary shares of £0.01 each at a price of 5 pence per share. The fair value of the shares issued equates to the mid market price of the shares at close of business on 22 May 2011.

Transaction costs amounted to £42,000 which have been recognised within General and administration costs in the Statement of comprehensive income. The purpose of the acquisition was to acquire Leeds Skin's significant cell biology experience along with living skin equivalent tissue culture system technologies which will aid the Group's development of products.

	Book value £000	Fair value adjustments £000	Fair value £000
<b>Net assets acquired</b>			
Property, plant and equipment	97	11	<b>108</b>
Other intangible assets	-	454	<b>454</b>
Trade and other receivables	104	59	<b>163</b>
Cash and cash equivalents	153	-	<b>153</b>
Deferred tax provision	(6)	(128)	<b>(134)</b>
Other liabilities	(173)	-	<b>(173)</b>
	175	396	<b>571</b>
Goodwill			<b>489</b>
Total consideration			<b>1,060</b>

The goodwill arising on the acquisition reflects the potential for business synergies and further sales growth following the acquisition of an established market participant. None of the goodwill recognised is expected to be deductible for income tax purposes. The acquisition has been accounted for using the purchase method of accounting. Revenue of £11,000 and a loss of £56,000 from Leeds Skin Centre for Applied Research Limited has been recognised since the acquisition date and is included in the Statement of comprehensive income. Had this acquisition taken place at the start of the financial year, the estimated revenue and loss of the combined group for the current year was £698,000 and £825,000 respectively.

**25 Commitments**

The total future minimum lease payments under non-cancellable operating leases are:

	Group		Company	
	2011 £000	2010 £000	2011 £000	2010 £000
Rental payments due within one year	<b>117</b>	-	-	-
Rental payments due between one and five years	<b>278</b>	-	-	-
Total commitments under non-cancellable operating leases	<b>395</b>	-	-	-

The Group has operating leases in respect of its five year lease on its property in Wetherby which expires on 30 November 2015 and various plant and equipment leases which are on 3 year leases expiring between November 2012 and November 2013.

## Notes to the financial statements continued

### 26 Financial instruments and related disclosures

#### General objectives, policies and processes

The Board has overall responsibility for the determination of the Group's risk management objectives and policies and, whilst retaining ultimate responsibility for them, it has delegated authority for designing and operating processes that ensure the effective implementation of the objectives and policies to the Group's finance function. The Board receives monthly reports from the Chief Financial Officer through which it reviews the effectiveness of the processes put in place and the appropriateness of the objectives and policies it sets.

The overall objective of the Board is to set policies that seek to reduce risk as far as possible without unduly affecting the Group's competitiveness and flexibility.

The Group reports in Sterling. Internal and external funding requirements and financial risks are managed based on policies and procedures adopted by the Board of Directors. The Group does not use derivative financial instruments such as forward currency contracts, interest rate and currency swaps or similar instruments. The Group does not issue or use financial instruments of a speculative nature.

#### Capital management

The Group's objectives when maintaining capital are:

- to safeguard the entity's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- to provide an adequate return to shareholders by pricing products and services commensurately with the level of risk.

The capital structure of the Group consists of shareholders' equity as set out in the 'Consolidated statement of changes in equity' on page 21. All working capital requirements are financed from existing cash resources.

Capital is managed on a day to day basis to ensure that all entities in the Group are able to operate as going concerns. Operating cash flow is primarily used to advance the Group's research and development programme and for periodic outflows of capital expenditure. As the Group is in its early stages of development, revenue streams are not sufficient to cover operating costs and the Group has therefore periodically raised additional capital through the issue of shares.

#### Liquidity risk

Liquidity risk arises from the Group's management of working capital. It is the risk that the Group will encounter difficulty in meeting its financial obligations as they fall due. The Group's policy is to ensure that it will always have sufficient cash to allow it to meet its liabilities when they become due. To achieve this aim, it seeks to maintain short term cash balances to meet expected requirements for a period of at least 60 days.

The Board receives rolling 12-month cash flow projections on a monthly basis as well as information regarding cash balances and the value of the cash balances on short term deposits. At the balance sheet date the Group has cash balances in excess of £2 million and the financial forecasts indicated that the Group expected to have sufficient liquid resources to meet its obligations under all reasonably expected circumstances and will not need to establish overdraft or other borrowing facilities. The Directors monitor funding requirements on a monthly basis during the periods when revenue streams are low and the board keeps various funding options under review.

