CIRCASSIA

Registered number: 05822706

Circassia Holdings Limited

Annual Report and Financial Statements for the year ended 31 December 2013

Circassia Holdings Limited
Year ended 31 December 2013

Annual report and financial statements
for the year ended 31 December 2013

Circassia Holdings Limited
Year ended 31 December 2013

Directors and advisors

Executive Directors

Steven Harris
Chief Executive Officer

Charles Swingland
Deputy Chairman

Rod Hafner
Vice President R&D

Julien Cotta
Chief Financial Officer and Company Secretary

Non-executive Directors
Dr Timothy Corn
Russ Cummings
Cathrin Petty
Jean-Jacques Garaud
Paul Edick
Dr Francesco Granata

Independent auditors
PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
1 Embankment Place
London
WC2N 6RH

Registered office
The Magdalen Centre
Robert Robinson Avenue
Oxford Science Park
Oxfordshire
England
OX4 4GA

Bankers
Lloyds TSB Bank plc
PO Box 1000
BX1 1LT

Solicitors
Morrison & Foerster (UK) LLP
CityPoint
One Ropemaker Street
London
EC2Y 9AW

Directors' report for the year ended 31 December 2013

The directors present their annual report and the audited consolidated financial statements of the Group for the year ended 31 December 2013.

Principal activities

Circassia Holdings Limited and its subsidiaries, Circassia Limited and Circassia Pharma Limited is a clinical-stage specialty biopharmaceutical group focused on the development and commercialisation of a range of immunotherapy products for the treatment of allergy. These product candidates were developed using the Company's innovative technology, ToleroMune® which was initially developed at Imperial College, London by Mark Larché and Barry Kay and acquired by the co-founders of the Company, Steve Harris and Charles Swingland in 2006.

At 31 December 2013 the Group had 25 (2012: 19) employees at its facilities in Oxford.

Circassia Holdings Limited is a limited company incorporated in England and Wales. The company is resident in England and the registered office is The Magdalen Centre, Robert Robinson Avenue, Oxford Science Park, Oxford, Oxfordshire, England, OX4 4GA.

Review of business, future developments and key performance indicators

The statement of comprehensive income for the year is set out on page 8. The key performance indicators the Group monitors are research and development expenditure and the level of funding available. The level of research and development expenditure has grown throughout the year primarily due to increased costs associated with the continuation of the Cat-SPIRE phase III study, completion of process validation batches and associated stability programmes and completion of the validation of the drug product process and associated stability for Cat-SPIRE active pharmaceutical ingredients. The total comprehensive expense for the year was £19,999k (2012: £15,501k). The directors expect the level of activity to increase significantly over the coming years as the other product candidates in the company portfolio are taken into phase III including HDM, Ragweed and Grass. Expenditure is expected to rise over 2014 and 2015, reflecting the more advanced stage of product development across the company portfolio.

Principal Risks and Uncertainties

The Group is engaged in innovative and unique research and development programmes, and there are significant risks and uncertainties that could have a dramatic impact on the group in the future. Although study results to date have been encouraging, there can be no certainty that similar results will be achieved in later clinical studies, and that the Group's product candidates will be approved for use. The directors expect to make financial returns from the commercialisation of product candidates, but there can be no certainty that the product candidates will deliver the anticipated returns. The Group's financial risk management policies are detailed in Note 2 to the financial statements.

Research and development activities

During the year, the Group incurred expenditure of £21,101k (2012: £16,494k) on research and development, all of which was written off in the statement of comprehensive income.

Dividend

The directors do not recommend payment of a dividend (2012: £nil).

Subsequent events

On 6 February 2014 Circassia Holdings Limited announced its intention to launch an initial public offering.

The Company intends to re-register as a public company and change its name to Circassia Pharmaceuticals plc.

The Company intends to apply for admission of its ordinary shares to the premium listing segment of the Official List of the UK Financial Conduct Authority and to trading on the main market for listed securities of the London Stock Exchange.

Immediately prior to admission the Company intends to effect a capital reorganisation. This is expected to comprise:

a) Conversion of preference shares to ordinary shares

All of the Preference Shares shall convert automatically into ordinary shares at a conversion rate of one ordinary share for each Preference Share held

b) Issue of liquidation preference shares

Each holder of Preference Shares will be issued (by way of capitalisation of reserves) additional ordinary shares (Liquidation Preference Shares) by the Company:

(i) in the case of B Preference Shares, having an aggregate value (calculated by reference to the price at which ordinary shares are offered to investors pursuant to the IPO) equal to 1.25 times the aggregate original subscription price of those B Preference Shares; and
(ii) in the case of A Preference Shares, having an aggregate value (calculated by reference to the price at which ordinary shares are offered to investors pursuant to the IPO) equal to the aggregate original subscription price of those A Preference Shares.

c) Conversion of loan notes
The holders of the Notes are Imperial Innovations Limited (85 Notes) and Charles Swingland and Steven Harris (15 Notes each). As part of the capital reorganisation, the note holders will convert their Notes into ordinary shares in the Company at a rate of 50 ordinary shares per Note held.

Directors
The directors of the company during the year and up to the date of signing the financial statements were as follows:

Steven Harris	Executive
Charles Swingland	Executive
Rod Hafner	Executive
Brett Haumann	Executive (Resigned 3 July 2013)
Julien Cotta	Executive (Appointed 26 November 2013)
Russ Cummings	Non-executive
Cathrin Petty	Non-executive
Dr Timothy Corn	Non-executive
Sir Richard Sykes	Non-executive (Resigned 3 April 2013)
Jean-Jacques Garaud	Non-executive
Paul Edick	Non-executive (Appointed 4 April 2013)
Francesco Granata	Non-executive (Appointed 1 September 2013)

Statement of directors' responsibilities
The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the Group and parent company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the company and of the profit or loss of the Group for that period. In preparing these financial statements, the directors are required to:

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

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

Statement as to disclosure of information to auditors
So far as the Directors are aware, there is no relevant audit information (that is, information needed by the Group's auditors in connection with preparing their report) of which the Group's auditors are unaware. Furthermore, they have taken all the steps that they ought to have taken as Directors in order to make themselves aware of any relevant audit information and to establish that the Group's auditors are aware of that information.

Directors' indemnities
As permitted by the Articles of Association, the Directors have the benefit of an indemnity which is a qualifying third party indemnity provision as defined by Section 234 of the Companies Act 2006. The indemnity was in force throughout the last financial year and is currently in force. The Company also purchased and maintained throughout the financial year Directors' and Officers' liability insurance in respect of itself and its Directors.

By order of the Board

Julien Cotta
Company Secretary

Date 21 February 2014

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF CIRCASSIA HOLDINGS LIMITED

We have audited the Group and parent company financial statements (the "financial statements") of Circassia Holdings Limited for the year ended 31 December 2013 which comprise the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Financial Position, the Group and Parent Company Statement of Cash Flows, the Group and Parent Company Statement of Changes in Equity, the Company Statement of Financial Position and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

Respective responsibilities of directors and auditors
As explained more fully in the Directors' Responsibilities Statement set out on page 4, 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.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Scope of the audit of the financial statements
An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

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 December 2013 and of the Group's loss and the Group's and parent company's cash flows for the year then ended;

- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;

- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and

- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006
In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception
We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or

- the parent company financial statements are not in agreement with the accounting records and returns; or

- certain disclosures of directors' remuneration specified by law are not made; or

- we have not received all the information and explanations we require for our audit.

Bowker Andrews

Bowker Andrews (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London

Date 21 February 2014

Circassia Holdings Limited
Year ended 31 December 2013

Consolidated Statement of Comprehensive Income for the year ended 31 December 2013

	Notes	2013 £'000	2012 £'000
Research and development costs		(21,101)	(16,494)
Administrative expenses		(3,817)	(2,646)
Other gains/(losses)	8	393	(98)
Operating loss	6	(24,525)	(19,238)
Finance costs	5	(21)	(35)
Finance income	5	606	836
Finance income - net		585	801
Share of profit/(loss) of joint venture	12	46	(161)
Loss before tax		(23,894)	(18,598)
Taxation	9	3,913	3,100
Loss for the financial year		(19,981)	(15,498)
Other comprehensive income			
Items that may be subsequently reclassified to profit or loss:			
Share of other comprehensive expense of joint venture	12	(18)	(3)
Total comprehensive expense for the year		(19,999)	(15,501)

The results for the financial years above are derived entirely from continuing operations.

There is no difference between the loss before tax and the loss for the financial years stated above, and their historical cost equivalents.

