# Diaceutics Annual Report 2019

Diaceutics

Better Testing, Better Treatment

# Diaceutics PLC Directors' Report and Financial Statements

**For the year ended 31 December 2019**

Registered Number: NI055207

Diaceutics
Better Testing, Better Treatment

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# Corporate Information

**Directors**

| | |
|---|---|
| Ms J Goonewardene | (Appointed 14 March 2019) |
| Mr P Keeling | |
| Mr R Keeling | |
| Mr P White | |
| Mr C Hindson | (Appointed 14 March 2019) |
| Mr M Wort | (Appointed 14 March 2019) |

**Company Secretary**

Miss C Mullan (Appointed 13 March 2019)

**Registered Number**

NI055207

**Registered Office**

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**Solicitors**

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**Nominated Advisor and Broker**

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6.7.8 Tokenhouse Yard
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EC2R 7AS

# Strategic Reports

# Summary Highlights

Diaceutics PLC (the "Company" or the "Group"), a diagnostic commercialisation company for precision testing, is pleased to report its audited results for the year ended 31 December 2019.

The previous 12 months reflect another formative year for the Group as the leading provider of precision testing data and commercialisation services for the global pharma industry.

## Financial Highlights

- Revenue up 30% to £13.4m (2018: £10.4m)
- Gross profit up 52% to £10.3m (2018: £6.8m)
- Gross margin of 77% (2018: 66%)
- PBT £0.5m (2018: £0.9m)
- EBITDA £1.0m (2018: £1.3m)
- Adjusted PBT* improved to £1.8m (2018: £1.1m)
- Adjusted EBITDA* improved to £2.4m (2018: £1.5m)
- Net assets of £20.1m (2018: £2.6m)
- Net cash inflow of £9.7m (2018: outflow of £1.0m)
- Elimination of £3.3m of debt
- Strong balance sheet with net cash of £11.7m (2018: net debt of £1.7m)

* Adjusted for exceptional costs

## Operational Highlights

- Strengthened the balance sheet in March with a successful raise of £17m before expenses through a successful initial public offering
- Provided data and services to 53 therapy brands in 41 markets during 2019 – an increased brand engagement of 51% from 2018
- Added 10 new clients to our customer list – now servicing 36 clients
- Strong client repeat business at 87%
- Delivered services globally to our pharma clients in all top 10 primary pharma markets and 31 secondary markets
- Added 112 million new patient testing records to our data lake detailing information on 298 diseases
- In keeping with the industry need to implement better diagnostic commercialisation solutions we have maintained the pace of the development of Nexus towards a launch in Q4 2020. Nexus is the working title of the SaaS platform
- Continued to expand geographic reach, particularly in Asia where we serviced the diagnostic needs of 10 therapy brands (100% increase on 2018)
- Growth in the precision medicine market continues to outpace the broader healthcare market



# Statement of the Chair

Diaceutics is a diagnostic commercialisation company which serves the global pharma industry. We provide support to pharma companies for their companion diagnostic commercialisation strategies upon which their drug brands are dependent. The Company has combined a suite of real-world, data-driven products and laboratory implementation services into a business method. Its data enabled products, method and services are focused on removing the diagnostic testing hurdles for the biomarkers and companion tests required to guide selection of precision medicines. The Company currently provides services to 36 of the largest global pharma companies and their precision therapy brands. This focus on better testing helps precision treatments reach more patients worldwide.

The Company had a successful listing on the AIM market of the London Stock Exchange in March 2019. The listing was seen, by the group, as essential to the achievement of three of its major goals.

1. To provide sufficient capital to grow the business in line with the increasing demands from its pharma clients identified at the time including further expansion to key markets in Asia
2. To increase the quantity of patient testing information flowing into its global real-world evidence datalake
3. To integrate its method, data, laboratory and pharma relationships into our Software as a Service platform with the working title of Nexus

The Company has had a transformative year with the successful IPO and further client, regional, project and brand growth leading to a growth in revenue and profitability, excluding exceptional costs. In 2019 we invested further in three key pillars which will ensure the company can continue its mission to become the leading provider of diagnostic commercialisation services to the pharma industry as it continues to focus on precision medicine; these include deepening our testing datalake, advancing our Nexus platform in anticipation of a launch in Q4 2020 and targeted regional data and services expansion to the top 15 pharma markets.

Diaceutics' focus over the past 24 months and in particular the last 12 months has been to ensure that it possesses the necessary infrastructure required to service its global pharma companies on an increasing scale as they transform their R&D pipelines towards precision medicine, a market anticipated to double from $39bn in 2018 to $80bn in 2026.[1]

**Successful IPO**
In March 2019 we completed a successful IPO on AIM, against the headwinds of Brexit, issuing 22.4m new shares at 76p which raised, gross £17.0m. The IPO has substantially strengthened our balance sheet and given us the resources to service a greater number of therapy brands today and ensure significant scalability tomorrow.

66% of employees owned shares in the Company at IPO and were joined by 37 institutional investors. We welcome all to the register and are grateful for their confidence in our vision and leadership team.