**Notes to the financial statements** continued**26 Financial instruments and related disclosures** continued**Market risk****Interest rate risk**

The policy on managing its exposure to interest rate change is agreed at Board level and is reviewed on an ongoing basis. Prior to placing fixed-term deposits, the Board reviews interest rates available from the major banks. At 31 July 2011 neither the Group nor the parent company had any fixed-rate deposits in place. The Group does not use interest rate swaps.

**Foreign exchange risk**

Foreign current transaction exposures arising from external trade flows are not hedged. However, the level of transactions undertaken in foreign currency is low and the Board of Directors do not believe that there is a significant risk to the Group from exposure to significant fluctuations in currency rates. All the Group's entities are based in the UK and there are no internal currency exposures.

**Credit risk**

The Directors considers the maximum credit risk of the Group to be £2,517,000 which is the total of the Group's financial assets. The Group's most significant financial asset is cash and cash equivalents of £2,316,000 which at 31 July 2011 was held in deposits with HSBC Bank plc (which is rated Aa2/AA- with Moody's and Standard and Poor's respectively). These deposits are held with maturities of less than 3 months.

The Group sells its products and services to a small number of pharmaceutical companies and similar companies. At 31 July 2011, the Group had trade receivables due from these customers of £120,000 (2010: £nil). The Group is exposed to credit risk in respect of these balances such that, if one or more of them encounters financial difficulties, this could materially and adversely affect the Group's financial results. The Group attempts to mitigate credit risk by entering into contracts with its customers with agreed credit terms.

However, the Directors are not aware of any factors affecting the recoverability of outstanding balances at 31 July 2011 and consequently no provisions are held for bad and doubtful debts (see Note 16 'Trade and other receivables').

The Company has credit risk exposure on inter-group receivables. All amounts relating to inter-group receivables have been fully provided at each period end.

**Fair value of financial assets and liabilities**

The carrying values and fair values of the Group's financial assets and liabilities are shown below. The fair values are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. In respect of cash and cash equivalents, trade and other receivables and trade and other payables, fair value approximates to the carrying amounts.

Group	2011		2010	
	Carrying value £000	Fair value £000	Carrying value £000	Fair value £000
Cash and cash equivalents	2,316	2,316	1,737	1,737
Trade and other receivables	201	201	60	60
Total financial assets	2,517	2,517	1,797	1,797
Financial liabilities measured at amortised cost:				
Trade and other payables and other non-current liabilities	(152)	(152)	(127)	(127)
Total financial liabilities	(152)	(152)	(127)	(127)
Net financial assets and financial liabilities	2,365	2,365	1,670	1,670

## Notes to the financial statements continued

## 26 Financial instruments and related disclosures continued

Company	2011		2010	
	Carrying value £000	Fair value £000	Carrying value £000	Fair value £000
Cash and cash equivalents	2,263	2,263	1,737	1,737
Trade and other receivables	130	130	60	60
Total financial assets	2,393	2,393	1,797	1,797
Financial liabilities measured at amortised cost:				
Trade and other payables and other non-current liabilities	(102)	(102)	(127)	(127)
Total financial liabilities	(102)	(102)	(127)	(127)
Net financial assets and financial liabilities	2,291	2,291	1,670	1,670

## Trade and other receivables in scope of IAS 39

The following table sets out financial assets within Trade and other receivables which fall within the scope of IAS39. These assets are non-interest earning.

	Group		Company	
	2011 £000	2010 £000	2011 £000	2010 £000
Trade and other receivables (Note 16)	201	60	130	60

Analysed as:

Financial assets in scope of IAS39	201	60	130	60
Other assets	-	-	-	-
	201	60	130	60

The following table shows the age of such financial assets which are past due and for which no provision for bad or doubtful debts has been made:

	Group		Company	
	2011 £000	2010 £000	2011 £000	2010 £000
Past due by 1-30 days	12	-	12	-
Past due by 31-90 days	24	-	-	-
Past due by 91-180 days	-	-	-	-
	36	-	12	-

## Trade and other payables in scope of IAS39

The following table sets out financial liabilities within Trade and other payables which fall within the scope of IAS39. These financial liabilities are predominantly non-interest bearing. Other liabilities include tax and social security payables and provisions which do not constitute contractual obligations to deliver cash or other financial assets, which are outside the scope of IAS39.