The company has elected to take the exemption under section 408 of the Companies Act 2006 not to present the parent company profit and loss account.

The profit for the parent company for the year was £56,659 (2012: £87,006).

The notes on pages 14 to 44 are an integral part of these consolidated financial statements.

Circassia Holdings Limited
Year ended 31 December 2013

Consolidated Statement of Financial Position
as at 31 December 2013

	Notes	2013 £'000	2012 £'000
Assets			
Non-current assets			
Intangible assets	10	2,012	2,134
Investment in joint venture	12	195	167
		2,207	2,301
Current assets			
Other receivables	13	1,215	1,396
Current tax assets	9	3,995	3,102
Short term bank deposits	14	7,047	34,226
Cash and cash equivalents	14	23,568	13,981
		35,825	52,705
Total assets		38,032	55,006
Equity and liabilities			
Equity attributable to the owners of the parent company			
Ordinary shares	20	13	11
Preference shares	20	52	52
Share premium	22	103,403	103,403
Share option reserve	23	56	1
Accumulated losses	23	(73,479)	(53,480)
Total equity		30,045	49,987
Liabilities			
Current liabilities			
Trade and other payables	15	5,975	2,919
Derivative financial instruments	16	-	98
Financial liabilities	17	2,012	2,002
Total liabilities		7,987	5,019
Total equity and liabilities		38,032	55,006

The notes on pages 14 to 44 are an integral part of these consolidated financial statements.

The financial statements on pages 8 to 44 were authorised for issue by the board of directors on 21 February 2014 and were signed on its behalf by

Steven Harris
Chief Executive Officer
Circassia Holdings Limited

Julien Cotta
Chief Financial Officer
Circassia Holdings Limited

Registered number: 05822706

Circassia Holdings Limited
Year ended 31 December 2013

Group and parent company statement of cash flows for the year ended 31 December 2013

	Note	Group Year ended 31 December 2013 £'000	Group Year ended 31 December 2012 £'000	Company Year ended 31 December 2013 £'000	Company Year ended 31 December 2012 £'000
Cash flows from operating activities					
Cash used in operations	24	(22,168)	(19,490)	(6,199)	(41,162)
Interest received		1,279	162	366	35
Interest paid		(11)	(22)	-	-
Tax credit received		3,019	1,025	-	-
Net cash used in operating activities		(17,881)	(18,325)	(5, 833)	(41,127)
Cash flows from investing activities					
Decrease/(Increase) in short term bank deposits		27,179	(34,226)	4,184	(11,231)
Net cash from/(used in) investing activities		27,179	(34,226)	4,184	(11,231)
Cash flows from financing activities					
Proceeds from issue of preference shares		-	46,311	-	46,311
Proceeds from issue of ordinary shares		2	-	2	-
Net cash from financing activities		2	46,311	2	46,311
Net increase/(decrease) in cash and cash equivalents		9,300	(6,240)	(1,647)	(6,047)
Cash and cash equivalents 1 January	14	13,981	20,221	5,621	11,668
Exchange gains/(losses) on cash and cash equivalents		287	-	(135)	-
Cash and cash equivalents at 31 December	14	23,568	13,981	3,839	5,621

The notes on pages 14 to 44 are an integral part of these consolidated financial statements.

Circassia Holdings Limited
Year ended 31 December 2013

Group and Parent Company Statement of Changes in Equity for the year ended 31 December 2013

Group	Note	Share Capital £'000	Share Premium £'000	Share option reserve £'000	Accumulated losses £'000	Total £'000
At 1 January 2012	20, 22, 23	44	57,111	1	(37,979)	19,177
Comprehensive expense:						
Loss for the year		-	-	-	(15,498)	(15,498)
Other comprehensive expense:						
Share of other comprehensive expense of joint venture		-	-	-	(3)	(3)
Total comprehensive expense	23	-	-	-	(15,501)	(15,501)
Transactions with owners:						
Issue of preference shares	20, 22	19	46,292	-	-	46,311
At 1 January 2013	20, 22, 23	63	103,403	1	(53,480)	49,987
Comprehensive expense:						
Loss for the year		-	-	-	(19,981)	(19,981)
Other comprehensive expense:						
Share of other comprehensive expense of joint venture		-	-	-	(18)	(18)
Total comprehensive expense	23	-	-	-	(19,999)	(19,999)
Transactions with owners:						
Issue of ordinary shares	20	2	-	-	-	2
Employee share option scheme	23	-	-	55	-	55
At 31 December 2013	20, 22, 23	65	103,403	56	(73,479)	30,045

Circassia Holdings Limited
Year ended 31 December 2013

Company	Note	Share Capital £'000	Share Premium £'000	Share option reserve £'000	Retained Earnings £'000	Total £'000
At 1 January 2012	20, 22, 23	44	57,111	1	620	57,776
Total comprehensive income	23	-	-	-	87	87
Transactions with owners:						
Issue of preference shares	20,22	19	46,292	-	-	46,311
At 1 January 2013	20, 22, 23	63	103,403	1	707	104,174
Total comprehensive income	23				57	57
Transactions with owners:						
Issue of ordinary shares	20	2	-	-	-	2
Employee share option scheme	23	-	-	55	-	55
At 31 December 2013	20, 22, 23	65	103,403	56	764	104,288

The notes on pages 14 to 44 are an integral part of these financial statements.

Circassia Holdings Limited
Year ended 31 December 2013

Company Statement of Financial Position
as at 31 December 2013

	Notes	2013 £'000	2012 £'000
Assets			
Non-current assets			
Investments in subsidiaries	11	1,780	1,725
		1,780	1,725
Current assets			
Other receivables	13	94,157	87,697
Short term bank deposits	14	7,047	11,231
Cash and cash equivalents	14	3,839	5,621
		105,043	104,549
Total assets		106,823	106,274
Equity and liabilities			
Equity attributable to the owners of the company			
Ordinary shares	20	13	11
Preference shares	20	52	52
Share premium account	22	103,403	103,403
Share option reserve	23	56	1
Retained earnings	23	764	707
Total equity		104,288	104,174
Liabilities			
Current liabilities			
Trade and other payables	15	523	-
Derivative financial instruments	16	-	98
Financial liabilities	17	2,012	2,002
		2,535	2,100
Total equity and liabilities		106,823	106,274

The notes on pages 14 to 44 are an integral part of these financial statements.

The financial statements on pages 8 to 44 were approved by the Board of Directors on 21 February 2014 and were signed on its behalf by

Steven Harris
Chief Executive Officer
Circassia Holdings Limited

Julien Cotta
Chief Financial Officer
Circassia Holdings Limited

Registered number: 05822706

1. Summary of significant accounting policies

General information

The Group is a clinical-stage specialty biopharmaceutical group focused on the development and commercialisation of a range of immunotherapy products for the treatment of allergy. These product candidates were developed using the Company's innovative technology, ToleroMune® which was initially developed at Imperial College, London by Mark Larché and Barry Kay and acquired by the co-founders of the Company, Steve Harris and Charles Swingland in 2006.

Circassia Holdings Limited is a limited Company incorporated in England and Wales. The Company is resident in England and the registered office is The Magdalen Centre, Robert Robinson Avenue, Oxford Science Park, Oxford, Oxfordshire, England, OX4 4GA.

The Group's financial information presented is as at and for the year ended 31 December 2012, and the year ended 31 December 2013.

The principal accounting policies adopted in the preparation of this financial information are set out below. These policies have been consistently applied to all the financial years presented, unless otherwise stated.

Basis of preparation

The financial information has been prepared in accordance with International Financial Reporting Standards as adopted by the European Union ('IFRS'), International Financial Reporting Interpretations Committee ('IFRIC') interpretations endorsed by the European Union and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS. The financial information is prepared on the going concern basis and in accordance with the historical cost convention as modified by revaluation of financial liabilities (including derivative instruments) at fair value through profit or loss.

Going concern

Though the Group continues to make losses, the directors believe it is appropriate to prepare the financial information on the going concern basis. This is because the Group's research into new products continues to progress according to plan and the additional funding secured in 2011, 2012, along with actions which the Group are able to take to raise further finance and also to control the timing of spend on new products, will allow the Group to meet its liabilities as they fall due for the foreseeable future.

Changes in accounting policy and disclosures

a) New and amended standards adopted by the Group

The following standards have been adopted by the Group for the first time for the financial year beginning on 1 January 2013:

Amendment to IAS 1, 'Financial statement presentation' regarding other comprehensive income (effective 1 July 2012). The main change resulting from these amendments is a requirement for entities to Group items presented in 'other comprehensive income' (OCI) on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments). The amendment impacts disclosure of the financial information only.