**Financial growth continues**
Diaceutics continued to deliver profitable growth during the period. Revenue increased to £13.4m, a 30% year on year growth. Gross profit improved over the period, reporting a gross margin of 77% against 66% in 2018. Adjusted EBITDA, excluding exceptional costs related to the IPO, improved to £2.4m (2018: £1.5m). The Group continued to deliver more products to more clients in a more efficient way. Further investment in key

[1] Pharma Precision Medicine Readiness Report 2019

hires in the organisation and global expansion into key client countries further develops our client offering and builds future capacity within our delivery model. Operating profit before exceptional items increased 49% to £2.1m (2018: £1.4m). Balance sheet closed strongly with a cash position at year end £11.7m (2018: £2.1m).

**Our people and culture**

Our capabilities in 2019 have been boosted, in particular, by the arrival of 49 new employees who are domain specialists in the precision testing and healthcare data field. As of 31 December we had a total of 111 employees, based in 19 different countries with a focus on the US and EU5 (five largest pharma markets in the European Union), China and Japan. Our integrated matrix of skills from the pharma, diagnostic, laboratory, big data and clinical worlds is a key differentiator for us and is "right-skilled" for the complex needs of the precision testing ecosystem.

Many of our team carry personal stories of how and where the fragmented diagnostic ecosystem has negatively impacted on their friends and relatives giving them a unique first-hand understanding of the importance of the Diaceutics' mission.

Our leadership team continues to develop the structures for scale. At an organisational level there has been a focus on training, onboarding and performance management. At a departmental level there has been an expansion of the laboratory liaison and data analytics teams as well as the introduction in 2019 of a dedicated 8 strong global sales team and 17 strong innovation team.

As the business grows, we continue to align the team with appropriate incentives and training to ensure we maintain our leadership position in the precision test commercialisation space.

**Board and governance**

At the time of IPO we established the Board and governance structures suitable for a fast growing AIM-quoted company. Our three Executive directors are supported by three experienced Non-Executive directors with a breadth of experience in technology, healthcare and public markets, financial and governance.

**Outlook**

Diaceutics is well placed to provide its pharma clients with a global diagnostic commercialisation capability at a time when the marketplace is entering a growth phase. In particular 2020 anticipate the launch of its SaaS Nexus platform which is designed to support multi-year engagements with an increasing number of therapy brands to support their diagnostic needs.

The Board would like to thank the Diaceutics team, alongside our clients, laboratory partners, service providers and advisors for their advocacy towards Diaceutics' mission across 2019.

Julie K. Goonewardene

**Ms J Goonewardene**
Chair
15 March 2020



"Diaceutics has been building its market leading position in the precision testing market for the past 14 years."

**"Diaceutics has been building its market leading position in the precision testing market for the past 14 years. 2019 has seen us further penetrate the existing precision testing market in key disease areas and global markets whilst at the same time adding the essential scaling pillars for 2020 and beyond to keep the Group in step with a rapidly increasing marketplace."**

Peter Keeling, Chief Executive Officer

# Chief Executive Review

2019 was another formative year for Diaceutics on its way to provide the pharma industry with a comprehensive and global diagnostic commercialisation capability. Across 2019, 36 pharma companies utilised our services in over 41 different countries. We provided data analytics and implantation services to 53 therapy brands which is essential for patients seeking timely access to precision therapy. In addition to delivering strong growth and profitability in 2019.

Diaceutics raised its first external equity through an IPO on AIM in March 2019. Despite the backdrop of Brexit deadlines, we were delighted with the interest and support we received from our investing employees and new institutional investors. Through an oversubscribed share placing we raised a gross £17m which allows us to complete the Nexus product roadmap to market and continue to lead the global diagnostic commercialisation space.

Specifically our IPO was seen as essential in achieving three major goals:

1. To provide sufficient capital to grow the business in line with the increasing demands from its pharma clients identified at the time including further expansion to key markets in Asia
2. To increase the quantity of patient testing information flowing into its global real world evidence datalake
3. To integrate its method, data, laboratory and pharma relationships into our Software as a Service platform with the working title of Nexus

Prior to IPO in March of 2019, Diaceutics had invested some £20m over the previous 13 years on the foundations for a successful healthcare platform - building the essential datalake, databasing 2,500+ global laboratories, building our laboratory liaison team in all the top launch markets, and becoming a trusted supplier to 26 pharma companies.

How did we perform against our IPO goals?

**Growing the business**
Our operational planning has been designed to address the long term building blocks required to scale in step with the needs of the highly complex precision diagnostic commercialisation marketplace. Whilst the Diaceutics offering has matured over the previous 14 years, 2019 saw the yield of our investment strengthening specific building blocks which will carry the Company towards a comprehensive global diagnostic commercialisation solution. This is at a time when the regulators are increasing the requirement for diagnostic testing and the marketplace is accelerating the adoption of precision medicine. Specifically, these include:

- In 2019 we added new project management and business development teams to support greater scale, brought recruitment in house, developed a 15 strong senior leadership forum from across all the disciplines to ensure seamless operational communication as we grow. In addition, we rolled out a two-week intensive onboarding program to accelerate operational impact and a comprehensive performance management framework to support the development and retention of our people.
- Operationally we added the experience of a further 149 projects during 2019, with 95 in data and analytics and 34 in implementation services, working with 53 therapy brands (19% increase in projects over 2018) bringing our track record in precision testing services to over 650 projects. We boosted our ranks to 111 passionate professionals to help our clients scale and engineer around the failures of the diagnostic ecosystem.
- We expanded our laboratory liaison team who are now working with the leading cancer labs across 30 countries including all 15 of the "first launch" markets for the pharma industry.
- Our Asia team has expanded from 1 to 11 now covering China, South Korea, Japan, Singapore and India.

