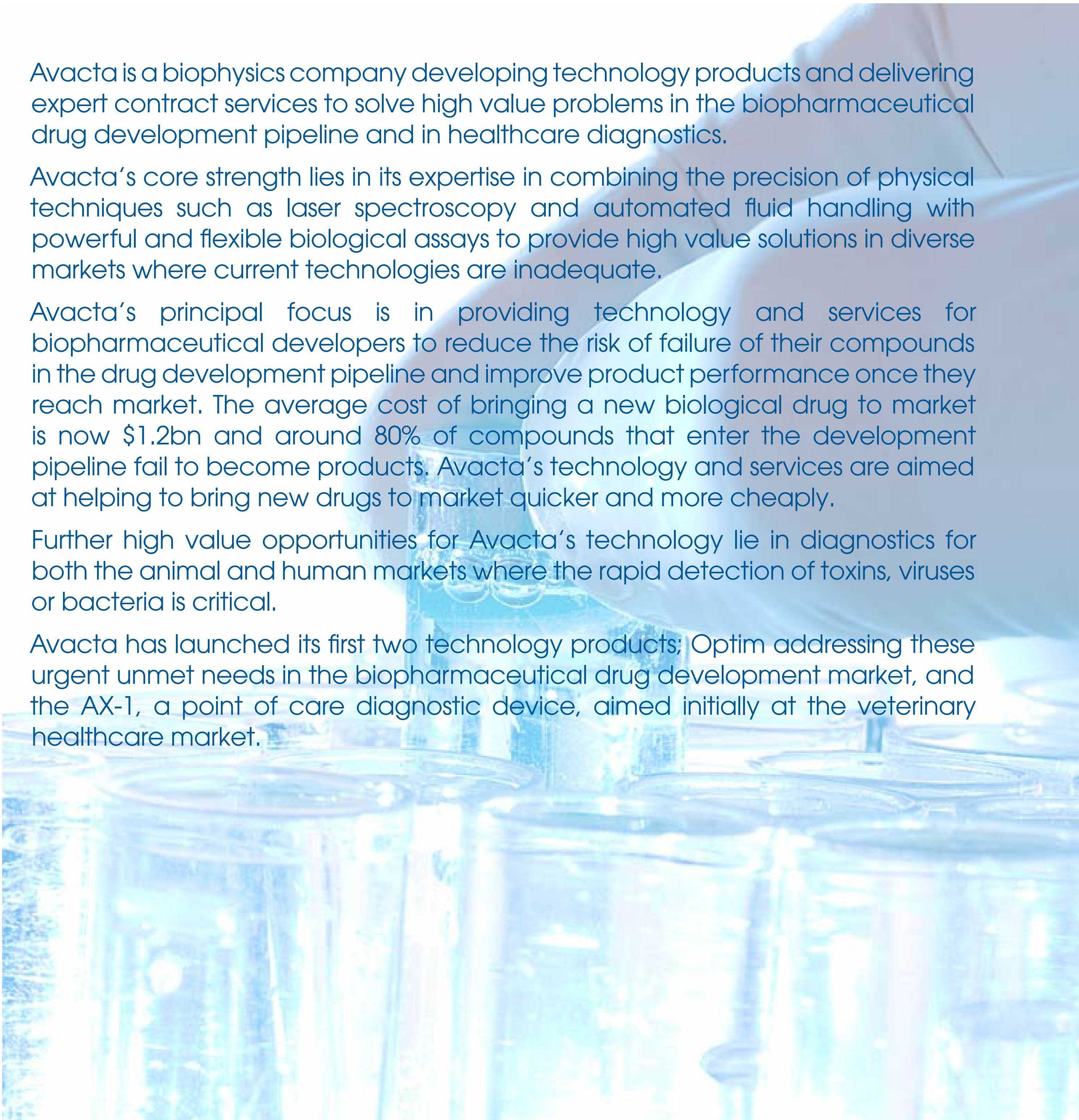
Avacta

Avacta Group plc

Report and Accounts for the year ended 31 July 2010



Avacta is a biophysics company developing technology products and delivering expert contract services to solve high value problems in the biopharmaceutical drug development pipeline and in healthcare diagnostics.

Avacta's core strength lies in its expertise in combining the precision of physical techniques such as laser spectroscopy and automated fluid handling with powerful and flexible biological assays to provide high value solutions in diverse markets where current technologies are inadequate.

Avacta's principal focus is in providing technology and services for biopharmaceutical developers to reduce the risk of failure of their compounds in the drug development pipeline and improve product performance once they reach market. The average cost of bringing a new biological drug to market is now $1.2bn and around 80% of compounds that enter the development pipeline fail to become products. Avacta's technology and services are aimed at helping to bring new drugs to market quicker and more cheaply.

Further high value opportunities for Avacta's technology lie in diagnostics for both the animal and human markets where the rapid detection of toxins, viruses or bacteria is critical.

Avacta has launched its first two technology products; Optim addressing these urgent unmet needs in the biopharmaceutical drug development market, and the AX-1, a point of care diagnostic device, aimed initially at the veterinary healthcare market.

Operational Highlights

- Group revenue growth of 120% to £2.07m (2009: £0.94m)
- Core contract services businesses revenue growth of 74% to £1.64m (2009: £0.94m)
- First Optim units despatched with sales momentum growing
- The AX-1 diagnostic tool launched on 23 November 2010
- New acute phase protein diagnostic test kits in development with global commercial partner
- Underlying operating loss reduced to £1.53m (2009: £1.81m)
- Reported operating loss (including non-recurring expenses, amortisation and share based payment charges) reduced to £2.03m (2009: loss £2.86m)
- Year end cash at bank of £1.43m (2009: £0.88m)
- Loss per share reduced to 0.15p (2009: 0.28p)

"Avacta is now poised to transition from three years of intense product development to the commercialisation of its innovative products that the Directors believe will drive future revenue growth and profits.

"The harsh economic climate of the past year has slowed early sales progress of Optim which is, of course, disappointing, but the value proposition of the product is very strong and clearly recognised by customers. Commercial progress is now gathering momentum through our own sales efforts and through the recent appointment of Isogen as a distribution partner in Europe. We have begun to address the US market, which is the largest market for Optim and there has been considerable interest from both customers and potential distribution partners alike. We hope to update the market shortly on the appointment of a major distribution partner in the US.

"The AX-1, our first point of care diagnostic tool, was launched on 23 November 2010. We are finalising the scaled up manufacturing process and we will shortly be starting on a programme to develop a menu of tests, each with a unique consumable cartridge aimed at driving recurring revenues. Additionally, I am pleased to be able to report that the integration of Reactivlab into Avacta has proceeded as we now finalise new diagnostic test kits based on Reactivlab's intellectual property with a global commercial partner which plans to take these to market next year.

"It's going to be a very exciting year for Avacta with good opportunities for growth across the Group's activities and we look forward to reporting on this progress as it unfolds."

Alastair Smith

Chief Executive Officer

Chairman's and Chief Executive Officer's Report

Business overview

The Group made solid progress during the year as revenues grew positively across all of its lines of business. The first two Optim units were shipped and installed which contributed to the 35% advancement of revenues in the Group's analytical business, Avacta Analytical, aimed at the biopharmaceutical drug development sector to £0.50m (2009: £0.37m). After a programme of detailed testing, the AX-1, the diagnostic device aimed at delivering rapid test results at the point of care in both the veterinary and human health sectors, was launched on 23 November 2010 as part of a City analyst's presentation. Revenues from the Group's veterinary diagnostics business, Avacta Animal Health, grew in its first full year as part of the Group by 114% to £1.22m (2009: £0.57m). In addition, following the completion of its strategic research alliance with Takeda Pharmaceutical Company Limited in the area of major depression, the Group achieved revenues of £0.35m (2009: £Nil) from contract services in its human health business, Curidium, and is looking to exploit the opportunity further.

Avacta Analytical

Although well received technically, challenging economic conditions placed severe constraints on our customers' capital equipment budgets and Optim sales fell short of our target in its first year. During the financial year, four orders were taken and two units installed. An increase in momentum of the sales process is now clearly being seen as sales leads in the US build and distributors are appointed. The manifestation of this is a growing number of customer samples arriving for technical validation which is a critical step in the sales process. Such is the demand for validation that our in-house Optim resources have become stretched although a recent move of our production group to larger facilities increases capacity and enables us to deal with the forecast demand for Optim and the upcoming manufacture of other products.

On 6 September 2010, we appointed Isogen Life Science as European distributor which has already resulted in a placed order. As to other territories, we are in discussions with distribution partners and we are well advanced with a major global partner for the important US market. We have taken a further Optim order and shipped another unit during the first quarter of the current year and several successful exhibitions in the US and Europe has generated a number of validated sales leads.

As part of our US initiative, we have agreed to place Optim units into two prestigious biopharmaceutical research laboratories at the Universities of Kansas and Colorado. Both have extensive commercial interaction and are highly influential within the US biopharmaceutical sector. This move takes the number of Optim orders placed so far to eight. Those units placed in the two universities will be applied to commercial projects and to training scientists from US biopharmaceutical companies and will rapidly raise the profile of Optim and as such will be highly valuable assets generating sales leads and reference cases for Optim in the US market.

Analytical services revenues grew by 14% to £0.42m (2009: £0.37m) and we are in discussions with distributor/service partners for the Japanese and US markets to be followed by partners in other territories to further drive revenues to a substantial level.

Avacta Animal Health

As mentioned above, the AX-1 point of care diagnostic device, was launched on 23 November 2010. Final details of scaled up manufacturing are being finalised prior to the product shipping early in 2011.

Diagnostic testing services revenues grew by 114% to £1.22m (2009: £0.57m) with its first full year contribution to the Group. Despite a difficult economic climate and poor footfall into veterinary practises during the protracted adverse winter conditions, underlying year-on-year growth was 2%.

The acquisition of Reactivlab into the Animal Health business has been very successful. The first Reactivlab product – a test kit for the acute phase protein haptoglobin in dogs and cats which has broad utility in detecting infections and inflammation - has been brought through development to full validation. The second complementary acute phase protein test kit for dogs is nearing completion. Importantly, we have identified, and are now working closely with, a substantial partner which is expected to provide a global route to market for these and other new products.

Chairman's and Chief Executive Officer's Report continued

Curidium Human Health

Curidium entered into a major research project with Takeda Pharmaceutical Company during late 2007 (prior to acquisition by the Group) following a strategic investment by Takeda's venture arm, Takeda Research Investment, Inc with the aim of tailoring drug treatments for people with depression. Depression is a leading cause of disability worldwide affecting around 15% of the population in developed countries. Major depressive disorder is one of the most prevalent psychiatric illnesses and only 25 - 40% of patients achieve clinical remission with currently available antidepressants. Consequently, by identifying biomarkers for subpopulations of patients with depression, the project was designed to provide information that could lead to tailored drug treatments for specific individuals and improve patient outcomes.

On 14 October 2010, we announced that the research project had been completed and contributed revenues of £0.35m. The discovery of patient subgroups is a validation of Homomatrix®, Curidium's proprietary clinical data analysis tool, which will support our efforts to expand its activities and revenue generation in this rapidly growing area of personalised medicine.

Financial overview

Revenues grew 120% to £2.07m (2009: £0.94m). This included £1.22m (2009: £0.57m) from Avacta Animal Health and £0.50m from Avacta Analytical (2009: £0.37m) assisted by the contribution of the first two Optim installations. The additional revenues contributed positively to the continued investment in product development and the underlying operating loss reduced as a result to £1.53m (2009: £1.81m). Reported operating loss was reduced to £2.03m (2009: £2.86m) with non-recurring administrative expenses, amortisation of intangible assets and share based payment charges reducing to £0.50m (2009: £1.05m).

Development expenditure capitalised during the year was £1.04m (2009: £0.16m).

The Group reported cash balances of £1.43m (2009: £0.88m) following its fund raise during July 2010 when it raised £1.38m at a price of 1.0p per share. The Group also raised £2.0m during Autumn 2009 at a price of 1.5p per share.

Loss per share reduced to 0.15p (2009: 0.28p).

Outlook

Avacta is now poised to transition from three years of intense product development to the commercialisation of its innovative products that the Directors believe will drive future revenue growth and profits.

The harsh economic climate of the past year has slowed early sales progress of Optim which is, of course, disappointing, but the value proposition of the product is very strong and clearly recognised by customers. Commercial progress is now gathering momentum through our own sales efforts and through the recent appointment of Isogen as a distribution partner in Europe. We have begun to address the US market, which is the largest market for Optim, and there has been considerable interest from both customers and potential distribution partners alike. We hope to update the market shortly on the appointment of a major distribution partner in the US.

The AX-1, our first point of care diagnostic tool was launched on 23 November 2010. We are finalising the scaled up manufacturing process and we will shortly be starting on a programme to develop a menu of tests, each with a unique consumable cartridge aimed at driving recurring revenues. Additionally, I am pleased to be able to report that the integration of Reactivlab into Avacta has proceeded as we now finalise new diagnostic test kits based on Reactivlab's intellectual property with a global commercial partner which plans to take these to market next year.

It's going to be a very exciting year for Avacta with good opportunities for growth across the Group's activities and we look forward to reporting on this progress as it unfolds.

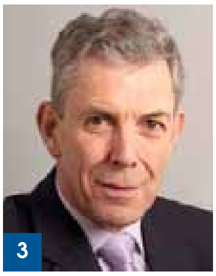
Gwyn Humphreys
Chairman

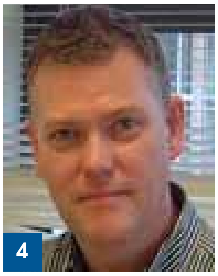
Alastair Smith
Chief Executive Officer
17 December 2010

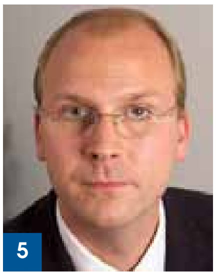
Board of Directors

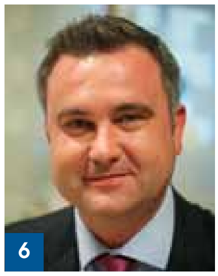

1


2


3


4


5


6

1. Dr Gwyn Humphreys Non-executive Chairman
Gwyn was appointed Chairman of Avacta in December 2005. Gwyn has extensive experience of technology transfer and early-stage technology companies. Originally a biochemist/molecular biologist, Gwyn spent ten years in academic research, followed by ten years at Celltech Limited where, for three years, he was responsible for creating and managing a joint-venture company (Apcel) with Air Products. In 1995 Gwyn was a founder and Managing Director of Bradford Particle Design plc which was sold in 2001 to Nektar Therapeutics Inc. Gwyn is also Non-executive Director of Syntopix Group plc.