IFRS 13 'Fair value measurement' (effective 1 January 2013). This standard aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The standard does not have a material impact on the financial information.

IAS 19, (revised 2011), 'Employee benefits' (effective 1 January 2013). This amendment makes significant changes to the recognition and measurement of defined benefit pension expense and termination benefits, and to the disclosures for all employee benefits. One of these changes is that finance costs are now calculated on a net funding basis. This will increase the pension expense for plans in a net deficit position and increase the pension income for plans in a net funds position. The amendment does not have a material impact on the financial information as the Group does not have a defined benefit pension scheme.

IFRS 7 (amendment), 'Financial instruments – Disclosures' on asset and liability offsetting (effective 1 January 2013). This amendment includes new disclosures to facilitate comparison between those entities that prepare IFRS financial information to those that prepare financial information in accordance with US GAAP. The amendment impacts disclosure of the financial information only.

IFRS 10 'Consolidated financial statements' (effective 1 January 2014 and early adopted from 1 January 2013). This standard builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the financial information. The standard provides additional guidance to assist in determining control where this is difficult to assess. The standard does not have a material impact on the financial information.

IFRS 11 'Joint arrangements' (effective 1 January 2014 and early adopted from 1 January 2013). This standard provides for a more realistic reflection of joint arrangements by focusing on the rights and obligations of the arrangement, rather than its legal form. There are two types of joint arrangements: joint operations and joint ventures. Proportional consolidation of joint ventures is no longer allowed. The standard does not have a material impact on the financial information.

IFRS 12 'Disclosure of interests in other entities' (effective 1 January 2014 and early adopted from 1 January 2013). This standard includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. The standard does not have a material impact on the financial information.

IAS 27 (revised 2011), 'Separate financial statements' (effective 1 January 2014 and early adopted from 1 January 2013). This clarifies that the consequential amendments from IAS 27 to IAS 21 'The effect of changes in foreign exchanges rates', IAS 28 'Investments in associates', and IAS 31 'Interests in joint ventures', apply prospectively for annual periods beginning on or after 1 July 2009. The amendment does not have a material impact on the financial information.

IAS 28 (revised 2011), 'Investments in associates and joint ventures' (effective 1 January 2014 and early adopted from 1 January 2013). This standard includes the requirements for joint ventures, as well as associates, to be equity accounted following the issue of IFRS 11. The amendment does not have a material impact on the financial information.

IAS 32 (amendment), 'Financial instruments – Presentation' on asset and liability offsetting (effective 1 January 2014 and early adopted from 1 January 2013). This amendment clarifies some of the requirements for offsetting financial assets and financial liabilities on the balance sheet. The amendment does not have a material impact on the financial information.

Amendments to IFRS 10, IFRS 11 and IFRS 12 (effective 1 January 2014 and early adopted from 1 January 2013). These amendments provide additional transition relief to IFRSs 10, 11 and 12, limiting the requirement to provide adjusted comparative information to only the preceding comparative period. The amendments do not have a material impact on the financial information.

Amendments to IAS 36, 'Impairment of assets', on the recoverable amount disclosures for non-financial assets. This amendment removed certain disclosures of the recoverable amount of CGUs which had been included in IAS 36 by the issue of IFRS 13. The amendment is not mandatory for the Group until 1 January 2014, however the Group has decided to early adopt the amendment as of 1 January 2013. The amendment does not impact on the disclosures given in the financial information.

b) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group

IFRS 9 'Financial instruments', on 'Classification and measurement' (effective 1 January 2015). This is the first part of a new standard on classification and measurement of financial assets that will replace IAS 39. IFRS 9 has two measurement categories: amortised cost and fair value. All equity instruments are measured at fair value. A debt instrument is at amortised cost only if the entity is holding it to collect contractual cash flows and the cash flows represent principal and interest. Otherwise it is at fair value through profit or loss. Amortised cost accounting will also be applicable for most financial liabilities, with bifurcation of embedded derivatives. The main change is that in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. The Group is yet to assess the impact of IFRS 9 on its financial information. The Group will also consider the impact of the remaining phases of IFRS 9 when completed by the Board.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Group.

Use of estimates and assumptions

The preparation of financial information in conformity with IFRS requires the use of certain critical accounting estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial information and the reported amounts of revenues and expenses during the reporting period. Estimates and judgements are continually made and are based on historic experience and other factors, including expectations of future events that are believed to be reasonable in the circumstances.

Critical accounting estimates and assumptions

Where the Group makes estimates and assumptions concerning the future, the resulting accounting estimates will seldom exactly match actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

Clinical study expenses

Due to the amounts involved, the estimates and assumptions regarding the amounts accrued for clinical study costs have a greater risk of causing a material adjustment to the carrying amounts of assets and liabilities.

Intangible assets

The group tests annually whether goodwill has suffered any impairment. The key assumptions used for the value in use calculations are given in note 10, in particular the anticipated launch date as if the Company is unable to obtain regulatory approval or to commercialise its product candidates, or experiences significant delays in doing so, this could result in an impairment of the related goodwill and intellectual property rights.

Share based payments

Options were valued using the Black-Scholes option pricing model. For each relevant option grant, individual valuation assumptions were assessed based upon conditions at the date of grant. The range of assumptions in the calculation of share based payments is given in note 21.

Consolidation

(a) Subsidiaries

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated. Accounting policies of subsidiaries are consistent with the policies adopted by the Group.

(b) Joint arrangements

The Group has applied IFRS 11 to all joint arrangements as of 1 January 2013. Under IFRS 11 investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations each investor. Circassia Holdings Limited has assessed the nature of its joint arrangements and determined them to be joint ventures. Joint ventures are accounted for using the equity method.

Under the equity method of accounting, interests in joint ventures are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses and movements in other comprehensive income. When the Group's share of losses in a joint venture equals or exceeds its interests in the joint ventures (which includes any long-term interests that, in substance, form part of the Group's net investment in the joint ventures), the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint ventures.

Unrealised gains on transactions between the Group and its joint ventures are eliminated to the extent of the Group's interest in the joint ventures. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of the joint ventures have been changed where necessary to ensure consistency with the policies adopted by the Group.

Segmental reporting
The Group has one single business segment, based upon its proprietary technology, operated out of a single geographical location. This is consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance, has been identified as the Executive Directors who make strategic decisions.

Clinical study expenses
Where advances are made to clinical study sites, or stocks of materials for use of clinical studies are purchased and stored, the relevant costs are included in receivables as prepaid clinical study expenses. Expenses are charged to the statement of comprehensive income as clinical study services are carried out, or clinical study materials are used.

Financial instruments
The Group's financial instruments comprise cash and cash equivalents, short term bank deposits, debtors and creditors arising directly from operations, foreign exchange derivatives and financial liabilities (convertible loan notes).

Cash and cash equivalents comprise cash in hand and short term deposits which have an original maturity of three months or less and are readily convertible into known amounts of cash. Such assets are classified as current, where management intend to dispose of the asset within twelve months of the end of the reporting period. Bank deposits with maturity of more than twelve months after the end of the reporting period are classified as non-current assets.

The Group's derivatives comprise solely of forward rate foreign exchange contracts and are categorised as financial liabilities through profit or loss. Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value at each reporting date, with any resulting gain or loss recognised through profit or loss. With the exception of the loan notes the Group does not have any committed borrowing facilities, as its cash, cash equivalents and short term borrowings are sufficient to finance its current operations. Cash balances are mainly held on short and medium term deposits with quality financial institutions, in line with the Group's policy to minimise the risk of loss. The main risks associated with the Group's financial instruments relate to interest rate risk and foreign currency risk (note 2.).

The Group has in issue loan notes which are convertible into fully paid ordinary shares at any time and will be redeemed, if they have not previously been converted, on 31 March 2016. The loan notes are recognised initially at fair value, net of transaction costs incurred.

They are subsequently carried at amortised cost. The loan notes are classified as current liabilities as the Group does not have an unconditional right to defer settlement for at least 12 months after the end of the reporting period. Borrowing costs are recognised in profit or loss in the period in which they are incurred.

Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the statement of comprehensive income on a straight-line basis over the period of the lease.

Intangible assets

Intangible fixed assets, relating to goodwill and intellectual property rights acquired through licensing or assigning patents and know-how are carried at historic cost, less accumulated amortisation, where the useful economic life of the asset is finite and the asset will probably generate economic benefits exceeding costs. Where a finite useful life of the acquired intangible asset cannot be determined, the asset is tested annually for impairment by allocating the assets to the cash generating units to which they relate. Amortisation would commence when product candidates underpinned by the intellectual property rights become available for commercial use. Amortisation would be calculated on a straight line basis over the shorter of the remaining useful life of the intellectual property or the estimated sales life of the product candidates. No amortisation has been charged to date, as the product candidates underpinned by the intellectual property rights are not yet available for commercial use.