Pharma companies utilised our services in over 41 different countries...

41

we provided data and services to 53 therapy brands in the pre and post launch mode...

53

**Increased the power of our Real World Data-Lake**
We have continued to expand our real world data and analytics to provide global insights for global therapy brands. Of particular note over the past 12 months has been the further development of some 37 Diagnostic Deductive Pathways TM (DDPs). These are based on clinical best practice and guidelines, from our datalake and provide deep diagnostic disease level insight in key cancers, allowing us to develop future smart data products.

As Diaceutics moves towards a comprehensive global diagnostic commercialisation solution for its pharma clients, it will be enabled by the increasing depth and breadth of its real world patient testing data lake. At the end of 2019 Diaceutics had amalgamated over 227 million real world patient records from multiple sources and key precision testing markets into the data lake, providing visibility over some 298 different diseases and real world testing trends from 35 countries.

From this reservoir of global data our analytics team over the past 12 months had leveraged proprietary algorithms to further develop a series of diagnostic pathways for some 37 of the key cancers. Additionally, the use of machine learning to complete data gaps enables high confidence ratio analyses and algorithm based projections about disease progression at a granular level.

**Building Nexus as an Integrated Platform**
In October 2019 we published our sixth Pharmaceutical Readiness Report. This report highlights the increasing dependency that pharma pipelines have on an efficient precision testing market and the need to bring forward better solutions to ensure test and therapy commercialisation remain in step. The report was widely read by our pharma clients, laboratory partners and other diagnostic companies and set out the rationale for an integrated platform to solve the increasingly complex precision testing ecosystem. It is this provision of an integrated platform to bring together key stakeholders to

improve the precision testing ecosystem which is at the heart of our Nexus product development. Significant progress has been made since IPO to ensure Nexus stage one launch by Q4 2020. Specifically, a dedicated 17 person software and innovation team are, at year end, solely focused on the Nexus platform build with 44% of stage one completed as of 31 December 2019. Key components of the platform deployed internally, supporting the improved gross margin, were already introduced in Q4 2019.

Once launched, Nexus is expected to enable real time access to the Diagnostic Deductive Pathways™ for our pharma clients to directly mine, interrogate, analyse and project the diagnostic pathway placing them in a better position to introduce the right therapy to the right patient at the right time. Furthermore, Nexus is expected to interact with our 2500+ global laboratory database and 21 strong laboratory liaison team in 15 countries allowing us to service increasing numbers of test roll outs simultaneously delivering the scale demanded by a market reaching its tipping point.

**Delivering Strong Financial Performance**

Diaceutics delivered strong financial performance during 2019 with year on year growth in revenue and gross profit percentage. Revenue for 2019 increased 30% to £13.4m (2018: £10.4m). Client engagement increased at a global level and country level to 36 clients (2018: 26) and drug brand growth increased by 51% to 53 brands contracted in 2019. As announced on 13 January 2020, trading for the year was ahead of market expectations as compared with IPO guidance. The Group has a strong balance sheet following the IPO with net cash of £11.7m as at 31 December 2019.

In addition, our associated investment in artificial intelligence and machine learning, as part of Nexus, has resulted in an increased efficiency in the use of data, allowing us to delay the phasing of its acquisition and so improving net cash inflow. Outsourcing of non-core elements of the Nexus build has added to the cash position and as a result the company improved the expected closing cash position by £3m.

Client repeat business is an important metric for the Group. The Group uses a digital service to capture high level customer feedback on client engagements. The data is used to inform our continuous improvement programme, which is designed to meet and often exceed customer expectations on every engagement. The Group has recently appointed a Head of Strategic Alliances to ensure a high level of supplier relationship and retention. Underpinning this activity is the Group's desire to maintain a reputation for high standards and business conduct as we transact with some of the most demanding clients globally. A key reason for IPO was the increased transparency that comes with the public market for our clients and key stakeholders and this is underpinned by the need to act fairly between stakeholders of the company.

**Building the right team for the mission**

From the outset over 14 years ago, Diaceutics defined success of its mission not by its location but by the quality of the globally based precision testing skills it could attract from across the formative disciplines and stakeholders shaping precision medicine. I am pleased to say that this model has served Diaceutics well. In 2019 we added a further 49 people growing the team to 111 as of 31 December. Over 14 years we have carefully chosen a team of experts from all the critical stakeholder groups, including pharma, laboratory, diagnostic technology, data analytics, health economics and from all the key regions - US, EU, Asia and Brazil - many with advanced science and business degrees and most with deep domain knowledge of their area. Our use of a suite of seamless pan company communication tools (e.g. EAMS 360) helps us unlock the global thinking required to address the complex precision testing space and mobilise our staff rapidly in 19 markets and supporting consultants in non-core markets. The virtual nature of the business and use of communication tools limits the environmental impact of operations and the core business output is that more patients receive better testing and treatment pathways. The positive patient impact of what we do resonates with all employees within our business.

Today Diaceutics can claim a globally based team of precision medicine domain experts with the sole mission of unlocking the power of precision testing to deliver on the promise of personalised medicine. We believe that the future success of the organisation is dependent upon the capability of the people working in the Group. Our accredited leadership program seeks to develop managers into future leaders. In addition, we provide a comprehensive range of benefits for employees, such as Private Health Insurance and life Insurance. The Group operates a Share Incentive Plan for all staff.