2. Alan Aubrey Non-executive Director
Alan is the Chief Executive Officer of IP Group, a listed company that specialises in commercialising intellectual property originating from research intensive institutions. He is Non-executive Chairman of PROACTIS Holdings PLC and of Energetix Group Limited, and a Non-executive Director of Tissue Regenix plc. Previously Alan was the founder and CEO of Techtran, a business that was sold to IP Group in 2005 and which is a significant shareholder in Avacta. He was also a partner at KPMG where he specialised in providing corporate finance advice to fast growing technology businesses. He is a fellow of the Institute of Chartered Accountants, holds a BA in economics from the University of Leeds and an MBA from the University of Bradford.

3. Professor Tony Robards OBE Non-executive Director
After first and higher degrees in Biology at University College London, Tony came to York in 1966 to pursue an academic career in biological research. In 1996 he was appointed Pro-Vice-Chancellor for External Relations at the University of York, a post he held for eight years. In 2001, Tony was appointed the first HSBC Chair of Innovation at the University of York. Tony's commitment to creating links between the University and external organisations has led to a wide range of business activities including Past-President of the York and North Yorkshire Chamber of Commerce, Joint Executive of Science City York, Chair of York Science Park Limited and Venturefest York Limited, as well as being Non-executive Chairman of YorkTest Group Limited. Tony is also Chairman of Yorkshire Cancer Research.

4. Dr Barry Porter Non-executive Director
Barry was appointed to the Board on 3 March 2009 with the acquisition of Curidium Medica plc and is currently CEO of Union Life Sciences and a non-executive director of Inhibox Limited. Barry has almost thirty years of drug discovery experience working in the pharmaceutical industry. He was chief executive of ReOx Limited, a biotechnology spin out from the University of Oxford which entered into a ground breaking co-development deal with a major international bio-pharmaceutical company in its first year of operations. Prior to these roles, Barry held senior positions at De Novo Pharmaceuticals, Pharmagene (now Asterand), Rhone-Poulenc Rorer and Glaxo Group Research.

5. Professor Alastair Smith Chief Executive Officer
Alastair has a degree and PhD in Physics from Manchester University and, after working in the US for a period, took up a position at Leeds University in 1995. Alastair rapidly grew one of the leading research groups in Europe developing new biophysical technologies and applying them to solve problems in the Life Sciences. At the age of 38 he was awarded a Chair of Molecular Biophysics for this work and was founding Director of the Institute of Molecular Biophysics at Leeds University. He co-founded Avacta in January 2004 and left his academic position to concentrate full time on his role as Chief Executive Officer of Avacta in 2007.

6. Tim Sykes Chief Financial Officer
Tim is a qualified Chartered Accountant and a Director of Penta Financial Direction Limited, his own business advisory practice, which specialises in providing services to small businesses. He is Chief Financial Officer of PROACTIS Holdings PLC. Prior to this, Tim was an associate Director within KPMG's Transaction Services Group.

Directors' Report

The Directors present their report and the audited financial statements for the period ended 31 July 2010.

Principal activity
The principal activity of the Group is the research, development and production of rapid response detection devices for the biopharmaceutical and clinical diagnostics markets using biophysical technology as well as the provision of biophysical analytical contract services.

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 on pages 2 to 5. This report includes sections on strategy and markets and considers key risks and key performance indicators.

Financial results
Details of the Group's financial results are set out in the Consolidated Income Statement and other components on pages 19 to 43.

Dividends
The Directors do not recommend the payment of a dividend.

Going concern
After making enquiries, the Directors have confidence that the Company and the Group have 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 Report and Accounts. This is described in more detail at Note 1.

Directors
The Directors who served on the Board and on Board Committees during the year are set out on page 6.

Under the Articles of Association of the Company, three of the directors are required to retire at the forthcoming Annual General Meeting, notice of which accompanies this Report & Accounts. Each of these directors, being eligible, offers themselves for re-election. In relation to the re-elections of each of the Directors, the Board is satisfied that each of these Directors continues to be effective and to demonstrate commitment to the Company. Details of the Directors offering themselves for re-election at the forthcoming Annual General Meeting can be found on page 6.

The Directors benefited from qualifying third party indemnity provisions in place during the financial year and at the date of this report.

Information on Directors' remuneration and share option rights is given in the Remuneration Committee Report on pages 11 to 13.

Substantial shareholders
The Company is informed that, at 15 December 2010, individual registered shareholdings of more than 3% of the Company's issued share capital were as follows :

	Number of Shares	% of issued Share Capital
Techtran Group Limited	174,987,150	12.20%
IP2IPO Limited	127,338,341	8.88%
Rock Island Investments	63,014,131	4.39%
University of Leeds	59,952,038	4.18%
Alastair Smith	51,728,296	3.61%
IP Venture Fund Limited	50,443,018	3.52%
Simon Webster	48,824,258	3.40%
Kurt Baldwin	43,582,703	3.04%

Directors' Report continued

Directors' shareholdings

The beneficial interests of the Directors in the share capital of the Company at 31 July 2010 and at 17 December 2010 was as follows :

	Number of Shares	% of Ordinary Issued Share Capital
Non-executive Directors		
Gwyn Humphreys	16,659,169	1.16%
Anthony Robards	9,557,768	0.67%
Alan Aubrey	12,133,419	0.85%
Barry Porter	14,695,764	1.02%
Executive Directors		
Alastair Smith	51,728,296	3.61%
Tim Sykes	5,285,384	0.37%

None of the Directors had any interest in the share capital of any subsidiary company. Further details of options held by the Directors are set out in the Remuneration Committee Report on pages 11 to 13.

The middle market price of the Company's ordinary shares on 31 July 2010 was 0.78p and the range during the year was 0.78p to 2.00p with an average price of 1.55p.

Research and development

The Group expended £1,196,000 during the year (2009: £1,013,000) on research and development of which £1,035,000 (2009: £155,000) was capitalised within intangible assets and £161,000 (2009: £858,000) was charged to the income statement. The level of capitalisation has increased significantly during the year because both of the products, Optim and the AX-1, have achieved a level of development where the technological barriers to their viability have been overcome and their commercial viability has been established.

Derivatives and financial instruments

The Group's policy and exposure to derivatives and financial instruments is set out at Note 21.

Employee involvement

It is the Group's policy to involve employees in its progress, development and performance. Applications for employment by disabled persons are fully considered, bearing in mind the respective aptitudes and abilities of the applicants concerned. The Group is a committed equal opportunities employer and has engaged employees with broad backgrounds and skills. It is the policy of the Group that the training, career development and promotion of a disabled person should, as far as possible, be identical to that of a person who is fortunate enough not to suffer from a disability. In the event of members of staff becoming disabled, every effort is made to ensure that their employment with the Group continues.

Supplier payment policy and practice

The Group does not operate a standard code in respect of payments to suppliers. The Group agrees terms of payment with suppliers at the start of business and then makes payments in accordance with contractual and other legal obligations.

The ratio, expressed in days, between the amount invoiced to the Company by its suppliers during the year to 31 July 2010 and the amount owed to its trade creditors at 31 July 2010, was 52 days (2009: 58 days).

Risks and uncertainties

Early stage of operations

The Group is at an early stage of development. The commencement of the Group's material revenues is difficult to predict and there is no guarantee that the Group will generate any material revenues in the foreseeable future. The Group has a limited operating history upon which its performance and prospects can be evaluated and faces the risks frequently encountered by developing companies. The risks include the uncertainty as to which areas to target for growth. There can be no assurance that the Group's proposed operations will be profitable or produce a reasonable return, if any, on investment.

Research and development risk

The Group is engaged in applying the laws of physics to biological systems to develop new technology solutions to address specific market needs identified by the Directors of the Company from time to time. The Group will therefore be involved in complex scientific areas and industry experience indicates a very high incidence of delay or failure to produce results. The Group has identified the area of biopharmaceutical drug development support and point of care diagnostics as markets that would benefit from the technological solutions that the Group is developing. Whilst much of the technological risk has been overcome in the development of the first two instruments, Optim and the AX-1, and their associated consumable cartridges there is still research and development risk to be solved in relation to future instruments that the Group is developing.

High reliance on the founding scientists

In all areas of the business, the Group is dependent upon the involvement and contribution of the founding scientists. Whilst the Group has worked hard to mitigate the risk with the recruitment of other specialised individuals it is important that these individuals remain suitably incentivised, the loss of the services of one or more of them could adversely affect the ability of the Group to achieve its objectives.

Intellectual property protection

The commercial success of the Group depends 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 technology 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 un-patented proprietary technology or disclose such technology or that the Group can ultimately protect meaningful rights to such un-patented proprietary technology. 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 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.

Directors' Report continued

Competition
The Group may face significant competition from organisations which have greater capital resources than the Group. There is no assurance that the Group will be able to compete successfully in such a marketplace.

Dependence on arrangements with third parties
The Group has entered into and intends to enter into further arrangements with third parties in respect of the development, production, marketing and commercialisation of its products where appropriate. An inability to enter into such arrangements or disagreements between the Group and any of its potential collaborators could lead to delays in the Group's product development and/or commercialisation plans.

Risk that products will not achieve commercial success
The Group presently has two technological products, Optim and the AX-1, available for sale. There can be no assurance that this, or any subsequent products that the Group develops, will be commercially viable, meet applicable regulatory standards and be manufactured in commercial quantities at an acceptable expense or be marketed successfully and profitably. If the Group or its collaborators encounter delays at any stage of development and fail to successfully address such delays there may be a material adverse effect on the Group's business, financial condition and results.

In addition, the success of the Group will depend on the market's acceptance of its products and there can be no guarantee that this acceptance will be forthcoming. Notwithstanding the technical merits of a product developed by the Group, there can be no guarantee that the Group's targeted customer base for the product will purchase or continue to purchase the product.

Disclosure of information to auditors
The Directors who held office at the date of approval of this Directors' Report confirm that, so far as they are aware, there is no relevant audit information of which the Company's auditors are unaware; and each Director has taken all the steps that he or she ought to have taken to make himself or herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Auditors
KPMG Audit Plc was appointed as auditor during the year. In accordance with Section 489 of the Companies Act 2006, a resolution for the re-appointment of KPMG Audit Plc as auditor of the Company is to be proposed at the forthcoming Annual General Meeting.

By order of the Board

Tim Sykes
Company Secretary
Avacta Group plc (Registered number - 4748597)

17 December 2010

Remuneration Committee Report

General policy

The remuneration of the executive directors is determined by the Remuneration Committee ("the Committee") in accordance with the remuneration policy set by the Board upon recommendation from the Committee. The Committee, which consists solely of non-executive directors of the Company (whose biographical details are given on page 6) determines the detailed terms of service of the executive directors, including basic salary, incentives and benefits and the terms upon which their service may be terminated. Non-executive directors have no personal financial interest in the Company, except the holding of shares, no potential conflict of interest arising from cross directorships and no day-today involvement in the running of the Company. Details of shareholdings are given on page 8.

Avacta's remuneration policy for executive directors is designed to attract, retain and motivate executives of the highest calibre to ensure the Group is managed successfully to the benefit of shareholders. The policy is to pay base salary at median levels with a performance related bonus each year. Share ownership is encouraged and all of the executive directors are interested in the share capital or share options over the share capital of the Company. In setting remuneration levels the Committee takes into consideration remuneration within the Group and the remuneration practices in other companies of a similar size in the markets and locations in which Avacta operates. Avacta is a dynamic, growing company which operates in a specialised field and positions are benchmarked against comparable roles in AIM companies. AIM is considered to be the most appropriate market against which to benchmark executive pay given the business strategy of Avacta.

Executive Directors – Short term incentives

Basic salary

Basic salary is based on a number of factors including market rates together with the individual director's experience, responsibilities and performance. Individual salaries of directors are subject to review annually on 1 April.

Performance related bonus

The Company operates an annual performance related bonus scheme for executive directors. The bonus scheme is discretionary dependent entirely upon the performance of the Group. Bonuses awarded for the performance of the Group for this financial year are set out below.

Benefits in kind

The Company does not provide any benefits in kind to its directors.

Pensions

The Company makes payments into defined contribution Personal Pension Plans ("the Plans") on behalf of the executive directors (with the exception of the Chief Financial Officer as set out on page 12). These payments are at a rate of 5% of basic salary.

Executive Directors – Long term incentives

Share interests

The Committee considers that the long term motivation of the executive directors is secured by their interests in the share capital of the Company. The interests of the Directors in the share capital of the Company are set out on page 8 and their interests in options held over shares in the Company are set out on page 12.

Executive Directors' service agreements

The Board's policy on setting notice periods for directors is that these should not exceed one year. All directors have service agreements for a fixed period of one year, terminable on six months notice. The details of the service contracts of the executive directors are shown below.

	Date of service contract	Initial term of contract	Notice period following initial term
Alastair Smith	13 July 2006	1 year	6 months
Tim Sykes	13 July 2006	1 year	6 months

Non-executive directors

The Board determines the fees paid to non-executive directors, the aggregate limit for which is laid down in the Articles of Association. The fees, which are reviewed annually, are set in line with prevailing market conditions and at a level which will attract individuals with the necessary experience and ability to make a significant contribution to the Group's affairs. Non-executive directors are not involved in any discussion or decision about their own remuneration. The same applies to the Chairman of the Board whose remuneration is determined by the Board on the recommendation of the Committee.

The non-executive directors do not participate in any of the Company's pension schemes or bonus arrangements nor do they have service agreements. Gwyn Humphreys, Tony Robards and Alan Aubrey were all appointed for an initial term of one year by letter of appointment dated 13 July 2006 and are entitled to three months' notice following that initial term. Barry Porter was appointed by a letter of appointment dated 16 January 2009. The appointment commenced on 3 March 2009 for an initial term of 6 months and he is entitled to three months' notice following that initial term.

Remuneration Committee Report continued

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 there is no conflict of interest and the commitment required is not excessive. The Director concerned can retain the fees relating to any such appointment.

