Shaping the future of medicine

2016 Annual Report & Accounts

Avacta®

Contents

4 Who we are
6 2015 / 16 at a glance

9 Strategic Report
10 Chairman's statement
12 Chief Executive's review
15 Team profile – Geoff Platt
16 Research & Diagnostics Reagents
21 Team profile – Philippe Cotrel
22 Therapeutics
29 Team profile – Estelle Adam
30 Board of Directors
32 Senior Leadership Team
33 Scientific Advisory Board
34 Animal Health
37 Financial Review
38 Principal Risks and Uncertainties

39 Governance
40 Directors' Report
42 Remuneration Committee Report
46 Corporate Governance
49 Statement of Directors' Responsibilities
50 Independent Auditor's Report

51 Financial Statements
52 Consolidated Income Statement
53 Consolidated Balance Sheet
54 Consolidated Statement of Changes in Equity
55 Consolidated Statement of Cash Flows
56 Notes to the Consolidated Financial Statements
76 Company Balance Sheet
77 Company Statement of Changes in Equity
78 Notes to the Company Balance Sheet

83 Shareholder Information
83 Secretary and Advisers

What is an Affimer?

Affimer® reagents and therapeutics are engineered, non-antibody binding proteins that are uniquely suited to a wide range of applications where antibodies and aptamers have limitations.

Affimer®

The Affimer scaffold, available in human or plant form, is stable, non-toxic, biologically neutral and contains no post-translational modifications or disulphide bridges.

Ease of manufacturing

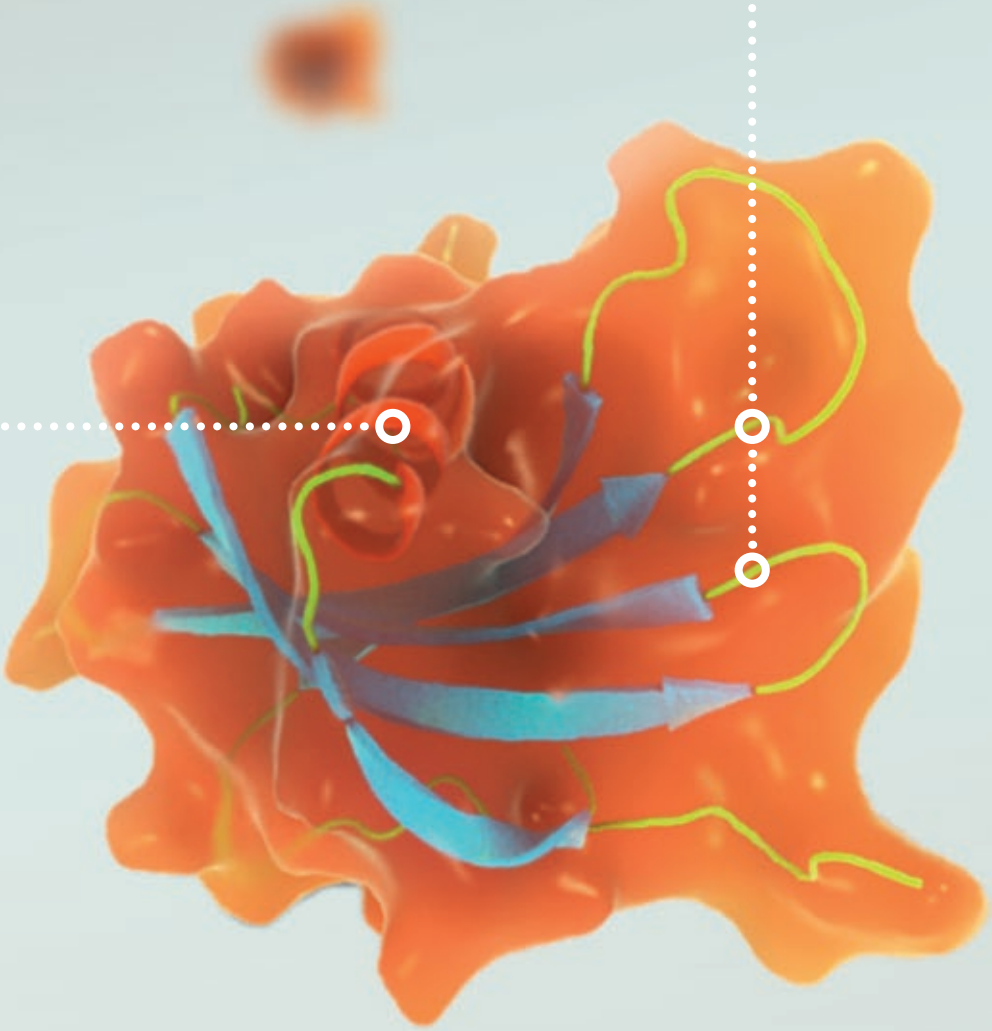
Security of supply is guaranteed. Affimer binders express easily in very high yields in a simple bacterial expression system.

Flexible functionalisation

Affimer molecules can be easily modified by genetic or chemical means, allowing maximum flexibility to suit the required assay or application.

Large binding surface

Binding to target is obtained through two 9 amino acid loops which enables an Affimer to bind with high affinity and exquisite specificity.



Small size

At 12-14 kDa, Affimer molecules are around 10 times smaller than antibodies – giving several performance advantages.

Engineered specificity

Affimer binders are selected using phage display. Prospective clones are evaluated in a very high throughput manner, allowing for a tailored screening approach – for example designing screens capable of determining wild-type from mutant proteins.

Rapid development

Selection and characterisation of new custom Affimer binders typically takes just 10–12 weeks.

Our mission is to shape the future of medicine by providing powerful reagents for research and diagnostics, and by developing safe and efficacious medicines.

At Avacta we have developed Affimer technology, an engineered alternative to antibodies. Antibodies dominate therapeutic and other markets worth tens of billions of dollars despite their limitations. Affimer technology has been developed to overcome many of these limitations and provide solutions where antibodies struggle.

Based on a small protein, Affimer reagents can be quickly developed to bind with high specificity and affinity to a wide range of targets to address market opportunities in diagnostics, research, bioprocessing and therapeutics.

Avacta is aiming to build a profitable business in the near term by licensing Affimer reagents to third parties to power their diagnostic or other products.

Numerous technology evaluations are under way which may lead to the first 'Affimer-powered' product developments from 2017.

Affimer technology has enormous potential as a next generation therapeutic platform.

Avacta is working to unlock this value through development of an in-house therapeutic pipeline, focused on immuno-oncology with a view to partnering and licensing these therapeutic assets. The Company's primary goal is to get the first Affimer therapeutics into human clinical trials from 2019.

Highlights from the past year

Affimer®

Many top pharma, biotech and diagnostic companies trialling Affimer technology

New facilities in both Cambridge and Wetherby completed

Rapid generation of highly specific Affimer binders for Zika diagnostics

Demonstration of efficacy of an Affimer therapeutic (PD-L1 blockade) in an animal model

glythera

Partnership with Glythera to develop new targeted drug conjugate platform

Experienced Chief Commercial and Financial Officers Philippe Cotrel and Tony Gardiner join the Senior Management Team

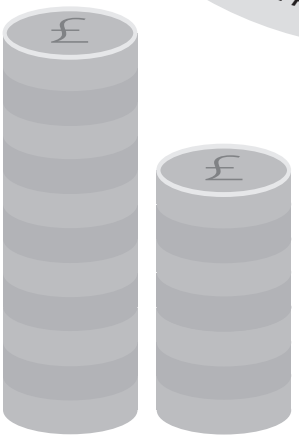
£1.46M = AVACTA ANIMAL HEALTH (2015: £1.37M)

Group revenues of

£2.17 million

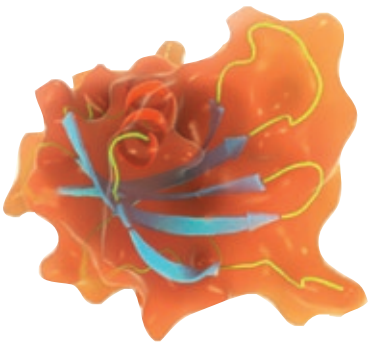
(2015: £1.81 million)

£0.7M = AVACTA LIFE SCIENCES (2015: £0.44M)



19% growth in revenue

Lead immuno-oncology programme (PD-L1 blockade) on track



First Affimer animal study completed with no adverse effects observed

Excellent progress made in the three strategic reagents application areas

Cash balances increased to

£19.5m

Collaboration with Mologic to deliver multiple clinical assays incorporating Affimer reagents

MOLOGIC
BIG IN TINY SCIENCE

World-class Scientific Advisory Board appointed to support immuno-oncology programme

"It's hugely exciting to think that the Affimer technology that we have developed has the potential to shape the future of medicine through powerful research tools, accurate diagnostics and innovative new drugs."

Alastair Smith, Chief Executive Officer

Strategic Report

10 Chairman's statement

12 Chief Executive's review

15 Team profile – Geoff Platt

16 Research & Diagnostics Reagents

21 Team profile – Philippe Cotrel

22 Therapeutics

29 Team profile – Estelle Adam

30 Board of Directors

32 Senior Leadership Team

33 Scientific Advisory Board

34 Animal Health

37 Financial Review

38 Principal Risks and Uncertainties

2016 has been a year of significant progress for Avacta and its Affimer technology

Following the successful fund raising of £21 million in August 2015, the Group is well on track to deliver the plans we set out at that time: to progress our therapeutic programmes and begin to commercialise Affimer reagents.

Our knowledge of and experience with Affimers is expanding rapidly, enabling us to identify clear competitive strengths in therapeutic, diagnostic and research applications. On this basis, the Company is now targeting attractive, high value segments in each of these three areas.

We have made excellent progress in the Affimer therapeutic programmes, achieving a significant objective by initiating the first animal studies involving Affimer molecules. The dosing was well tolerated with no adverse effects observed and the results of a pharmacokinetic study of two PD-L1 Affimer inhibitors has read-out positively, showing that the Affimer constructs have good serum half lives. A parallel efficacy study in a mouse syngeneic tumour model has also produced positive results, demonstrating the efficacy of the PD-L1 blockade in reducing tumour growth rate.

Our therapeutic partnership with Moderna Therapeutics continues to progress positively.

We have delivered on some important commercial objectives including demonstrating the performance of Affimer technology in our three initial areas of strategic focus: affinity separation, immunoassays and lateral flow diagnostics. We have also established collaborations with Mologic and Glythera to help validate Affimer reagents in key applications and continue to explore other collaboration opportunities to broaden the application base.

There are a significant number of Affimer technology evaluations now ongoing and we continue to grow the pipeline of such partnerships that will ultimately deliver a stream of 'Affimer-powered' third party products to underpin long-term revenue growth through licensing royalties.

The success of our programme to develop specific Affimer binders to the Zika NS-1 protein is a good example of the speed with which high quality Affimer reagents can be developed to answer an urgent need where there is a gap in the antibody offering.

We also opened new laboratories and offices in both Cambridge and Wetherby which provide first-class facilities to accommodate the increased commercial demands and the expanding research and development programmes.

Our Animal Health business has also had another successful year, with growth in both revenues and margins. Development of new diagnostic solutions and tests via assays and algorithms has continued with the end customer being companion animal vets and laboratories.

Our Team

During the year, Tim Sykes chose to step down as Chief Financial Officer, a role he had held since 2006, to become the full-time Chief Financial Officer of Proactis Holdings plc.

In January 2016, Tony Gardiner joined the Board as Chief Financial Officer and Philippe Cotrel was appointed to the role of Chief Commercial Officer, both bringing invaluable experience and insight to the business as we continue to strengthen our scientific and management team.

In April we established a Scientific Advisory Board, with Dr Mike Owen, ex-Senior Vice President and global Head of Research of Biopharmaceuticals at GSK, chairing this new board in addition to his role as a Non-executive Director on the Board. The Scientific Advisory Board has appointed Professor Terence Rabbitts, Professor Paul Moss and Professor Adrian Hayday to provide immuno-oncology target selection advice and to critically review the therapeutic programme progress.

"As a Board, we are extremely optimistic about 2017 and beyond as we look to progress our Affimer therapeutic programmes and commercialise the Affimer research and diagnostic reagents with clinical and commercial partners. On behalf of the Board I would like to thank our shareholders for their continued support and we look forward to reporting on further progress in the coming months."

Trevor Nicholls, Non-executive Chairman, 14 October 2016

Avacta's mission is to develop products and services for the life sciences and healthcare markets

Avacta is a UK biotechnology company that is developing biotherapeutics and reagents based on its proprietary Affimer technology – an engineered alternative to antibodies.

Since inception in 2006 Avacta's mission has been to develop products and services for the life sciences and healthcare markets. Following the acquisition of the Affimer technology intellectual property from the University of Leeds and others in 2012 the Company has focused on developing and commercialising this technology.

The Company is committed to providing high-quality Affimer reagents for licensing into third-party research and diagnostic products, and to creating new Affimer medicines for partnering with large pharma.

The Company comprises around 90 employees based at two sites in Wetherby and Cambridge that have recently been fitted out to create state-of-the-art laboratory facilities.

Affimer technology

An Affimer molecule is a small protein that is capable of binding to a target molecule (such as another protein, a peptide or a small molecule) in the same way that an antibody does. This ability to capture or bind a target molecule can then be used to detect or quantify it in a diagnostic test or research assay, or to enrich or purify it from a complex mixture, for example. Additionally, if the target is involved in a disease pathway and the binding by the Affimer molecule activates, alters or blocks its function, then there is potential for the Affimer molecule to provide therapeutic benefit as a drug.

Antibodies are proteins that have evolved to bind to a target in order to stimulate an immune response *in vivo*. Over several decades this property of antibodies has been harnessed to develop thousands of reagents for laboratory assays and diagnostic tests, and one third of all drugs in development are now antibodies.

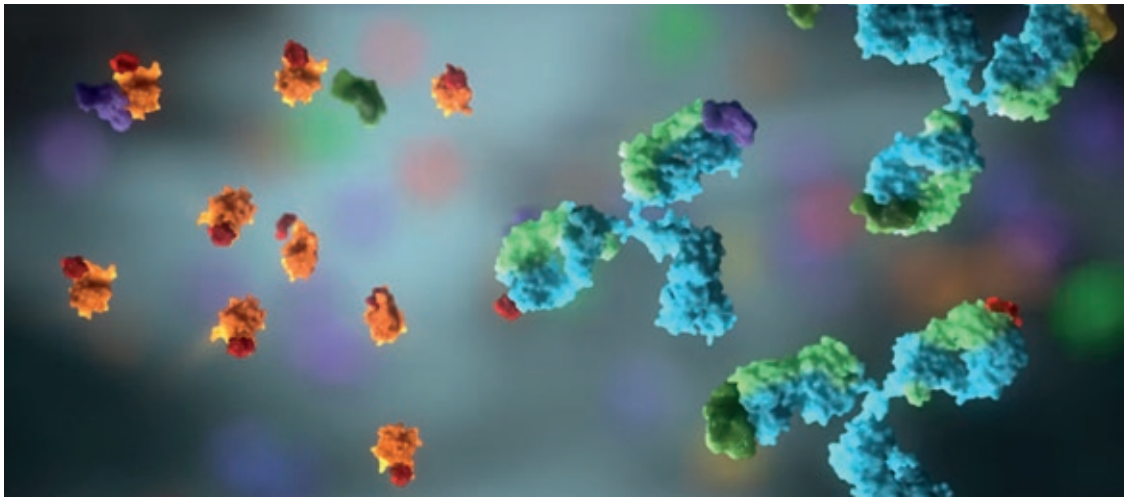
This enormous success of antibodies is despite some significant limitations:

- antibodies are often not specific to the target and cross-react with other targets causing uncertainty in the results that are obtained, for example, in a diagnostic test;
- antibodies are large proteins with complex structures, including special internal bonds and external chemical modifications that are required for correct function, making many of them challenging and costly to manufacture and resulting in batch-to-batch variability;
- antibodies are often generated by immunising an animal and purifying the antibodies that are produced by the immune response of the animal from its blood, which means that the time required to develop a new, high quality antibody can be many months and that the type of target to which an antibody can be raised is limited to those that are not toxic and cause an immune response; many important and commercially valuable targets do not fit these criteria;
- the large size of antibodies is a disadvantage in some applications in which, for example, tissue penetration is important, or a high density of antibodies on a sensor surface is required; and
- many applications require the antibody to be modified to carry a payload or signaling tag and their large size and complex structure makes these modifications more challenging.

In contrast, the small size and simple structure of Affimer molecules means that they are easy to manufacture with simple, low-cost processes that are reliable in their batch-to-batch consistency. Their simplicity also means that modifying an Affimer molecule for a particular application is easily carried out with simple biochemistry. New Affimer molecules

"We have seen solid performance in all areas of Affimer technology development, continuing the transformational progress made in 2015. We have made good technical progress and are in a strong position having laid the technical and commercial foundations and we are well funded to deliver on our strategies."