It is recognised that culture is crucial to the ability of the Group to achieve its corporate objectives. Culture is a real emphasis from day one of onboarding and permeates throughout the organisation. We have ensured that everybody is invested in and benefits from the Diaceutics vision. Specific ongoing development training is aligned to these cultural behaviours and there are regular initiatives to maintain, reinforce and continuously develop the Diaceutics Culture.

**Promising Outlook**

Diaceutics' research has identified over 3,000 Phase 2/3 clinical trials supporting approximately 1,000 drug brands which could include a biomarker in their therapy label if they achieve approval. This contrasts with only 173 FDA approved precision medicine drugs on the market as at December 2018 and foretells of a precision medicine tipping point sometime in 2021 to 2025 timeframe as the FDA approves more therapies dependent upon a biomarker than not. Consequently, all key areas served by Diaceutics, namely precision medicine, oncology, data analytics and laboratory testing are benefitting from a period of substantial growth. Yet despite this transformation many pharma companies require external expert support for their companion diagnostic commercialisation strategies upon which their drug brands are dependent.

Whilst Diaceutics fills this gap for an increasing number of pharma companies and therapy brands today, in 2015 we anticipated the tipping point and recognised the challenges and responsibilities which scaling our business model would require. Our successful fund raising has helped us accelerate our market preparedness with deeper data and implementation capabilities to support global therapy brands.

Our investments across 2019 to improve our analytics and implementation services are strategically aligned with the development roadmap for the Group's products. As the patient journey becomes more complicated and the pharma business model transforms to precision medicine, we are positioned to capture significant market share.

We look forward to enabling more patients access to the right therapy through better testing in 2020 as well as to introducing Nexus to provide the scale needed for better therapy access for all.

**Section 172(1) statement**

The Directors have acted in good faith to promote the success of the company for the benefit of its members as a whole. In doing so, they have given regard, amongst other matters, to the following matters set out in section 172(1)(a) to (f) of the Companies Act 2006:

(a) The likely consequences of any decision in the long term
(b) The interests of the company's employees
(c) The need to foster the company's business relationships with suppliers, customers and others
(d) The impact of the company's operations on the community and the environment
(e) The desirability of the company maintaining a reputation for high standards of business conduct
(f) The need to act fairly as between members of the company

The above matters and how they are considered by the Directors, are all addressed in how the Group applies the ten principles of the QCA code as outlined on pages 32 to 39 of this Financial Report. In addition, where there are significant risks associated with any of the above matters, these are outlined in the Principal risks and uncertainties section of this Financial Report, on pages 25 to 27, together with an explanation of how these are mitigated against and managed.

**Mr P Keeling**
Director
15 March 2020

# Financial Review

This Financial Review covers the main highlights of the Group's financial performance and position for the year ended 31 December 2019. It is our first Financial Review following our listing on the AIM market of the London Stock Exchange on 21 March 2019. The gross £17.0m raised provided the stepping stone to building the future scale demanded of a group operating in a hypergrowth market. Furthermore, our investments this year have deepened the operational and strategic moat around our business setting us up for continued business growth. A focus has been placed on expanding our key account management and sales teams to manage and support business development over an expanding geographical reach. Furthermore, the raising of finance has resulted in the elimination of the Group's debt resulting in a strong balance sheet at the end of 2019 with a cash balance of £11.7m.

**Financial performance**

Diaceutics delivered solid financial growth during 2019 delivering significant year on year growth in revenue and gross profit margin. The associated investment in artificial intelligence and machine learning, underpinned as part of the investment in Nexus platform, has already had a positive impact on our delivery of products and efficiencies within cost of sales. The continued expansion of our global footprint, through 2019, increased our breadth and depth of product offering and client reach, engaging 53 drug brands for clients and supporting those client deliverables in 41 countries. We also delivered an improved operating profit before exceptional items of £2.1m (2018: £1.4m) and improved PBT via operational efficiencies. Cash management improved due to efficient phasing of intangible asset acquisition, lower capital development and working capital movements.

A summary of the key financial indicators for the financial year ended 31 December 2019 are outlined in the table below:

| | 2019 | 2018 |
|---|---|---|
| Revenue | £13,442,121 | £10,373,180 |
| Gross Profit | £10,310,663 | £6,801,955 |
| Gross Margin (%) | 77% | 66% |
| EBITDA | £1,025,280 | £1,318,608 |
| Adjusted EBITDA* | £2,372,893 | £1,523,608 |
| Profit before Tax | £497,324 | £877,264 |
| Profit before Tax (%) | 4% | 8% |

* Adjusted EBITDA is stated before exceptional costs

**Revenue**

During 2019 we delivered revenue of £13.4m (2018: £10.4m) which represents 30% year on year growth. This was underpinned by increasing our client base to 36 clients (2018: 26). The increase in the breadth of client base in conjunction with revenue growth within key clients represents an increased spread of client revenue. Only two clients had greater than 10% of revenue (2018: three clients greater than 10% revenue).

Our improved product offering and increase in global operations has resulted in improved drug brand engagement with 53 brands contracted in 2019 (2018: 35). Brand engagement is an important forward indicator of revenue as more than 50% of revenue is based on brand revenue stickiness over multiple years.