Total remuneration (audited)

The remuneration of each of the Directors of the Company for the year ended 31 July 2010 is set out below.

.

	Basic salary £000	Amounts paid to 3rd parties for services £000	Benefits in kind and pensions [3] £000	**Total 2010 £000**	Total 2009 £000
Non-executive Directors					
Gwyn Humphreys (Note 1)	13	-	-	**13**	20
Anthony Robards (Note 1)	10	-	-	**10**	15
Alan Aubrey (Note 1)	10	-	-	**10**	15
Barry Porter	10	-	-	**10**	7
Executive Directors					
Alastair Smith	127	-	21	**148**	108
Tim Sykes (Note 2)	-	102	-	**102**	89
	170	102	21	**293**	254

The above emoluments include all payments paid to the Directors whilst directors of the Group.

1 – Each of these Directors waived their fees with effect from 1 April 2010 until 31 July 2012.

2 – Tim Sykes provides his services to the Group via his company, Penta Financial Direction Limited, for a minimum of 4 days per month. Any additional hours required to be worked are charged at £375 for every half day or part thereof. The fees during 2010 include £42,000 which relates to the two placings. The fees during 2009 include £40,000 which relates to corporate finance services on the successful acquisitions of TheraGenetics Limited, Avacta Animal Health Limited (formerly Yorktest Veterinary Services Limited) and Curidium Medica Limited (formerly Curidium Medica plc).

3 – The number of Directors accruing benefits under money purchase pension schemes was 1 (2009 : 1).

Details of the Directors' interests in share options in the Executive Share Option Schemes

	At 31 July 2009	Granted	Exercised	Lapsed	At 31 July 2010	Exercise price pence	Market price at date of exercise pence	Date from which exercis-able	Expiry date
Non-executive Directors									
Gwyn Humphreys	-	-	-	-	-	-	-	-	-
Anthony Robards	-	-	-	-	-	-	-	-	-
Alan Aubrey	-	-	-	-	-	-	-	-	-
Barry Porter	492,405	-	-	-	492,405	4.14p	Note 1	Note 1	02/03/19
Executive Directors									
Alastair Smith	7,218,273	-	-	-	7,218,273	2.25p	-	Note 2	07/08/16
Tim Sykes	-	-	-	-	-	-	-	-	-

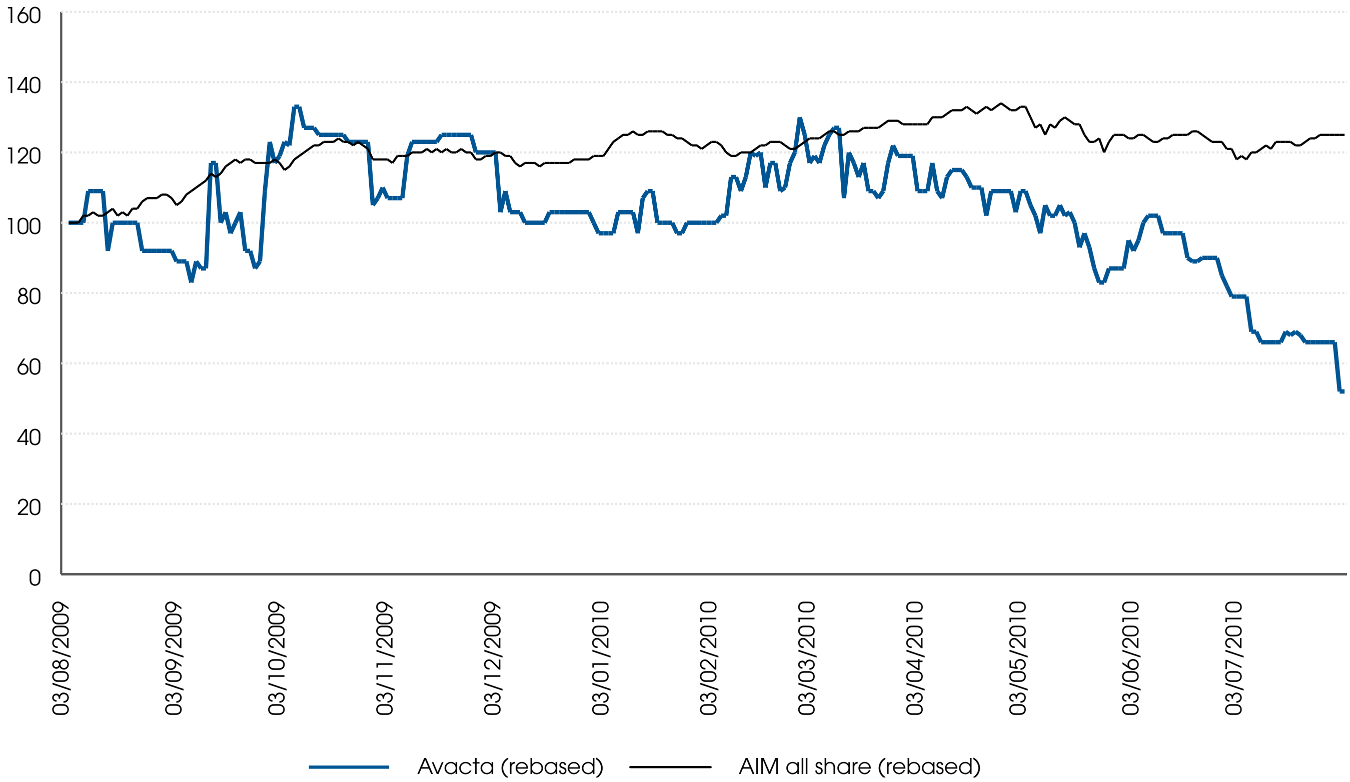
Note 1 – The option was granted as part of the scheme of arrangement whereby Avacta Group plc acquired the entire issued ordinary share capital of Curidium Medica Limited (formerly Curidium Medica plc). Mr Porter had been granted an option over 33,959 Ordinary shares in Curidium Medica Limited (formerly Curidium Medica plc) at 60p per share and these options were converted to an exactly equivalent option over 492,405 Ordinary shares in Avacta Group plc at 4.14p per share. At 31 July 2010, 492,405 options were exercisable.

Note 2 – The option provides that, unless waived at the discretion of the Remuneration Committee of the Board, they can, if they have not lapsed, be exercised as to one third after the first anniversary of the date of grant, one third after the second anniversary of the date of grant and the final third after the third anniversary of the date of grant. At 31 July 2010, 7,218,273 options were exercisable.

The aggregate gain made by directors on the exercise of share options was £Nil (2009: £Nil).

Performance graph

The following graph shows the Company's performance (rebased) compared with the performance of the FTSE AIM (rebased) for the year ended 31 July 2010.



The Remuneration Committee has selected the above index because it is most relevant for a company of Avacta's size and sector.

This report was approved by the Board of Directors and authorised for issue on 17 December 2010 and was signed on its behalf by:

A Robards OBE
Chairman of the Remuneration Committee

Corporate Governance

Code on Corporate Governance

Whilst the Company is listed on AIM, it is not required to adopt the provisions of the Code on Corporate Governance ("the Combined Code"). The Board, however, is committed to the maintenance of high standards of corporate governance and after due consideration it has adopted many aspects of the Combined Code as described below.

The Board of Directors and Committees of the Board of Directors

The Board, which is headed by the Chairman who is non-executive, comprises three other non-executive and two executive members as at 17 December 2010. This ensures compliance with the Combined Code which states that a smaller company should have at least two independent directors. The Board met regularly throughout the year with ad hoc meetings also being held. The role of the Board is to provide leadership of the Company and to set strategic aims but within a framework of prudent and effective controls which enable risk to be managed. The Board has agreed the Schedule of Matters reserved for its decision which includes ensuring that the necessary financial and human resources are in place to meet its obligations to its shareholders and others. It also approves acquisitions and disposals of businesses, major capital expenditure, annual financial budgets and recommends interim and final dividends. It receives recommendations from the Audit Committee in relation to the appointment of auditors, their remuneration and the policy relating to non-audit services. The Board agrees the framework for executive directors' remuneration with the Remuneration Committee and determines fees paid to non-executive directors. Board papers are circulated before Board meetings in sufficient time to be meaningful.

The division of responsibilities between the Chairman and the Chief Executive Officer is clearly defined. The Chairman's primary responsibility is ensuring the effectiveness of the Board and setting its agenda. The Chairman has no involvement in the day to day business of the Group. The Chief Executive Officer has direct charge of the Group on a day to day basis and is accountable to the Board for the financial and operational performance of the Group.

The performance of the Board is evaluated on an ongoing basis informally with reference to all aspects of its operation including, but not limited to: the appropriateness of its skill level; the way its meetings are conducted and administered (including the content of those meetings); the effectiveness of the various Committees; whether Corporate Governance issues are handled in a satisfactory manner; and, whether there is a clear strategy and objectives.

A new director, on appointment, is briefed on the activities of the Company. Professional induction training is also given as appropriate. The Chairman briefs non-executive directors on issues arising at Board meetings if required and non-executive directors have access to the Chairman at any time. Ongoing training is provided as needed. Directors are continually updated on the Group's business and on insurance and on issues covering pensions, social, ethical, environmental and health and safety by means of Board presentations.

In the furtherance of his duties or in relation to acts carried out by the Board or the Company, each director has been informed that he is entitled to seek independent professional advice at the expense of the Company. The Company maintains appropriate cover under a Directors and Officers insurance policy in the event of legal action being taken against any director.

Each director is appraised through the normal appraisal process. The Chief Executive Officer is appraised by the Chairman, the executive Board members by the Chief Executive Officer and the non-executive Board members by the Chairman. Under the leadership of the senior independent director, the non-executive Board members hold a meeting without the Chairman being present to appraise the Chairman's performance. Each director has access to the services of the Company Secretary if required.

The non-executive directors are considered by the Board to be independent of management and are free to exercise independence of judgement. They have never been employees of the Company nor do they participate in any of the Company's pension schemes or bonus arrangements. They receive no other remuneration from the Company other than the directors' fees.

It is recognised that the Combined Code does not treat the Chairman as independent after appointment and it is considered best practice that he should not sit on the Audit or Remuneration Committees. The Board, however, takes the view that as the number of non-executive directors is only four, including the Chairman, and as the Chairman does not chair either of those Committees, his participation will continue as the Committees gain the benefit of his external expertise and experience in areas which the Company considers important.

The table below shows the number of Board meetings and Audit Committee and the Remuneration Committee meetings held during the year and the attendance of each director.

	Board meetings		Committee meetings			
			Audit		Remuneration	
	Possible	Attended	Possible	Attended	Possible	Attended
Non-executive Directors						
Gwyn Humphreys	11	11	1	1	2	2
Anthony Robards	11	11	1	1	2	2
Alan Aubrey	11	10	1	1	2	2
Barry Porter	11	10	-	-	-	-
Executive Directors						
Alastair Smith	11	11	-	-	-	-
Tim Sykes	11	10	-	-	-	-

The Audit Committee

The Audit Committee ("the Committee") is established by and is responsible to the Board. It has written terms of reference. Its main responsibilities are:

- to monitor and be satisfied with the truth and fairness of the Company's financial statements before submission to the Board for approval, ensuring their compliance with the appropriate accounting standards, the law and the Listing Rules of the Financial Services Authority
- to monitor and review the effectiveness of the Company's system of internal control
- to make recommendations to the Board in relation to the appointment of the external auditors and their remuneration, following appointment by the shareholders in general meeting, and to review and be satisfied with the auditors' independence, objectivity and effectiveness on an ongoing basis
- to implement the policy relating to any non-audit services performed by the external auditors

Anthony Robards is the Chairperson of the Committee. The other members of the Committee, Alan Aubrey and Gwyn Humphreys, both of whom are non-executive directors, have gained wide experience in regulatory and risk issues.

The Committee is authorised by the Board to seek and obtain any information it requires from any officer or employee of the Company and to obtain external legal or other independent professional advice as is deemed necessary by it.

Meetings of the Committee are held once per year (usually during November) to coincide with the review of the scope of the external audit and observations arising from their work in relation to internal control and to review the financial statements. The external auditors are invited to these meetings and meet with the Audit Committee without management being present at least once a year. At its meeting in November, it carries out a full review of the year end financial statements and of the audit, using as a basis the Report to the Audit Committee prepared by the external auditors and taking into account any significant accounting policies, any changes to them and any significant estimates or judgements. Questions are asked of management of any significant or unusual transactions where the accounting treatment could be open to different interpretations.

The Committee receives reports from management on the effectiveness of the system of internal controls. It also receives from the external auditors a report of matters arising during the course of the audit which the auditors deem to be of significance for the Committee's attention. The statement on internal controls and the management of risk, which is included in the annual report, is approved by the Committee.

The 1998 Public Interest Disclosure Act ("the Act") aims to promote greater openness in the workplace and ensures "whistle blowers" are protected. The Company maintains a policy in accordance with the Act which allows employees to raise concerns on a confidential basis if they have reasonable grounds in believing that there is serious malpractice within the Company. The policy is designed to deal with concerns, which must be raised without malice and in good faith, in relation to specific issues which are in the public interest and which fall outside the scope of other Company policies and procedures. There is a specific complaints procedure laid down and action will be taken in those cases where the complaint is shown to be justified. The individual making the disclosure will be informed of what action is to be taken and a formal written record will be kept of each stage of the procedure.

Corporate Governance continued

The external auditors are required to give the Committee information about policies and processes for maintaining their independence and compliance regarding the rotation of audit partners and staff. The Committee considers all relationships between the external auditors and the Company to ensure that they do not compromise the auditors' judgement or independence particularly with the provision of non audit services.

The Remuneration Committee

The Remuneration Committee is chaired by Anthony Robards and the other members of the Committee are Alan Aubrey and Gwyn Humphreys, both of whom are non-executive directors. The Committee meets at least twice a year with the Chief Executive in attendance as appropriate. It has written terms of reference. The Committee agrees the framework for executive directors' remuneration with the Board.

Re-election

Directors are subject to re-election at the Annual General Meeting following their appointment. In addition, at each Annual General Meeting one third (or whole number less than one third) of the directors will retire by rotation.

Shareholder communications

The Chairman and the Chief Executive Officer regularly meet with institutional shareholders to foster a mutual understanding of objectives.

The directors encourage the participation of all shareholders, including private investors, at the Annual General Meeting and as a matter of policy the level of proxy votes (for, against and vote withheld) lodged on each resolution is declared at the meeting.