Alastair Smith, Chief Executive Officer

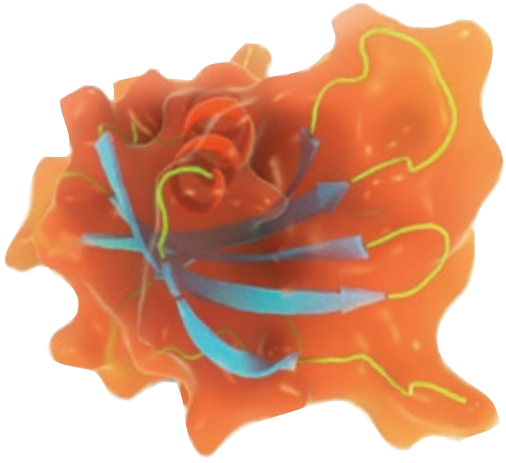


are generated by screening through a pre-existing large library of approximately ten billion Affimer molecules to identify those that bind to the target of interest. This utilises an industry standard *in vitro* process which does not use animals and therefore it is quick, taking a matter of weeks, and circumvents some limitations arising from the nature of the target. This screening process can also be finely controlled to maximise the specificity and optimise other properties of the Affimer molecules that are pulled out of the library for a particular application. Affimer molecules are ten times smaller than antibodies and very stable, being resistant to extremes of pH and temperature. This makes them better suited to some applications where harsh conditions are experienced or where the small size leads to better sample penetration or a higher density of binding sites on a surface. Their small size and ease with which they can be modified means that the amount of time a therapeutic Affimer molecule stays in the blood stream can be tailored to suit different therapeutics regimes.

Despite the limitations outlined above, antibodies have become the dominant technology in markets worth in excess of $100 billion annually. The opportunity therefore, for an alternative such as Affimer technology, is very large with the potential to generate near-term revenue from minimally regulated, low-risk life sciences research tools and diagnostics applications, as well as potentially generating much higher rewards from therapeutics but with associated greater development risk.

Business model and strategy

Avacta is addressing both therapeutic and non-therapeutic opportunities for Affimer technology. The Company is focused on building a profitable business through licensing of Affimer reagents to research tools and diagnostics developers to power their products, whilst developing a pipeline of Affimer therapeutic candidates for in-house development and partnering.



Ten times smaller than antibodies, Affimer molecules are very stable. Their size and the ease with which they can be modified means the amount of time they stay in the blood stream can be tailored to suit different therapeutics regimes.

Team profile: Geoff Platt, Senior Applications Scientist

Professional background

Geoff worked in the field of protein science for over 15 years in both academic and industrial environments. During university research positions in Nottingham and Leeds he gained experience of allying molecular biology techniques to biophysical characterisation methods to study protein structure, stability, folding kinetics as well as underlying mechanisms of aggregation. Since then Geoff has worked as an applications scientist at a number of companies that design and manufacture scientific instruments. Firstly, in Manchester, he exemplified various uses of a biosensor technology that provides detailed measurements of biomolecular interactions, and then he moved to Yorkshire to work for Avacta Analytical supporting the Optim product line. These roles provided Geoff with opportunities to visit customers and to promote novel applications by writing white papers and giving presentations at many conferences around the world.

Geoff's role at Avacta

At Avacta, Geoff is a Senior Applications Scientist. In this role he manages a small team that works to develop and exemplify various uses of Affimer technology. They work closely with the operational and R&D teams as well as with the commercial team to coordinate the production of scientific material that can be used in product literature. They are also involved in meeting customers and collaborators as well as attending and presenting data at conferences.

Why you are excited by Affimer technology?

"I believe that Affimer reagents have great potential in a host of applications due to our ability to obtain highly specific binders to a wide range of target molecules. As the Affimer protein scaffold is small and relatively easy to modify, by both genetic and chemical means, it enables us to modulate particular properties of the reagents and also provides flexibility in the way they are functionalised. I think that this characteristic means that Affimer reagents can be tailored to suit the exact needs of a customer or a particular application and provides a distinct advantage for our technology."

"Affimer reagents can be tailored to suit the exact needs of a customer or a particular application and provides a distinct advantage for our technology."

Providing powerful reagents for research and diagnostics

Non-therapeutic Affimer technology is being delivered through licensing to third-party research tools and diagnostic test developers.

Bespoke solutions for research and diagnostics customers

Avacta is addressing the non-therapeutic opportunity for Affimer technology through licensing to third-party research tools and diagnostic test developers.

In this way the Company can focus on its strengths – generating high quality Affimer reagents for the customers' applications – and maximise the reach of the technology in every application area without the need to build multiple routes to market. Near-term revenues are being derived from fee-for-service generation of new Affimers for evaluation and product development by third parties, and longer-term royalties will be generated based on the third party sales of 'Affimer-powered' products.

Market focus and competitive strengths

Affimer reagents can be developed for a very wide range of applications in many markets therefore market focus is critical in order to maximise the benefits of research and development (R&D) investment and business development effort. The Company has chosen areas of focus that combine the competitive strengths of Affimer technology with attractive market opportunities.

In the near term the Company is concentrating in three areas: affinity separation, immunoassays and lateral flow diagnostics.

The Company is now working with a number of potential commercial partners in these markets to provide custom Affimer reagents which will undergo evaluation in their applications. Successful evaluations will lead to commercial licensing agreements and product development programmes which would be expected to take 12-24 months for the third party to complete.

Affinity Separation

The capturing of a target from a complex mixture in order to purify that target. For example, the purification of a clotting factor from whole blood, or a therapeutic protein from the output of a bioreactor.

Market overview

- Estimated market size $500 million growing at 10% compound annual growth rate (CAGR).
- Concentrated market with a few major players for standard purification products: e.g. GE Healthcare (>50% market share), Pall Corp, ThermoFisher, EMD Millipore.
- Customised product opportunities beginning to emerge as bioprocessing becomes more bespoke.
- Small scale sample preparation for clinical diagnostics procedures.

Affimer technology competitive strengths

- Good specificity allows for discrimination between protein complexes, different conformations and folding variants.
- Small Affimer molecule size has potential to increase column capacity due to higher packing density on surfaces.
- Affimer reagents can be tailored to withstand desired operating conditions.
- Short development time of Affimer reagents benefits custom product developments.
- Excellent stability (thermal and pH) of Affimer molecules leads to good product lifetimes.
- Batch-to-batch consistency and low cost of production of Affimer reagents.
- Reduction of use of animals meets growing regulatory pressures.

Immunoassays

Very widely used biochemical tests that detect the presence of, or quantify, a target in a sample for research purposes or diagnostics.

Market overview

- Enzyme linked immunoassay (ELISA) is the prevailing assay format for protein quantitation.
- Estimated market size is over $500 million for research ELISAs (with R&D Systems the market leader) and over $3 billion for diagnostic ELISA tests (with a large number of both large and small '*in vitro* immunodiagnostics' providers).
- Most emerging protein quantification platforms use 'sandwich assay formats' (e.g. Luminex, MSD, Singulex) which requires pairs of antibodies that will both bind to the target simultaneously.

Affimer technology competitive strengths

- Ability to identify Affimer pairs and/or complementary Affimer reagents to make a pair with an established antibody.
- Small size of the Affimer reagents means higher density of capture Affimer which improves sensitivity.
- Better specificity means reduction in cross-reactivity and less interference in multiplex analysis.
- Short Affimer reagents development time means quicker assay development time and lower development cost.
- Batch-to-batch consistency and low cost of production of Affimer reagents.
- Reduction of use of animals meets growing regulatory pressures.

Lateral Flow Diagnostics

A simple diagnostic test technology that uses an absorbent strip to draw the sample and reagents over lines of capture reagent to create a visual read-out (e.g. pregnancy test strips) in which a positive result is indicated by the appearance of two blue lines when a urine sample is applied at one end.

Market overview

- Estimated market size in the region of $5 billion growing at 7% CAGR.
- Broad market applications but largest market is clinical (>80%) including infectious disease, cardiovascular and toxicology.
- Alere (now part of Abbott) is the largest player (~30% market share).
- Opportunities for niche players to develop novel tests and/or improve existing tests.
- Outsourcing and contract manufacturing is prevalent.

Affimer technology competitive strengths

- Ability to identify Affimer pairs and/or complementary Affimer reagents to make a pair with an established antibody.
- High stability of Affimer reagents beneficial for field applications.
- Batch-to-batch consistency and low cost of production of Affimer reagents.
- Short Affimer reagents development time means quicker assay development time and lower development cost.
- Reduction of use of animals meets growing regulatory pressures.
- Beneficial properties of Affimer molecules to improve manufacturing efficiency and shorten analysis time.

Team profile: Philippe Cotrel, Chief Commercial Officer

Professional background

Dr Philippe Cotrel has over twenty years' commercial experience in sales, marketing and customer support in the life sciences sector having held senior positions in Abcam, Affymetrix, and Amersham Pharmacia Biotech. Prior to joining Avacta, Philippe was Commercial Director at Abcam plc where he was responsible for the sales and marketing strategy including the development of product range, the management of regional sales channels worldwide and business development activities for the service and *in vitro* diagnostics divisions of the business. He oversaw revenue growth from £36 million to £144 million over a seven year period. Prior to that he was responsible for the European commercial operations of Affymetrix.

Philippe holds a PhD in Biotechnology from the Institut National de Sciences Appliquées in Toulouse and a post graduate degree in Protein Biochemistry from Institut Pasteur in Paris.

Philippe's role at Avacta

At Avacta, as Chief Commercial Officer, Philippe is responsible for setting the business priorities and helping shape company strategy. His role is to understand market trends and needs to identify the best commercial opportunities for Affimer technology and set the directions to build a solid basis for the future growth. On a day-to-day basis he leads the business development activities, communicates the benefits of Affimer technology to the external world and ensures that the right resource is available to deliver the best possible service and experience to customers and partners.

Why you are excited by Affimer technology?

"Affimer technology is a truly innovative approach that holds the potential to solve unmet needs in all areas of life sciences. It can accelerate medical research by offering quick access to novel reliable reagents that can be used to elucidate the mechanisms of disease. It can yield better diagnostics by allowing detection of novel biomarkers, be applied to a wide range of detection platforms for rapid point of care diagnostics and to be developed into live imaging reagents that can be used in future cancer care. Finally, the Affimer platform can also be used to develop the next generation of biotherapeutics that hold the promise to offer novel treatment options in oncology and other disease areas."

"The potential impact of Affimer technology is immense and it is a privilege to be part of the team that will make it a reality."

Developing the next generation of biotherapeutics

Avacta is developing the therapeutic potential of Affimer technology in order to service the growing demand for the next generation of biotherapeutics.

A next generation biotherapeutic platform technology

Avacta has chosen to focus its investment in therapeutics in the area of immuno-oncology (IO) because certain technical benefits of Affimer technology make it highly competitive in IO therapeutic modalities, and due to the intense commercial interest in IO assets at the present time.

Avacta's therapeutic strategy is to generate a commercially valuable pipeline that is biased towards 'best-in-class' IO medicines which target well-understood biology and seek to deliver superior medicines by way of the benefits of Affimer technology. This strategy balances the risks of a new therapeutic platform with a lower target biology risk.

Our knowledge of how the human immune system interacts with the tumour microenvironment and how to manipulate the immune system to attack the tumour and improve outcomes for patients has increased dramatically in recent years. The inevitable consequence of this explosion in knowledge is the resulting highly competitive drug discovery and development environment. The use of clinically precedented targets decreases the risk of clinical attrition but 'backloads' the risk to reimbursement and it is therefore essential to develop clinically differentiated medicines that will be able to perform better than current standard of care treatments. In order to minimise all of these technical, intellectual property (IP) and commercial risks Avacta has appointed a world-class Scientific Advisory Board, chaired by Dr Mike Owen, to support the Company in its strategic decision making in this area.

Clinical focus: Immuno-oncology

Cancer immunotherapy harnesses the power of the patient's own immune system to attack the cancer. The approach relies on the fact that tumour cells have certain proteins on their surface that can be used for targeting therapies, or can be blocked or stimulated to create an immune attack. There are numerous proteins that could be targeted and, in most cases, their biology is not fully understood, but there have been many recent clinical successes with immunotherapy treatments, particularly with combination therapies that address two drug targets simultaneously. Ongoing clinical trials will provide further insight over the coming few years and Avacta's immuno-oncology programme will be informed by this increasing clinical knowledge.

In addition to these inhibitory and agonistic immunotherapies, a large number of companies are developing cellular therapies in which T-cells, and other immune system 'killer' cells, are targeted to tumours via binders to tumour cell surface proteins. For example, this targeting may take the form of a bispecific molecule in which one part targets the tumour and the other part binds a T-cell. In other modalities, such as CAR-T, a patient's T-cells are removed from them, engineered to present a cancer targeting molecule on their surface, and then put back into the patient to attack the tumour.

Targeting is also central to the principles of 'cytotoxic drug conjugates'. A drug conjugate is a combination of a cytotoxic agent which kills the tumour cell and a targeting molecule such as an antibody to direct the toxin to the tumour as specifically as possible to avoid systemic toxicity and associated side effects. Several large pharmaceutical companies have drug conjugate programmes based on antibodies.

Affimer technology has the potential to provide superior technical solutions in all of these cancer immunotherapies and has competitive strengths that Avacta is working to exemplify in-house and with collaborators with a view to licensing the platform or specific assets into third party pipelines.


01:30:08

Collaborations and partnerships

In 2015 Avacta entered into a collaboration, licensing and option agreement with Moderna Therapeutics.

Under the terms of the agreement, Moderna made an upfront payment of $500,000 which provides them with exclusive access to Affimer molecules that bind certain targets which may be extended to include additional targets by a further payment. Moderna is also making certain payments to Avacta for research services to deliver pre-clinical development milestones.

Moderna has the option to enter into exclusive license agreements for selected therapeutic Affimer candidates for clinical development and in each case Avacta will be entitled to milestone payments. The total value of these payments could reach several tens of millions of dollars. Avacta is also entitled to royalties in connection with future product sales.

Avacta also has development collaborations with Phoremost (phenotypic screening for drug target and drug discovery), Glythera (Affimer drug conjugates), Blueberry Therapeutics (antibiotic resistance) and D'Liver (liver metabolism).

Our competitive strengths – Affimer technical benefits for Immuno-therapeutics

Ease of formatting and creation of multimeric structures / manufacturing yield

- Many cancer immunotherapies require multimeric structures such as dimers or trimers. (e.g. for targeting T-cells).
- CAR-T therapies require the targeting protein to be fused to a signaling domain protein, produced by a T-cell and displayed on its surface.
- Therapeutic proteins which have the benefit of small size like Affimer molecules (see diagram on page 27) need formatting for half-life extension.
- Generally, these complex formats are not easy to achieve with antibody-based technology and when they are achieved they are challenging to manufacture with economically reasonable yields.
- All of these formats have been demonstrated with ease using Affimer molecules and manufactured with high yields using as yet un-optimised processes so even greater manufacturing efficiencies are likely to be realised in future.

Inhibitors and agonists

- Generating inhibitory effects is straightforward to achieve with an antibody or other technology. Agonism, the stimulation of a process in a cell by targeting a surface protein, is more difficult to achieve and requires multimeric structures with specific structural properties.
- Agonism has been shown with Affimer molecules in *in vitro* cell based assays.

Small size

- The much smaller size of an Affimer protein compared with an antibody can be an advantage in terms of tissue penetration. This is important when the target is a solid tumour, for example.
- Small size is also important in topical delivery (e.g. applied to the skin or inhaled into the lung) for better tissue penetration and to deliver more drug to the site of the disease.
- In some applications (e.g. drug conjugates), small size leads to rapid clearance of the therapeutic protein that has not bound to its target, reducing systemic dosing and side effects.

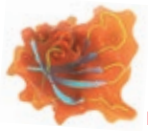
Rapid development

The rapid generation of high affinity Affimer lead molecules shortens pre-clinical development times and reduces costs. The ease of manufacturing of Affimer proteins means that development is made much easier by having large quantities of material available, even at the very early stages of the drug discovery process.

Increasing the number of Affimer units increases binding affinity. BIAcore measurements show dimerization of the Affimer proteins increases the binding affinity by approximately ten-fold.