Of particular note too was the year on year growth of our revenues in all three core regions, with US revenue growth of 15%, EU revenue growth of 29% and Asia revenue growth of 105%.

**Gross margin**

Gross margin has increased to 77% from 66% in 2018. Several key drivers impacted this positive variance. The first was the investment and build of the Nexus platform which supported advancing efficiencies in our data products which represented 72% of total revenue for 2019. Further efficiencies were made through improved data cost as a result of the mix of work permitting delayed phasing of its acquisition. Staff utilisation increased as a result of a continued focus on staff efficiency and standardisation of product delivery.

**Expenses**

Administration costs comprising operational support, sales and marketing and administration expenses totalled £8.4m (2018: £5.5m), increased by 52% and reflects the investment in global expansion. We are now delivering for our clients in 41 countries globally and the expansion costs associated with this growth include finance, legal and regulatory, and employment. In addition, increased investment in expanding our business development teams at a global and country level continues to build opportunities for future client engagement.

**Exceptional expenses**

Exceptional IPO related costs of £1.3m (2018: £0.2m) were reflected in the profit and loss account. These costs relate to corporate restructuring, legal and associated broker fees for the execution of the IPO. An additional £1.0m of IPO costs (2018: £nil) were offset against the share premium account in the balance sheet.

**Tax**

The consolidated income tax charge for the period of £0.1m represents the provision for corporate income taxes due in the Republic of Ireland (£0.2m) and the United States of America (£0.1m) net of adjustments with respect to prior periods of £0.2m. The corporate income tax charges are calculated after R&D tax incentives which are expected to be available in the UK and the Republic of Ireland.

The adjustments with respect to prior periods arose due to prudent assumptions relating to the deductibility of certain costs being taken in the prior period and the Group finalising calculations of R&D tax incentives after the financial statements were finalised.

The Group has a net deferred tax credit of £0.1m which is primarily comprised of a credit in the UK of £0.4m net of a charge in the US of £0.3m. These movements were mostly driven by the recognition of tax losses in the UK and the utilisation of tax losses in the US.

Deferred tax assets and liabilities have been recognised as they arise with the exception of a potential asset of £0.1m (2018: £0.1m) which has not been recognised in a subsidiary company. The Group estimates that tax losses of £3.4m will be available for future utilisation in the UK and Singapore, resulting in deferred tax asset of £0.6m. A deferred tax liability of £0.5m arises due to the Group capitalising certain R&D costs which remain deductible in the current period for corporate income tax purposes.

**Finance costs**

Interest costs of £0.2m (2018: £0.3m) relate to a director loan, external loans and banking facilities, all of which were repaid during the first half of 2019. Included in this is a £0.1m (2018: £Nil) charge related to the early retirement of the Whiterock loan facility.

**EBITDA and Adjusted EBITDA and PBT**

Our focus on managing efficiencies at a gross profit level and costs overall has contributed to a strong adjusted EBITDA, excluding exceptional costs, of £2.4m (2018: £1.5m).

The PBT for the year was £0.5m (2018: £0.9m); whilst the Adjusted PBT, excluding exceptional costs, improved to £1.8m (2018: £1.1m).

**Balance sheet**
At 31 December 2019, the Group has a strong balance sheet reflecting net assets of £20.1m (2018: £2.6m).

**Intangible assets**
To support the development of our DDPs, Nexus platform and new enterprise resource planning system, ERP, we invested £2.8m.

Investment of £0.851m in specific biomarker data in the period supported the data expansion in the number of patients in the data lake to 227m patient test records. Global real world data is becoming a core ingredient in the pharmaceutical models as they seek greater ROI within their R&D pipelines.

Capital development expenditure incurred in the period £1.7m relates to capitalised development hours supporting the build of Nexus and the completion of key milestones. The commercial launch of Nexus is set for Q4 2020, as planned.

## Net cash

| | 2019 £m | 2018 £m |
|---|---|---|
| Cash | 11.7 | 2.1 |
| Loans and Bank Facilities | – | (3.3) |
| **Net Debt** | **11.7** | **1.2** |

Loans and banking facilities were extinguished during the year - £1.1m was repaid to Whiterock Capital Partners and £2.1m was repaid to Silicon Valley Bank (SVB). A £2.5m working capital facility from SVB was unused at 31 December 2019.

Other financial liabilities, not included above, relate to convertible loan notes and the change in fair value of embedded derivatives. These are not expected to have a cash impact in the future.

**Cash flows**
Net cash outflow from operations reduced by 34% to £0.6m (2018: £1.0m) driven by efficiency of working capital from improved debtor collection and receipt. Excluding exceptional costs, net cash from operations for 2019 is positive £0.7m as compared to an outflow of £1.0m for 2018. Investment in intangible assets totalled £2.8m (2018: £1.0m).

**Profit per share**
Basic earnings per share is 0.62 pence (2018: 1.41 pence).

Basic adjusted earnings per share is 2.46 pence (2018: 1.86 pence).

**Dividend**
In line with the statement set out in the Company's IPO Admission Document, no dividend has been proposed for the year ended 31 December 2019 (2018: Nil).

Philip White

**Mr P White**
Director
15 March 2020



"Diaceutics delivered significant year on year growth in both revenue and gross profit margin."