The Annual Report & Accounts is published on the Company's website, www.avacta.com, and can be accessed by shareholders.

Going concern

After making enquiries, the directors have confidence that the Company and the Group have 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 Report and Accounts. This is described in more detail at Note 1.

Internal controls

The Board is responsible for the Group's system of internal controls and for reviewing its effectiveness. Such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Group highlights potential financial and non-financial risks which may impact on the business as part of the monthly management reporting procedures. The Board receives these monthly management reports and monitors the position at Board meetings.

The Board confirms that there are ongoing processes for identifying, evaluating and mitigating the significant risks faced by the Group. The processes have been in place from the date of Admission to AIM up to the date of approval of the Report and Accounts and are consistent with the guidance for directors on internal control issued by the Turnbull Committee.

The Group's internal financial control and monitoring procedures include:

- clear responsibility on the part of line and financial management for the maintenance of good financial controls and the production of accurate and timely financial management information;
- the control of key financial risks through appropriate authorisation levels and segregation of accounting duties;
- detailed monthly budgeting and reporting of trading results, balance sheets and cash flows, with regular review by management of variances from budget;
- reporting on any non-compliance with internal financial controls and procedures;
- review of reports issued by the external auditors.

The Audit Committee on behalf of the Board reviews reports from the external auditors together with management's response regarding proposed actions. In this manner they have reviewed the effectiveness of the system of internal controls for the period covered by the accounts.

Statement of Directors' Responsibilities in respect of the Directors' Report and the financial statements

TThe Directors are responsible for preparing the Annual Report, Directors' Report and the Group and parent Company financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Group and parent Company financial statements for each financial year. As required by the AIM Rules of the London Stock Exchange they are required to prepare the Group financial statements in accordance with IFRSs as adopted by the EU and applicable law and have elected to prepare the parent Company financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

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 parent Company and of their profit or loss for that period. In preparing each of the Group and parent Company financial statements, the Directors are required to:

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

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the parent Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

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

Independent Auditors' Report to the Members of Avacta Group plc

We have audited the financial statements of Avacta Group plc for the year ended 31 July 2010 set out on pages 19 to 49. The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU. The financial reporting framework that has been applied in the preparation of the parent Company financial statements is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

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 auditors' 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 Directors' Responsibilities Statement set out on page 17, 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 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 web-site at www.frc.org.uk/apb/scope/UKNP.

Opinion on the financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent Company's affairs as at 31 July 2010 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 EU;
- the parent Company financial statements have been properly prepared in accordance with UK Generally Accepted Accounting Practice;
- 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.

Jeremy Gledhill (Senior Statutory Auditor)
For and on behalf of KPMG Audit plc, Statutory Auditor
Chartered Accountants
1 The Embankment
Neville Street
Leeds
LS1 4DW

17 December 2010

Consolidated Income Statement
for the year ended 31 July 2010

	Notes	2010 £000	2009 £000
Revenue		**2,067**	944
Operating costs	6	**(4,093)**	(3,801)
Operating loss before non-recurring expenses, amortisation and share-based payment charges		**(1,527)**	(1,813)
Non-recurring administrative expenses	3	**(367)**	(905)
Amortisation of customer related intangibles		**(110)**	(7)
Share based payment charges	5	**(22)**	(132)
Operating loss		**(2,026)**	(2,857)
Finance income	7	**-**	25
Finance expense	8	**(2)**	(3)
Loss before taxation		**(2,028)**	(2,835)
Taxation	9	**149**	150
Amount attributable to equity holders of the Company		**(1,879)**	(2,685)
Loss per ordinary share			
- Basic and diluted	10	**(0.15p)**	(0.28p)

Consolidated Balance Sheet
as at 31 July 2010

	Notes	2010 £000	2009 £000
Non-current assets			
Intangible assets	11	**8,551**	7,378
Property, plant & equipment	12	**250**	281
		8,801	7,659
Current assets			
Inventories	13	**174**	-
Trade and other receivables	14	**814**	427
Income taxes		**-**	91
Cash and cash equivalents	15	**1,433**	878
		2,421	1,396
Total assets		**11,222**	9,055
Current liabilities			
Trade and other payables	16	**(939)**	(587)
Income taxes		**(21)**	(85)
Finance Leases	17	**(11)**	(11)
		(971)	(683)
Non-current liabilities			
Finance leases	17	**(5)**	(18)
Contingent consideration	26	**(250)**	-
Deferred tax liabilities	18	**(26)**	(57)
		(281)	(75)
Total liabilities		**(1,252)**	(758)
Net assets		**9,970**	8,297
Equity attributable to equity holders of the Company			
Called up share capital	19	**1,512**	1,230
Share premium account	20	**14,653**	11,405
Capital reserve	20	**2,669**	2,669
Other reserve	20	**(1,729)**	(1,729)
Retained earnings	20	**(7,135)**	(5,278)
Total equity		**9,970**	8,297

The financial statements on pages 19 to 43 were approved by the Board of Directors on 17 December 2010 and signed on its behalf by:

Alastair Smith
Chief Executive Officer

Tim Sykes
Chief Financial Officer

Consolidated Statement of Changes in Equity
for the year ended 31 July 2010

	Share capital £000	Share premium £000	Other reserve £000	Capital reserve £000	Retained earnings £000
At 1 August 2008	900	6,524	(1,729)	1,899	(2,725)
Transactions with owners of the company recognised directly in equity					
Shares issued during the year as consideration for business combinations and in settlement of operating expenses	330	4,881	-	-	-
Shares to be issued as consideration for business combinations	-	-	-	770	-
Share based payment charges	-	-	-	-	132
Total comprehensive income for the period					
Result for the period	-	-	-	-	(2,685)
At 31 July 2009	1,230	11,405	(1,729)	2,669	(5,278)
Transactions with owners of the company recognised directly in equity					
Shares issued for cash	276	3,158	-	-	-
Shares issued during the year as consideration for business combinations and in settlement of operating expenses	6	90	-	-	-
Share based payment charges	-	-	-	-	22
Total comprehensive income for the period					
Result for the period	-	-	-	-	(1,879)
At 31 July 2010	1,512	14,653	(1,729)	2,669	(7,135)

Details of the nature of each component of equity are given at Note 20.

Consolidated Cash Flow Statement
for the year ended 31 July 2010

	Notes	2010 £000	2009 £000
Operating activities			
Loss for the year		**(1,879)**	(2,685)
Amortisation and impairment losses		**111**	9
Depreciation		**98**	87
Share based payment charges to service providers		**-**	39
Share based payment charges to employees		**22**	132
Net finance expense / (income)		**2**	(22)
Income tax credit		**(149)**	(150)
Operating cash outflow before changes in working capital		**(1,795)**	(2,590)
Movement in inventories		**(174)**	-
Movement in trade and other receivables		**(262)**	(45)
Movement in trade and other payables		**347**	(477)
Operating cash outflow from operations		**(1,884)**	(3,112)
Finance income received		**-**	82
Finance expense paid		**(2)**	(3)
Income tax received		**145**	316
Net cash flow from operating activities		**(1,741)**	(2,717)
Investing activities			
Purchase of plant and equipment		**(69)**	(57)
Development expenditure capitalised	11	**(1,035)**	(155)
Acquisition of subsidiaries	26	**102**	2,652
Net cash flow from investing activities		**(1,002)**	2,440
Financing activities			
Proceeds from issue of shares		**3,309**	70
Capital repayment on finance leases		**(11)**	(12)
Net cash flow from financing activities		**3,298**	58
Net increase / (decrease) in cash and cash equivalents		**555**	(219)
Cash and cash equivalents at the beginning of the year		**878**	1,097
Cash and cash equivalents at the end of the year		**1,433**	878

Notes to the Financial Statements

1 Accounting policies

Significant accounting policies

Avacta Group plc (the 'Company') is a company incorporated in the United Kingdom. The consolidated financial statements of the Company for the year ended 31 July 2010 comprise the Company and its subsidiaries (together referred to as the 'Group').

The following paragraphs summarise the significant accounting policies of the Group, which have been applied consistently in dealing with items which are considered material in relation to the Group's consolidated financial statements.

Basis of preparation

The Group consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the European Union. The Company has elected to prepare its parent company financial statements in accordance with UK accounting standards and applicable law ('UKGAAP'). These parent company financial statements appear after the notes to the consolidated financial statements.

The financial statements have been prepared on a going concern basis. The current economic conditions create uncertainty particularly over the level of demand for the Group's products and over the availability of finance which the directors are mindful of. In addition, the Group has incurred significant losses over the last 18-24 months of which a substantial element is in cash.

The Financial Reporting Council issued "Going Concern and Liquidity Risk: Guidance for Directors of UK Companies" in 2009, and the Directors have considered this when preparing these financial statements. These have been prepared on a going concern basis, notwithstanding the loss for the period ended 31 July 2010. The Directors have taken steps to ensure that they believe the going concern basis of preparation remains appropriate, and that the carrying value of intangibles remains supported by future cash flows. The key conclusions are summarised below

- The Group is at a critical point in its development as it seeks to ramp up sales of its Optim product and launch the AX-1 product. These are expected to generate significant revenues for the Group over the coming years, aiding both profitability and cash flows.
- The Group has taken a significant amount of annualised costs out of the business and will continue to take all appropriate steps to manage its cost base in light of any deviations from the forecast sales levels.
- The Directors have prepared sensitised cash flow forecasts extending to the end of the financial year ended 31 July 2012. These show that the Group has sufficient funds available to meet its debts as they fall due over that period.
- The Group's year to date financial performance is materially in line with this budget cumulatively.
- The Directors are not aware of any evidence to suggest that the budgeted improvement in the level of performance over the short term future will not be realised although the Directors recognise that it is possible that a worsening of performance could become evident, at which point they would act accordingly to mitigate the impact of such a worsening. The action may include further cost reduction strategies, curtailed capital expenditure programs or equity issues.
- The Group does not have external borrowings or any covenants based on financial performance.
- The Directors have considered the position of the individual trading companies in the group to ensure that these companies are also in a position to continue to meet their obligations as they fall due.
- The markets in which the business operates are not considered to be at significant risk due to the ongoing global economic recession.
- There are not believed to be any contingent liabilities which could result in a significant impact on the business if they were to crystallise.

Following this assessment, the Directors have reasonable expectation that the Group has adequate resources to continue for the foreseeable future and that carrying values of intangible assets are supported. Thus, they continue to adopt the going concern basis of accounting in preparing these financial statements.

The financial statements have been prepared under the historical cost convention except for derivative financial instruments that are stated at fair value.

The accounting polices set out below have been applied consistently throughout the Group and to all periods presented for the purposes of these consolidated financial statements.

The consolidated financial statements are presented in sterling, rounded to the nearest thousand.

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 those estimates.

Notes to the Financial Statements continued

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 affects only that period, or in the period of the revision and future periods if the revision affects both the current and future periods.

Judgements made by management in the application of IFRSs that have a significant effect on the Group financial statements and estimates with a significant risk of material adjustment in the next year are discussed at Note 23.

New standards and interpretations not applied

There has been no material impact on the financial statements as a result of the application of IFRS3, IAS1 Revised and IAS23 Revised, all of which were applicable for the first time within these financial statements.

At the date of issue of these financial statements, the following new standards and interpretations have been published but are not yet effective and have not been applied in these financial statements:

International Accounting Standards (IAS/IFRS)	**Effective date**
IAS24 (revised 2009) 'Related party disclosures	1 January 2011
IAS32 (amendment) Classification of issues	1 February 2010
IFRS1 (amendment) Additional exemptions for first time adopters	1 January 2010
IFRS2 (amendment) Group cash-settled share-based payment transactions	1 January 2010
Improvements to IFRSs 2009	Various
International Financial Reporting Interpretation Committee (IFRIC)	
IFRIC14 'Prepayments of a minimum funding requirement'	1 January 2011
IFRIC19 'Extinguishing financial liabilities with equity instruments'	1 July 2010

The Directors do not anticipate that adoption of these standards and interpretations would have a material impact on these Group financial statements.

The following principal accounting policies have been applied consistently to all periods presented in the Group financial statements.

Basis of consolidation

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 that control ceases.

Where the acquisition is treated as a business combination, the purchase method of accounting is used to account for the acquisition of subsidiaries by the Group.

The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

All intra-group balances and transactions, including unrealised profits arising from intra-group transactions, are eliminated fully on consolidation.

Property, plant and equipment

Property, plant and equipment are held at cost less accumulated depreciation and impairment charges.

Depreciation is provided at the following annual rates in order to write off the cost less estimated residual value, which is based on up to date prices, of property, plant and equipment over their estimated useful lives as follows:

Leasehold improvements	– 10 years
Plant and machinery	– 5 to 10 years
Fixtures and fittings	– 3 to 10 years
Computer equipment	– 3 years

Intangible assets – Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the net identifiable assets, liabilities and contingent liabilities of the acquired subsidiary at the date of acquisition. Goodwill on acquisition of subsidiaries is included in intangible assets. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses.

Intangible assets - Research and development

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An intangible asset arising from development (or from the development phase of an internal project) is recognised if, and only if, the Group can demonstrate all of the following:

- that completion the intangible asset so that it will be available for use or sale is technically feasible;
- that it intends to complete the intangible asset and use or sell it;
- that it has the ability to use or sell the intangible asset;
- that it can demonstrate how the intangible asset will generate probable future economic benefits. Among other things, the Group can demonstrate the existence of a market for the output of the intangible asset or the intangible asset itself or, if it is to be used internally, the usefulness of the intangible asset;
- that there is an availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- that it can measure reliably the expenditure attributable to the intangible asset during its development.

The Group normally interprets that these parameters are met at the date that an appropriate prototype has been produced and that the Group has demonstrated its commitment to completion by reference to some internal or external event. Where no internally generated intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred. Development expenditure is amortised from the date of first sale of an instrument over the initial product lifecycle of the instrument which the Directors estimate to be 5 years.

Acquired intangible assets – Business combinations

Intangible assets that are acquired as a result of a business combination are recognised separately from goodwill when their fair value can be reliably measured.

Intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment and whenever events or circumstances indicate that the carrying amount may not be recoverable, impairment losses are recognised within the consolidated income statement. Assets that are subject to amortisation are tested for impairment when events or a change in circumstances indicate that the carrying amount may not be recoverable.