Expenditure on product development is capitalised as an intangible asset and amortised over the expected useful economic life of the product candidate concerned. Capitalisation commences from the point at which technical feasibility and commercial viability of the product candidate can be demonstrated and the Group is satisfied that it is probable that future economic benefits will result from the product candidate once completed. Capitalisation ceases when the product candidate receives regulatory approval for launch. No such costs have been capitalised to date.

Expenditure on research and development activities that do not meet the above criteria, including ongoing costs associated with acquired intellectual property rights and intellectual property rights generated internally by the Company, is charged to the statement of comprehensive income as incurred. Intellectual property and in-process research and development from acquisitions are recognised as intangible assets at fair value. Any residual excess of consideration over the fair value of net assets in an acquisition is recognised as goodwill in the financial statements.

Impairment of non-financial assets

Assets that have an indefinite useful life, for example goodwill or intangible assets not ready for use, are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date. Charges or credits for impairment are passed through the statement of comprehensive income.

Property, plant and equipment

Property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Individually significant tangible assets that are intended to be held by the group for use in the production or supply of goods and services or for administrative purposes and that are expected to provide economic benefit for more than one year are capitalised. All other assets of insignificant value are charged to the income statement in the year of acquisition.

Other receivables

Other 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 other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables.

Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. They are initially recognised at fair value and subsequently held at amortised cost. Accounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities.

Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held on call with banks, and other short term highly liquid investments with original maturities of three months or less.

Share capital

Ordinary shares and preference shares are classified as equity. All shares are classified as equity as there are no mandatorily redeemable shares in the company. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Employee benefit costs

The Group makes contributions to defined contribution personal pension schemes for its directors and employees. The pension cost charge recognised in the year represents amounts payable by the Group to the funds. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due.

Share based payments

The Group's employees participate in Circassia Holdings Limited's share option schemes, and options over Circassia Holdings Limited 10p ordinary shares have been granted to the Group's employees. Equity settled share-based payments are measured at fair value at the date of grant and expensed on a straight-line basis over the vesting period of the award. At the end of each reporting period the Group revises its estimate of the number of options that are expected to become exercisable. The financial consequences of revisions to the original estimates, if any, are recognised in the statement of comprehensive income, with a corresponding adjustment to equity.

The fair value of share options is measured using a Black-Scholes option pricing model.

Other employee benefits
The expected cost of compensated short term absence (e.g. holidays) is recognised when employees render services that increased their entitlement. An accrual is made for holidays earned but not taken, and prepayments recognised for holidays taken in excess of days earned.

Foreign currency translation
Monetary assets and liabilities in foreign currencies are translated into Sterling at the rates of exchange ruling at the end of the financial year. Transactions in foreign currencies are translated into Sterling at the rates of exchange ruling at the date of the transaction. Foreign exchange differences are taken to the statement of comprehensive income in the year in which they arise.

Taxation including deferred tax
The charge for current tax is based on the results for the year, adjusted for items which are non-assessable or disallowed. It is calculated using tax rates that have been enacted or substantially enacted at the end of each reporting period.

The Group is entitled to claim tax credits in the United Kingdom for certain research and development expenditure. The amount included in the financial statements at the year end represents the credit receivable by the Group for the year and adjustments to prior years.

Deferred tax is accounted for using the liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial information and the corresponding tax bases used in the computation of taxable profit. In principle, deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax is calculated at the average tax rates that are expected to apply to the period when the asset is realised or the liability is settled. Deferred tax is charged or credited in the statement of comprehensive income, except when it relates to items credited or charged directly to equity, in which case the deferred tax is also dealt with in equity.

2. Financial and capital risk management

Capital risk management
The Group's objectives when managing capital are to safeguard the ability to continue as a going concern and ensure that sufficient capital is in place to fund the Group's research activities. The Group's principal method of adjusting the capital available is through issuing new shares. The Group's share capital and share premium are disclosed in notes 20 and 22 respectively. The Group monitors the availability of capital with regard to its forecast future expenditure on an ongoing basis.

Financial risk factors
The Group's simple structure, operating from a single location in the United Kingdom, and the lack of external debt financing (with the exception of the loan notes) reduces the range of financial risks to which it is exposed. Monitoring of financial risk is part of the Board's

ongoing risk management, the effectiveness of which is reviewed annually. The Group's agreed policies are implemented by the Chief Executive Officer, who submits periodic reports to the Board. Other than short term currency options, the Group uses foreign currency forward contract financial derivatives to hedge certain risk.

a) Foreign exchange risk
The Group currently has no revenue. The majority of operating costs are denominated in Sterling, United States Dollars, Canadian Dollars, Euro or Swiss Francs.

In relation to foreign currency risk, the Group's policy is to hold the majority of its funds in sterling, and to use short - medium term currency purchase options (including spot purchases and forward contracts) and interest-bearing foreign currency deposits to manage short - medium term fluctuations in exchange rates.

The Group uses short term currency purchase options and interest-bearing deposits of Swiss Francs and Euros to manage short term fluctuations in exchange rates. The Group uses foreign currency forward contracts to manage medium term fluctuations in Canadian and United States Dollars exchange rates.

At 31 December 2013, if the Euro had weakened/strengthened by 5% against Sterling with all other variables held constant, the post-tax loss for the year would have been £709 (2012: £210) lower/higher, as a result of net foreign exchange gains/losses on translation of Euro-denominated payables and foreign exchange losses/gains on translation of Euro-denominated bank balances.

The impact on post-tax loss at 31 December 2013 of a 5% weakening/strengthening of the US Dollar against Sterling with all other variables held constant would have been a decrease/increase of £38,509 (2012: £2,000).

The impact on post tax loss at 31 December 2013 of a weakening/ strengthening of the Canadian Dollar against Sterling with all other variables held constant would have been a decrease/increase of £4,627 (2012: £nil).

The impact on post tax loss at 31 December 2013 of a weakening/strengthening of the Swiss Franc against Sterling with all other variables held constant would have been a decrease/increase of £4,984 (2012: £1,000).

b) Interest rate risk
The Group's policy in relation to interest rate risk is to monitor short and medium term interest rates and to place cash on deposit for periods that optimise the amount of interest earned while maintaining access to sufficient funds to meet day to day cash requirements.

With the exception of the loan notes the Group does not have any committed external borrowing facilities, as its cash balances are sufficient to finance its current operations. Consequently, there is no material exposure to interest rate risk in respect of interest payable.

If interest rates had been 10 basis points higher/lower the impact on net loss in 2013 would have been increase/decrease of £39,800 (2012: £46,000) due to changes in the amount of interest receivable.

c) Credit risks
The Group's policy is to place funds with financial institutions which have a minimum credit rating of A-2 short term and A- long term (Standard & Poor's) or the equivalent ratings from

Moody's of Aa3/P-1 or from Fitch IBCA of A/F1. Investment in BBB- rated instruments is also possible provided that the average credit rating for the whole treasury portfolio remains at least A-2 short term and A- long term. During 2013 the Group placed funds on deposit with nine banks (2012: nine banks). The Group does not allocate a quota to individual institutions but seeks to diversify its investments, where this is consistent with achieving competitive rates of return.

The value of financial instruments held represents the maximum exposure that the Group has to them. There is no collateral held for this type of credit risk. See note 18 for further disclosure on credit risk.

No credit limits were exceeded during any of the periods reported, and management does not expect any material losses from non-performance by these counterparties.

d) Cash flow and liquidity risk
Funds are generally placed on deposit, and day to day spending commitments are met out of invested funds. The maturity profile of investments is structured to ensure that sufficient liquid funds are available to meet operating requirements. The Directors do not consider that there is presently a material cash flow or liquidity risk.

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contracted undiscounted cash flows:

At 31 December 2013 £'000	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Derivative financial instruments	-	-	-	-
Trade and other payables	5,975	-	-	-
Financial liabilities (convertible loan notes)	2,012	-	-	-
Total	7,987	-	-	-

At 31 December 2012 £'000	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Derivative financial instruments	98	-	-	-
Trade and other payables	2,919	-	-	-
Financial liabilities (convertible loan notes)	2,002	-	-	-
Total	5,019	-	-	-

e) Pricing risk
Currently the Group has no revenue and there is no pricing risk.