"Diaceutics' services result in more effective patient diagnoses for treatments, which in turn lead to better patient healthcare outcomes."



# Our Market Opportunity

Diaceutics is a diagnostic commercialisation company which serves the global pharma industry. It has combined a suite of real world data-driven products and laboratory implementation services into a business method. Its data enabled products, method and services are focused on removing the diagnostic testing hurdles for the biomarkers and companion tests required to guide selection of precision medicines.

Diaceutics' services result in more effective patient diagnoses for treatments which in turn lead to better patient healthcare outcomes. This is manifested through faster testing, better turnaround times, quicker positive identification and higher number of patients treated.

It is important to understand how and where the precision testing market is increasing in complexity since this highlights the need for pharma to work alongside a specialised organisation. Specifically, the broadening use of diagnostic testing and an increase in the variety of precision diagnostic tests is contributing to an already complex diagnostic environment of multiple and recurring tests. In particular pharma is making increasing use of complementary and conduit testing to supplement the traditional companion diagnostic testing. The number of testing events on a typical patient journey is rising significantly. Our research shows that broader testing in conjunction with multiple therapy treatments is set to radically increase the number of testing events per patient. This increase is expected to be further amplified by greater testing for resistance and monitoring. As an example, the number of testing events per patient with non-small-cell lung carcinoma (NSCLC) are set to increase exponentially:

Diaceutics strategy has focused on collating large amounts of laboratory, patient (on an anonymised and aggregated basis), claims and payor data which it uses to direct and deliver, via a laboratory liaison team, improved testing with over 2,500 labs globally on behalf of leading pharma companies.

From the pharma company's perspective, it is essential that from launch, it has optimised the practical process for testing of potential patients by labs to ensure the ability to serve the highest levels of patients from the outset. On the pharma company's side this leads to maximised impact through earlier take-up and reduced time to peak adoption. The Directors believe that the addressable market for their specific services today is approximately $0.25 billion overall and $100m for the sectors which the company is currently serving.[2] With expected market growth in the number of test dependent therapies to be 300 with revenue increasing per brand alongside increased investment by pharma to remove testing hurdles to seamless treatment, Diaceutics forecast the overall market will increase to $2.5 billion by 2023. As other therapies enter the precision testing market, we see potential growth in the subsequent five years growing to a potential $25 billion market opportunity.

**What is precision medicine**
Precision medicine is the ability to treat individual patients with a common disease differently, depending on measurable biomarkers which either predicts a patient's response (or otherwise) to a drug or their susceptibility to treatment limiting side effects. The use of these companion diagnostic tests, which can identify the right sub-population of patients for the right treatment, economically and early in their disease progression, defines precision medicine.

## Average number of testing events per NSCLC patient

| | 2010 | 2014 | 2018 | 2022E | 2026E |
|---|---|---|---|---|---|
| Average number of testing events per NSCLC patients | 0.6 | 0.8 | 1.2 | 4.0 | 17.0 |

Source: Diaceutics estimates

Precision medicine also provides an essential means of reconciling the higher costs of treatment reducing costly inefficiencies in medicine including false positives/negatives; unnecessary treatment; over and under medication and costly acute care admissions/readmissions resulting from medication errors. However, such precision medicine is not widely prevalent: the top 10 highest-grossing drugs in the U.S. are still only effective in only 4% to 25% of those patients who take them.

**What disease areas is precision medicine relevant to**
Precision therapies and tests are being developed in multiple diseases, including HIV, Alzheimers, Cystic Fibrosis, Irritable Bowel Disease, however it is in cancer where the greatest penetration of precision medicine has occurred to date. Almost all the new cancer therapies being launched today will have the need for a companion diagnostic. It is estimated that 42% of all therapies (73% oncology) in the pipeline are dependent upon precision testing. [1]

**Why is diagnostic commercialisation important in precision medicine**

When pharma companies launch a new precision medicine drug, they will require patients to be tested first to identify if they carry the specific genetic characteristics (biomarker) to determine if they will respond to that therapy. This, test-first-then-treat, interdependency is what is broadly known today as precision testing and precision treatment. As of the end of 2019 the FDA listed some 217 therapies where a treatment was dependent upon a companion diagnostic.

Companion diagnostics are typically based on specific biomarkers (genes, proteins etc.) which stratify those patients who will either benefit from a drug or who might otherwise experience adverse effects. In some circumstances, certain tests are mandated by regulatory authorities. For example, doctors are required to test breast cancer patients for over-amplification of the HER-2 biomarker before initiating treatment with Herceptin (trastuzumab).

The need for diagnostic commercialisation services arises because whilst pharma companies are adept at launching new therapies, they are historically less familiar with the diagnostic commercial ecosystem which operates differently. To avoid delays to patients accessing the precision therapy, pharma usually chooses to outsource core parts of the diagnostic commercialisation to companies more familiar with the complex challenges.

Included in the diagnostic commercialisation services pharma often outsources, are laboratory education to drive adoption of the new test, development of new testing standards to ensure patients are receiving the same type of test regardless of where they live and anonymised testing data for to track and monitor physician test ordering behaviour and the number of patients who test positive or negative with a particular biomarker. Historically pharma has typically spent £0.5m to £1m per therapy brand to ensure the patients are tested at the right time to access their therapy. By 2025 we believe this investment could increase to £5m to £8m per therapy brand as pharma companies seek to remove test access hurdles to high value therapies.