Impairment

The carrying amount of the Group's non-financial assets is reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

For goodwill, assets that have an indefinite useful life and intangible assets that are not yet available for use, the recoverable amount is estimated at each balance sheet date.

An impairment loss is recognised whenever the carrying amount of an asset or its cash generating unit ('CGU') exceeds its recoverable amount. Impairment losses are recognised in the consolidated income statement.

The recoverable amount is the higher of the asset's fair value less costs to sell and the value in use. For the purposes of assessing impairments, assets are grouped at the lowest levels for which there are identifiable cash flows.

Where individual assets are not capable of generating cash flows independently from other assets, they are grouped together into CGUs.

Financial instruments

Following the adoption of IAS32 'Financial instruments: presentation', financial instruments issued by the Group are treated as equity only to the extent that they meet the following two conditions:

- they include no contractual obligations upon the group to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Group; and
- where the instrument will or may be settled in the Company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Company's own equity instruments or is a derivative that will be settled by the Company's exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

Notes to the Financial Statements continued

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the Company's own shares, the amounts presented in these financial statements for called up share capital and share premium account exclude amounts in relation to those shares.

Finance payments associated with financial liabilities are dealt with as part of finance expenses. Finance payments associated with financial instruments that are classified in equity are treated as distributions and are recorded directly in equity.

Inventories

Inventories are stated at the lower of cost and net realisable value.

Cost includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. The cost of manufacture inventories and work in progress includes related production overheads based on normal operating activity and is calculated using the FIFO method. Net realisable value is based on estimated selling price less further costs expected to be incurred to completion and disposal.

Financial assets

The Group classifies its financial assets into one of the following categories:

Loans and receivables: These assets are non-derivative financial assets with fixed and determinable payments that are not quoted in an active market. They arise principally through the provision of services to customers (trade receivables) or amounts held on deposit with third party institutions (cash and cash equivalents).

Trade and other receivables: Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not collect all amounts due according to the original terms of the receivables.

Cash and cash equivalents: These comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the consolidated cash flow statement.

Financial liabilities

Financial liabilities are comprised of trade payables and other short-term monetary liabilities, which are recognised at amortised cost. Such liabilities are classified as other liabilities in accordance with IAS39 for compliance with IFRS7.

Segmental reporting

The Group determines and presents operating segments based on the information that internally is provided to the Board of Directors, which is the Group's chief operating decision maker ("CODM"). This change in accounting policy is due to the adoption of IFRS 8 "Operating Segments". Previously operating segments were determined and presented in accordance with IAS 14 "Segmental Reporting". The new accounting policy in respect of operating segment disclosures is presented as follows.

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. An operating segment's operating results are reviewed regularly by the CODM to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

IFRS 8 requires consideration of the CODM within the Group. In line with the Group's internal reporting framework and management structure, the key strategic and operating decisions are made by the Board of Directors, which reviews internal monthly management reports, budget and forecast information as part of this. Accordingly the Board of Directors is deemed to be the CODM.

Since the change in accounting policy only impacts presentation and disclosure aspects, there is no impact on earnings per share.

Revenue recognition

The Group derives revenue from the sale of products and the provision of services. Revenue represents the fair value of consideration received or receivable in respect of products or services supplied to third parties in the period, excluding sales related taxes and trade discounts. Revenue is recognised on sale of products when the significant risks and rewards of ownership of the products are transferred to the customer, this is usually when products are delivered and title passes to the customer. Revenue is recognised on services when the service has been performed.

Leases

Leases where the lessor retains substantially all of the risks and rewards of ownership are classified as operating leases. Rentals payable under operating lease rentals are charged to the income statement on a straight line basis over the term of the lease.

Leases where the Group retains substantially all of the risks and rewards of ownership are classified as finance leases or hire purchase agreements. Assets held under finance leases or hire purchase agreements are capitalised and depreciated over the shorter of their useful economic lives or the length of the lease. The capital element of the future obligations under finance leases and hire purchase contracts are included as liabilities in the balance sheet. The interest elements of the rental obligations are charged to the income statement over the periods of the finance leases and hire purchase agreements and represent a constant proportion of the balance of capital outstanding.

Non-recurring items

Non-recurring items are material items in the Income Statement which derive from events or transactions which fall within the ordinary activities of the Group and which individually or, if of a similar type, in aggregate the Group has highlighted as needing to be disclosed by virtue of their size or incidence if the financial statements are to give a true and fair view. They are recognised within operating profit.

Post retirement benefits

The Group operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the Group in an independently administered fund. The amount charged to the income statement represents the contributions payable to the scheme in respect of the accounting period.

Share based payments

The fair value of awards to employees or other parties that take the form of shares or rights to shares is recognised as an employee expense with a corresponding increase in equity. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options. The fair value of the options granted is measured using an option valuation model, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest except where forfeiture is due only to share prices not achieving the threshold for vesting.

Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable based on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in previous years.

Deferred tax is provided using the balance sheet liability method providing for all temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes except when they arise on the initial recognition of goodwill or the initial recognition of assets and liabilities that is not a business combination and that affects neither accounting nor taxable profits. A deferred tax asset is recognised only to the extent that it is probable that future taxable income will be available against which an asset can be utilised.

2 Segment reporting

Operating segments

For management purposes, information is reported to the chief operating decision maker in a number of formats and for a number of operating segments. In the view of the Board of Directors, the Group has three distinct reportable segments; Analytical, Animal Health and Human Health, and segment reporting has been presented on this basis. IFRS 8 has been applied to aggregate operating segments into reportable segments on the grounds of similar economic characteristics. This position will be monitored as the Group develops.

The principal activities of each reportable segment are as follows:

Analytical: provision of tools and contract services for early stage protein characterisation and analysis for biopharmaceutical drug developers.

Animal Health: provision of tools and contract services to assist diagnosis of conditions in animals to enable faster treatment for veterinarians.

Human Health: provision of contract services to identify patient sub-groups for drug developers.

Segment revenue represents revenue from external customers arising from sale of goods and services, plus inter-segment revenues. Inter-segment transactions are priced on an arm's length basis. Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

Substantially all of the Group's revenue originates from the UK. Revenue by destination is not materially different from revenue by origin.

Notes to the Financial Statements continued

Operating segment analysis 2010

	Analytical £000	Animal Health £000	Human Health £000	Total £000
Revenue	496	1,221	350	2,067
Depreciation	(70)	(3)	(4)	(77)
Other operating expenses	(2,411)	(1,840)	(731)	(4,982)
Operating loss before non-recurring expenses, amortisation and share-based payment charges	(1,985)	(622)	(385)	(2,992)
Non-recurring administrative expenses	-	-	(130)	(130)
Share-based payment charges	(7)	(3)	-	(10)
Segment operating loss	(1,992)	(625)	(515)	(3,132)
Corporate and other unallocated items				181
IFRS translation related items				
- Capitalisation of development costs				1,035
- Amortisation of customer related intangible assets				(110)
Operating loss				(2,026)
Finance income				-
Finance expenses				(2)
Loss before taxation				(2,028)
Taxation				149
Amount attributable to equity holders of the Company				(1,879)

	Analytical £000	Animal Health £000	Human Health £000	Total £000
Segment intangible assets	6,317	1,069	-	7,386
Segment tangible assets	501	371	454	1,326
Segment assets	6,818	1,440	454	8,712
Corporate and other unallocated items				1,378
IFRS translation related items				
- Development costs				1,190
- Customer related intangible assets				(58)
Total Group assets				11,222
Segment liabilities	(296)	(280)	(214)	(790)
Corporate and other unallocated items				(436)
IFRS translation related items				
- Deferred taxation on customer related intangible assets				(26)
Total Group liabilities				(1,252)

Operating segment analysis 2009

	Analytical £000	Animal Health £000	Human Health £000	Total £000
Revenue	368	571	5	944
Depreciation	(80)	-	(5)	(85)
Other operating expenses	(2,501)	(663)	(277)	(3,441)
Operating loss before non-recurring expenses, amortisation and share-based payment charges	(2,213)	(92)	(277)	(2,582)
Non-recurring administrative expenses	(77)	-	(245)	(322)
Share-based payment charges	(50)	(6)	(5)	(61)
Segment operating loss	(2,340)	(98)	(527)	(2,965)
Corporate and other unallocated items				(40)
IFRS translation related items				
- Capitalisation of development costs				155
- Amortisation of customer related intangible assets				(7)
Operating loss				(2,857)
Finance income				25
Finance expenses				(3)
Loss before taxation				(2,835)
Taxation				150
Amount attributable to equity holders of the Company				(2,685)

	Analytical £000	Animal Health £000	Human Health £000	Total £000
Segment intangible assets	6,317	820	-	7,137
Segment tangible assets	477	213	195	885
Segment assets	6,794	1,033	195	8,022
Corporate and other unallocated items				826
IFRS translation related items				
- Development costs				155
- Customer related intangible assets				52
Total Group assets				9,055
Segment liabilities	(255)	(172)	(107)	(534)
Corporate and other unallocated items				(167)
IFRS translation related items				
- Deferred taxation on customer related intangible assets				(57)
Total Group liabilities				(758)

Notes to the Financial Statements continued

3 Non-recurring administrative expenses

	2010 £000	2009 £000
Non-recurring research projects	-	565
Non-recurring overheads	309	242
Non-recurring employment expenses	58	98
	367	905

Non-recurring research projects
Non-recurring research projects relate principally to the costs associated with the termination of the operations of TheraGenetics Limited.

Non-recurring overheads
Non-recurring overheads relate to the overheads incurred by the acquired companies since the date of acquisition that are not expected to continue to be incurred as part of the enlarged Group.

Non-recurring employment expenses

Non-recurring employment expenses relate to the employment expenses of certain individuals within the acquired companies since the date of acquisition that have left the Group following the acquisition and where the role being undertaken by those individuals has been terminated, and therefore will not continue to be incurred.

4 Employees

	2010 £000	2009 £000
Staff costs :		
- Wages and salaries	1,942	1,890
- Social security costs	206	151
- Pension costs	56	36
- Share based payment charges	22	132
	2,226	2,209
Average number of employees (including directors) during the year:		
- Commercial and operational	50	39
- Administrative	9	7
	59	46

5 Share options

The Group operates an Inland Revenue approved executive incentive plan (EMI scheme) and an unapproved share option plan (unapproved scheme). Options have also been granted to certain individuals dependent upon the performance of Avacta Health Limited (formerly Oxford Medical Diagnostics Limited) (Deferred consideration scheme) and to replace existing options in respect of the acquisition of Curidium Medica Limited (formerly Curidium Medica plc). Details of the schemes are given below :

Grant date	Employees entitled	Number of options	Vesting Conditions	Exercise price (p)	Earliest exercise date	Expiry date
Options granted as employee benefits						
8 August 2006	4	23,459,387	Time served	2.25	Note 1	7 August 2016
23 June 2009	5	13,670,705	Time served and performance	1.875	Note 2	22 June 2019
Options granted to individuals combining employee benefits and as consideration for business combinations						
3 March 2009	6	6,350,302	Time served	4.14	Note 3	2 March 2019
Options granted to individuals in consideration for business combinations (Note 4)						
14 December 2007	1	2,767,517	None	3.19	14 December 2007	13 December 2017
14 December 2007	7	37,409,242	Note 5	0.10	14 December 2007	13 December 2017

Note 1 - Each of the options provides that, unless waived at the discretion of the Remuneration Committee of the Board, they can, if they have not lapsed, be exercised as to one third after the first anniversary of the date of grant, as to one third after the second anniversary of the date of grant and as to one third after the third anniversary of the date of grant.

Note 2 - Each of these options provides that, unless waived at the discretion of the Remuneration Committee of the Board, they can, if they have not lapsed, be exercised as to 5,070,705 at the date of grant, a further 2,100,000 on or after 1 January 2010, 2,633,333 on or after 1 January 2011 and 1,866,667 on or after 1 January 2012. A further 2,000,000 options can be exercised subject to the achievement of specific personal performance objectives of the individuals concerned for the calendar year ended 31 December 2009.

Note 3 – Each of these options provides that, unless waived at the discretion of the Remuneration Committee of the Board, they can, if they have not lapsed, be exercised as to 5,644,713 at the date of grant and as to 6,350,302 as at 31 July 2009. These options were granted as replacement options to certain individuals that had held options over the ordinary shares of Curidium Medica Limited (formerly Curidium Medica plc) at the date that the Company acquired Curidium Medica Limited. As such, the calculated value of those options that had vested at the date of the acquisition have been capitalised under IFRS3 and the value of those options that have vested during the period since the acquisition date to 31 July 2010 has been charged to the income statement under IFRS2.

Note 4 – These options were granted to certain individuals at the date of the acquisition of Avacta Health Limited (formerly Oxford Medical Diagnostics Limited) to reflect the estimated value of the equity issued at that date and the fair value of those options has been capitalised under IFRS3.

Note 5 – Each of these options provides that, unless waived at the discretion of the Remuneration Committee of the Board, they can, if they have not lapsed, be exercised subject to the achievement of certain milestones set by the Company within the Share Purchase Agreement dated 14 December 2007.

The number and weighted average exercise price of share options are as follows :

	Year ended 31 July 2010		Year ended 31 July 2009	
	Options	Weighted average exercise price (p)	Options	Weighted average exercise price (p)
At start of period	85,561,914	1.49	69,544,945	1.31
Granted during the year	-	-	20,021,007	2.59
Forfeited or lapsed during the year	(1,904,761)	5.25	(4,004,038)	4.00
Outstanding at end of period	83,657,153	1.31	85,561,914	1.49
Exercisable at end of period	70,553,028	1.53	53,438,533	1.48

These options are share based payments and are measured at fair value at the date of grant. Where the options have been granted as employee benefits the fair value determined at the grant date of equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest. Where the options have been granted to employees or individuals as consideration for business combinations the fair value determined at the grant date of equity-settled share-based payments is recognised within intangible assets as a cost of investment. Where the options have been granted to replace existing options in respect of the acquisition of Curidium Medica Limited (formerly Curidium Medica plc), the vested proportion of the options is included within intangible assets as a cost of investment and the unvested proportion has been expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest. If options remain unexercised after a period of 10 years from the date of grant, the options expire. Furthermore, options are forfeited if the employee leaves the Group before the options vest. The fair value is measured by use of the Black-Scholes option pricing model.