Derivative financial instruments and hedging
There were no derivatives at 31 December 2013.There were foreign exchange forward contract derivatives at 31 December 2012. Hedge accounting was not used.

Fair value estimates
The following table presents the Group's liabilities that are measured at fair value at each reporting date.

The different levels have been defined as follows:
- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1).

- Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3).

At 31 December 2012 **£'000**	Level 1	Level 2	Level 3	Total
Financial liabilities at fair value through profit or loss				
- Trading Derivatives	-	98	-	98
Total liabilities	-	98	-	98

There were no financial liabilities at fair value through profit or loss at 31 December 2013.

The trading derivatives represent forward currency contracts to purchase CAD and USD in exchange for GBP. The fair value has been calculated based on the difference between contracted rate and actual rate at 31 December 2012.

3. Principal activity analysis

The Group's loss on ordinary activities before taxation is derived entirely from its one business segment, pharmaceutical research and development, which is carried out at a single site. All costs of acquisition of intangible assets borne by the Group, relate to this one segment. In addition, all other non-cash expenses incurred by the Group relate to this one segment.

4. Employees and directors

The average monthly number of persons (including Executive Directors) employed by the Group during the year was:

By activity	2013 Number	2012 Number
Office and management	6	5
Research and development	14	11
Total	**20**	**16**

Employee benefit costs	2013 £'000	2012 £'000
Wages and salaries	2,744	1,962
Social security costs	331	256
Pension costs	215	356
Share options expense	55	-
Total employee benefit costs	**3,345**	**2,574**

The Group contributes to defined contribution pension schemes for its Executive Directors and employees. Contributions of £8,768 (included in other payables) were payable to the funds at the year end (2012: £95,864).

The details of Directors of the Group who received emoluments from the Group during the year are shown in the table below:

Year ended 31 December 2013
£'000

	Salary and fees	Benefits in kind	Pension contributions[3]	Share based payments	Annual bonus	**Total**
Non-Executive Directors						
Dr Francesco Granata (Appointed 1 September 2013)	21.7	-	-	-	-	21.7
Dr Tim Corn	25.0	-	-	-	-	25.0
Russ Cummings [1]	26.5	-	-	-	-	26.5
Paul R Edick (Appointed 4 April 2013)	21.8	-	-	-	-	21.8
Dr Jean-Jacques Garaud	25.0	-	-	-	-	25.0
Cathrin Petty	25.0	-	-	-	-	25.0
Sir Richard Sykes (Resigned 3 April 2013)	8.3	-	-	-	-	8.3
Executive Directors						
Steven Harris	284.0	1.8	62.2	-	123.6	471.6
Charles Swingland	247.2	6.4	29.7	-	61.8	345.1
Dr Rod Hafner	195.0	1.8	9.7	-	97.5	304.0
Julien Cotta (Appointed 26 November 2013)[2]	15.0	0.5	0.8	-	7.5	23.8
Brett Haumann (Resigned 3 July 2013)	215.7	0.2	17.4	-	-	233.3

[1] The fee of £26,500 in consideration for the services of Russ Cummings as Director was paid to Imperial Innovations Limited during the year.
[2] Julien Cotta was appointed as a Director on 26 November 2013. Prior to this date he was employed in a key management position.
[3] Pension contributions are made to money purchase schemes.

Year ended 31 December 2012
£'000

	Salary and fees	Benefits in kind	Pension contribution[2]	Share based payments	Annual bonus	**Total**
Non-Executive Directors						
Sir Richard Sykes	49.2	-	-	-	-	49.2
Dr Tim Corn	25.0	-	-	-	-	25.0
Russ Cummings [1]	26.5	-	-	-	-	26.5
Paul R Edick	-	-	-	-	-	-
Dr Jean-Jacques Garaud (Appointed 1 November 2012)	4.2	-	-	-	-	4.2
Cathrin Petty	25.0	-	-	-	-	25.0
James Shannon (Resigned 24 May 2012)	8.3	-	-	-	-	8.3
Executive Directors						
Steven Harris	155.0	3.0	181.0	-	135.0	474.0
Charles Swingland	240.0	3.5	120.3	-	-	363.8
Dr Rod Hafner	155.0	1.6	7.7	-	60.7	225.0
Brett Haumann (Appointed 25 September 2012)	76.7	1.3	7.6	-	28.6	114.2

[1] The fee of £26,500 in consideration for the services of Russ Cummings as Director was paid to Imperial Innovations Limited during the year.
[2] Pension contributions are made to money purchase schemes.

Retirement benefits are paid into directors personal pension schemes and are accruing to 4 Directors (2012: 4 Directors).

Directors' interests in shares

The Directors' interests in shares at each balance sheet date are as follows:

	31 December 2013			31 December 2012		
Number	Ordinary share capital	A preference shares	B preference shares	Ordinary share capital	A preference shares	B preference shares
Non-Executive Directors						
Dr Francesco Granata [1]	2,500	-	-	-	-	-
Sir Richard Sykes [2]	2,612	3,165	-	-	3,165	-
Dr Tim Corn	500	-	-	500	-	-
Russ Cummings	-	-	-	-	-	-
Paul R Edick	-	-	-	-	-	-
Dr Jean-Jacques Garaud	-	-	-	-	-	-
Cathrin Petty	600	-	527	600	-	527
James Shannon	-	-	-	-	-	-
Executive Directors						
Steven Harris [1]	50,875	1,582	-	47,875	1,582	-
Charles Swingland [1]	48,975	1,583	-	48,375	1,583	-
Dr Rod Hafner [1]	3,850	-	-	2,250	-	-
Julien Cotta [1]	300	-	-	-	-	-
Brett Haumann [1]	1,639	-	-	-	-	-

(1) The movement in share capital during the year relates to the issue of restricted shares to the Directors at the nominal value of the share capital of 10p per share.

(2) The movement in share capital during the year relates to the exercise of share options.

The Directors' options over the ordinary share capital at each balance sheet date are as follows:

Number	31 December 2013	31 December 2012
Non-Executive Directors		
Dr Francesco Granata	-	-
Sir Richard Sykes	-	2,612
Dr Tim Corn	634	634
Russ Cummings	-	-
Paul R Edick	1,250	-
Dr Jean-Jacques Garaud	620	620
Cathrin Petty	130	130
James Shannon	-	-
Executive Directors		
Steven Harris	4,283	4,283
Charles Swingland	4,283	4,283
Dr Rod Hafner	5,699	5,699
Julien Cotta	1,194	-
Brett Haumann	-	-

Richard Sykes exercised 2,612 share options during the year (2012: nil). 9,639 restricted ordinary shares were received by Directors under long-term incentive schemes (2012: 500).

Key management personnel

Key management includes Directors (Executive and Non-executive), the CFO (prior to his appointment as an Executive Director), the VP of Commercial Operations (start date 2nd July 2012), and the Senior VP of Corporate Development (Start date 4th November 2013). The compensation paid or payable to key management is set out below.

	2013 £'000	2012 £'000
Salaries and fees	1,318	867
Benefits in kind	13	11
Pension contributions to money purchase schemes	130	322
Share based payments	55	-
Annual bonus	347	245
Total	1,863	1,445

5. Finance income and costs

	2013 £'000	2012 £'000
Finance costs:		
Bank charges payable	(11)	(23)
Interest payable on loan notes	(10)	(12)
Total finance costs	**(21)**	**(35)**
Finance income:		
Bank interest receivable	606	836
Total finance income	**606**	**836**
Net finance income	**585**	**801**

6. Operating loss

	2013 £'000	2012 £'000
Employee benefit costs (note 4)	3,345	2,574
Externally contracted research & development	19,080	14,948
Legal and professional fees including patent costs	707	531
Net loss on foreign exchange	480	116
Foreign exchange forward contract derivative (profit)/loss (note 8)	(393)	98
Operating lease expense	89	93
Impairment	122	-
Other expenses	1,095	878
Total operating loss	**24,525**	**19,238**

7. Auditor remuneration

Services provided by the company's auditor
During the year the Group obtained services from the auditor as detailed below

	2013 £'000	2012 £'000
Audit services		
Statutory audit	16	14
Non-audit services		
Taxation	5	12
Other services	235	77
Total	**256**	**103**

8. Other gains/(losses)

	2013 £'000	2012 £'000
Foreign exchange forward contract derivative gain/(loss)	393	(98)
Total	393	(98)

9. Taxation

The Group is entitled to claim tax credits in the United Kingdom for certain research and development expenditure. The amount included in the financial statements for the years ended 31 December 2013 and 2012 represents the credit receivable by the Group for the year and adjustments to prior years. The 2013 amounts have not yet been agreed with the relevant tax authorities.