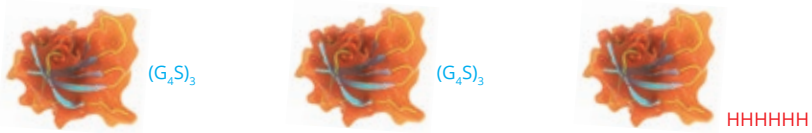
Format of Affimer biotherapeutic

PD-L1 Monomer
BIAcore (K_D)
7.56nM



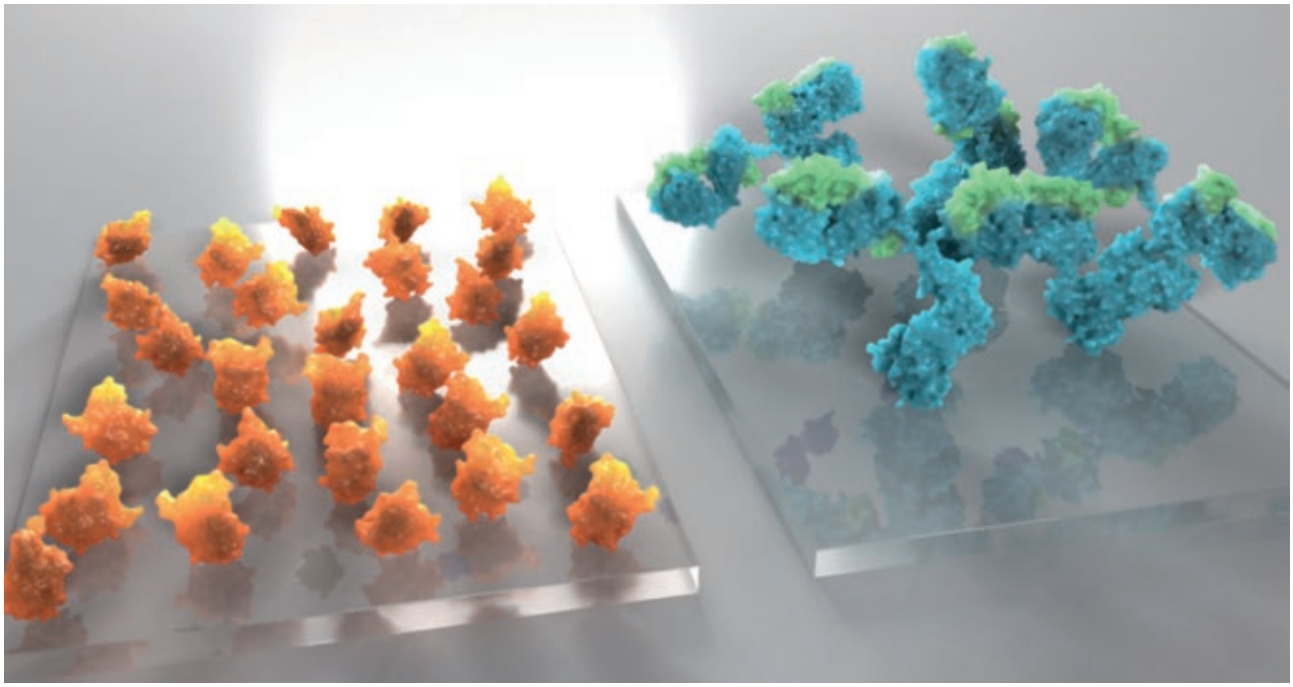
PD-L1 Dimer
BIAcore (K_D)
0.49nM

PD-L1 Trimer
BIAcore (K_D)
0.34nM



PD-L1 Tetramer
BIAcore (K_D)
Data TBC

To find out more about this project, visit **www.avacta.com/therapeutics**



Collaboration case study:
Ramzi Ajjan, Associate Professor/ NHS Consultant, Diabetes and Endocrinology

Affimer technology – Transforming life sciences research

Dr Ramzi Ajjan is an Associate Professor and clinician, working with high-risk patients suffering from diabetes.

An issue that many patients with diabetes face is an increased risk of cardiovascular disease, such as heart attacks and strokes. The formation of blood clots in blood vessels plays a role in causing these events and Dr Ajjan's work involves trying to control the formation of blood clots to reduce heart attacks and strokes in high-risk patients. He and his team have analysed the effects of a wide range of Affimer molecules that bind to a protein called fibrinogen from which clots are formed. They have studied the effects of the Affimer treatment on the speed of formation of clots and analysed the final clot structure using optical and electron microscopy. He has also studied the ease with which these Affimer treated clots can be broken down in a process called clot 'lysis'. Dr Ajjan's observations show that certain Affimer molecules have a profound effect on these clotting processes and work is now continuing in close collaboration with the Company to understand in more detail the mechanisms by which the clotting process is being controlled with a long-term view towards potential therapeutic applications.

Dr Ajjan spoke about how Affimer technology is transforming his research:

"Having worked with Affimer technology for some time now I am absolutely astonished by what we can do with these molecules. We have been trying for years to reduce blood clot formation, however, this is very challenging because clots are made up of a complex network of fibrin fibres and the cells get trapped in this network. If the network can be made less compact it is easier to break down."

This highly challenging area, requiring novel new approaches, is what prompted Dr Ajjan to try using Affimer technology. "After a screening process, we identified a number of Affimer reagents that are helping to break down clots in people with diabetes."

The progress made has been highly encouraging to date. "I have been extremely impressed by the results we've got using Affimer technology. Other people have too. We recently applied for a grant to fund further work and were successful. In addition to being awarded the funds the feedback from the grant application was extremely positive. They felt Affimer reagents were a novel and promising way to progress research into reducing heart attacks and strokes in this high-risk population."

"The large number of Affimer reagents we screened would not have been technically possible using antibodies. The potential for Affimer technology to provide new ways of controlling blood clotting is a very exciting prospect."

Team profile: Estelle Adam, Senior Assay Scientist

Professional background

Estelle has been working in the pharmaceutical industry for 13 years, mainly focused in immunology. She started as a scientist in 2003 for a startup company based in Paris, developing a conjugate vaccine platform to be used as an active immunotherapy for inflammatory disease.

Estelle was involved from the early discovery phase right through to the assessment of the vaccine in clinical trials (phase IIa/IIb). Her role evolved as the product developed from early stages to clinical evaluations. She played a part in the development of the process, in the characterisation of the product for quality control (QC) and in tech transfer to contract research organisations (CRO)/contract manufacturing organisations (CMO). Estelle also developed assays to evaluate the immune response in preclinical models in various species, then developed assays to be used in clinical trials. In 2013 she moved to a leading CMO company based in the UK, working in the QC department on host cell protein assay development, then on immunogenicity assessment for biologics and peptides.

Estelle's role at Avacta

At Avacta, Estelle's role is to lead the assay team that characterise Affimer binders with therapeutic potential. She is also involved in the *in vivo* assessment of the therapeutic Affimer binders as pharmacokinetic studies or proof of concept in animal models.

Estelle's team develop all the binding and competitive assays, as well as cell based assays to look at the biological properties of the Affimer and we develop some of the analytical methods that will be used in the future QC of the molecule to be assessed in clinical trials. Estelle tries to plan ahead as much as possible, to help future up-scaling of the production process of the Affimer molecules by a CMO, knowing the capabilities of a good manufacturing practice (GMP) facility and the costs associated with any work in a regulated environment.

Why you are excited by Affimer technology?

"Affimer technology is different to anything else on the market. This is a human scaffold molecule that has some unique properties such as small size and formatting possibilities. I am excited by all aspects of my role developing assays to measure the stability, the formulation, the formatting and binding. I think that Affimer technology has some potentially significant advantages in terms of building bi-specific therapies and immune cell engager technologies as well as great benefits arising from ease of manufacture."

"It's not hard to get excited about a platform technology that has the potential to develop drugs that will treat cancer patients and save lives."

Board of Directors

Top row:
Dr Trevor Nicholls
Alan Aubrey

Middle row:
Dr Michael Albin
Dr Mike Owen
Dr Alastair Smith

Bottom row:
Craig Slater
Tony Gardiner

Dr Trevor Nicholls
Non-executive Chairman

Trevor is currently Chief Executive Officer of the not-for-profit CAB International, an intergovernmental organisation owned by 47 member countries whose mission is to improve lives worldwide by providing information and applying scientific expertise to solve problems in agriculture and the environment. He is also Non-executive chairman of Iota Sciences Limited, a company spin-out from the University of Oxford, which is commercialising innovative microfluidic technology for the life sciences. In addition, he is a Non-executive director at hVivo plc and Conidia Bioscience. Trevor brings considerable experience in the commercialisation of life science systems and reagents from his previous roles as Chief Commercial Officer at Affymetrix, founder and Chief Executive Officer of UK biotech company Oxagen Ltd and Commercial Director of the Life Sciences business at Amersham International (now part of GE Healthcare). Trevor is Chairman of the Remuneration Committee and a member of the Audit Committee.

Alan Aubrey
Non-executive Director

Alan is the Chief Executive Officer of IP Group plc, a FTSE 250 company that specialises in commercialising intellectual property. He is also a non-executive chairman of Ceres Power Holdings plc, a manufacturer of advanced solid oxide fuel cells, a non-executive chairman of PROACTIS Holdings PLC, an AIM listed company that provides specialist Spend Control software to global organisations and a non-executive director in a number of other leading technology companies. Alan is a fellow of the Institute of Chartered Accountants of England and Wales and the Chairman of the Audit Committee and a member of the Remuneration Committee.

Dr Michael Albin
Non-executive Director

Following a Ph.D. in chemistry at Pennsylvania State University and postdoctoral research in biochemistry at the California Institute of Technology, Michael worked at SYVA diagnostics followed by fifteen years at Applied Biosystems Inc. rising to the role of VP of Strategic Technologies of the parent company Applera Corp, an S&P 500 company. Whilst at Applied Biosystems Inc. (now Life Technologies Inc.), he was responsible for R&D programmes with a budget in excess of US $100 million, overseeing the development of the company's product pipeline via internal development, investment and acquisition. In recent years he has worked as a private consultant focusing on technical and strategic assessments for a wide range of companies in the life sciences, molecular diagnostics, and personalised medicine sectors. In addition, he carries out due diligence for venture capital and other investment organisations in the US, Canada and the UK. Michael is a member of the Remuneration Committee and the Audit Committee.

Dr Mike Owen
Non-executive Director

Mike was Senior Vice President and global Head of Research of the Biopharmaceuticals R&D Unit at GlaxoSmithKline and was responsible for initiating and rapidly growing GSK's robust pre-clinical and clinical therapeutic antibody pipeline during the last decade through in-house development as well as through acquisitions such as Domantis. He left GSK in 2010 to establish Kymab which is developing biotherapeutics using its novel transgenic mouse platform. Mike is an immunologist by training who had a highly successful scientific career at Imperial Cancer Research during which he was elected a member of the European Molecular Biology Organisation and a fellow of the Academy of Medical Sciences. Mike is also an independent board member at Zealand Pharma and non-executive director of Ossianix Inc. and Blink Therapeutics. He sits on the scientific advisory board of Kymab and also advises the private equity CRT Pioneer Fund and HS Life Sciences. Mike is Chairman of the Scientific Advisory Board and a member of the Remuneration Committee and the Audit Committee.

Dr Alastair Smith
Chief Executive Officer

Alastair combines world-class scientific and technical knowledge with a highly commercial mindset. Alastair has been Chief Executive of Avacta since its inception in 2005 and has been responsible for the management and strategic development of the company, led the IPO and the fund raising and M&A activities of the Group, and has overseen the product development programmes. He 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. At the age of 38 he was awarded a Chair of Molecular Biophysics and had, over ten years, grown one of the leading biophysics research groups in Europe. He left his academic career in 2007 to focus full time on delivering value to Avacta shareholders.

Craig Slater
Chief Operating Officer

Craig has more than 25 years' experience of commercial, operational and group management roles in specialist engineering, construction, software and marketing groups. More specifically, this experience includes the supply of specialist equipment to Life Science clients, B2B service provision and the implementation of growth plans in SME businesses. Craig has been working with Avacta since June 2012, initially in a commercial and operational capacity within Avacta Analytical prior to its disposal in February 2015 and more recently within Avacta Animal Health.

Tony Gardiner
Chief Financial Officer

Tony is a member of the Institute of Chartered Accountants of England and Wales and joined Avacta in January 2016 as Chief Financial Officer and has over 20 years' experience of senior financial, and operational management roles across a number of different sectors. Between 2007 and 2011, Tony was the Chief Financial Officer of AIM listed Fusion IP plc, an IP commercialisation company, which was subsequently acquired by IP Group plc in 2014. He played a key role in supporting the growth of the business and oversaw all finance activities as well as directly supporting life sciences and health technology companies in Fusion's portfolio. Tony joined Avacta from AHR, an international architecture and building consultancy practice where he had been Finance Director since 2011. Tony has also held senior finance roles within Eversheds LLP, KCOM Group Plc and Hickson International Plc.

Senior Leadership Team

Philippe Cotrel
Chief Commercial Officer

Dr Philippe Cotrel, a protein chemist by training, has over 20 years' commercial experience in sales, marketing and customer support in the life sciences sector, having held senior positions in Amersham Pharmacia Biotech, Oxford Glycosciences, Affymetrix and Abcam.

Whilst at Affymetrix, at that time the inventor and market leader of commercial microarrays, Philippe was appointed General Manager and Vice President of Commercial Operations in Europe with responsibility for European commercial operations, generating approximately £65 million in sales made up of capital equipment, consumables and services.

Philippe joined Abcam in 2008 as Commercial Director and was responsible for sales and marketing activities, successfully growing revenue from £36 million to £144 million over a seven year period. He managed regional offices in Boston, Tokyo, Hong Kong and Shanghai and was responsible for all global customer-facing functions, as well as business development activities for the service and *in vitro* diagnostics divisions of the business.

Philippe joined Avacta from Abcam and now leads Avacta's commercial strategy and business development activities, and drives the commercialisation of Affimer technology, as both research reagents and biotherapeutics.

Matt Johnson
Chief Technical Officer

Matt studied Genetics & Microbiology at the University of Sheffield and completed a PhD in Molecular Biology, investigating novel surface proteins of the B. cereus endospore. As part of his PhD, he completed a fellowship at the Pasteur Institute in Paris with Dr Michele Mock. Matt took a Postdoctoral position in the Department of Biochemistry at Cambridge University. The focus of the project was characterising a novel toxin-antitoxin phage resistance mechanism discovered on a cryptic plasmid in E. carotovora.

Matt joined Abcam in 2005 as a development scientist producing and characterising antibodies. He held several roles over his 8 years in the company, culminating in the post of Head of R&D. His experience at Abcam includes building an imaging team for ICC and IHC, being responsible for managing the antibody characterisation group, running a team responsible for process improvements and QA, project managing implementation of a new LIMS system and management of the Product Development & Manufacturing facility. As Head of R&D, he built and ran a research group with interests in recombinant antibody/binder technologies, alternative detection methodologies, immunoassay development and antibody characterisation. Matt also contributed to M&A strategy, licensing and technology scouting. To support this, he completed a Postgraduate Certificate in Intellectual Property Law in 2012.

Amrik Basran
Chief Scientific Officer

Dr Amrik Basran has over 14 years' experience of both the biotech and pharma industries. He completed his degree and PhD at the University of Leicester and has a background in protein biochemistry/engineering. He then spent 6 years as a post-doctoral researcher at the Institute of Biotechnology, Cambridge University isolating novel bacterial pathways involved with the metabolism of illicit drugs and high explosives.

In 2002, Amrik then joined Domantis, a start-up biotech company based in Cambridge developing domain antibodies (dAbs), a novel antibody fragment technology. As Director of Protein Sciences, he was responsible for characterising the lead dAbs from early discovery for their suitability for drug development, supporting pre-clinical evaluations and tech transfer to CMOs. Domantis was acquired by GSK in 2006, after which he became Head of Topical Delivery (Biopharm Discovery Unit), supporting the development of biotherapeutics across the GSK portfolio. The group focused on discovering and developing a wide range of therapeutic antibodies, dAbs and proteins for delivery into the eye, skin and lung. This included developing formulation and delivery strategies for biotherapeutics for Phase I clinical studies.

Amrik left GSK in 2012 and joined Avacta in 2013 as Chief Scientific Officer to develop the Affimer platform for therapeutic use, focusing on immuno-oncology where there is a high unmet medical need for new novel drugs to improve the long-term clinical outcome for cancer patients.

Scientific Advisory Board

Professor Terence H Rabbitts
(FMedSci, FRS)

Professor Rabbitts is a molecular biologist, working at the University of Oxford John Radcliffe Hospital, whose examination of the organisation and rearrangement of human genes over the past four decades has helped to shape our understanding of immunity and cancer. Professor Rabbitts was responsible for determining the genetic basis of human antibody diversity, which enables the immune system to fight countless pathogens, and revealed genetic translocations that cause some cancers.

He has considerable experience in guiding the commercialisation of cutting edge biotechnology having been the Chairman of the Scientific Advisory Boards of Cambridge Antibody Technology and Quadrant Healthcare until their respective IPOs, a member of the Scientific Advisory Board of Domantis until its acquisition by GSK, Chair of the Medical Advisory Board of Oakes Lyman and he is currently a member of the Scientific Advisory Boards of Oryzon Genomics and of DiThera.