Notes to the Financial Statements continued

The Group recognised a charge to the income statement of £22,000 (2009: £132,000).

The options outstanding at 31 July 2010 had a weighted average exercise price of 1.31p (2009: 1.49p), and a weighted average remaining contractual life of 6 years and 44 weeks (2009: 9 years and 5 weeks).

There were no options granted during the year. The inputs into the Black-Scholes model for the options granted during the previous year are as follows:

	2009
Weighted average share price at date of grant	3.03p
Weighted average exercise price	1.49p
Expected volatility	93.4%
Expected life	6 years
Risk free rate	2.5%
Expected dividends	Nil

Expected volatility was determined by calculating the historical volatility of the Group's share price over the period from the date of Admission to the date of grant of the relevant option. The expected life used in the model has been adjusted, based on management's best estimate at the date of grant, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

6 Operating loss

Operating loss is stated after charging:	**2010 £000**	2009 £000
Research and development expenditure	**161**	858
Operating lease rentals:		
- Land and buildings	**286**	240
Auditors remuneration:		
- Audit services (paid to Baker Tilly UK Audit LLP) in respect of the Company's financial statements	**10**	20
- Audit services in respect of the Company's subsidiaries' financial statements	**15**	20
- Corporate finance services	**-**	15
- Tax services	**6**	10
Depreciation of property, plant and equipment:		
- On owned assets	**88**	77
- On leased assets	**10**	10
Share based payment charges	**22**	132

7 Finance income

	2010 £000	2009 £000
Bank interest	**-**	25

8 Finance expense

	2010 £000	2009 £000
Interest element of finance lease obligations	**2**	3

9 Taxation on loss on ordinary activities

	2010 £000	2009 £000
Corporation tax:		
Current Year	**81**	148
Previous tax	**37**	-
Deferred taxation:		
Current year	**31**	2
Previous year	**-**	-
Tax on loss on ordinary activities	**149**	150

Factors affecting the tax charge for the current period

The current tax credit for the year is lower (2009: lower) than the standard rate of corporation tax in the UK of 28% (2009: 28%). The differences are explained below.

	2010 £000	2009 £000
Loss on ordinary activities before taxation	**(2,028)**	(2,835)
Loss on ordinary activities before taxation multiplied by the standard rate of corporation tax in the UK of 28% (2009: 28%)	**(568)**	(794)
Effects of:		
- Depreciation in excess of capital allowances	**7**	(2)
- Expenses not deductible for tax purposes	**72**	51
- Creation of tax losses	**489**	745
- Prior year overprovision	**37**	-
- Government tax incentives	**81**	148
- Deferred tax	**31**	2
	149	150

There is no liability to corporation tax in the year. There is an unprovided deferred tax asset of approximately £2,036,000 due to trading losses in prior financial years (2009 : £1,547,000). This asset has not been recognised as the profit which would utilise these losses cannot yet be forecast with sufficient reliability.

10 Earnings per ordinary share

The calculation of earnings per ordinary share is based on the profit or loss for the period and the weighted average number of equity voting shares in issue. The earnings per ordinary share is the same as the diluted earnings per ordinary share because the effect of potentially issuable shares is anti-dilutive.

	2010	2009
Loss (£000)	**(1,879)**	(2,685)
Non-recurring administrative expenses (£000)	**367**	905
Loss excluding non-recurring administrative expenses (£000)	**(1,512)**	(1,780)
Weighted average number of shares (number '000)	**1,260,608**	949,383
Basic and diluted loss per ordinary share (pence)	**(0.15)p**	(0.28)p
Loss per ordinary share adjusted for non-recurring administrative expenses (pence)	**(0.12)p**	(0.19)p

Notes to the Financial Statements continued

11 Intangible fixed assets

	Goodwill £000	Customer related intangibles £000	Devel-opment costs £000	Patents £000	Total £000
Cost					
At 1 August 2008	3,545	-	-	36	3,581
Acquisitions as part of business combinations	3,441	210	-	-	3,651
Internally developed	-	-	155	-	155
At 31 July 2009	6,986	210	155	36	7,387
Acquisitions as part of business combinations (see Note 26)	249	-	-	-	249
Internally developed	-	-	1,035	-	1,035
At 31 July 2010	**7,235**	**210**	**1,190**	**36**	**8,671**
Amortisation and impairment					
At 1 August 2008	-	-	-	-	-
Charge for the year	-	7	-	2	9
At 31 July 2009	-	7	-	2	9
Charge for the year	-	110	-	1	111
At 31 July 2010	**-**	**117**	**-**	**3**	**120**
Net book value					
At 31 July 2010	**7,235**	**93**	**1,190**	**33**	**8,551**
At 31 July 2009	6,986	203	155	34	7,378
At 31 July 2008	3,545	-	-	36	3,581

Goodwill

Goodwill is allocated to the Analytical, Animal Health and Human Health cash generating units (CGUs), being the only CGUs of the Group.

The recoverable amount of the Analytical, Animal Health and Human Health CGUs was determined based on value-in-use calculations, covering detailed budgets and three year forecasts, followed by an extrapolation of expected cash flows at growth rates given below. The growth rates reflect the long-term growth rates for the product lines contained in the CGU. Gross and operating margins have been assumed to remain constant based on budget and past experience.

The recoverable amount of the Analytical CGU exceeds the carrying amount of goodwill of this CGU by £1.2m and the carrying amount of the total intangible assets of this CGU by £0.3m. The recoverable amount is most sensitive to reasonably possible changes in the discount rate and the short term sales growth profile. A 4% increase in the discount rate or a 5% decrease in the short term sales growth profile would result in the recoverable amount of the CGU being equal to the carrying amount of total intangible assets.

The recoverable amount of the Animal Health CGU exceeds the carrying amount of goodwill of this CGU by £1.5m and the carrying amount of the total intangible assets of this CGU by £0.8m. The recoverable amount is most sensitive to reasonably possible changes in the short term sales growth profile. A 25% decrease in the short term sales growth profile would result in the recoverable amount of the CGU being equal to the carrying amount of total intangible assets.

The recoverable amount of the Human Health CGU is in excess of its tangible asset value. The goodwill can be allocated to CGUs as follows:

	2010 £000	2009 £000
Analytical	**6,274**	6,274
Animal Health	**961**	712
Human Health	**-**	-
Goodwill	**7,235**	6,986

	Analytical 2010 %	**Animal Health 2010 %**	**Human Health 2010 %**	Analytical 2009 %	Animal Health 2009 %	Human Health 2009 %
Growth rates	**2.5**	**2.5**	-	2.5	2.5	-
Discount rates	**23.6**	**23.6**	-	11.6	11.6	-

The Directors' key assumptions relate to long term revenue growth which has been assumed to be 2.5% per annum. Gross and operating margins have been assumed to remain constant based on budget. The Group has used a discount rate which has increased significantly upon that used during the prior year to reflect the level of risk.

Customer related intangible assets – Human Health

The acquisition of Curidium Medica Limited (formerly Curidium Medica plc) included an allocation of £60,000 to customer related intangible assets. The value of this customer related intangible asset was dependent upon the result of a contract that had £Nil value at the date of acquisition. The outcome of the contract could lead to a subsequent profitable contract and the Directors estimated the profitability of this subsequent contract and the likelihood of such a contract being won. The Directors have taken an impairment of the customer related intangible asset because the likelihood of a profitable contract being won has reduced. This impairment was recognised within Operating costs.

Customer related intangible assets – Animal Health

The acquisition of Avacta Animal Health Limited (formerly Yorktest Veterinary Services Limited) included an allocation of £150,000 to customer related intangible assets. The value of this customer related intangible asset is dependent upon the future volumes and profitability of the products and services sold to that customer and the length of the commercial relationship between Avacta Animal Health Limited and the customer. The Directors have estimated the future volumes and profitability based on historic trading practice and a sensible prudent assumption on the duration of normal commercial relationship. The customer related intangible asset is being amortised over a three year period and there remains one year and 6 months as at 31 July 2010.

The amortisation charge is recognised in the following line items in the income statement:

	Animal Health 2010 £000	**Human Health 2010 £000**	Animal Health 2009 £000	Human Health 2009 £000
Amortisation	**50**	**60**	7	-

Development costs

Development costs relate to the internally generated intangible asset associated with the development of the Optim and the AX-1 instruments. Development costs are amortised on a unit of production basis from the date of first sale of an instrument over the initial product lifecycle of the instrument which the Directors estimate to be 5 years. At 31 July 2010, two Optim instruments had been sold, so the initial product lifecycle of the instrument had commenced and the charge was immaterial.

Patents

The amortisation period applied to the patent expenditure is the same period as the length of the life of the patent, being 20 years, of which 18 remain.

Notes to the Financial Statements continued

12 Property, plant and equipment

	Laboratory equipment £000	Office fixtures & fittings £000	Total £000
Cost			
At 1 August 2008	336	71	407
Acquired with business combination	-	57	57
Additions	64	6	70
At 31 July 2009	400	134	534
Acquired with business combination	3	1	4
Additions	54	10	64
At 31 July 2010	**457**	**145**	**602**
Depreciation			
At 1 August 2008	89	28	117
Acquired with business combination	-	49	49
Charge for the year	64	23	87
At 31 July 2009	153	100	253
Acquired with business combination	-	1	1
Charge for the year	78	20	98
At 31 July 2010	**231**	**121**	**352**
Net book value			
At 31 July 2010	**226**	**24**	**250**
At 31 July 2009	247	34	281
At 1 August 2008	247	43	290

Included within laboratory equipment is £22,000 (2009: £32,000) in respect of assets held under finance leases. The original cost of these assets was £57,000 (2009: £57,000) and the depreciation charged during the year was £10,000 (2009: £10,000).

13 Inventories

	2010 £000	2009 £000
Raw materials and components	**141**	-
Finished goods	**33**	-
	174	-

The Group does not maintain a provision for impairment against inventories.

14 Trade and other receivables

	2010 £000	2009 £000
Trade receivables	**561**	178
Prepayments and accrued income	**253**	176
Other taxes and social security	**-**	73
	814	427

The Group does not maintain a provision for impairment against trade receivables. Trade receivables that are past due are considered individually for impairment. The Group uses a monthly ageing profile as an indicator for impairment. The summarised ageing analysis of trade receivables past due but not impaired is as follows :

	2010 £000	2009 £000
Under 30 days overdue	**36**	35
Between 30 and 60 days overdue	**7**	17
Over 90 days overdue	**34**	29
	77	81

The other classes within trade and other receivables do not contain impaired assets.

15 Cash and cash equivalents

	2010 £000	2009 £000
Cash	**1,433**	878

16 Trade and other payables

	2010 £000	2009 £000
Trade payables	**408**	297
Other taxes and social security	**136**	70
Accruals and other creditors	**395**	220
	939	587

Trade and other payables principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is approximately 52 days (2009: 58 days). The Directors consider that the carrying amount of trade payables approximates to their fair value.

17 Obligations under finance leases

	2010 £000	2009 £000
Obligations under finance leases	**16**	29
Maturity of debt:		
- Repayable on demand or within one year	**12**	13
- Repayable between one and two years	**5**	13
- Repayable between two and five years	**-**	7
	17	33
Future finance expenses	**(1)**	(4)
Amounts due within one year	**(11)**	(11)
	5	18

Obligations under finance leases are secured by the related asset.

18 Deferred tax liabilities

Deferred tax liabilities are attributable as set out below and are disclosed as non-current liabilities in the balance sheet.

	2010 £000	2009 £000
On customer related intangible assets	**26**	57

Movement in deferred tax for the year ended 31 July 2010

	As at 1 August 2009 £000	Arising on acquisition £000	Income statement £000	As at 31 July 2010 £000
On customer related intangible assets	57	-	(31)	26

Notes to the Financial Statements continued

19 Share capital

	2010 £000	2009 £000
Authorised		
- 4,922,690,624 Ordinary shares of 0.1p each	**4,923**	4,923
- 19,327,344 Deferred shares of 0.4p each	**77**	77
	5,000	5,000
Allotted, called up and fully paid		
- 1,434,814,870 (2009: 1,152,502,071) Ordinary shares of 0.1p each	**1,435**	1,153
- 19,327,344 Deferred shares of 0.4p each	**77**	77
	1,512	1,230

On 22 October 2009, 96,666,662 Ordinary shares of 0.1p each were allotted and issued as a price of 1.500p per share as part of a placing.

On 2 December 2009, 36,666,666 Ordinary shares of 0.1p each were allotted and issued as a price of 1.500p per share as part of a placing.

On 18 December 2009, 650,607 Ordinary shares of 0.1p each were allotted and issued at a weighted average of 1.316p per share to settle an amount due to Novum Securities Limited, the Company's stockbroker, in respect of services provided. This charge is recognised on the period in to which they relate within administrative expenses.

On 9 March 2010, 4,432,133 Ordinary shares of 0.1p each were allotted and issued at a price of 1.875p per share as a first stage payment in respect of the purchase of Reactivlab Limited.

On 5 July 2010, 138,500,000 Ordinary shares of 0.1p each were allotted and issued as a price of 1.000p per share as part of a placing.

On 5 July 2010, 4,925,000 Ordinary shares of of 0.1p each were allotted and issued at a weighted average of 1.000p per share to settle an amount due to XCAP Securities PLC, the Company's stockbroker, in respect of services provided. This charge is recognised in the period in to which they relate within administrative expenses.

On 29 July 2010, 471,731 Ordinary shares of 0.1p each were allotted and issued at a price of 0.990p per share as the final stage payment in respect of the purchase of Reactivlab Limited.

Warrants

On 11 April 2006, the Company issued warrants to subscribe for 52,500,000 Ordinary shares of the Company (3.66% of the issued Ordinary share capital of the Company). The warrants are exercisable in whole or in part at the discretion of the warrant holders at any time during the seven years following the date of their grant.

On 4 March 2009, as part of the acquisition of Curidium Medica Limited (formerly Curidium Medica plc), the Company issued replacement warrants to three companies to subscribe for up to 12,566,642 Ordinary shares of the Company (0.88% of the issued Ordinary share capital of the Company). The first warrant over 483,238 Ordinary shares at 5.43p per share is unconditional, the second warrant over up to 2,416,657 Ordinary shares at 5.17p per share is also unconditional and the third warrant over 9,666,657 Ordinary shares has a variable price per share of either 0.1p, 7.89p or 11.84p dependent upon future events relating to the forward performance and commercial relationship between Curidium Limited (a subsidiary of Curidium Medica Limited) and the beneficiary of the warrant.