Continuing operations	2013 £'000	2012 £'000
United Kingdom corporation tax research and development credit	(3,995)	(3,102)
Adjustments in respect of prior year	82	2
Income tax credit	(3,913)	(3,100)

The tax credit for the year is lower (2012: lower) than the standard rate of corporation tax in the UK of 23.25% (2012: 24.5%). The differences are explained below.

	2013 £'000	2012 £'000
Loss on ordinary activities before tax	**(23,894)**	**(18,598)**
Loss on ordinary activities before tax multiplied by the standard rate of corporation tax in the UK of 23.25% (2012: 24.5%)	(5,555)	(4,558)
Expenses not deductible for tax purposes (permanent differences)	12	40
Temporary timing differences	-	(53)
Research & development relief 100%/125% mark-up on expenses	(4,691)	(3,664)
Surrender of losses for research & development tax credit refund	4,449	3,578
Adjustments in respect of prior year	82	2
Tax losses carried forward to future periods	1,790	1,555
Current tax credit for the year	(3,913)	(3,100)

At 31 December 2013, the Group had tax losses to be carried forward of approximately £58m (2012: £50m).

At 31 December 2013, the Group has current tax assets arising from tax credits in the United Kingdom for certain research and development expenditure of £3.9m (2012: £3.1m).

No deferred tax assets are recognised. See note 19 for more details.

10. Intangible assets

	Goodwill £'000	Intellectual Property Rights £'000	Total £'000
Year ended 31 December 2012			
Opening net book amount	1,835	299	2,134
Impairment charge	-	-	-
Closing net book amount	1,835	299	2,134
At 31 December 2012			
Cost	1,835	437	2,272
Accumulated impairment	-	(138)	(138)
Net book amount	**1,835**	**299**	**2,134**
Year ended 31 December 2013			
Opening net book amount	1,835	299	2,134
Impairment charge	-	(122)	(122)
Closing net book amount	1,835	177	2,012
At 31 December 2013			
Cost	1,835	437	2,272
Accumulated impairment	-	(260)	(260)
Net book amount	1,835	177	2,012

Impairment charges are included within research and development costs in the statement of comprehensive income. An impairment test is performed annually based on the value in use of the intangible assets.

The cumulative impairment charge at 31 December 2012 arose in 2008 when the results of a clinical study for dopexamine indicated that one licence agreement should be fully impaired.

In 2013, the results of the clinical study for the company's psoriasis product indicated that this license be fully impaired. In addition, the second license related to a peanut product, which the company has no intention of generating revenues from in the near future.

The goodwill arose on the purchase of 100% of the share capital of Circassia Limited from Imperial Innovations on 17 July 2006. The goodwill represents the excess of cost over the fair value of assets acquired.

The Group tests annually whether goodwill and intangible assets have suffered any impairment and tests more frequently when events or circumstances indicate that the current carrying value may not be recoverable. The Directors consider there to be one cash-generating unit and have determined the recoverable amount based on value in use calculations, which require the use of estimates and assumptions.

The calculations use pre-tax cash flow projections. In light of the stage of development of the product candidates these cover a ten year period. Cash flows beyond the ten year period are extrapolated using the estimated growth rates stated below. The growth rates do not exceed the long-term average growth rate for the business. The discount rate used is pre-tax and reflect specific risks relating to the Group.

The key assumptions used for the value-in-use calculations for 2012, and 2013 are as follows:

Anticipated launch date	Cat-SPIRE	2017
	Tier 2 product candidates (House Dust Mite-SPIRE, Grass-SPIRE, Ragweed-SPIRE)	2018 - 2020
	Remaining pipeline	2020 - 2022
Research and development costs	Based on management forecasts of clinical study costs for its product candidates, as well as related expenses associated with the regulatory approval process and commercialisation.	
Sales value and volume	Estimates of sales value and volume are internal forecasts based on both internal and external market information and market research commissioned by the Company.	
Advertising and promotion investment	Based on management forecasts of advertising and promotion required in the key territories.	
Profit margins	Margins reflect management's forecasts of sales values and costs of manufacture adjusted for its expectations of market developments.	
Period of specified projected cash flows	10 years	
Terminal growth rate	Terminal growth rates based on management's estimate of future long term average growth rate 2013 0% 2012 0%	
Discount rate	Discount rates based on Group WACC, adjusted where appropriate: 2013 20% 2012 20%	

In each case the valuations indicate sufficient headroom such that a reasonably possible change to key assumptions is unlikely to result in an impairment of the related goodwill. Therefore, the Group did not take a goodwill impairment charge for the years ended 31 December 2013 and 2012.

11. Investments in subsidiaries

	2013 £'000	2012 £'000
Investments in subsidiaries at 1 January	1,725	1,725
Equity settled instruments granted to employees of subsidiary	55	-
Investments in subsidiaries at 31 December	1,780	1,725

Details of the company's subsidiaries are provided below. All subsidiaries are included in the consolidation and the Directors believe that the value in use of all subsidiaries exceeds their carrying values.

Name	**Country of Incorporation**	**Nature of business**	**Percentage held**
Circassia Limited	UK	Pharmaceutical research	100%
Circassia Pharma Limited	UK	Pharmaceutical research	100%

12. Investment in joint venture

	2013 £'000	2012 £'000
At 1 January	167	331
Share of profit/(loss)	46	(161)
Foreign exchange difference on consolidation	(18)	(3)
At 31 December	195	167

The joint venture listed below has share capital consisting solely of ordinary shares, which are held directly by the Group.

Nature of investment in joint venture 2013 and 2012

Name of business	Place of business / country of incorporation	% of ownership interest	Nature of the relationships	Measurement method
Adiga Life Sciences	Canada	50	Note 1	Equity

Note 1.
Adiga Life Sciences ("Adiga") is a joint venture with McMaster University in Canada for early epitope and mechanic clinical studies. Adiga is a private company and there is no quoted market price available for its shares.

There are no contingent liabilities or commitments relating to the Group's interest in the joint venture.

Summarised financial information for joint ventures

Set out below are the summarised financial information for Adiga which is accounted for using the equity method.

Summary balance sheet at 31 December

	2013 £'000	2012 £'000
Current assets		
Trade and other receivables	436	169
Cash	644	361
	1,080	530
Current liabilities		
Trade payables	(600)	(195)
Other payables	(91)	(1)
	(691)	(196)
Net assets	389	334

Summarised statement of comprehensive income For the year ended 31 December	2013 £'000	2012 £'000
Revenue	4,257	4,005
Research & development costs	(5,245)	(4,312)
Administration expense	(36)	(42)
Interest income	4	2
Interest expense	(2)	(1)
Profit or loss from continuing operations	(1,022)	(348)
Income tax income	1,114	26
Post-tax profit/(loss) from continuing operations	92	(322)
Other comprehensive expense	(37)	(6)
Total comprehensive income/(expense)	55	(328)

The information above reflects the amounts presented in the financial statements of the joint venture adjusted for differences in accounting policies between the Group and the joint venture (and not Circassia Holdings Limited's share of those amounts).

Reconciliation of summarised financial information

Reconciliation of the summarised financial information presented to the carrying amount of its interest in the joint venture.

Summarised financial information	2013 £'000	2012 £'000
Opening net assets 1 January	334	662
Profit/(loss) for the period	92	(322)
Other comprehensive expense	(37)	(6)
Closing net assets	389	334
Interest in joint venture @50%	195	167
Carrying value	195	167

13. Other receivables - current

	Group		Company	
	2013	2012	2013	2012
	£'000	£'000	£'000	£'000
Other receivables	717	700	90	1
Prepayments and accrued interest	498	696	449	222
Receivables from subsidiary undertakings	-	-	93,618	87,474
Total trade and other receivables – current	1,215	1,396	94,157	87,697

The fair value of other receivables are the current book values.

Included within prepayments is £435,885 relating to transactions costs that have been incurred in anticipation of an issuance of equity instruments. These costs have been deferred on the consolidated statement of financial position until the equity instrument is recognised as the Directors consider that it is highly probably that the equity instrument will be issued.

Receivables from subsidiary undertakings are amounts provided by the company to its subsidiaries in order to undertake studies. The receivable is unsecured, interest free and has no fixed date of repayment. Recoverability of the amount is dependent on the success of those studies.