As the value of precision medicine to pharma pipelines increases so too does their willingness to invest further and faster in eliminating any access barriers caused by a complex diagnostic ecosystem denying patients treatment. We estimate that for every dollar pharma invests in removing or lowering diagnostic barriers to treatment delivers 30 to 60 dollars back in treatment revenues otherwise lost. For pharma, the business case for precision medicine in cancer is now compelling. Clinical trials designed with patient selection criteria based on pharmacogenomics/pharmacogenetics (PGX) biomarkers are "smaller, quicker, and smarter" and "four times as likely" to yield positive outcomes, and those using biomarkers in another manner are "three times as likely." [3] The combination of faster clinical trials, higher success rates, and accelerated approvals results in lower drug development costs and superior outcomes, for all stakeholders especially patients. These factors have all worked to deliver billion-dollar brands in oncology and rapid growth for companies who are increasingly harnessing precision medicine. Taken together, these factors have doubled the overall market return, measured in net present value, compared with one-size-fits-all therapies. [4]

[1] Pharma Precision Medicine Readiness Report 2019
[2] Based on market size analysis combining several data sources presented in US$
[3] https://invivo.pharmaintelligence.informa.com/IV005051/One-size-No-Longer-Fits-All-The-Personalized-Medicine-Trial-Landscape
[4] https://www.futuremedicine.com/doi/full/10.2217/pme.09.64



**Total available market**
The overall precision medicine market is anticipated to double in size from 2018 to 2026 (see table below) driven by key areas of geographic and technical focus for Diaceutics including Oncology, healthcare data, North America and Asia.

Eventually we believe that all patient pathways to treatment will benefit from improving the patient's diagnostic journey and consequently the focus on improving diagnostic commercialisation will become an integrated part of the pharma marketing model.

## Global precision medicine market snapshot

| | 2015 US$m | 2018 US$m | 2026 US$m | CAGR 2018–2026 |
|---|---|---|---|---|
| Global Precision Medicine Market | 31,707.1 | 39,658.1 | 80,777.7 | 9.43% |
| Largest Market by Technology: Big Data Analytics | 9,334.9 | 11,771.4 | 24,505.1 | 9.73% |
| Fastest Growing Market by Technology: Companion Diagnostics | 6,384.0 | 8,070.2 | 16,909.9 | 9.82% |
| Largest Market by Application: Oncology | 12,776.4 | 15,903.6 | 31,980.5 | 9.26% |
| Fastest Growing Market by Application: CNS | 6,210.0 | 7,850.8 | 16,453.8 | 9.82% |
| Largest Market by End Use: Hospitals | 13,643.5 | 16,931.5 | 33,773.0 | 9.15% |
| Fastest Growing Market by End Use: Clinical Laboratories | 8,810.4 | 11,151.7 | 23,448.1 | 9.87% |
| Largest Market by Region: North America | 13,317.7 | 16,517.7 | 32,897.8 | 9.13% |
| Fastest Growing Market by Region: Asia Pacific | 7,108.2 | 9,008.5 | 19,004.9 | 9.91% |

Source: ARC Analysis, October 2019

**Serviceable available market**
In the short to medium term, 2020 to 2025, our research on therapy pipelines suggest year on year increases in the number of test dependent treatments receiving approval and arriving onto the market.

Specifically, more than 500 precision medicine trials are currently underway, with approximately 267 and 250 phase III trials expected to finish by the end of 2019 and 2020 respectively.[1] Over 15% of the current phase II/III clinical trials include a biomarker, that will be used to stratify patients, and therefore will require a diagnostic test to identify the appropriate patients.[1] If we conservatively assume only 20% of the current 500+ precision medicine phase II/III trials result in an FDA New Drug Application (NDA)/Biologics License Applications (BLA), potentially 103 new precision drug/test submissions could occur over the next 2 years.[1] This would result in up to 50 new precision medicine treatments and associated tests could be launched annually during the next 5 years. [1] We estimate that up to 300 precision test/therapy combinations by 2025 annually therefore could require servicing with improved focus on diagnostic commercialisation.

**The need for scale**
With the estimated 50 new drug/test launches anticipated annually during the next five years, the need for a solution to streamline diagnostic diffusion of tests post-launch is clear. To fully capture this increasing market opportunity

Diaceutics has been building towards the introduction of a SaaS (Software as a Service) based platform (working title Nexus) capable of introducing efficiency into the clinical testing ecosystem by integrating Stakeholders early on and ensuring the testing market is ready on day one of launch.

Platform business models are a way of enabling key stakeholders to collaborate more efficiently to address stakeholder needs. It is anticipated that such a platform dedicated to diagnostic commercialisation, will synchronise commercialisation of precision testing and treatment from launch onwards in order to ensure the right patients are given the right test in order to receive the right treatment.

The goals of a diagnostic commercialisation platform are to ultimately reduce test access hurdles for patients and accelerate their path to the appropriate precision treatments. The Nexus platform is designed to manage multiple diagnostic commercialisation programmes in parallel, providing Diaceutics with the ability to accelerate patient access and scale in line with the market.

> "[Nexus] will synchronise commercialisation of precision testing and treatment from launch."



# Our People

Some of our inspirational people share insights on their roles at Diaceutics, their experience in the precision medicine field, how they identify with our mission and how they see their roles developing in the future.