Respective rights of Ordinary and Deferred shares

The rights of the Ordinary shareholders are dealt with in the Articles of Association of the Company which is available from the Company's registered office at The Biocentre, York Science Park, Innovation Way, Heslington, York YO10 5NY or from its website, www.avacta.com. The holders of the Deferred shares shall not, by virtue or in respect of their holdings of Deferred shares, have the right to receive notice of any General Meeting, nor the right to attend, speak or vote at any such General Meeting. Save as required by law, the Company need not issue share certificates to the holders of the Deferred shares in respect of their holding thereof. The Deferred shares shall not entitle their holders to receive any dividend or other distribution. The Deferred shares shall on a return of assets in a winding up entitle the holders only to the repayment of the amounts so paid up on such Deferred shares after repayment of the capital paid up on the Ordinary shares plus the payment of £10,000,000 per Ordinary share. The Company shall have irrevocable authority at any time to appoint any person to execute on behalf of the holders of the Deferred shares a transfer thereof and/or an agreement to transfer the same to such person as the Company determines as custodian thereof, without making any payment to the holders thereof, and/or to cancel the same (in accordance with the provisions of the Companies Acts) without making any payment to or obtaining the sanction of the holders thereof, and pending such transfer and/or cancellation, to retain the certificate for such shares. The Company may, at its option at any time purchase all or any of the Deferred shares then in issue, at a price not exceeding 1 pence for each holding of Deferred shares so purchased.

20 Capital and reserves

Share premium

The share premium account of £14,653,000 (2009: £11,405,000) arose from the issue of shares at a premium to their nominal value less certain allowable costs of issue. The reserve is not distributable.

Capital reserve

The capital reserve of £2,669,000 (2009: £2,669,000) arose from the application of acquisition accounting principles to the financial statements at the time of the acquisitions of Avacta Health Limited (formerly Oxford Medical Diagnostics Limited) and Curidium Medica Limited (formerly Curidium Medica plc). The reserve represents the value of Ordinary shares of 0.1p to be issued as part of the contingent consideration subject to the achievement of certain milestone objectives in the case of Avacta Health Limited (£1,899,000) and it represents the fair value of vested options and warrants in the Company granted as replacement options and warrants to those existing in Curidium Medica Limited immediately prior to the acquisition (£770,000). This reserve is not distributable.

Other reserve

The Other reserve of negative £1,729,000 (2009: negative £1,729,000) arose from the application of reverse acquisition accounting principles to the financial statements at the time of the reverse takeover of Avacta Group plc by Avacta Limited. This reserve is not distributable.

Retained earnings

Retained earnings arise from the cumulative profits or losses of the Group and include the charge and associated credits in respect of cumulative share based payment charges (where appropriate).

21 Capital and financial risk management

Capital management

The Group's main objective when managing capital is to protect returns to shareholders by ensuring the Group develops such that it trades profitably in the foreseeable future. The Group recognises that, because it is an early stage development Group with limited current revenues and significant continued investment that does not support debt within its capital structure, its capital structure is largely limited to equity based capital which the Group uses to finance most of its acquisition strategy.

The Group has two forms of debt; credit card debt and finance lease debt. Credit card debt is used to finance incidental expenditure, is short term and settled in the month following the incurring of the related expenditure. Finance leases are long term and used where finance can be found for significant items of capital expenditure, against which the debt is secured. The Group does not have long-term gearing ratio targets.

Whilst the Group uses debt in the forms described above, this debt is immaterial to the Group's capital structure and its capital management strategy. The Group manages its capital with regard to the risks inherent in the business and the sector within which it operates. It does not impact the dividend policy of the Group as the current strategy to invest capital in the business. The Group has not made any changes to its capital management during the year. The Group considers its capital to include share capital, share premium, capital reserve, retained earnings and other reserves. The Group does not have any externally imposed capital requirements.

Financial risk management

The financial risks faced by the Group comprise credit risk, interest rate risk and currency risk. This note presents information about the Group's exposure to each of these risks and the Group's objectives and processes for managing this risk. Further disclosures are included throughout these consolidated financial statements.

Financial instruments policy

Treasury and financial risk policies are set by the Board and have remained unchanged from the previous period. All instruments utilised by the Group are for financing purposes. The day-to-day financial management and treasury function is controlled centrally for all operations. During the year, the Group had no derivative transactions.

Financial assets and liabilities

The Group's financial instruments comprise cash and liquid resources, and various items such as trade receivables and trade payables that arise directly from its operations. An analysis of the financial assets and liabilities recognised on the balance sheet, each of which is at amortised cost is set out below:

Financial assets

	2010	2009
	£000	£000
Trade receivables	**561**	178
Cash	**1,433**	878
	1,994	1,056

Notes to the Financial Statements continued

Financial liabilities

	2010 £000	2009 £000
Trade payables	**408**	297
Finance leases	**16**	29
	424	326

Maturity profile of financial liabilities

	2010 £000	2009 £000
In one year or on demand	**419**	308
In one to two years	**5**	11
In two to five years	**-**	7
	424	326

The financial liabilities due for repayment within one year relate to trade payables, other short-term liabilities and the current element of finance leases. The financial liability due in one to two years and in two to five years relates to finance leases.

Credit risk

Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed on all customers requiring credit over a certain amount. The Group does not require collateral in respect of financial assets.

At the balance sheet date there were no significant concentrations of credit risk. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet.

Interest rate risk

The Group continues to manage the cash position in a manner designed to maximise interest income, while at the same time minimising any risk to these funds. Surplus cash funds are deposited with commercial banks that meet credit criteria approved by the Board, for periods between one week and six months.

Interest rate and currency profile

At 31 July 2010 and throughout the year, the Group maintained Sterling cash at bank and short term deposits. The current book value of interest bearing assets and liabilities is as follows :

Financial assets	2010 £000	2009 £000
Cash at bank (floating interest rate)	**1,433**	878

Cash at bank attracted interest at floating rates, which were between Nil% and 0.5% at the year-end (2009: Nil% and 0.5%).

Financial liabilities	2010 £000	2009 £000
Finance leases	**16**	29

Fair value of financial instruments

At 31 July 2010 the difference between the book value and the fair value of the Group's financial assets and liabilities was £Nil (2009 : £Nil).

Sensitivity analysis

The Group is not materially exposed to changes in interest or exchange rates at 31 July 2010.

22 Pensions

The Group operates a defined contribution pension scheme for its employees. The pension cost charge for the year represents contributions payable by the Group to the scheme and other personal pension plans and amounted to £56,000 (2009 : £36,000). There were outstanding contributions at 31 July 2010 of £6,000 (2009: £7,000).

23 Accounting estimates and judgements

The Directors discussed with the Audit Committee the development, selection and disclosure of the Group's critical accounting policies and estimates and the application of these policies and estimates. The accounting policies are set out at Note 1.

The Directors consider that the key judgements and sources of estimation made in preparation of the financial statements are :

Going concern

After making enquiries, the Directors have confidence that the Company and the Group have 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 Report and Accounts. This is described in more detail at Note 1.

Intangible assets

Tests have been undertaken using commercial judgements and a number of assumptions and estimates have been made to support their carrying amounts as described within Note 11. The resultant carrying values have been assessed against discounted cash flows. Further judgements have been taken to allocate the surplus of fair value paid by the Group as consideration over the fair value of the net assets acquired, specifically the allocation of value to customer related intangible assets as compared to goodwill. In allocating value to customer related intangible assets, the Directors have assessed the likely pattern in future volume to the specific customers involved and the reliable future life of the commercial relationships involved.

Asset acquisition

On 14 January 2009, the Company acquired the entire issued Ordinary share capital of TheraGenetics Limited. This company had been identified by the Group as an opportunity to realise cash to support the imminent acquisition and integration of Avacta Animal Health Limited (formerly Yorktest Veterinary Services Limited). In the view of the Directors, TheraGenetics Limited was not capable of operating as a business and therefore that the acquisition did not fall within the definition of a business combination under IFRS3. As such, the acquisition has been accounted for as an asset purchase within the Group accounts.

24 Commitments

(a) Capital commitments - At 31 July 2010, the Group had £Nil capital commitments (2009: £Nil).

(b) Operating lease commitments - The Group maintains short term licences on two properties and an operating lease over a third property. The Group's total commitment for these licences and operating lease payments is as follows:

	Land and buildings	
	2010	2009
	£000	£000
In respect of leases expiring:		
- Within one year	**43**	15
- Between two and five years	**-**	203
	43	218

25 Related party transactions

Intra Group transactions

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and have, therefore, not been disclosed.

Remuneration of key management personnel

Alastair Smith was a director of the Company for the entire year. The remuneration disclosed on page 12 represents the remuneration paid to him for that period. His total benefits package for the year ended 31 July 2010 was as follows:

	Basic Salary (Note 1)	Pensions	Employer's social security costs	Share based payment charges	**Total**
	£000	£000	£000	£000	**£000**
Alastair Smith	127	21	16	-	**164**

1 – Basic salary includes employee's social security contributions

Notes to the Financial Statements continued

26 Acquisitions

Reactivlab Limited

On 9 March 2010, the Company legally acquired the entire issued Ordinary share capital of Reactivlab Limited

	£000
Tangible fixed assets	3
Cash in hand and at bank	102
Debtors	14
Creditors	(28)
Net assets acquired	91
Goodwill	249
	340
Purchase consideration	
- Shares issued at completion	90
- Contingent consideration	250
	340
Cash inflow on acquisition	102

The goodwill is attributable to the skilled labour force of the acquired business and the route to market that it provides for the future development of the enlarged Group. The value of the skilled labour force and the route to market were not recognised as separate intangible assets on the basis that they could not be separated from the value generated from the business as a whole.

Included within purchase consideration is an amount of £250,000. This amount is an estimate of the actual contingent consideration that will become payable depending upon future revenue performance of the acquired business over a three year period from the date of acquisition. The contingent consideration is payable in either cash or shares at the Company's option.

The revenue of Reactivlab Limited for the period since the date of acquisition to 31 July 2010 was £3,000 and the result for that period was a loss of approximately £61,000. If the acquisition had taken place on 1 August 2009, the revenue of Reactivlab Limited to 31 July 2010 would have been approximately £29,000 and the result for that period would have been a loss of approximately £178,000.

Avacta Animal Health Limited (formerly Yorktest Veterinary Services Limited)

On 9 February 2009, the Company legally acquired the entire issued Ordinary share capital of Avacta Animal Health Limited (formerly Yorktest Veterinary Services Limited).

	£000
Tangible fixed assets	-
Cash in hand and at bank	232
Debtors	122
Creditors	(117)
Net assets acquired	237
Goodwill	712
Customer related intangible assets	150
Deferred tax liability	(42)
	1,057
Purchase consideration	
- Cash	1,020
- Costs	37
	1,057
Cash outflow on acquisition	825

The goodwill is attributable to the skilled labour force of the acquired business and the route to market that it provides for the future development of the enlarged Group. The value of the skilled labour force and the route to market were not recognised as separate intangible assets on the basis that they could not be separated from the value generated from the business as a whole.

The revenue of Avacta Animal Health Limited (formerly Yorktest Veterinary Services Limited) for the period since the date of acquisition to 31 July 2009 was £570,000 and the result for that period was £51,000. If the acquisition had taken place on 1 August 2008, the revenue of Avacta Animal Health Limited (formerly Yorktest Veterinary Services Limited) to 31 July 2009 would have been approximately £1,120,000 and the result for that period would have been approximately £135,000.

The fair value adjustments were made because the tangible fixed assets acquired were not separately identifiable.

Curidium Medica Limited (formerly Curidium Medica plc)

On 3 March 2009, the Company legally acquired the entire issued Ordinary share capital of Curidium Medica Limited (formerly Curidium Medica plc) by way of a share for share exchange. The Company allotted and issued 274,679,825 new ordinary shares of 0.1p fully paid to the holders of the Ordinary shares of Curidium Medica Limited (formerly Curidium Medica plc) as consideration.

	£000
Tangible fixed assets	8
Cash in hand and at bank	2,604
Debtors	275
Creditors	(235)
Net assets acquired	2,652
Goodwill	2,729
Customer related intangible assets	60
Deferred tax liability	(17)
	5,424

Purchase consideration	
- Fair value of shares issued and to be issued	5,234
- Costs	190
	5,424
Cash inflow on acquisition	2,414

The goodwill is attributable to the skilled labour force of the acquired business and, in particular, the potential that this brings to the enlarged Group in its medium term strategy to enter the human diagnostics market. In addition, the acquisition included capital within the acquired balance sheet that supports the ongoing development of the enlarged Group. The value of the skilled labour force was not recognised as a separate intangible asset on the basis that it could not be separated from the value generated from the business as a whole.

The revenue of Curidium Medica Limited (formerly Curidium Medica plc) for the period since the date of acquisition to 31 July 2009 was £Nil and the loss for that period was £747,000. If the acquisition had taken place on 1 August 2008, the revenue of Curidium Medica Limited (formerly Curidium Medica plc) for the year ended 31 July 2009 would have been £Nil and the loss for that period would have been £1,270,000.

The fair value adjustments were made to reflect certain liabilities for legal and professional costs incurred by Curidium Medica Limited (formerly Curidium Medica plc) as part of the process of being acquired by the Company.

The fair value of purchase consideration was determined by reference to the closing mid-market share price on the date of completion for shares issued on the date of completion and by reference to the output of the Black-Scholes valuation model for the options and warrants over shares that were granted on the date of completion.