The carrying amounts of the Group's other receivables-current are denominated in the following currencies:

	Group		Company	
	2013	2012	2013	2012
	£'000	£'000	£'000	£'000
UK pounds	1,205	1,387	94,148	87,693
United States dollar	7	3	7	3
Canadian dollar	2	1	2	1
Other currencies	1	5	-	-
	1,215	1,396	94,157	87,697

14. Cash and cash equivalents and short term bank deposits

	Group		Company	
	2013	2012	2013	2012
	£'000	£'000	£'000	£'000
Short-term bank deposit, with maturity:				
More than 3 months	7,047	34,226	7,047	11,231
Total short term bank deposits	7,047	34,226	7,047	11,231
Cash and cash equivalents:				
Cash at bank and in hand	23,568	13,981	3,839	5,621
Total cash and cash equivalents	23,568	13,981	3,839	5,621

15. Trade and other payables – current

	Group		Company	
	2013	2012	2013	2012
	£'000	£'000	£'000	£'000
Trade payables	3,461	1,738	523	-
Social security and other taxes	104	71		
Other payables	19	5	-	-
Accruals	2,391	1,105	-	-
Total trade and other payables – current	5,975	2,919	523	-

16. Derivative financial instruments

	Group		Company	
	2013	2012	2013	2012
	£'000	£'000	£'000	£'000
Forward foreign exchange contract	-	98	-	98
Derivative financial instruments	-	98	-	98

Refer to the financial and capital risk management disclosures in note 2.

17. Financial liabilities –current

	Group		Company	
	2013	2012	2013	2012
	£'000	£'000	£'000	£'000
Convertible loan notes	2,012	2,002	2,012	2,002
Financial liabilities	2,012	2,002	2,012	2,002

The Group has in issue 115 (2012: 115) convertible loan notes which accrue interest at the daily Libor rate and are convertible into fully paid ordinary shares at the option of the holder at any time and will be redeemed, if they have not previously been converted, on 31 March 2016. The loan notes are classified as current liabilities as the Group does not have an unconditional right to defer settlement for at least 12 months after the end of the reporting period. Borrowing costs are recognised in profit or loss in the period in which they are incurred.

Upon the occurrence of an IPO, each loan note of £15,000 shall be either converted into 50 fully paid ordinary shares, repaid at the nominal value (£15,000) together with accrued daily LIBOR interest or converted into the number of shares at the price per share at which shares are being offered at an IPO.

Included in current financial liabilities is accrued interest of £287k (2012: £277k).

18. Financial instruments

The Group's financial instruments comprise cash and cash equivalents, short term bank deposits other receivables, trade and other payables, foreign exchange forward contract derivatives and financial liabilities (convertible loan notes). Additional disclosures are set out in the accounting policies relating to risk management (Note 2).

The Group had the following financial instruments at 31 December each year

31 December 2013 **£'000**	Loans and receivables	Assets at fair value through profit and loss	Total
Assets as per balance sheet			
Cash and cash equivalents	23,568	-	23,568
Short term bank deposits	7,047	-	7,047
Other receivables	1,215	-	1,215
	31,830	-	31,830

£'000	Liabilities at fair value through profit and loss	Financial liabilities at amortised cost	Total
Liabilities as per balance sheet			
Trade and other payables - current	-	5,975	5,975
Derivative financial instruments	-	-	-
Financial liabilities	-	2,012	2,012
	-	7,987	7,987

31 December 2012 **£'000**	Loans and receivables	Assets at fair value through profit and loss	Total
Assets as per balance sheet			
Cash and cash equivalents	13,981	-	13,981
Short term bank deposits	34,226		34,226
Other receivables	1,396	-	1,396
	49,603	-	49,603

£'000	Liabilities at fair value through profit and loss	Financial liabilities at amortised cost	Total
Liabilities as per balance sheet			
Trade and other payables - current	-	2,919	2,919
Derivative financial instruments	98	-	98
Financial liabilities	-	2,002	2,002
	98	4,921	5,019

The Company had the following financial instruments at 31 December each year

31 December 2013 **£'000**	Loans and receivables	Assets at fair value through profit and loss	Total
Assets as per balance sheet			
Cash and cash equivalents	3,839	-	3,839
Short term bank deposits	7,047	-	7,047
Other receivables	539	-	539
Receivable from subsidiary undertakings	93,618		93,618
	105,043	-	105,043

£'000	Liabilities at fair value through profit and loss	Financial liabilities at amortised cost	Total
Liabilities as per balance sheet			
Trade and other payables - current	-	523	523
Derivative financial instruments	-	-	-
Financial liabilities	-	2,012	2,012
	-	2,535	2,535

31 December 2012 £'000	Loans and receivables	Assets at fair value through profit and loss	Total
Assets as per balance sheet			
Cash and cash equivalents	5,621	-	5,621
Short term bank deposits	11,231		11,231
Other receivables	223	-	223
Receivable from subsidiary undertakings	87,474		87,474
	104,549	-	104,549

£'000	Liabilities at fair value through profit and loss	Financial liabilities at amortised cost	Total
Liabilities as per balance sheet			
Trade and other payables - current	-	-	-
Derivative financial instruments	98	-	98
Financial liabilities	-	2,002	2,002
	98	2,002	2,100

Cash balances comprise floating rate instant access deposits earning interest at prevailing bank rates. Short term deposits bear interest at fixed rates.

In accordance with IAS 39 'Financial instruments Recognition and Measurement' the Group has reviewed all contracts for embedded derivatives that are required to be separately accounted for if they do not meet certain requirements set out in the standard. There were no such derivatives identified at 31 December 2013 or 31 December 2012.

Fair value
The directors consider that the fair values of the Group's financial instruments do not differ significantly from their book values.

19. Deferred taxation

The Group has no recognised deferred tax assets or liabilities at 31 December 2013 (2012: £nil). The Group has an unrecognised deferred tax asset in respect of:

	2013 £'000	2012 £'000
Losses	11,652	11,543
Accelerated capital allowances	-	-
Other	1	-
Total unrecognised deferred tax asset	11,653	11,543

In light of the continuing losses, recovery of the deferred tax asset is not sufficiently certain, and therefore no asset has been recognised.

20. Called-up share capital

Authorised	2013 Number	2012 Number
Ordinary shares of 10p	129,489	110,202
A Preference shares of 10p each	147,932	147,932
B Preference shares of 10p each	366,967	366,967

Issued and fully paid	2013 £'000	2012 £'000
129,489 Ordinary shares of 10p (2012: 110,202)	13	11
Total ordinary share capital	13	11
147,932 A Preference shares of 10p each (2012: 147,932)	15	15
366,967 B Preference shares of 10p each (2012: 366,967)	37	37
Total preference share capital	52	52
Total share capital	65	63

The 'A' Preference Shares have the same voting rights as the Ordinary Shares but carry a liquidation preference of 1 times their subscription price. They accordingly receive repayment of their subscription price upon a 'Sale' (as defined in the Articles), or upon any return of assets to shareholders, in priority to the rights of the Ordinary Shares, and then participate alongside the Ordinary Shares in any balance of consideration on Sale.

The 'B' Preference Shares have the same rights and rank pari passu with the existing 'A' Prefererence Shares save that they have a right to a liquidation preference on Sale of 1.25 times their subscription price in priority to the rights of the existing Preference Shares and the Ordinary Shares. No interest accrues on either class of preference share.

48,308 (2012: 25,840) Ordinary Shares are reserved for issuance or have been issued under the Group's share option schemes.

No preference shares were issued during the period. In 2012, 179,855 Preference B shares were issued for consideration of £261.50, giving rise to a share premium of £46,292,308 after deduction of issue expenses of £721,789.

During the year 19,287 (2012: 500) Ordinary Shares of with a nominal value of 10p per share were issued for proceeds of £1,929 (2012: £50). Ordinary shares were issued at par.

21. Share based payments

All employees of the Group are eligible for options over 10p ordinary shares in the company. Options have been awarded under the Circassia EMI Share Option Scheme ("the EMI Scheme") and the Circassia Unapproved Share Option Scheme ("the Unapproved Scheme"). It is the Group's policy to make annual grants of options to employees. During 2012, the Group's assets exceeded the approved EMI Share Option Scheme limits and therefore employees of the Group will no longer be eligible for additional options under this scheme and the scheme will be closed to new joiners.

Options granted under the EMI Scheme have a fixed exercise price based on the market price at the date of grant. The contractual life of the options is 10 years. Options cannot normally be exercised before the third anniversary of the date of grant.

Options granted under the Unapproved Scheme also have a fixed exercise price based on the market price at the time of grant. The contractual life of the options is ten years. Options cannot normally be exercised before the third anniversary of the date of grant.