Professor Rabbitts worked in Cambridge from 1973-2006 in the MRC Laboratory of Molecular Biology where he was joint Head of the Division of Protein and Nucleic Acid Chemistry together with the Nobel Laureate César Milstein. He was the Director of the Leeds Institute of Molecular Medicine from 2007 to 2010. He has been awarded the Colworth Medal of the Biochemical Society and the CIBA Prize and was elected as a Member of the European Molecular Biology Organization (EMBO) (1981), a Fellow of the Royal Society (FRS) (1987) and a Founder Fellow of the Academy of Medical Sciences (FMedSci) (1998).

Professor Paul Moss
(MRCP, FRCPath)

Professor Paul Moss leads the University of Birmingham's world class cancer research as Director of the School of Cancer Sciences. His research is on the application of translational immunology in human malignancies. Professor Moss's research team comprises clinical and non-clinical research scientists working on a range of projects. His group is particularly interested in developing strategies to optimise stem cell transplantation for patients with haematological malignancies. Paul also has a long-standing research interest in cytomegalovirus, a herpes virus that in healthy individuals is asymptomatic but can cause severe illness in immuno-compromised transplant patients. His research is likely to facilitate design of improved immunotherapy strategies targeted at cancer.

Professor Moss is also Director of Research and Knowledge Transfer at the University of Birmingham and Chairman of the Infection and Immunity Board at the Medical Research Council. Here he oversees funding in research applied to infectious disease and disorders of the human immune system. He also serves as a member of the Strategy Board at the MRC. Professor Moss is an honorary consultant at the University Hospitals Birmingham NHS Foundation Trust and the Clinical Service Lead for chronic lymphocytic leukemia. He is also a member of the Scientific Advisory Board of Cell Medica Ltd and he has previously been the Chair of the Cancer Research UK Clinical and Translational Research Committee.

Professor Adrian Hayday
(FMedSci)

Adrian Hayday is Professor of Immunobiology at the Francis Crick Institute, co-Leader of the Clinical Academic Grouping at Guy's Hospital, and a Senior Group Leader at Cancer Research UK. He obtained his PhD in tumour virology then worked at MIT, before his appointment to the Yale University faculty, becoming a full professor in 1997. Adrian's research interests include unconventional T cells, the regulation of tissue inflammation and the control of carcinogenesis. He was co-discoverer of the gamma-delta T cell antigen receptor, generating widespread interest in immune cell function within tissues and tumour immune surveillance. With long-standing collaborators, Prof. Hayday has identified critical roles for gamma-delta cells in primary immunoprotection against solid tumours, and in immunoregulation, particularly within tissues. He is internationally renowned for his work in immunology, having published nearly 200 papers. He was elected a fellow of the Academy of Medical Sciences, won the King's College Award for Business and was elected a fellow of the Academy of Medical Sciences. He has been a member of numerous advisory boards including the Scientific Advisory Board of Medimmune, and is currently a member of the Scientific Advisory Boards of Cerimon Pharmaceuticals, HS Lifesciences, ImmunQure and CIRI. He also advises a number of bodies, including the Wellcome Trust, where he sits on the Strategy Committee, and CRUK where he is Chair of the Science Committee – responsible for translational cancer research programmes.

Animal Health

The Group provides diagnostic tools and services for veterinarians through its subsidiary, Avacta Animal Health.

Business and strategy

Our strategy is to provide vets, directly and through laboratories, with solutions enabling them to diagnose and treat companion animals more effectively. To do this we develop, manufacture or source, market and then support diagnostic solutions and related treatments. We work closely with leading experts in academia and industry and aim to present vets with well-researched and evidenced tools that enable faster and more reliable decisions in practice.

Competitive strengths

Our aim is to be different to our competitors in a number of ways, each presenting value to our customers:

- we develop and manufacture most of our own products allowing us to provide the highest level of insight and support;
- we provide especially strong customer service first-line, with in-house veterinary support and specialist KOL assistance;
- we have an innovative and well-resourced research and development team; and
- we have access to proprietary Avacta Life Sciences technology.

Market focus

Our customers are companion animal vets and the laboratories serving them. We listen to their feedback through surveys, our sales and customer services teams and our Veterinary Advisory Board. We are privileged to work with Jason Atherton, Laura Playforth, Mark Dunning and Kirsten Pantenburg as our Veterinary Advisory Board members and they help to inform our development and commercial choices.

Development focus

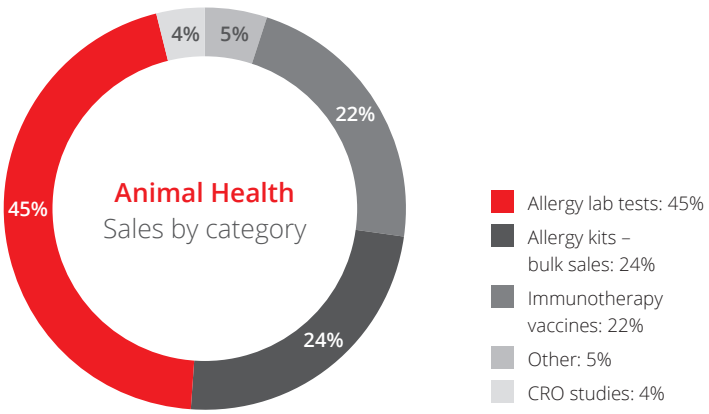
Our development priorities are increasingly set by market feedback and then driven by our R&D team, either towards new assays, algorithms or delivery methods. We involve and work closely alongside industry key opinion leaders from the UK and the US to ensure our work is based upon the latest and best research available.

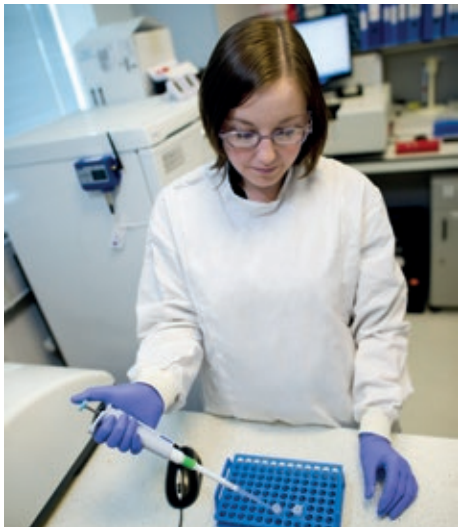
One example of this link with strong KOLs is our relationship with Dick White Referrals, a leading UK referral practice. DWR partner Simon Tappin and his colleagues have an outstanding knowledge and experience of Small Animal internal medicine and their guidance, along with that of many other experts, has been invaluable during the development of the canine Pancreatitis test.

Management team

Our business is run by a management team with experience covering all aspects of the companion animal industry. Biographies can be accessed at **www.avactaanimalhealth.com/about/people/**

- Hayley Booth – Head of Commercial
- Jo Soundy – Head of Marketing
- Janice Hogg – Senior Veterinary Director
- Agata Michalak – Head of Assay Development and Production
- Kevin Slater – Chief Scientific Officer
- Johanna Gourlay – Senior Veterinary Technical Manager
- Rob Harrand – Technology and Data Science Lead





Animal Health Case Studies:

Left to right:
Nancy Stephenson
Jennifer Bexley
Jenny Bristow

Equine allergy development

We are regarded as a leading provider of laboratory allergy tests and related products to companion animal vets and laboratories. We decided in 2015, following a review of the UK and European markets, to develop our own equine allergy test specific to those markets.

In less than a year, this quite complex test was developed, optimised and transferred to manufacturing for sale initially in the UK. We aim to grow the customer base for this test in the UK and also offer it to certain laboratories for use in Europe. This is an example of our ability to develop products effectively and efficiently based on a sound business case.

Jenny Bristow, who now runs Production Services, developed our Equine Allergy test from a standing start within 11 months under the guidance of Agata Michalak: "This was a challenging project due to the number of allergens involved in the test and relied on the R&D team working together in order to get the work done as efficiently as possible. The transfer to Production Services was straight forward and it is currently running well."

World Congress of Veterinary Dermatology

The 8th World Congress of Veterinary Dermatology in Bordeaux in June 2016 was the third in succession at which Jen Bexley presented a paper, this time written with two of our KOLs. The Congress is held every four years and is the premier event of its type. Through a long association and our ability to add to debates at a high level, we play a part in the core business of the Congress.

The paper entitled *Serological cross-reactivity between beef, lamb and cows' milk allergenic extracts in dogs* provided an insight into the selection of foods for the diagnosis and management of possible cases of adverse food reactions. It included guidance on the selection of diet and use of results from serological testing.

Jennifer Bexley has developed most of our allergy products and runs a number of research projects: "This year's World Congress was a fantastic experience both scientifically and socially. Our talk was well received and it was a real privilege to work with and learn from some of the leading dermatologists in veterinary medicine."

Pet Allergy Week

In its 2nd year Pet Allergy Week (PAW) is an initiative to raise awareness of allergies in dogs and cats, helping practices communicate with their clients by providing them with additional support collateral and waiting room displays and subsidised tests throughout June.

Approximately 500 practices signed up and during June we had 192 'PAW' tests from 92 different practices. The majority of sign-ups came from the sales team using the promotion to help existing customers and re-engage with lapsed customers.

Conceived and run by Jo Soundy and Hayley Booth, the event is partly responsible for the increase in our allergy sales.

Nancy Stephenson, who has been with the company for 9 years, covers a large area from Lincoln to Essex and has a deep knowledge of the use of our products in first opinion practice: "PAW gave us a great opportunity to engage with customers old and new, raising our profile within practices and increasing owner understanding of allergic disease. Vets are already asking about PAW 2017!"

Financial Review

Reported Group revenues grew to £2.17 million, an increase of 19% (2015: £1.81 million).

Revenue

Revenues for the Affimers business, Avacta Life Sciences, increased to £0.70 million (2015: £0.44 million) as the number of custom Affimer projects increased. Revenues in Avacta Animal Health increased to £1.46 million (2015: £1.37 million) as a result of growing sales from existing allergy tests together with the introduction of a new equine allergy test.

Research and development costs

During the year the Group expensed through the income statement £1.50 million (2015: £0.03 million) in relation to research and development costs. Within the amount expensed, £0.93 million (2015: £Nil) relates to the costs associated with the in-house Affimer therapeutic programme which has commenced in the current year and in line with other therapeutics based companies are expensed given their pre-clinical stage of development. In addition, an amortisation charge of £0.57 million (2015: £0.03 million) has been recognised against previously capitalised development costs from the custom Affimer reagents and diagnostics programme and new Animal Health allergy tests.

In addition, development costs amounting to £1.73 million (2015: £3.06 million) were capitalised within intangible assets.

Administrative expenses

Administrative expenses have increased during the year to £5.43 million (2015: £4.41 million) as the scale of the Affimer business operations increased, with new laboratory facilities in Cambridge and expanded laboratory facilities in Wetherby, together with increased headcount across production and sales teams.

Losses before taxation

Losses before taxation from continuing operations for the year were £5.57 million (2015: £5.54 million).

Taxation

The Group claims each year for research and development tax credits and, since it is loss-making, elects to surrender these tax credits for a cash rebate. The amount included within the consolidated income statement in respect of amounts received and receivable for the surrender of research and development expenditure was £0.92 million (2015: £0.65 million). The Group has not recognised any tax assets in respect of trading losses arising in the current financial year or accumulated losses in previous financial years.

Cash flow

The Group reported cash and short-term deposit balances of £19.52 million at 31 July 2016 (2015: £7.33 million). On 3 August 2015, the Group completed a placing of £22.00 million (before expenses) at a price of 1.25 pence per share. The proceeds from the placing have been placed on deposit with a range of financial institutions for time periods ranging between instant access and up to one year in maturity.

Operating cash outflows from operations amounted to £4.23 million (2015: £2.52 million). During the year capital expenditure of £2.86 million (2015: £0.81 million) was incurred as a result of the new facilities and laboratory equipment at the Cambridge and Wetherby sites.

Financial position

Net assets as at 31 July 2016 have increased to £35.86 million (2015: £19.13 million) as a result of the increased cash balances from the placing in August 2015 and the subsequent increase in property, plant and equipment to £3.74 million (2015: £1.55 million) following the opening of the new facilities in Cambridge and Wetherby.

Share consolidation and share premium reduction

On 26 January 2016, following approval by shareholders at the Annual General Meeting on 25 January 2016, Avacta Group Plc completed a share consolidation, creating 1 new ordinary share of 10p each for every 100 existing ordinary shares of 0.1p each.

In addition, following approval by shareholders at the Annual General Meeting on 25 January 2016 and the subsequent approval of the Court, an amount of £55.44 million was cancelled from the share premium account and credited to the retained earnings reserve.

Key performance indicators

The Group's key performance indicators include a range of financial and non-financial measures. The key measures being:

- monthly review of commercial/strategic prospects, revenues and forecasts;
- monitoring of cash balances and cash forecasts; and
- bi-monthly review of technical/programme development milestones.

Principal Risks and Uncertainties

The principal risks and uncertainties which could have a significant impact on the Group are set out below.

Research and development

The Group's research and development activities are focused around Affimer technology within the reagent, diagnostic and therapeutic areas.

There is a risk, consistent with similar biotechnology companies developing new and innovative technology platforms, that the scientists involved are unable to produce the results required for their internal development programmes or customer related projects.

The development teams continue to work on improving the core Affimer technology platform, with oversight from the Senior Management Team and Scientific Advisory Board.

Timing

There is a risk that the development of Affimer technology may take longer than planned to meet the requirements of current and potential customers.

Given the proprietary nature of Affimer technology and its early stage development, it may take some time for customers to utilise the technology instead or more established antibody technologies.

Intellectual property

The success of the Group's Affimer technology platform depends on its ability to obtain and maintain patent protection for its proprietary technology. The Board regularly review the patent portfolio and its protection.

Failure to protect the Affimer technology platform or if the scope of the patent protection is not sufficiently wide enough, could significantly impact the ability to commercialise the technology.

Should the patents be challenged, there could be a considerable cost in defending the patent rights, with an uncertain outcome.

Funding

The development of the Group's Affimer technology, in particular in the therapeutic areas, is resource and cash intensive.

As at 31 July 2016 the Group had cash and short-term deposits of £19.52 million which would provide sufficient funds beyond the next two years to continue the current programmes.

Should the Group decide to accelerate the Affimer platform development programme into additional therapeutic areas to increase shareholder value then further funding would need to be raised. As with all fundraising activities there are external market and economic factors which may impact the timing and amount of funding available.

Key staff

The Group has in place an experienced and motivated senior management team together with a growing number of highly skilled senior scientists.

Loss of key staff could lead to a delay in the Group's plans and operations.

The Group aims to provide remuneration packages and working conditions which will attract and retain staff of the required level.

Loss of facilities

Should the Group's facilities become damaged, the ability to carry on development programmes and meet customer deadlines may be affected.

The Group has recently relocated to purpose-built facilities in both Wetherby and Cambridge and has business continuity plans in place together with adequate insurance to cover any business damage or interruption.

This strategic report was approved by the Board on 14 October 2016 and signed on its behalf.

Alastair Smith
Chief Executive Officer

Tony Gardiner
Chief Financial Officer

Governance

40 Directors' Report

42 Remuneration Committee Report

46 Corporate Governance

49 Statement of Directors' Responsibilities

50 Independent Auditor's Report

Directors' Report

The Directors present their report and the audited financial statements for the period ended 31 July 2016.

Principal activity

The principal activity of the Group is to provide life scientists with high quality, powerful and unique tools to enable them to work faster and smarter in accelerating the understanding of biology and disease, and to help apply these advances to diagnosis and treatment of humans and animals.

Business review and future developments

A review of the Group's operations and future developments is covered in the Strategic Report on pages 10 to 38. 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 52 to 75.

The Directors have reviewed the results for the years ended 31 July 2016 and 31 July 2015, including the annual report and accounts, preliminary results statement and the report from the external auditor. In reviewing the statements and determining whether they were fair, balanced and understandable, the Directors considered the work and recommendations of management as well as the report from the external auditor.

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 were in office during the year and up to the date of signing the Report and Accounts, unless otherwise stated were:

- Dr Trevor Nicholls
- Alan Aubrey
- Dr Michael Albin
- Dr Mike Owen – Appointed 17 September 2015
- Dr Alastair Smith
- Craig Slater
- Tim Sykes – Resigned 9 December 2015
- Tony Gardiner – Appointed 4 January 2016.

Under the Articles of Association of the Company, two of the directors are required to retire at the forthcoming Annual General Meeting, notice of which accompanies this Report & Accounts. The Directors retiring by rotation at the forthcoming Annual General Meeting are Alastair Smith and Michael Albin. 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 or re-appointment at the forthcoming Annual General Meeting can be found on pages 30 and 31.