Company Balance Sheet
as at 31 July 2010 - Registered number 4748597

	Notes	2010 £000	2009 £000
Fixed assets			
Tangible assets	27	**4**	4
Investments	28	**8,869**	11,930
		8,873	11,934
Current assets			
Debtors	29	**6,399**	3,256
Cash at bank and in hand		**1,200**	727
		7,599	3,983
Creditors – amounts falling due within one year	30	**(2,607)**	(2,666)
Net current assets		**4,992**	1,317
Creditors : amounts falling due after more than one year	31	**(250)**	-
Net assets		**13,615**	13,251
Capital and reserves			
Called up share capital	32	**1,512**	1,230
Share premium account	33	**15,060**	11,812
Capital reserve	33	**2,669**	2,669
Retained earnings	33	**(5,626)**	(2,460)
Shareholders' funds	34	**13,615**	13,251

The balance sheet above was approved by the Board of Directors and authorised for issue on 17 December 2010 and signed on its behalf by:

Alastair Smith
Chief Executive Officer

Tim Sykes
Chief Financial Officer

Statement of Total Recognised Gains and Losses
for the year ended 31 July 2010

	2010 £000	2009 £000
(Loss) / profit for the financial year	**(3,178)**	470
Share base payment charges	**12**	71
Total recognised gains and losses relating to the financial year	**(3,166)**	541

Notes to the Company Balance Sheet

Basis of preparation

As used in the financial statements and related notes, the term 'Company' refers to Avacta Group plc. The separate financial statements of the Company are presented as required by the Companies Act 2006. As permitted by the Act, the separate financial statements have been prepared in accordance with UK Generally Accepted Accounting Principles ('UKGAAP').

These financial statements have been prepared in accordance with applicable accounting standards and under the historical cost convention.

A separate profit and loss account dealing with the results of the Company only has not been presented, as permitted by Section 408 of the Companies Act 2006.

Under FRS1, the Company is exempt from the requirement to present its own cash flow statement.

Tangibles fixed assets

Tangible fixed assets are held at cost less accumulated depreciation and impairment charges.

Depreciation is provided at the following annual rates in order to write off the cost less estimated residual value, which is based on up to date prices, of property, plant and equipment over their estimated useful lives as follows:

Leasehold improvements	– 10 years
Plant and machinery	– 5 to 10 years
Fixtures and fittings	– 3 to 10 years
Computer equipment	– 3 years

Investments

Fixed asset investments are stated at cost less provision for impairment where appropriate. The Directors consider annually whether a provision against the value of investments on an individual basis is required. Such provisions are charged to the profit and loss account in the year.

Taxation

The charge for taxation is based on the result for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes.

Deferred tax is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not yet reversed by the balance sheet date, except where otherwise required by FRS19.

Share based payments

The Company has adopted FRS20 and the accounting policies followed are, in all material regards, the same as the Group's policy under IFRS2 'Share-based payment'. The policy is shown in the Group accounting policies at Note 1.

27 Tangible fixed assets

	Office fixtures & fittings £000	Total £000
Cost		
At 31 July 2009	6	6
Additions	3	3
At 31 July 2010	**9**	**9**
Depreciation		
At 31 July 2009	2	2
Charge for the year	3	3
At 31 July 2010	**5**	**5**
Net book value		
At 31 July 2010	**4**	**4**
At 31 July 2009	4	4

Notes to the Company Balance Sheet continued

28 Investments

	2010 £000
Cost	
At 1 August 2009	12,432
Acquisitions	340
At 31 July 2010	**12,772**
Provision	
At 1 August 2009	502
Charge for the year	3,401
At 31 July 2010	**3,903**
Net book value	
At 31 July 2010	**8,869**
At 31 July 2009	11,930

The companies in which Avacta Group plc's interest is more than 20% at the year end are as follows :

Subsidiary undertakings	Principal activity	Class and percentage of voting shares held	Holding	Aggregate capital and reserves £000	Profit / (loss) for the period £000
Avacta Limited	Technology development	Ordinary 100%	Direct	(2,651)	(1,136)
Avacta Analytical Limited	Contract services	Ordinary 100%	Indirect	(1,627)	(851)
Oriental Fine Foods Limited	Dormant	Ordinary 100%	Direct	(983)	-
Avacta Health Limited (formerly Oxford Medical Diagnostics Limited)	Technology development	Ordinary 100%	Direct	(922)	(339)
		Preference Nil%	N/A		
TheraGenetics Limited	Non-trading	Ordinary 100%	Direct	254	7
TheraGenetics Inc	Dormant	Ordinary 100%	Indirect	-	-
Crossco (1127) Limited	Intermediate holding company	Ordinary 100%	Direct	61	-
Avacta Animal Health Limited	Contract services	Ordinary 100%	Indirect	(12)	(161)
Curidium Medica Limited	Intermediate holding company	Ordinary 100%	Direct	2,225	(15)
Curidium Limited	Technology development	Ordinary 100%	Indirect	(4,019)	(500)
Reactivlab Limited	Technology development	Ordinary 100%	Direct	30	(178)

Avacta Analytical Limited is a subsidiary of Avacta Limited. TheraGenetics Inc is a subsidiary of TheraGenetics Limited. Avacta Animal Health Limited is a subsidiary of Crossco (1127) Limited. Curidium Limited is a subsidiary of Curidium Medica Limited.

All of the companies were incorporated in England and Wales except TheraGenetics Inc which was incorporated in the United States and Reactivlab Limited which was incorporated in Scotland.

29 Debtors

	2010 £000	2009 £000
Other taxes and social security	**23**	15
Prepayments and accrued income	**11**	15
Amounts owed by subsidiary undertakings	**6,240**	3,226
Other debtors	**125**	-
	6,399	3,256

30 Creditors: Amounts falling due within one year

	2010 £000	2009 £000
Trade creditors	**116**	65
Other taxes and social security	**6**	11
Amounts owed to subsidiary undertakings	**2,420**	2,534
Accruals and deferred income	**65**	56
	2,607	2,666

31 Creditors: Amounts falling due after more than one year

	2010 £000	2009 £000
Contingent consideration	**250**	-

32 Share capital

	2010 £000	2009 £000
Authorised		
- 4,922,690,624 Ordinary shares of 0.1p each	**4,923**	4,923
- 19,327,344 Deferred shares of 0.4p each	**77**	77
	5,000	5,000
Allotted, called up and fully paid		
- 1 434,814,870 (2009 : 1,152,502,071) Ordinary shares of 0.1p each	**1,435**	1,153
- 19,327,344 Deferred shares of 0.4p each	**77**	77
	1,512	1,230

On 22 October 2009, 96,666,662 Ordinary shares of 0.1p each were allotted and issued as a price of 1.500p per share as part of a placing.

On 2 December 2009, 36,666,666 Ordinary shares of 0.1p each were allotted and issued as a price of 1.500p per share as part of a placing.

On 18 December 2009, 650,607 Ordinary shares of 0.1p each were allotted and issued at a weighted average of 1.316p per share to settle an amount due to Novum Securities Limited, the Company's stockbroker, in respect of services provided. This charge is recognised on the period in to which they relate within administrative expenses.

On 9 March 2010, 4,432,133 Ordinary shares of 0.1p each were allotted and issued at a price of 1.875p per share as a first stage payment in respect of the purchase of Reactivlab Limited.

On 5 July 2010, 138,500,000 Ordinary shares of 0.1p each were allotted and issued as a price of 1.000p per share as part of a placing.

Notes to the Company Balance Sheet continued

On 5 July 2010, 4,925,000 Ordinary shares of of 0.1p each were allotted and issued at a weighted average of 1.000p per share to settle an amount due to XCAP Securities PLC, the Company's stockbroker, in respect of services provided. This charge is recognised in the period in to which they relate within administrative expenses.

On 29 July 2010, 471,731 Ordinary shares of 0.1p each were allotted and issued at a price of 0.990p per share as the final stage payment in respect of the purchase of Reactivlab Limited.

Warrants

On 11 April 2006, the Company issued warrants to subscribe for 52,500,000 Ordinary shares of the Company (3.66% of the issued Ordinary share capital of the Company). The warrants are exercisable in whole or in part at the discretion of the warrant holders at any time during the seven years following the date of their grant.

On 4 March 2009, as part of the acquisition of Curidium Medica Limited (formerly Curidium Medica plc), the Company issued replacement warrants to three companies to subscribe for up to 12,566,642 Ordinary shares of the Company (0.88% of the issued Ordinary share capital of the Company). The first warrant over 483,238 Ordinary shares at 5.43p per share is unconditional, the second warrant over up to 2,416,657 Ordinary shares at 5.17p per share is also unconditional and the third warrant over 9,666,657 Ordinary shares has a variable price per share of either 0.1p, 7.89p or 11.84p dependent upon future events relating to the forward performance and commercial relationship between Curidium Limited (a subsidiary of Curidium Medica Limited) and the beneficiary of the warrant.

Respective rights of Ordinary and Deferred shares

The rights of the Ordinary shareholders are dealt with in the Articles of Association of the Company which is available from the Company's registered office at The Biocentre, York Science Park, Innovation Way, Heslington, York YO10 5NY or from its website, www.avacta.com. The rights of the holders of the Deferred shares is set out at Note 19.

33 Reserves

	Share premium £000	Capital reserve £000	Profit and loss account £000
At 1 August 2009	11,812	2,669	(2,460)
Arising on issue of shares	3,248	-	-
Loss for the financial period	-	-	(3,178)
Share based payment charge	-	-	12
At 31 July 2010	15,060	2,669	(5,626)

34 Reconciliation of movement in shareholders' funds

	2010 £000	2009 £000
(Loss) / profit attributable to ordinary shareholders	**(3,178)**	470
Other recognised gains:		
- Share based payment charges	**12**	71
- Shares issued during the year	**3,530**	5,618
- Shares to be issued as consideration for business combinations	**-**	770
	364	6,929
Opening shareholders' funds	**13,251**	6,322
Closing shareholders' funds	**13,615**	13,251

35 Commitments

(a) Capital commitments

At 31 July 2010, the Company had £Nil capital commitments (2009 : £Nil).

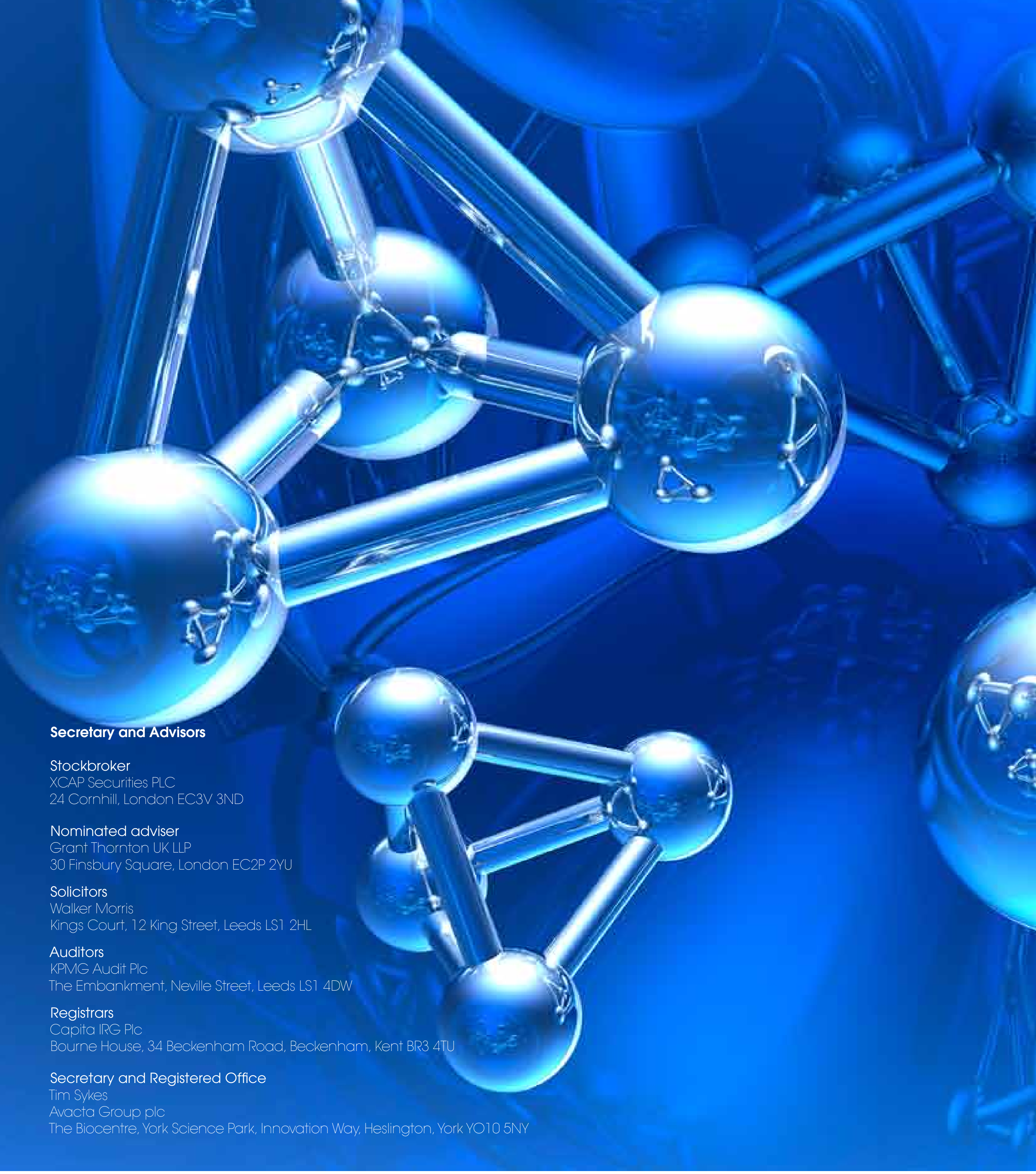
(b) Contingent liabilities

The Company has guaranteed the overdrafts of its subsidiaries, the amount outstanding at the year end was £Nil (2009: £Nil).

(c) Operating lease commitments

The Company's annual commitment for operating lease payments expiring within one year is as follows:

	Land and buildings	
	2010	2009
	£000	£000
In respect of leases expiring:		
- Within one year	**180**	144



Secretary and Advisors

Stockbroker
XCAP Securities PLC
24 Cornhill, London EC3V 3ND

Nominated adviser
Grant Thornton UK LLP
30 Finsbury Square, London EC2P 2YU

Solicitors
Walker Morris
Kings Court, 12 King Street, Leeds LS1 2HL

Auditors
KPMG Audit Plc
The Embankment, Neville Street, Leeds LS1 4DW

Registrars
Capita IRG Plc
Bourne House, 34 Beckenham Road, Beckenham, Kent BR3 4TU

Secretary and Registered Office
Tim Sykes
Avacta Group plc
The Biocentre, York Science Park, Innovation Way, Heslington, York YO10 5NY

Avacta Group plc
The Biocentre, York Science Park, Innovation Way,
Heslington, York YO10 5NY, United Kingdom

T> +44 (0)844 414 0752 F> +44 (0) 844 414 0453
E> info@avacta.com **www.avacta.com**