Options were valued using the Black-Scholes option pricing model. For each relevant option grant, individual valuation assumptions were assessed based upon conditions at the date of grant. The range of assumptions in the calculation of share based payments is as follows:

	Share options	Share options	Share options	Share options	Share options	Share options	Share Options
Grant dates	4th November 2013	22nd October 2013	3rd April 2013	12th November 2012	15th August 2011	22nd January 2010	18th March 2009
Share price at grant date	56056p	56056p	10p	10p	10p	10p	10p
Exercise price	30200p	30200p	10p	10p	10p	10p	10p
Vesting period	3 years	3 years	3 years	3 years	3 years	3 years	3 years
Total number of shares	1,061	1,194	1,250	620	8,357	4,100	1,700
Expected volatility (average)	50	50	50	26	26	26	26
Expected life (years, average)	5	5	5	5	5	5	5
Risk free rate (average)	3%	3%	3%	4.5%	4.5%	4.5%	4.5%
Expected dividend	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Expected rate of forfeit before vesting (average)	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Expectation of meeting performance criteria	100%	100%	100%	100%	100%	100%	100%
Fair value per option	41936p	41936p	6.3p	4.8p	4.8p	4.8p	14.8p

Expected volatility is based on historical volatility for a period the same length as the expected option life ending on the date of grant. The risk-free rate of return is the yield on zero-coupon UK government bonds of a term consistent with the expected option life.

The weighted average exercise price for options outstanding at year end was 2,837p (2012: 10p). The total charge for the year relating to employee share based payment plans was

£54,950 due to additional options granted with a higher fair value compared to historic fair value (2012: £69 reduction) all of which related to equity-settled share based payment transactions.

A reconciliation of movements in all options held by employees of Circassia Holdings Limited over the year to 31 December 2013 and 31 December 2012 and an analysis of outstanding options are shown below.

There were 24,083 options outstanding as at 31 December 2013 (2012: 23,590) with a weighted average remaining contractual life of 7.5 years (2012: 8 years)

	2013		2012	
	Number	Weighted average exercise price	Number	Weighted average exercise price
Outstanding at 1 January	23,590	10p	23,865	10p
Granted	3,505	30200p	620	10p
Expired	-	n/a	-	n/a
Forfeited	-	10p	(895)	10p
Exercised	(3,012)	10p	-	n/a
Outstanding at 31 December	24,083	28,370p	23,590	10p
Exercisable at 31 December	12,780	10p	12,858	10p
Exercisable and where market price exceeds exercise price at 31 December	12,780	10p	Nil	n/a

In addition to the above the Group issued 18,875 restricted shares during the year (2012: 500). Each issue was granted at the nominal value of the ordinary share capital of 10p which the Directors considered to be the market price at the date of each grant.

22. Share premium

Group and company	2013 £'000	2012 £'000
At 1 January	103,403	57,111
Issue of preference shares	-	47,014
Expenses relating to share issue	-	(722)
At 31 December	103,403	103,403

23. Deficit on reserves

Group	Share option reserve		Accumulated losses	
	2013 £'000	2012 £'000	2013 £'000	2012 £'000
At 1 January (deficit)	1	1	(53,480)	(37,979)
Total comprehensive expense	-	-	(19,999)	(15,501)
Employee share option scheme	55	-	-	-
At 31 December (deficit)	56	1	(73,479)	(53,480)

Company	Share option reserve		Retained earnings	
	2013 £'000	2012 £'000	2013 £'000	2012 £'000
At 1 January	1	1	707	620
Total comprehensive income	-	-	57	87
Employee share option scheme	55	-	-	-
At 31 December	56	1	764	707

24. Cash used in operations
Reconciliation of loss before tax to net cash from operations

	Group		Company	
	2013 £'000	2012 £'000	2013 £'000	2012 £'000
Continuing operations				
(Loss)/Profit before tax	(23,894)	(18,598)	57	87
Adjustment for:				
Interest income	(606)	(836)	(158)	(258)
Interest expense	21	35	10	12
Impairment	122	-	-	-
Share of joint ventures (profit)/loss	(46)	161	-	-
Fair value loss on derivative	(393)	98	(393)	98
Share options reserve movement	55	-	-	-
Foreign exchange on non-operating cashflows	8	-	430	-
Changes in working capital:				
Increase in trade and other receivables	(492)	(286)	(6,668)	(41,096)
Increase/(decrease) in trade and other payables	3,057	(64)	523	(5)
Net cash used in operations	**(22,168)**	**(19,490)**	**(6,199)**	**(41,162)**

25. Contingent liabilities

There were no contingent liabilities at 31 December 2013 or at 31 December 2012.

26. Operating lease commitments

The total of future minimum lease payments payable under the entity's non-cancellable operating lease for each of the following periods is as follows:

	2013 £'000	2012 £'000
Due within one year	17	39
Due between one and five years	-	-
Due after five years	-	-

The lease relates to the lease of the Oxford premises.

27. Related party transactions

There is no ultimate controlling party of the Group as ownership is split between the company's shareholders. The most significant shareholders are as follows: Charles Swingland (8.18% of total voting rights); Steven Harris (8.46% of total voting rights); Imperial Innovations Businesses LLP (18.91% of total voting rights); Lansdowne UK Equity Fund Limited (8.6% of total voting rights); Invesco Perpetual Income Fund (36.15% of total voting rights).

Transactions with related parties during the year and balances with related parties at 31 December are as follows:

Related party	2013 Sales £'000	2013 Purchases £'000	2013 Interest £'000	2013 Receivables £'000	2013 Payables £'000
Adiga Life Sciences (Joint venture)	-	4,202	-	-	113
Key management personnel	-	8	-	-	-
Imperial Innovations Businesses LLP	-	27	-	-	1,487
Steven Harris	-	-	-	-	262
Charles Swingland	-	-	-	-	262

Related party	2012 Sales £'000	2012 Purchases £'000	2012 Interest £'000	2012 Receivables £'000	2012 Payables £'000
Adiga Life Sciences (Joint venture)	-	3,591	-	-	-
Key management personnel	-	12	-	-	1
Imperial Innovations Businesses LLP	-	754	-	-	1,480
Steven Harris	-	-	-	-	261
Charles Swingland	-	-	-	-	261

Disclosure of compensation provided to Directors and key management is given in note 4.

Included within purchases from Imperial Innovations Businesses LLP in 2012 is £722k relating to legal and arrangement fees incurred as a result of the preference shares issued during the year.

The amounts shown under payables relating to Imperial Innovations, Steven Harris and Charles Swingland represents the amounts due on the convertible loan notes including accrued interest to 31 December 2013 (see note 17).

The company makes no sales or purchases with its subsidiaries, but provides funding to Circassia Pharma Limited and Circassia Limited which carries out the Group strategy, employs all the UK staff including the directors, and owns and manages all of the Group's intellectual property. The proceeds of the shares issued by Circassia Holdings Limited are passed from Circassia Holdings Limited to Circassia Limited as a payable as funds are required.

Balances with subsidiary companies	2013 £'000	2012 £'000
Payable:		
Circassia Limited	93,618	87,474

The payable is unsecured, interest free and has no fixed date of repayment.

28. Subsequent events

On 6 February 2014 Circassia Holdings Limited announced its intention to launch an initial public offering.

The Company intends to re-register as a public company and change its name to Circassia Pharmaceuticals plc.

The Company intends to apply for admission of its ordinary shares to the premium listing segment of the Official List of the UK Financial Conduct Authority and to trading on the main market for listed securities of the London Stock Exchange.

Immediately prior to admission the Company intends to effect a capital reorganisation. This is expected to comprise:

d) Conversion of preference shares to ordinary shares

All of the Preference Shares shall convert automatically into ordinary shares at a conversion rate of one ordinary share for each Preference Share held

e) Issue of liquidation preference shares

Each holder of Preference Shares will be issued (by way of capitalisation of reserves) additional ordinary shares (Liquidation Preference Shares) by the Company:

(iii) in the case of B Preference Shares, having an aggregate value (calculated by reference to the price at which ordinary shares are offered to investors pursuant to the IPO) equal to 1.25 times the aggregate original subscription price of those B Preference Shares; and

(iv) in the case of A Preference Shares, having an aggregate value (calculated by reference to the price at which ordinary shares are offered to investors pursuant to the IPO) equal to the aggregate original subscription price of those A Preference Shares.

f) Conversion of loan notes

The holders of the Notes are Imperial Innovations Limited (85 Notes) and Charles Swingland and Steven Harris (15 Notes each). As part of the capital reorganisation, the note holders will convert their Notes into ordinary shares in the Company at a rate of 50 ordinary shares per Note held.