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

Substantial shareholders

The Company is informed that, at 14 October 2016, individual registered shareholdings of more than 3% of the Company's issued share capital were as follows:

	Number of shares	% of issued ordinary share capital
IP Group plc	16,949,783	24.8%
Henderson Global Investors	8,062,935	11.8%
Aviva Investors	6,669,468	9.8%
Baillie Gifford & Co	5,239,025	7.7%
Ruffer LLP	4,841,909	7.1%
Fidelity Worldwide Investment	4,028,374	5.9%
Avacta Employees Share Trust	3,232,306	4.7%
J O Hambro Capital Management	3,216,843	4.7%
NFU Mutual	2,390,000	3.5%

Directors' shareholdings

The beneficial interests of the Directors in the share capital of the Company at 31 July 2016 and at 14 October 2016 was as follows:

	Number of shares	% of issued ordinary share capital
Non-executive Directors		
Trevor Nicholls	35,000	0.1%
Alan Aubrey	191,334	0.3%
Michael Albin	4,292	-
Mike Owen	-	-
Executive Directors		-
Alastair Smith	537,281	0.8%
Craig Slater	8,632	-
Tony Gardiner	-	-

In addition, Alastair Smith has a joint interest in 1,640,000 shares, Craig Slater has a joint interest in 340,820 shares and Tony Gardiner has a joint interest in 150,000 shares in the share capital of the Company. Such shares are jointly held by themselves individually and Avacta Group Trustee Limited in its capacity as trustee of The Avacta Employees' Share Trust. The precise nature of the joint interest is described within Joint Share Ownership Agreements between Alastair Smith (dated 9 January 2012 and 15 February 2016), Craig Slater (dated 21 February 2014) or Tony Gardiner (dated 15 February 2016), as the case may be, and Avacta Group Trustee Limited and Avacta Group Plc in both cases.

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 42 to 45.

The middle market price of the Company's ordinary shares on 31 July 2016 was 84.5p and the range during the year was 83.5p to 152.0p with an average price of 121.5p.

Information on Directors' remuneration and share option rights is given in the Remuneration Committee Report on pages 42 to 45.

Research and development

During the year the Group expensed through the income statement £1.50 million (2015: £0.03 million) in relation to research and development costs. Within the amount expensed, £0.93 million (2015: £Nil) relates to the costs associated with the in-house Affimer therapeutic programme which has commenced in the current year and in-line with other therapeutics based companies are expensed given their pre-clinical stage of development. In addition, an amortisation charge of £0.57 million (2015: £0.03 million) has been recognised against previously capitalised development costs from the custom Affimer reagents and diagnostics programme and new Animal Health allergy tests.

In addition, development costs amounting to £1.73 million (2015: £3.06 million) were capitalised within intangible assets.

Derivatives and financial instruments

The Group's policy and exposure to derivatives and financial instruments is set out at Note 20.

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 2016 and the amount owed to its trade creditors at 31 July 2016, was 32 days (2015: 43 days).

Disclosure of information to auditor

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 auditor is 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 auditor is aware of that information.

Re-appointment of auditors

A resolution for the re-appointment as auditors of KPMG LLP and the fixing of their remuneration will be put to the forthcoming Annual General Meeting to be held on 20 January 2017.

By order of the Board

Tony Gardiner
Company secretary

Avacta Group Plc (Registered number – 04748597)
14 October 2016

Remuneration Committee Report

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.

General policy

The Committee, which consists solely of the non-executive directors of the Company 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-to-day involvement in the running of the Company. Details of the Directors individual and joint (where applicable) shareholdings are given on pages 40 and 41.

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 lower quartile levels with attractive short-term and longer-term performance incentives. 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.

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 November.

Performance related bonus

The Company operates an annual performance related bonus scheme for executive directors. The bonus scheme is discretionary and is based around significant value creation milestones, covering financial, commercial, technical and operational parameters. The maximum bonus that can be earned by an executive director is 100% of basic salary.

Benefits in kind

The Company provides life assurance cover, private medical cover and critical illness cover for the executive directors.

Pensions

The Company makes payments into defined contribution Personal Pension Plans ('the Plans') on behalf of the executive directors. 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 individual interests and joint interests (where applicable) of the Directors in the share capital of the Company are set out on page 40 and their interests in options held over shares in the Company are set out on page 44.

Executive Directors' service agreements

The Board's policy on setting notice periods for directors is that these should not exceed one year. All executive directors have service agreements 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	9 January 2012	Nil	6 months
Craig Slater	20 December 2013	Nil	6 months
Tony Gardiner	4 January 2016	Nil	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. Alan Aubrey was appointed for an initial term of one year by letter of appointment dated 13 July 2006 and is entitled to three months' notice following that initial term. Trevor Nicholls was appointed on 2 August 2013 with no initial term and is entitled to one months' notice. Michael Albin was appointed on 5 February 2014 with no initial term and is entitled to one months' notice. Mike Owen was appointed on 17 September 2015 with no initial term and is entitled to one months' notice.

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 2016 is set out below. These values are included within the audited accounts.

	Salary and fees £000	Bonus £000	Pensions[6] £000	Benefits £000	Share-based payment charge £000	**Total 2016 £000**	Total 2015 £000
Non-executive Directors							
Trevor Nicholls	31	-	-	-	-	**31**	20
Alan Aubrey	22	-	-	-	-	**22**	15
Michael Albin[1]	38	-	-	-	-	**38**	54
Mike Owen[2]	22	-	-	-	-	**22**	-
Gwyn Humphreys[3]	-	-	-	-	-	**-**	8
Executive Directors							
Alastair Smith	174	31	2	2	19	**228**	156
Craig Slater	130	24	8	-	40	**202**	205
Tony Gardiner[4]	85	5	4	-	29	**123**	-
Tim Sykes[5]	54	-	1	-	2	**57**	84
	556	60	15	2	90	**723**	542

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

1 *Michael Albin's fees are paid for his services as a director but also for his services as a consultant at a rate of US $2,500 per day. The total fees for his services as a director were £22,000 and his total consultancy fees were £16,000. Following an amendment to the appointment letter for Michael Albin dated 22 February 2016, with effect from 1 March 2016, 50% of the fee for his services as a director is used to purchase shares in the Group at the average mid-market closing share price for the five trading days prior to each quarter end.*

2 *Mike Owen was appointed on 17 September 2015.*

3 *Gwyn Humphreys resigned as a director on 23 January 2015.*

4 *Tony Gardiner was appointed on 4 January 2016.*

5 *Tim Sykes resigned as a director on 8 December 2015.*

6 *The number of Directors accruing benefits under money purchase pension schemes was 3 (2015: 3).*

Remuneration Committee Report (continued...)

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

	At 31 Jul 2015	Granted	Waived	Exercised	At 31 July 2016	Exercise price pence	Date from which exercisable	Date of grant	Expiry date
Alastair Smith	141,176[1]	-	-	-	141,176	50.0p	Note 2	9 Jan 2012	9 Jan 2022
Alastair Smith	-	128,764	-	-	128,764	118.5p	Note 2	15 Feb 2016	15 Feb 2026
Craig Slater	200,000[1]	-	-	-	200,000	118.0p	Note 2	21 Feb 2014	22 Dec 2023
Tony Gardiner	-	210,968	-	-	210,968	118.5p	Note 2	15 Feb 2016	15 Feb 2026

1 On 26 January 2016, following a 100 for 1 share consolidation exercise, the original option agreements over 0.1p shares in the Company were varied to options over 10p shares in the Company and the number of options reduced by a factor of 100, so that there was no overall change to the directors' interests in share options.

2 This option provides that, unless waived at the discretion of the remuneration committee of the board, it can, if it has not lapsed, be exercised as to one quarter after each anniversary of the date of grant up to and including the fourth anniversary of the date of grant.

The aggregate gain made by directors on the exercise of share options was £Nil (2015: £Nil).

The Non-executive directors do not hold any interest in share options of the Company.

Details of Directors' joint interests in the Joint Share Ownership Plan ('JSOP')

	At 31 July 2015	Granted	Waived	Exercised	At 31 July 2016	Date of agreement
Alastair Smith	1,144,149[1]	-	-	-	1,144,149	9 January 2012
Alastair Smith	-	495,851	-	-	495,851	15 February 2016
Craig Slater	340,820[1]	-	-	-	340,820	21 February 2014
Tony Gardiner	-	150,000	-	-	150,000	15 February 2016

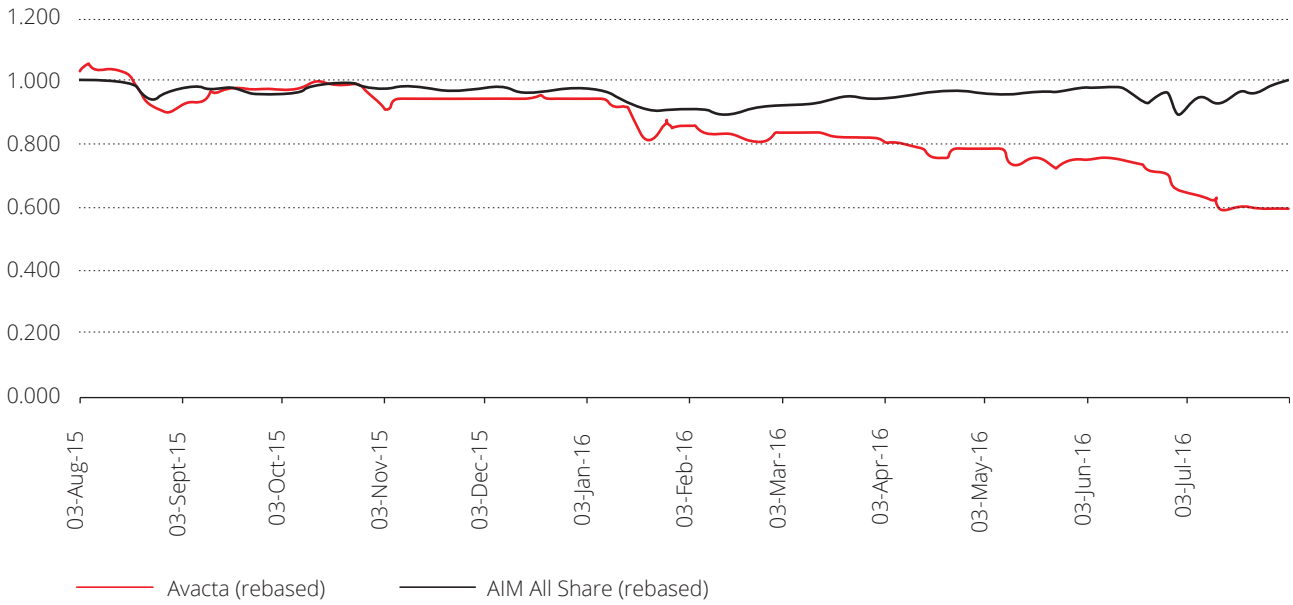
1 On 26 January 2016, following a 100 for 1 share consolidation exercise, the original number of JSOP shares was reduced by a factor of 100 so that there was no overall change to the directors' interests in JSOP shares.

Alastair Smith, Craig Slater and Tony Gardiner hold an interest in the shares of the Company, which are jointly held by themselves individually and Avacta Group Trustee Limited in its capacity as trustee of The Avacta Employees' Share Trust. The precise nature of the joint interest is described within the Joint Share Ownership Agreements between the individual, Avacta Group Trustee Limited and Avacta Group Plc.

The Non-executive directors do not hold any interest in the joint share ownership plan of the Company.

Performance graph

The following graph shows the Company's performance, measured by total shareholder return, compared with the performance of the FTSE AIM (rebased) for the year ended 31 July 2016.



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

This report was approved by the Board of Directors and authorised for issue on 14 October 2016 and was signed on its behalf by:

Dr Trevor Nicholls
Chairman of the Remuneration Committee
14 October 2016

Corporate Governance

The Board of Directors recognise the importance of good corporate governance to protect shareholder value.

Code on Corporate Governance

Whilst the Company is listed on AIM, it is not required to report against the 2014 UK Corporate Governance Code (the 'Code'). The Board however supports the principles contained within the Code and has sought to apply them where they are appropriate given the size and market capitalisation of the Company throughout the year.

Avacta Group Plc is subject to the UK City Code on Takeovers and Mergers.

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 three executive members as at 14 October 2016. 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 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 is appraised by the Chairman, the executive Board members by the Chief Executive and the non-executive Board members by the Chairman. 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. The non-executive directors 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. In addition, one of the non-executive directors represents a significant shareholder but is considered by the Board to be independent. The Board take the view that as the number of non-executive directors is only four, including the Chairman, their participation will continue as the Committees gain the benefit of their 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						
Trevor Nicholls	9	9	1	1	2	2
Alan Aubrey	9	8	1	1	2	2
Michael Albin	9	9	1	1	2	2
Mike Owen	9	9	1	1	2	2
Executive Directors						
Alastair Smith	9	9	-	-	-	-
Craig Slater	9	9	-	-	-	-
Tony Gardiner	5	5	-	-	-	-
Tim Sykes	3	3	-	-	-	-

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; and
- to implement the policy relating to any non-audit services performed by the external auditors.

Alan Aubrey is the Chairperson of the Committee. The other members of the Committee, Trevor Nicholls, Michael Albin and Mike Owen, all 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 October) 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 at least once a year. At its meeting, 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 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 Trevor Nicholls and the other members of the Committee are Alan Aubrey, Michael Albin and Mike Owen, all of whom are non-executive directors. The Committee meets at least once 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.

Corporate Governance (continued...)

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.

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 in place 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; and
- 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 Strategic Report, the Directors' Report and the Financial Statements

The directors are responsible for preparing the Strategic Report, the 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), including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*.

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; and
- for the group financial statements, state whether they have been prepared in accordance with IFRSs as adopted by the EU.

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 Auditor's Report to the Members of Avacta Group Plc

We have audited the financial statements of Avacta Group Plc for the year ended 31 July 2016 set out on pages 52 to 82.

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), including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 49, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's 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 Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate

Opinion on 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 2016 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; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and 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.

Johnathan Pass (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
1 Sovereign Square
Sovereign Street
Leeds
LS1 4DA

14 October 2016

Financial Statements

52 Consolidated Income Statement

53 Consolidated Balance Sheet

54 Consolidated Statement of Changes in Equity

55 Consolidated Statement of Cash Flows

56 Notes to the Consolidated Financial Statements

76 Company Balance Sheet

77 Company Statement of Changes in Equity

78 Notes to the Company Balance Sheet

Consolidated Income Statement for the year ended 31 July 2016

	Note	2016 £000	2015 £000
Revenue		**2,165**	1,813
Cost of sales		**(895)**	(526)
Gross profit		**1,270**	1,287
Research and development costs		**(1,500)**	(33)
Administrative expenses		**(5,434)**	(4,414)
Impairment of intangible assets	9	**-**	(2,407)
Operating loss	5	**(5,664)**	(5,567)
Financial income	6	**99**	26
Loss before taxation from continuing operations		**(5,565)**	(5,541)
Taxation	7	**918**	648
Loss after taxation from continuing operations		**(4,647)**	(4,893)
Loss from discontinued operations, net of tax	25	**-**	(5,098)
Loss and total comprehensive loss for the year attributable to equity shareholders		**(4,647)**	(9,991)
Loss per ordinary share:			
• Basic and diluted	8	**(6.86p)**	(20.09p)

The notes on pages 56 to 75 form an integral part of these financial statements.