	Group		Company	
	2011 £000	2010 £000	2011 £000	2010 £000
Trade and other payables (Note 18)	176	145	126	145

Analysed as:

Financial liabilities in scope of IAS39	152	127	102	127
Other liabilities	24	18	24	18
	176	145	126	145

**Notes to the financial statements** continued**27 Share schemes**

The Group has a share option scheme for all employees (including Directors). Options are exercisable at a price agreed at the date of grant. The vesting period is usually between one and five years. The exercise of options is dependent upon eligible employees meeting performance criteria. The options may not be exercised before the occurrence of a takeover, sale or admission. The options are settled in equity once exercised.

If the options remain unexercised after a period of 10 years from the date of grant, the options expire. Options lapse if the employee leaves the Group before the options vest. Comparatives for the year ended 31 July 2010 have been adjusted to reflect the 10 for 1 subdivision of shares in May 2011.

**Options outstanding**

	Number	Weighted average exercise price
At 1 August 2009	7,036,160	9.97p
Options granted	-	-
Options exercised	-	-
Options lapsed	-	-
At 31 July 2010	7,036,160	9.97p
Options granted	1,943,850	5.41p
Options exercised	-	-
Options lapsed	(419,900)	(8.65p)
At 31 July 2011	8,560,110	8.96p
Range of exercise prices	5.25p – 17.7p	
Weighted average remaining contractual life	8.09 years	

**Options outstanding at 31 July 2011**

Year of grant (year ended 31 July)	Number	Weighted exercise price (p)	Latest exercise date
2006	284,200	17.70p	23/3/2016
2007	710,500	17.65p	8/1/2017
2009	5,621,560	8.65p	6/8/2018
2011	1,943,850	5.41p	30/11/2020
Total	8,560,110	8.96p	

**Options exercisable**

	Number	Weighted exercise price (p)
At 31 July 2010	3,733,160	11.05p
At 31 July 2011	6,155,240	10.11p

**Charge to the statement of comprehensive income**

	2011 £000	2010 £000
Share based payment charges	54	47

## Notes to the financial statements continued

### 27 Share schemes continued

#### Option pricing

For the purposes of valuing options and awards to arrive at the share-based payment charge, the Group has used the Black-Scholes option pricing model in respect of some of the options granted and the direct method of valuation for the remaining options. For those options valued using the Black-Scholes model, the assumptions used in the model in 2010 and 2011 were:

	2011	2010
Risk free interest rate	<b>3.75%</b>	5%
Dividend yield	-	-
Volatility	<b>16%</b>	25%
Expected lives of options granted under share option schemes	<b>5 years</b>	5 years

Options granted to certain Directors during the year were granted in lieu of contractual fees waived. These options have been valued at amounts equal to the fees waived.

The weighted average fair value of options granted during the year was 12.5 pence per share. Share price volatility was calculated based on the historic share price movements of the Company since its admission to trading in March 2006.

### 28 Principal Group companies

The following are the subsidiary undertakings of Evocutis plc at 31 July 2011. All entities are based at the Group's headquarters in Wetherby, England.

Name of subsidiary	Country of incorporation	Principal activity	Percentage Owned
Leeds Skin Centre for Applied Research Limited	England and Wales	Research services	100%
Syntopix Limited	England and Wales	Dormant	100%
Syntopix Research Services Limited (formerly Syntopix Services Limited)	England and Wales	Dormant	100%

Syntopix Services Limited changed its name by written resolution to Evocutis Limited on 12 August 2011 and subsequently to Syntopix Research Services Limited on 21 October 2011.

## Shareholder information

The Ordinary Shares of the Company are listed on the Alternative Investment Market of the London Stock Exchange.

Information about the Company including details of the share price is available on its website at [www.evocutis.com](http://www.evocutis.com). Information made available on the website does not constitute part of this Annual Report.

### Company Secretary and Registered Office

The Company Secretary is Darren Bamforth who can be contacted at the Company's registered office which is:

Sandbeck Lane  
Wetherby  
West Yorkshire  
LS22 7TW

Telephone: +44 (0) 844 209 8440

### Registrar

The Company's Registrars are:

Capita Registrars  
The Registry  
34 Beckenham Road  
Beckenham  
Kent  
BR3 4TU

[www.capitaregistrars.com](http://www.capitaregistrars.com)

Telephone: +44 (0) 871 664 0300

### Annual General Meeting 2012

The AGM will be held at the offices of IP Group plc, 24 Cornhill, London, EC3V 3ND on Tuesday 24 January 2012 at 1.00pm.

The AGM is the Company's main forum for communication with shareholders. In addition to the formal business of the meeting, shareholders will have the opportunity to ask questions to the Board of Directors. Investors who hold shares through a nominee service should arrange with that nominee service to be appointed as a corporate representative or proxy in respect of their shareholding in order to attend and vote at the AGM.