Consolidated Balance Sheet as at 31 July 2016

	Note	2016 £000	2015 £000
Non-current assets			
Intangible assets	9	**11,480**	10,360
Property, plant & equipment	10	**3,738**	1,546
		15,218	11,906
Current assets			
Inventories	11	**268**	333
Trade and other receivables	12	**1,128**	767
Income taxes		**1,418**	1,066
Short-term deposits	13	**10,000**	-
Cash and cash equivalents	14	**9,521**	7,330
		22,335	9,496
Total assets		**37,553**	21,402
Current liabilities			
Trade and other payables	15	**(1,357)**	(1,407)
Contingent consideration	16	**(315)**	(395)
		(1,672)	(1,802)
Non-current liabilities			
Contingent consideration	16	**(25)**	(468)
		(25)	(468)
Total liabilities		**(1,697)**	(2,270)
Net assets		**35,856**	19,132
Equity attributable to equity holders of the Company			
Share capital	18	**6,915**	5,057
Share premium	19	**621**	35,756
Capital reserve	19	**1,899**	2,669
Other reserve	19	**(1,729)**	(1,729)
Reserve for own shares	19	**(2,651)**	(1,590)
Retained earnings	19	**30,801**	(21,031)
Total equity		**35,856**	19,132

The notes on pages 56 to 75 form an integral part of these financial statements. The financial statements on pages 52 to 82 were approved by the Board of Directors on 14 October 2016 and signed on its behalf by:

Alastair Smith
Chief Executive Officer

Tony Gardiner
Chief Financial Officer

Consolidated Statement of Changes in Equity for the year ended 31 July 2016

	Share capital £000	Share premium £000	Other reserve £000	Capital reserve £000	Reserve for own shares £000	Retained earnings £000	Total equity £000
At 1 August 2014	5,045	35,747	(1,729)	2,669	(1,590)	(11,305)	28,837
Total transactions with owners, recorded directly in equity:							
Exercise of share options	12	9	-	-	-	-	21
	12	9					21
Total comprehensive loss for the period	-	-	-	-	-	(9,991)	(9,991)
Share-based payment charges	-	-	-	-	-	265	265
At 31 July 2015	5,057	35,756	(1,729)	2,669	(1,590)	(21,031)	19,132
Total transactions with owners, recorded directly in equity:							
Placing net of related expenses	1,760	19,255	-	-	-	-	21,015
Exercise of share options	8	76	-	-	-		84
Share premium cancellation	-	(55,437)	-	-	-	55,437	-
Own shares acquired	90	971	-	-	(1,061)	-	-
	1,858	(35,135)	-	-	(1,061)	55,437	21,099
Total comprehensive loss for the period	-	-	-	-	-	(4,647)	(4,647)
Share-based payment charges	-	-	-	-	-	272	272
Transfer[1]	-	-	-	(770)	-	770	-
At 31 July 2016	**6,915**	**621**	**(1,729)**	**1,899**	**(2,651)**	**30,801**	**35,856**

Details of the nature of each component of equity are given at Note 19.

1 The transfer of equity from the capital reserve to retained earnings relates to share option warrants which have expired.

Consolidated Statement of Cash Flows for the year ended 31 July 2016

	2016 £000	2015 £000
Cash flow from operating activities		
Loss for the year	**(4,647)**	(9,991)
Loss on disposal and impairment of goodwill on discontinued operations	**-**	4,793
Amortisation and impairment losses	**642**	2,465
Depreciation	**604**	518
Loss on disposal of property, plant and equipment	**67**	33
Reduction of contingent consideration	**(443)**	-
Equity settled share-based payment charges	**272**	265
Financial income	**(99)**	(26)
Income tax credit	**(918)**	(648)
Operating cash outflow before changes in working capital	**(4,522)**	(2,591)
Decrease/(increase) in inventories	**65**	(210)
(Increase)/decrease in trade and other receivables	**(361)**	197
(Decrease)/increase in trade and other payables	**(80)**	56
Operating cash outflow from operations	**(4,898)**	(2,548)
Finance income received	**99**	26
Income tax received	**566**	7
Cash flows from operating activities	**(4,233)**	(2,515)
Cash flows from investing activities		
Purchase of plant and equipment	**(2,863)**	(806)
Development expenditure capitalised	**(1,762)**	(3,060)
Increase in balances on short-term deposit	**(10,000)**	-
Disposal of discontinued operations	**-**	2,210
Net cash flow from investing activities	**(14,625)**	(1,656)
Cash flows from financing activities		
Proceeds from issue of shares	**21,049**	21
Net cash flow from financing activities	**21,049**	21
Net increase/(decrease) in cash and cash equivalents	**2,191**	(4,150)
Cash and cash equivalents at the beginning of the year	**7,330**	11,480
Cash and cash equivalents at the end of the year	**9,521**	7,330

Notes to the Consolidated 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 2016 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 applicable United Kingdom accounting standards, including Financial Reporting Standard 102 – 'The Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland' ('FRS 102'), and with the Companies Act 2006. These parent company financial statements and notes appear after the notes to the consolidated 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.

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 22.

Going concern

The Strategic review on pages 10 to 38 outlines the business activities of the Group along with the factors which may affect its future development and performance. The Group's financial position is discussed in the Financial review on page 37 along with details of its cash flow and liquidity. Note 20 to the financial statements sets out the Group's financial risks and the management of those risks.

Management prepares detailed working capital forecasts which are reviewed by the Board on a regular basis. The forecasts include assumptions regarding the status of customer development projects and sales pipeline, future revenues and costs together with various scenarios which reflect growth plans, opportunities, risks and mitigating actions. The forecasts also include assumptions regarding the timing and quantum of investment in the Affimer research and development programme. Whilst there are inherent uncertainties regarding the cash flows associated with the development of the Affimer platform, together with the timing of signature and delivery of customer development projects and future collaboration transactions, the Directors are satisfied that there is sufficient discretion and control as to the timing and quantum of cash outflows to ensure that the Company and Group are able to meet their liabilities as they fall due for the foreseeable future.

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 2016. 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 continues to develop its Affimer platform technology. This is expected to generate significant revenues for the Group over the coming years, aiding both profitability and cash flows.
- As at 31 July 2016 the Group's short-term deposits and cash and cash equivalents were £19.52 million (2015: £7.33 million).
- The Directors have prepared sensitised cash flow forecasts extending to the end of the financial year ended 31 July 2018. These show that the Group has sufficient funds available to meet its obligations as they fall due over that period.
- 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.

New standards and interpretations not applied

The following Adopted IFRSs have been issued but have not been applied by the Group in these financial statements. Their adoption is not expected to have a material effect on the financial statements unless otherwise indicated:

- Clarification of Acceptable Methods of Depreciation and Amortisation – Amendments to IAS 16 and IAS 38 (effective date 1 January 2016).
- Annual Improvements to IFRSs – 2012-2014 Cycle (effective date 1 January 2016).
- IFRS 9 Financial Instruments (effective date 1 January 2018).
- IFRS 15 Revenue from Contract with Customers (effective date 1 January 2018). The Group has commenced an assessment of the impact likely from adopting the standard and does not expect the impact will be material to the Group's reported results or financial position.
- Clarification of and Measurement of Share-based Payment Transactions – Amendments to IFRS 2 (effective date to be confirmed).
- IFRS 16 Leases (effective date 1 January 2019, subject to EU endorsement).

No new standards becoming effective and applied in the current year have had a material impact on the financial statements.

The Group continues to monitor the potential impact of other new standards and interpretations which may be endorsed by the European Union and require adoption by the Group in future reporting periods.

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:

- Laboratory equipment – 5 to 10 years
- Fixtures and fittings – 3 to 10 years
- Leasehold improvements – 5 to 10 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. 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 on the pipeline of therapeutic Affimers is expensed in the period it is incurred, consistent with pharmaceutical industry practice, as there is significant risk through the product development stages up to regulatory approval that a commercial product may not materialise.

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 of 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.

Notes to the Consolidated Financial Statements (continued...)

Development expenditure relating to reagent or diagnostic products in the Life Sciences business is amortised based on the number of custom Affimer projects completed in the period with the amortisation charge spread over a period up to 10 years. Development expenditure relating to the new diagnostic tests within the Animal Health business are amortised over a period up to 5 years from when the tests are first launched.

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 separately 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

In accordance with 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.

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 recognised at the lower of cost and net realisable value. Cost is determined using the first in, first out method. Appropriate provisions for estimated irrecoverable amounts are recognised in the income statement when there is objective evidence that the assets are impaired.

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 (short-term deposits and 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.
- Short-term deposits: Short-term deposits comprise money market deposits which are convertible to known amounts of cash and have an original maturity of between three and twelve months.
- Cash and cash equivalents: Cash and cash equivalents comprise cash in hand, demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. The carrying amount of these assets approximates their fair value.

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 accounting policy is in accordance with IFRS 8 'Operating Segments'.

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.

Revenue recognition

The Group derives revenue from the sale of products, granting of licences and the provision of services. Revenue represents the fair value of consideration received or receivable in respect of products, licences 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 from the provision of services is recognised on services when the service has been performed. Revenue from licenses comprises exclusivity arrangements, technology access fees and similar arrangements, milestone income and royalties. The accounting policies for the licensing revenue stream are as follows: (i) Exclusivity arrangements, technology access fees and similar agreements are recognised as revenue in the accounting period in which the related services, or required activities, are performed or specified conditions are fulfilled in accordance with the terms of completion of the specific transaction; (ii) Certain services include milestone and royalty payments which are recognised as the service is provided to the extent that it is probable they will be received.

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.

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.

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.

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.

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.

Notes to the Consolidated Financial Statements (continued...)

2 Segment reporting

Operating segments

In the view of the Board of Directors, the Group has two distinct reportable segments; Life Sciences and Animal Health, and segment reporting has been presented on this basis. The Directors recognise that the operations of the Group are dynamic and therefore this position will be monitored as the Group develops.

The principal activities of each reportable segment are as follows:

- Animal Health: provision of tools and contract services to assist diagnosis of conditions in animals to enable faster treatment for veterinarians.
- Life Sciences: provision of custom Affimers for reagents and diagnostics, drug and biomarker discovery in biotech research and development.
- 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. The Group's revenue to destinations outside the UK amounted to 48% (2015: 44%) of total revenue.

Operating segment analysis 2016	Animal Health £000	Life Sciences £000	**Total £000**
Sale of goods	674	-	**674**
Provision of services	787	704	**1,491**
Licence related income	-	-	**-**
Revenue	**1,461**	**704**	**2,165**
Cost of goods sold	(444)	(451)	**(895)**
Gross profit	**1,017**	**253**	**1,270**
Research and development costs	(194)	(1,306)	**(1,500)**
Administrative expenses	(1,113)	(2,671)	**(3,784)**
Segment operating loss	**(290)**	**(3,724)**	**(4,014)**
Corporate and other unallocated items			**(1,650)**
Impairment of intangible assets			**-**
Operating loss			**(5,664)**
Finance income			**99**
Loss before taxation			**(5,565)**
Taxation			**918**
Amount attributable to equity holders of the Company			**(4,647)**
Segment intangible assets	3,999	7,481	**11,480**
Segment other assets	362	5,986	**6,348**
Segment assets	**4,361**	**13,467**	**17,828**
Corporate and other unallocated items			**19,725**
Total assets			**37,553**
Segment liabilities	**(173)**	**(946)**	**(1,119)**
Corporate and other unallocated items			**(578)**
Total liabilities			**(1,697)**

Operating segment analysis 2015	Animal Health £000	Life Sciences £000	**Total £000**
Sale of goods	706	-	**706**
Provision of services	668	113	**781**
Licence related income	-	326	**326**
Revenue	**1,374**	**439**	**1,813**
Cost of goods sold	(452)	(74)	**(526)**
Gross profit	**922**	**365**	**1,287**
Research and development costs	-	(33)	**(33)**
Administrative expenses	(1,124)	(1,546)	**(2,670)**
Segment operating loss	**(202)**	**(1,214)**	**(1,416)**
Corporate and other unallocated items			**(1,744)**
Impairment of intangible assets			**(2,407)**
Operating loss			**(5,567)**
Finance income			**26**
Loss before taxation from continuing operations			**(5,541)**
Taxation			**648**
Discontinued operations[1]			**(5,098)**
Amount attributable to equity holders of the Company			**(9,991)**
Segment intangible assets	3,843	6,484	**10,327**
Segment other assets	307	2,371	**2,678**
Segment assets	**4,150**	**8,855**	**13,005**
Corporate and other unallocated items			**8,397**
Total assets			**21,402**
Segment liabilities	**(992)**	**(1,001)**	**(1,993)**
Corporate and other unallocated items			**(277)**
Total liabilities			**(2,270)**

1 *The Group's Analytical operating segment was disposed of on 11 February 2015 at which point selected assets and liabilities were sold. The financial performance of this operating segment and the impact of the disposal is set out at Note 25.*

3 Employees

Staff costs:	**2016 £000**	2015 £000
Wages and salaries	**3,636**	3,068
Social security costs	**391**	309
Pension charges	**126**	98
Share-based payment charges	**272**	265
	4,425	3,740
Average number of employees (including directors) during the year:		
Commercial and operational	**76**	72
Administrative	**11**	11
	87	83

Notes to the Consolidated Financial Statements (continued...)

4 Share-based payments

The Group operates a Joint Share Ownership Plan ('JSOP'), 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), to replace existing options in respect of the acquisition of Curidium Medica Limited (formerly Curidium Medica plc) and dependent upon the future sales performance of any products or services resulting from certain acquired intellectual property and assets related to the development of the Group's animal health diagnostic test menu. Details of the options currently granted and unexercised are given below.

Grant date	Employees entitled	Number of options	Vesting conditions	Exercise price (p)	Earliest exercise date	Expiry date
Options granted as employee (or consultant) benefits						
8 August 2006	1	72,182	Time served	225.0	Note 1	7 August 2016
23 June 2009	2	50,666	Time served	187.5	Note 2	22 June 2019
12 November 2010	1	35,913	Time served and share price performance	76.0	Note 3	11 November 2020
12 November 2010	1	16,000	Time served	76.0	Note 4	11 November 2020
9 January 2012	1	141,176	Time served	50.0	Note 5	9 January 2022
12 January 2012	1	20,689	Contractual performance	72.5	12 January 2012	12 January 2022
21 December 2012	20	10,000	Unconditional	106.5	21 December 2012	21 December 2022
8 March 2013	1	12,269	Time served	120.0	Note 6	8 March 2023
16 September 2013	1	250,000	Time served	81.5	Note 7	16 September 2023
4 November 2013	5	125,000	Time served	88.5	Note 8	4 November 2023
4 November 2013	19	15,500	Unconditional	88.5	4 November 2013	4 November 2023
16 June 2014	1	200,000	Time served	118.0	Note 9	16 June 2024
16 June 2014	1	111,607	Time served and commercial performance	118.0	Note 10	16 June 2024
21 September 2014	1	18,000	Time served	86.0	Note 11	21 September 2024
3 November 2014	1	18,000	Time served	75.0	Note 12	3 November 2024
4 November 2014	2	50,000	Time served	88.5	Note 13	4 November 2024
10 November 2014	1	25,000	Time served	73.0	Note 14	10 November 2024
25 November 2014	29	24,000	Unconditional	66.0	25 November 2014	25 November 2024
15 May 2015	1	138,366	Time served	85.5	Note 15	15 May 2025
13 November 2015	3	75,000	Time served	134.5	Note 16	13 November 2025
13 November 2015	52	55,000	Unconditional	134.5	13 November 2015	13 November 2025
15 February 2016	4	589,172	Time served	118.5	Note 17	15 February 2026
Options granted to individuals combining employee benefits and as consideration for business combinations						
3 March 2009	3	16,002	Time served	414.0	Note 18	2 March 2019
Options granted to individuals in consideration for business combinations						
14 December 2007	1	27,675	Note 19	319.0	14 December 2007	13 December 2017
14 December 2007	4	270,453	Note 20	10.0	14 December 2007	13 December 2017
14 May 2013	2	297,450	Note 21	10.0	14 May 2013	14 May 2018
8 December 2014	1	854	Note 21	10.0	8 December 2014	7 December 2015
28 July 2015	2	2,419	Note 21	10.0	28 July 2015	27 July 2016
21 June 2016	2	4,438	Note 21	10.0	21 June 2016	20 June 2017

1 *Each of the options provides that they can, if they have not lapsed, be exercised as to 72,182 at 31 July 2016.*

2 *Each of these options provides that they can, if they have not lapsed, be exercised as to 50,666 at 31 July 2016.*

3 *Each of these options provides that they can, if they have not lapsed, be exercised as to one half of the share price of the Company increases to 160p for a continuous period of three calendar months and as to one half if the share price of the Company increases to 200p for a continuous period of three calendar months, each within a period of three years from the date of grant.*

4 *This option provides that they can, if they have not lapsed, be exercised as to 16,000 at 31 July 2016.*

5 *This option provides that they can, if they have not lapsed, be exercised as to 141,176 at 31 July 2016.*

6 *This option provides that they can, if they have not lapsed, be exercised as to 12,269 at 31 July 2016.*

7 *This option provides that they can, if they have not lapsed, be exercised as to 250,000 at 31 July 2016.*

8 *This option provides that they can, if they have not lapsed, be exercised as to 125,000 at 31 July 2016.*

9 *This option provides that they can, if they have not lapsed, be exercised as to 100,000 at 31 July 2016, as to 50,000 on or after 21 February 2017 and as to 50,000 on or after 21 February 2018.*

10 *This option provides that they can be exercised as to 111,607 at 31 July 2016.*

11 *This option provides that they can, if they have not lapsed, be exercised as to 8,000 at 31 July 2016 and 10,000 on or after 21 September 2016.*

12 *This option provides that they can, if they have not lapsed, be exercised as to 8,000 at 31 July 2016 and 10,000 on or after 3 November 2016.*

13 *This option provides that they can, if they have not lapsed, be exercised as to 20,000 at 31 July 2016 and 30,000 on or after 4 November 2016.*

14 *This option provides that they can, if they have not lapsed, be exercised as to 10,000 at 31 July 2016 and 15,000 on or after 10 November 2016.*

15 *This option provides that they can, if they have not lapsed, be exercised as to 46,122 at 31 July 2016, as to 46,122 on or after 15 May 2017 and as to 46,122 on or after 15 May 2018.*

16 *This option provides that they can, if they have not lapsed, be exercised as to 30,000 on or after 14 November 2016 and as to 45,000 on or after 14 November 2017.*

17 *This option provides that they can, if they have not lapsed, be exercised as to 147,293 on or after 15 February 2017, as to 147,293 on or after 15 February 2018, as to 147,293 on or after 15 February 2019 and as to 147,293 on or after 15 February 2020.*

18 *Each of these options provides that they can, if they have not lapsed, be exercised as to 16,002 as at 31 July 2016. 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 was charged to the income statement under IFRS2.*

19 *These options were granted to an individual 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.*

20 *Each of these options provides that 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.*

21 *These options were granted to certain individuals as a result of the post-acquisition sales performance of animal health diagnostic tests developed from intellectual property acquired, the fair value of which was estimated at the date of the acquisition and capitalised under IFRS3.*

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

	Year ended 31 July 2016		Year ended 31 July 2015	
	Options	Weighted average exercise price (p)	Options	Weighted average exercise price (p)
At start of period	*2,184,360	76.70	199,404,872	0.78
Granted during the year	727,110	120.78	29,832,289	0.80
Exercised during the year	(73,463)	41.59	(4,500,000)	0.85
Forfeited or lapsed during the year	(165,176)	66.06	(6,300,000)	0.88
Outstanding at end of period	**2,672,831**	**90.33**	**218,437,161**	**0.77**
Exercisable at end of period	**1,715,502**	**77.97**	**141,618,089**	**0.71**

** Opening position at 1 August 2015 adjusted to reflect the share consolidation on 26 January 2016 which created 1 new ordinary share of 10p each for every 100 existing ordinary shares of 0.1p each (see Note 19).*

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 replace existing options in respect of the acquisition of Curidium Medica Limited (formerly Curidium Medica plc), the vested proportion of the options is included as part of the consideration in the business combination accounting 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.

Notes to the Consolidated Financial Statements (continued...)

In addition, certain employees have a joint interest in shares with Avacta Group Trustee Limited as trustee of The Avacta Employees' Share Trust. At 31 July 2016, six employees (2015: three) had joint interests in 3,232,306 (2015: 1,986,455) ordinary shares in the Company. The precise nature of the joint interest is described within Joint Share Ownership Agreements dated 15 February 2016, or 21 February 2014, or 9 January 2012 between each employee individually, Avacta Group Trustee Limited and Avacta Group Plc. These joint interests have been treated as employee benefits and the fair value at the date of issue of the shares based on the Group's estimate of the number of shares that will eventually be sold and the price at which they will be sold on a straight line basis from the date that a sale becomes probable to the date at which they are anticipated to be sold.

Fair value is measured by use of the Black-Scholes or Monte Carlo option pricing model depending on which is most appropriate to the conditions attached to the employee benefit.

The Group recognised a charge to the income statement of £272,000 (2015: £265,000) of which £272,000 (2015: £249,000) was charged within administrative expenses.

The options outstanding at 31 July 2016 had a weighted average exercise price of 90.33p (2015: 0.77p), and a weighted average remaining contractual life of 6 years and 17 weeks (2015: 6 years and 4 weeks).

The inputs into the Black-Scholes models for the options granted during the year are as follows:

	2016	2015
Weighted average share price at date of grant	**120.78p**	0.80p
Weighted average exercise price	**120.78p**	0.80p
Expected volatility	**165.5%**	95.5%
Expected life	**4.5 years**	4.5 years
Risk free rate	**1.0%**	1.0%
Expected dividends	**Nil**	Nil

Expected volatility was determined by calculating the historical volatility of the Group's share price over a period commensurate with the expected life of the 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.

5 Operating loss

Operating loss is stated after charging/(crediting):	**2016 £000**	2015 £000
Grant Income	**(123)**	(119)
Release of deferred consideration	**(443)**	-
Operating lease rentals:		
• Land and buildings	**285**	131
Depreciation of property, plant and equipment (see Note 10):		
• On owned assets	**604**	567
Amortisation of intangible fixed assets (see Note 9)	**642**	58
Employee benefit expense, including share-based payment charges (see Note 3)	**4,425**	3,740
Auditors remuneration:		
• Audit services in respect of the Company's financial statements	**15**	15
• Audit services in respect of the Company's subsidiaries' financial statements	**15**	15
• Tax services	**13**	6

6 Finance income

	2016 £000	2015 £000
Interest received	**99**	26

7 Taxation on loss on ordinary activities

	2016 £000	2015 £000
Corporation tax:		
Current year	**(700)**	(500)
Prior years	**(218)**	(148)
Deferred taxation:		
Current year	**-**	-
Tax on loss on ordinary activities	**(918)**	(648)

Factors affecting the tax charge for the current period

The current tax credit for the year is lower (2015: lower) than the standard rate of corporation tax in the UK of 20% (2015: 20.7%). The differences are explained below.

	2016 £000	2015 £000
Loss on ordinary activities before taxation	**(5,565)**	(5,541)
Loss on ordinary activities before taxation multiplied by the standard rate of corporation tax in the UK of 20% (2015: 20.7%)	**(1,113)**	(1,142)
Effects of:		
• Difference between capital allowances and depreciation	**144**	105
• Expenses not deductible for tax purposes	**91**	90
• Utilisation of tax losses	**(10)**	(178)
• Other timing differences (principally tax losses not recognised)	**888**	1,125
• Government tax incentives	**(918)**	(648)
• Deferred tax (Note 17)	**-**	-
	(918)	(648)

8 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 are the same as the diluted earnings per ordinary share because the effect of potentially issuable shares is anti-dilutive.

	2016	2015
Loss (£000)	**(4,647)**	(9,991)
Underlying loss[1] (£000)	**(4,647)**	(2,486)
Weighted average number of shares[2] (number)	**67,713,817**	49,729,816
Basic and diluted loss per ordinary share (pence)	**(6.86p)**	(20.09p)
Underlying basic and diluted loss per ordinary share[1] (pence)	**(6.86p)**	(5.00p)

1 *Excluding discontinued operations and impairment charges.*

2 *Weighted average number of shares adjusted to reflect the share consolidation on 26 January 2016 which created 1 new ordinary share of 10p each for every 100 existing ordinary shares of 0.1p each (see Note 18).*

Notes to the Consolidated Financial Statements (continued...)

9 Intangible fixed assets

	Goodwill £000	Customer related intangible assets £000	Development costs £000	Patents £000	Total £000
Cost					
At 31 July 2014	9,596	210	7,040	53	16,899
Transfers from property, plant and equipment (see note 10)	-	-	54	-	54
Internally developed	-	-	3,060	-	3,060
Disposals	(4,941)	-	(2,032)	-	(6,973)
At 31 July 2015	4,655	210	8,122	53	13,040
Internally developed	-	-	1,726	-	1,726
Additions	-	-	-	36	36
Disposals	-	-	(2,381)	(33)	(2,414)
At 31 July 2016	**4,655**	**210**	**7,467**	**56**	**12,388**
Amortisation and impairment					
At 1 August 2014	-	210	389	11	610
Impairment	-	-	2,381	26	2,407
Charge for the year	-	-	57	1	58
Disposals	-	-	(395)	-	(395)
At 31 July 2015	-	210	2,432	38	2,680
Charge for the year	-	-	637	5	642
Disposals	-	-	(2,381)	(33)	(2,414)
At 31 July 2016	**-**	**210**	**688**	**10**	**908**
Net book value					
At 31 July 2016	**4,655**	**-**	**6,779**	**46**	**11,480**
At 31 July 2015	4,655	-	5,690	15	10,360
At 31 July 2014	9,596	-	6,651	42	16,289

Development costs

Development costs relate to the internally generated intangible asset associated with the development of:

- the Affimer affinity reagent based technologies;
- the additional companion animal diagnostic testing capability.

Development expenditure relating to reagent or diagnostic products in the Life Sciences business is amortised based on the number of custom Affimer projects completed in the period with the amortisation charge spread over a period up to 10 years. Development expenditure relating to the new diagnostic tests within the Animal Health business are amortised over a period up to 5 years from when the tests are first launched.

The disposal of £2.38 million and associated depreciation of £2.38 million relates to development costs which were fully impaired as at 31 July 2015.

Patents

The amortisation period applied to the patent expenditure is the same period as the length of the life of the patent, being either 14 or 15 years.

Goodwill

Goodwill arising on business combinations is allocated to the Group's separate Cash Generating Units (CGUs) based on an assessment of which CGUs will derive benefit from each acquisition. A CGU is the smallest group of assets which generate cash inflows independently from other assets. A CGU can be smaller than an Operating Segment. In the view of the Directors, the Group currently has two (2015: two) CGUs reflecting the core areas of technological focus. Goodwill is not amortised, but tested annually for impairment. The goodwill can be allocated, on an operating segment (see Note 2) basis, as follows:

	2016 £000	2015 £000
Animal Health	**3,117**	3,117
Life Sciences	**1,538**	1,538
Goodwill	**4,655**	4,655

Impairment review

An impairment review of the Group's intangible and tangible non-current assets was conducted at 31 July 2016. The tangible and intangible non-current assets at 31 July 2016 can be allocated as follows:

	Tangible £000	Goodwill £000	Development costs £000	Patents £000	**Total £000**
Animal Health	62	3,117	882	-	**4,061**
Life Sciences	3,652	1,538	5,896	46	**11,132**
	3,714	**4,655**	**6,778**	**46**	**15,193**

In each case the recoverable amount of each CGU is compared against the carrying value of assets allocated to each CGU. The recoverable amount is estimated based on value in use calculations. Centrally held assets are considered against the aggregate value in use of the whole Group.

Value in use calculations include detailed budgets and three year forecasts, followed by modelling of expected cash flows reflecting the expected life cycle of each product and extrapolation of 'steady state' performance at growth rates given below. The long-term growth rates reflect the long-term expectation for each CGU and have been estimated at 2.5% (2015: 2.5%) in each case. Gross and operating margins have been assumed to remain constant based on budget and past experience. All cash flows are discounted back to present value using a pre-tax discount rate of between 12.5% and 15.0% (2015: between 12.5% and 15.0%) that takes into account the individual risks of each particular asset and revenue stream.

The Directors' key assumptions relate to short-term revenue growth and discount rates applied. Gross and operating margins have been assumed to remain constant and are based on budget.

Notes to the Consolidated Financial Statements (continued...)

10 Property, plant and equipment

	Assets in the course of construction £000	Leasehold improvements £000	Laboratory equipment £000	Office fixtures & fittings £000	Total £000
Cost					
At 1 August 2014	71	208	1,937	154	2,370
Transfers to intangible fixed assets (see note 9)	(54)	-	-	-	(54)
Additions	-	-	793	44	837
Disposals	(17)	-	(382)	(22)	(421)
At 31 July 2015	-	208	2,348	176	2,732
Additions	1,060	531	1,193	79	2,863
Disposals	-	(138)	(207)	(58)	(403)
At 31 July 2016	**1,060**	**601**	**3,334**	**197**	**5,192**
Depreciation					
At 1 August 2014	-	67	796	106	969
Charge for the year	-	46	434	38	518
Disposals	-	-	(284)	(17)	(301)
At 31 July 2015	-	113	946	127	1,186
Charge for the year	-	61	505	38	604
Disposals	-	(104)	(177)	(55)	(336)
At 31 July 2016	-	70	1,274	110	1,454
Net book value					
At 31 July 2016	**1,060**	**531**	**2,060**	**87**	**3,738**
At 31 July 2015	-	95	1,402	49	1,546
At 1 August 2014	71	141	1,141	48	1,401

11 Inventories

	2016 £000	2015 £000
Raw materials and components (net of impairment of £Nil, 2015: £Nil)	**259**	324
Finished goods (net of impairment of £Nil, 2015: £Nil)	**9**	9
	268	333

12 Trade and other receivables

	2016 £000	2015 £000
Trade receivables	**161**	213
Prepayments and accrued income	**626**	432
Other taxes and social security	**341**	122
	1,128	767

Trade and other receivables denominated in currencies other than sterling comprise £17,000 (2015: £Nil) of trade receivables denominated in US Dollars. The fair values of trade receivables are the same as their book values.

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 of impairment. The summarised ageing analysis of trade receivables past due but not impaired is as follows:

	2016 £000	2015 £000
Under 30 days overdue	**30**	52
Between 30 and 60 days overdue	**(4)**	4
Over 90 days overdue	**21**	(13)
	47	43

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

13 Short-term deposits

	2016 £000	2015 £000
Short-term deposits	**10,000**	-

Balances held on short-term deposits have maturity dates between three and twelve months at the time of investment.

14 Cash and cash equivalents

	2016 £000	2015 £000
Cash	**9,521**	7,330

15 Trade and other payables

	2016 £000	2015 £000
Trade payables	**403**	664
Other taxes and social security	**167**	125
Accruals and other creditors	**787**	618
	1,357	1,407

Trade and other payables denominated in currencies other than sterling comprise £10,000 (2015: £95,000) of trade payables denominated in US dollars and £19,000 (2015: £22,000) denominated in Euros. The fair values of trade payables are the same as their book values.

Notes to the Consolidated Financial Statements (continued...)

16 Contingent consideration

	2016 £000	2015 £000
Contingent consideration	**340**	863
Maturity of debt:		
• Payable on demand or within one year	**315**	395
• Payable between one and two years	**6**	25
• Payable after more than two years	**19**	443
	340	863

Contingent consideration amounting to £822,000 arose on the acquisition of certain assets relating to the development of the animal health diagnostic test menu on 14 May 2013 and the amount payable is related to actual and estimated revenues generated over the five year period ended 14 May 2018.

17 Deferred tax liabilities

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

	2016 £000	2015 £000
Deferred tax asset/(liability)		
Development costs	**(1,359)**	(1,138)
Trading losses	**993**	785
Other items	**366**	353
	-	-

Movement in deferred tax year ended 31 July 2016	At 1 August 2015 £000	Income statement £000	At 31 July 2016 £000
Development costs	(1,138)	(221)	(1,359)
Trading losses	785	208	993
Other items	353	13	366
	-	-	-

There is no liability to corporation tax in the year.
There is an unprovided deferred tax asset of approximately £4,159,000 due to trading losses in prior financial years (2015: £3,274,000). This asset has not been recognised because of uncertainty around future utilisation of losses.

18 Share capital

	2016 £000	2015 £000
Allotted, called up and fully paid:		
• 68,379,282 Ordinary shares of 10p each	**6,838**	-
• 4,979,649,550 Ordinary shares of 0.1p each	**-**	4,980
• 19,327,344 Deferred shares of 0.4p each	**77**	77
	6,915	5,057

Share consolidation

On 26 January 2016, following approval by shareholders at the Annual General Meeting on 25 January 2016, Avacta Group Plc completed a share consolidation, creating 1 new ordinary share of 10p each for every 100 existing ordinary shares of 0.1p each.

Share issues

On 3 August 2015, 1,760,000,000 Ordinary shares of 0.1p each were allotted and issued at a price of 1.25p per share further to a placing of shares. Placing costs of £985,000 were incurred and offset against the share premium reserve.

On various dates between 1 August 2015 and 25 January 2016, 6,646,404 Ordinary shares of 0.1p each were allotted and issued at a weighted average price of 0.41p per share further to exercising of options by employees or former employees of the Company.

On 15 February 2016, 905,031 Ordinary shares of 10p each were allotted and issued at a price of 118.5p per share to five employees and Avacta Group Trustee Limited as trustee for The Avacta Employees' Share Trust.

On various dates between 26 January 2016 and 31 July 2016, 7,000 Ordinary shares of 10p each were allotted and issued at a weighted average price of 45.2p per share further to exercising of options by employees of former employees of the Company.

On 6 April 2016 and 7 July 2016, 4,292 Ordinary shares of 10p each in total were allotted and issued at a weighted average price of 97.1p per share to Michael Albin, a non-executive director in settlement of 50% of the fees due for the services of Michael Albin as a non-executive director between 1 March 2016 and 31 June 2016 as per an agreement dated 22 February 2016.

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 Unit 20, Ash Way, Thorp Arch Estate, Wetherby, LS23 7FA 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.

Notes to the Consolidated Financial Statements (continued...)

19 Capital and reserves

Share premium

The share premium account of £621,000 (2015: £35,756,000) arose from the issue of shares at a premium to their nominal value less certain allowable cost of issue. Following approval by shareholders at the Annual General Meeting on 25 January 2016 and the subsequent approval of the Court, an amount of £55,437,000 was cancelled from the share premium account. The remaining share premium reserve is not distributable.

Capital reserve

The capital reserve of £1,899,000 (2015: £2,669,000) arose from the application of acquisition accounting principles to the financial statements at the time of the acquisition of Avacta Health Limited (formerly Oxford Medical Diagnostics Limited). The reserve represents the value of Ordinary shares of 10p 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). This reserve is not distributable.

Other reserve

The other reserve of negative £1,729,000 (2015: 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.

Reserve for own shares

The reserve for own shares of negative £2,651,000 (2015: negative £1,590,000) arose as a result of 3,232,306 (2015: 2,327,275) Ordinary shares of 10p each being subscribed for jointly by certain employees, each individually with Avacta Group Trustee Limited. This reserve is not distributable.

Retained earnings

Retained earnings arise from the cumulative profits or losses of the Group less the cancellation of £55,437,000 from the share premium account during the year. The charge and associated credits in respect of cumulative share-based payment charges (where appropriate) are also included.

20 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 leases. 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 is 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 approved by the Board. All instruments utilised by the Group are for financing purposes. Short-term deposits are placed for a period of no longer than 12 months with institutions with a 'superior or strong' ability to repay short-term debt obligations. In order to manage financial exposure between different financial institutions no more than £10 million is placed on short-term deposit with any one financial institution. 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, short-term deposits, 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.

	2016 £000	2015 £000
Financial assets		
Trade receivables	**161**	213
Short-term deposits	**10,000**	-
Cash	**9,521**	7,330
	19,682	7,543
Financial liabilities		
Trade payables	**403**	664
Contingent consideration	**340**	863
	743	1,527
Maturity profile of financial liabilities		
In one year or on demand	**718**	1,059
Between one and five years	**25**	468
	743	1,527

The financial liabilities due for repayment within one year relate to trade payables and other short-term liabilities.

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 2016 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:

	2016 £000	2015 £000
Financial assets		
Short-term deposits	**10,000**	-
Cash at bank (floating interest rate)	**9,521**	7,330

Cash at bank attracted interest at floating rates, which were between Nil% and 0.5% at 31 July 2016 (2015: Nil% and 0.5%). Short-term deposits attracted interest at fixed rates which were between 0.85% and 1.25% at 31 July 2016.

Notes to the Consolidated Financial Statements (continued...)

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.

Fair value of financial instruments

At 31 July 2016 the difference between the book value and the fair value of the Group's financial assets and liabilities was £Nil (2015: £Nil).

Sensitivity analysis

The Group is not materially exposed to changes in interest or exchange rates at 31 July 2016.

21 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 £126,000 (2015: £98,000). There were outstanding contributions at 31 July 2016 of £24,000 (2015: £16,000).

22 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

The carrying value of intangible assets has been tested for impairment. Tests have been undertaken using commercial judgements and a number of assumptions and estimates have been made in order to estimate the assets' value in use in order to test the carrying amounts as described within Note 9. No impairment was recorded, but reasonably possible changes in inputs to the value in use calculations could have led to a different conclusion being drawn.

Further judgements have been taken to capitalise development costs in respect of specific products and services that it is intended will be introduced to the Group's markets in the future and to allocate the surplus of fair value paid by the Group as consideration over the fair value of the net assets acquired. In capitalising development costs, the Directors have identified only the direct costs associated with the people and the bought-in tools and services required to develop those specific products and services.

Share-based payments

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

Revenue recognition

Fees invoiced in respect of upfront fees have been recognised as revenue in the period when all criteria for revenue recognition have been met. Revenue from the provision of services is recognised on services when the service has been performed.

Deferred tax recognition

The Directors consider it probable that the Group will become profitable at some stage in the future but given the uncertainty of when this will occur a deferred tax asset has not been recognised.

23 Commitments

(a) Capital commitments

At 31 July 2016, the Group had £Nil capital commitments (2015: £Nil).

(b) Operating lease commitments for land and buildings

The Group maintains non-cancellable operating lease commitments on three properties.

	2016 £000	2015 £000
Non-cancellable operating lease rentals are payable as follows:		
• Less than one year	**254**	130
• Between one and five years	**481**	45
• Over five years	**290**	-
	1,025	175

24 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

The Group considers the directors to be its key management personnel. Full details of their compensation are set out in the Directors' Remuneration Report on pages 42 to 45.

25 Discontinued operations

On 11 February 2015, the Group sold its entire Analytical business unit. The Group was previously committed to a plan to sell the division due to a change in strategic direction. Upon sale for $3.5 million in cash (£2.21 million equivalent), a pre-tax gain of £148,000 was recorded. The attributable tax was £Nil due to losses brought forward being utilised, leaving a gain after tax of £148,000.

Results of discontinued operations	2016 £000	2015 £000
Revenue	**-**	175
Expenses	**-**	(480)
Loss before tax	**-**	(305)
Gain recognised on disposal	**-**	148
Impairment of goodwill	**-**	(4,941)
Tax on gain on disposal	**-**	-
Loss for the year	**-**	(5,098)

Cash flows used in discontinued operations		
Net cash used in operating activities	**-**	(305)
Net cash used in investing activities	**-**	(4)
Net cash used in discontinued operations	**-**	(309)
Consideration received, satisfied in cash	**-**	2,210

Company Balance Sheet as at 31 July 2016 – Registered number 04748597

	Note	2016 £000	2015 £000
Fixed assets			
Property, plant and equipment	26	**45**	165
Investments	27	**5,489**	5,624
		5,534	5,789
Current assets			
Debtors	28	**22,518**	12,621
Cash at bank		**19,292**	6,935
		41,810	19,556
Current liabilities	29	**(2,451)**	(2,551)
Net current assets		**39,359**	17,005
Total assets less current liabilities		**44,893**	22,794
Non-current liabilities	30	**(25)**	(161)
Net assets		**44,868**	22,633
Capital and reserves			
Called up share capital	31	**6,915**	5,057
Share premium account	32	**1,027**	36,162
Capital reserve	32	**1,899**	2,669
Reserve for own shares	32	**(2,651)**	(1,590)
Retained earnings	32	**37,678**	(19,665)
Shareholders' funds		**44,868**	22,633

The notes on pages 78 to 82 form an integral part of these financial statements.

The balance sheet above was approved by the Board of Directors and authorised for issue on 14 October 2016 and signed on its behalf by:

Alastair Smith
Chief Executive Officer

Tony Gardiner
Chief Financial Officer

Company Statement of Changes in Equity for the year ended 31 July 2016

	Share capital £000	Share premium £000	Capital reserve £000	Reserve for own shares £000	Retained earnings £000	Total equity £000
At 1 August 2014	5,045	36,153	2,669	(1,590)	(3,492)	38,785
Exercise of share options	12	9	-	-	-	21
Total comprehensive loss for the period	-	-	-	-	(16,263)	(16,263)
Share-based payment charges	-	-	-	-	90	90
At 31 July 2015	5,057	36,162	2,669	(1,590)	(19,665)	22,633
Placing net of related expenses	1,760	19,255	-	-	-	21,015
Exercise of share options	8	76	-	-		84
Share premium cancellation	-	(55,437)	-	-	55,437	-
Own shares acquired	90	971	-	(1,061)	-	-
Transfer[1]			(770)		770	-
Total comprehensive profit/(loss) for the period	-	-	-	-	1,020	1,020
Share-based payment charges	-	-	-	-	116	116
At 31 July 2016	**6,915**	**1,027**	**1,899**	**(2,651)**	**37,678**	**44,868**

1 The transfer of equity from the capital reserve to retained earnings relates to share option warrants which have expired.

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.

These financial statements have been prepared in accordance with applicable United Kingdom accounting standards, including Financial Reporting Standard 102 – 'The Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland' ('FRS 102'), and with the Companies Act 2006. The financial statements have been prepared on the historical cost basis except for the modification to a fair value basis for certain financial instruments as specified in the accounting policies below.

This is the first year in which the financial statements have been prepared under FRS 102. There have been no adjustments made to comparative figures as a result of adopting FRS102.

The Company has taken advantage of section 408 of the Companies Act 2006 and has not included its own profit and loss account in these financial statements. The individual accounts of the Company have also adopted the following disclosure exemptions:

- the requirement to present a statement of cash flows and related notes.
- financial instrument disclosures, including: categories of financial instruments, items of income, expenses, gains or losses relating to financial instruments, and exposure to and management of financial risks.
- the requirement to disclose related party transactions with wholly owned subsidiaries of the Company.
- the requirement to disclose Group settled share-based payment transactions.

Property, plant & equipment

Property, plant & 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:

- Fixtures and fittings – 3 to 10 years
- Leasehold improvements – 5 to 10 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 provided 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.

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.

26 Property, plant & equipment

	Leasehold improvements £000	Office fixtures & fittings £000	**Total £000**
Cost			
At 31 July 2015	208	163	**371**
Additions	6	30	**36**
Transfers	(77)	(40)	**(117)**
Disposals	(137)	(53)	**(190)**
At 31 July 2016	-	100	**100**
Depreciation			
At 31 July 2015	113	93	**206**
Charge for the year	46	35	**81**
Transfers	(56)	(22)	**(78)**
Disposals	(103)	(51)	**(154)**
At 31 July 2016	-	55	**55**
Net book value			
At 31 July 2016	**-**	**45**	**45**
At 31 July 2015	95	70	**165**

27 Investments

	Total £000
Cost	
At 1 August 2015	14,688
Disposals	(500)
Adjustment to contingent consideration	(135)
At 31 July 2016	14,053
Provision	
At 1 August 2015	9,064
Disposals	(500)
At 31 July 2016	8,564
Net book value	
At 31 July 2016	**5,489**
At 31 July 2015	5,624

The disposal relates to a dormant subsidiary, Oriental Fine Foods Limited, which was dissolved.

Notes to the Company Balance Sheet (continued...)

The companies in which Avacta Group Plc's interest is more than 20% at 31 July 2016 are as follows:

	Principal activity	Class and percentage of voting shares held	Holding
Subsidiary undertakings			
Avacta Limited	Technology development	Ordinary 100%	Direct
Avacta Analytical Limited	Non-trading	Ordinary 100%	Indirect
Avacta Analytical Inc.	Dormant	Ordinary 100%	Indirect
Avacta Health Limited	Non-trading	Ordinary 100%	Direct
		Preference Nil%	N/A
TheraGenetics Limited	Dormant	Ordinary 100%	Direct
TheraGenetics Inc.	Dormant	Ordinary 100%	Indirect
Crossco (1127) Limited	Intermediate holding company	Ordinary 100%	Direct
Avacta Animal Health Limited	Contract services	Ordinary 100%	Indirect
Avacta Animal Health Inc.	Contract services	Ordinary 100%	Indirect
Curidium Medica Limited	Intermediate holding company	Ordinary 100%	Direct
Curidium Limited	Dormant	Ordinary 100%	Indirect
Reactivlab Limited	Non-trading	Ordinary 100%	Direct
Avacta Life Sciences Limited	Technology development	Ordinary 100%	Direct
Avacta Life Sciences Inc.	Dormant	Ordinary 100%	Direct
Avacta Nottingham Asset Limited	Non-trading	Ordinary 100%	Indirect
Promexus Limited	Non-trading	Ordinary 100%	Indirect
Avacta Group Trustee Limited	Dormant	Ordinary 100%	Direct

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. Avacta Nottingham Asset Limited is a subsidiary of Avacta Animal Health Limited. Promexus Limited is a subsidiary of Avacta Life Sciences Limited (formerly Aptuscan Limited).

All of the companies were incorporated in England and Wales except Avacta Animal Health Inc., Avacta Analytical Inc., Avacta Life Sciences Inc. and TheraGenetics Inc. which were incorporated in the United States and Reactivlab Limited which was incorporated in Scotland.

28 Debtors

	2016 £000	2015 £000
Other taxes and social security	**60**	28
Prepayments and accrued income	**119**	116
Amounts owed by subsidiary undertakings	**22,339**	12,477
	22,518	12,621

29 Current liabilities

	2016 £000	2015 £000
Trade creditors	**111**	136
Other taxes and social security	**35**	23
Amounts owed to subsidiary undertakings	**1,898**	1,898
Accruals and deferred income	**92**	99
Contingent consideration	**315**	395
	2,451	2,551

30 Non-current liabilities

	2016 £000	2015 £000
Contingent consideration	**25**	161
Maturity of debt:		
• Payable between one and two years	**6**	25
• Payable after more than two years	**19**	136
	25	161

31 Share capital

	2016 £000	2015 £000
Allotted, called up and fully paid:		
• 68,379,282 Ordinary shares of 10p each	**6,838**	-
• 4,979,649,550 Ordinary shares of 0.1p each	**-**	4,980
• 19,327,344 Deferred shares of 0.4p each	**77**	77
	6,915	5,057

Share consolidation

On 26 January 2016, following approval by shareholders at the Annual General Meeting on 25th January 2016, Avacta Group Plc completed a share consolidation, creating 1 new ordinary share of 10p each for every 100 existing ordinary shares of 0.1p each.

Share issues

On 3 August 2015, 1,760,000,000 Ordinary shares of 0.1p each were allotted and issued at a price of 1.25p per share further.

On various dates between 1 August 2015 and 25 January 2016, 6,646,404 Ordinary shares of 0.1p each were allotted and issued at a weighted average price of 0.41p per share further to exercising of options by employees or former employees of the Company.

On 15 February 2016, 905,031 Ordinary shares of 10p each were allotted and issued at a price of 118.5p per share to five employees and Avacta Group Trustee Limited as trustee for The Avacta Employees' Share Trust.

On various dates between 26 January 2016 and 31 July 2016, 7,000 Ordinary shares of 10p each were allotted and issued at a weighted average price of 45.2p per share further to exercising of options by employees of former employees of the Company.

On 6 April 2016 and 7 July 2016, 4,292 Ordinary shares of 10p each in total were allotted and issued at a weighted average price of 97.1p per share to Michael Albin, a non-executive director in settlement of 50% of the fees due for the services of Michael Albin as a non-executive director between 1 March 2016 and 31 June 2016 as per an agreement dated 22 February 2016.

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 Unit 20, Ash Way, Thorp Arch Estate, Wetherby, LS23 7FA or from its website, **www.avacta.com**. The rights of the holders of the Deferred shares is set out at Note 18.

Notes to the Company Balance Sheet (continued...)

32 Reserves

Share premium

The share premium account of £1,027,000 (2015: £36,162,000) arose from the issue of shares at a premium to their nominal value less certain allowable cost of issue. Following approval by shareholders at the Annual General Meeting on 25 January 2016 and the subsequent approval of the Court, an amount of £55,437,000 was cancelled from the share premium account. The remaining share premium reserve is not distributable.

Capital reserve

The capital reserve of £1,899,000 (2015: £2,669,000) arose from the application of acquisition accounting principles to the financial statements at the time of the acquisition of Avacta Health Limited (formerly Oxford Medical Diagnostics Limited). The reserve represents the value of Ordinary shares of 10p 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). This reserve is not distributable.

Reserve for own shares

The reserve for own shares of negative £2,651,000 (2015: negative £1,590,000) arose as a result of 3,232,306 (2015: 2,327,275) Ordinary shares of 10p each being subscribed for jointly by certain employees, each individually with Avacta Group Trustee Limited. This reserve is not distributable.

Retained earnings

Retained earnings arise from the cumulative profits or losses of the Company less the cancellation of £55,437,000 from the share premium account during the year. The charge and associated credits in respect of cumulative share-based payment charges (where appropriate) are also included.

33 Commitments

(a) Capital commitments

At 31 July 2016, the Company had £Nil capital commitments (2015: £Nil).

(b) Contingent liabilities

The Company has guaranteed the overdrafts of its subsidiaries, the amount outstanding at 31 July 2016 was £Nil (2015: £Nil).

(c) Operating lease commitments

The Company maintains non-cancellable operating lease commitments on three properties.

	2016 £000	2015 £000
Non-cancellable operating lease rentals are payable as follows:		
• Less than one year	**254**	130
• Between one and five years	**481**	45
• Over five years	**290**	-
	1,025	175

Secretary and Advisers

Secretary and Registered Office

Tony Gardiner
Avacta Group Plc
Unit 20
Ash Way
Thorp Arch Estate
Wetherby
LS23 7FA

Nominated Adviser and Joint Broker

finnCap Limited
60 New Broad Street
London
EC2M 1JJ

Joint Broker

WG Partners
85 Gresham Street
London
EC2V 7NQ

Legal Adviser

Walker Morris
Kings Court
12 King Street
Leeds
LS1 2HL

Independent Auditor

KPMG LLP
1 Sovereign Square
Sovereign Street
Leeds
LS1 4DA

Banker

National Westminster Bank Plc
4th Floor
2 Whitehall Quay
Leeds
LS1 4HR

Registrar

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

Investor and Media Relations

FTI Consulting
200 Aldersgate
London
EC1A 4HD

Designed by weareglidden.com


Avacta®