The following is a summary of their experiences in their own words.

**Scott DeVore**
**Key Account Director,**
**Sales and Marketing, Team, US**

My responsibilities are to ensure our key accounts are educated in our services, presented with engaging dialogue that translates to project initiation, ensure their needs are heard and communicated internally, and ultimately form long lasting partnerships across brands and programmes.

I identify with the mission to enhance patient treatment opportunities through delivering better understanding of the testing environment to our clients. The energy at Diaceutics has been unrivalled from any company I've ever worked for and the collaborations we forge with our commercially focused clients has been a unique challenge that I've relished.

My vision is to develop our accounts from a pure vendor relationship to true partnerships, driving increased multi-year engagements with unrivalled access into the Diaceutics' suite of services and more secure revenue streams for the Company.

**Ryan Tay**
**Senior Director,**
**Global Laboratory Team, Asia**

I have the exciting responsibility of leading the Global Laboratory Relationship Asia team to build and expand our laboratories network in APAC.

Prior to joining Diaceutics, I held several leadership roles across Greater China and APAC, focusing on Business Development and Expansion with IVD companies in Oncology and Infectious Diseases. The latest experience was business expansion in China and the co-development of CDx and clinical trial for DxRx in China.

Working in the Asia healthcare industry, I have seen patients being denied a suitable treatment because of accessibility, affordability, etc which are very much aligned to the six barriers identified by Diaceutics. With the motto of "Better Testing, Better Treatment", I am starting to see the reality that we can push the drugs earlier to the market with the right companion tests to ensure patients receive the right treatment with the right diagnosis.

**Frank Policht**
**Domain Expert,**
**Knowledge and Insights, Team, US**

As a Domain Expert, the primary focus of my role is to serve as a thought leader within precision medicine, ultimately translating knowledge and experience, in combination with Diaceutics' proprietary Global Diagnostic Index (GDI), into the development and delivery of information and strategic insights to our clients.

Prior to joining Diaceutics, I spent nearly 20 years in the field of molecular diagnostics working for a large corporation where most of that time was devoted to companion diagnostics, which are fundamental to precision medicine. My diagnostic experience has spanned product conceptualisation, development and clinical testing into product launch and commercialisation, focusing on diagnostic partnerships with pharma clients to deliver appropriate diagnostic tests for biomarker-associated therapies.

Diaceutics' impact on understanding the patient and the difficult journey they must navigate as they face a life-altering disease, is fundamental to my work, as I have personally lived through the cancer journey, where diagnostic testing was used to determine an effective treatment. Working at Diaceutics brings me immense joy in knowing that my contributions have a direct impact on improving patient lives by providing them with opportunities to access novel treatments through better diagnostic testing.

"111 employees, in 19 countries including US, EU, China and Japan."

**Nital Patel**
**Lead Secondary Research Data,**
**Consulting and Analytics, Team, US**

I have 15 years of experience in Real World Data and analytics supporting various phases of product and treatment lifecycle.

I am grateful to be working for a company which is dedicated to providing solutions to clients so they can ensure the patients are receiving the right therapies. Additionally, the people are just awesome to work with. It's been an enriching experience so far.

With the right set of skills and strategy, I envision Diaceutics to be the client's number one choice for precision medicine analytics and consulting in the near future.



# Principal Risks and Uncertainties

The risk factors that are considered to be most significant to the Group's operations, and where applicable an explanation of how these are managed or mitigated, are outlined below. The risks described do not necessarily comprise all those associated with the Group and are not set out in any particular order of priority. Additional risks and uncertainties that are currently not known by the Directors, or that are currently deemed immaterial, may also have an adverse effect on the Group.

## Operational, commercial and financial risks

| Risk | Mitigation |
|---|---|
| **Certainty of contracts and pipeline**<br>Any cancellations, delays, material amendments and uncertainty around the Group's Order Book could have an impact on the revenues of the Group. | The Group has visibility over a proportion of its revenues through signed up service agreements, contracted work or high probability tenders.<br><br>The pipeline of the business is continually reviewed by senior management and the order intake is accessed against conversion rates and tracked to contract execution. Using the CRM system, key account management team and client plans this provides momentum for project closure and creates the ability to assess the products and capacity required going forward.<br><br>There is significant growth in the testing and commercialisation market for precision drugs. Growth opportunity exists for the Group to support an increasing number of pharma companies and therapy brands in their diagnostic commercialisation strategies. |
| **Dependence on key executives and personnel**<br>The Directors believe that the future success of the Group will depend in part upon the expertise and continued service of key executives and technical personnel. The loss of the services of any of the key management personnel or the failure to retain key employees could adversely affect the Group's ability to maintain and/or improve its operating and financial performance. | The Executive continues to review the business structure to ensure it is appropriate to support the business model and strategic growth. Succession and retention planning is in place for senior management posts.<br><br>The Group remains committed to the recruitment, engagement, retention and reward of experienced management plus quality scientific, marketing and sales personnel. Furthermore, it has implemented remuneration schemes to incentivise key personnel. |

| Risk | Mitigation |
| --- | --- |
| **Loss of a major customer**<br>A small number of customers, with which the Group has a long term historical relationship, contribute over 10% of annual revenue. The loss of any such major customer would have a direct impact on the earnings potential of the business. The relationship for a major contract usually takes time to establish and the responsibility to deliver a significant project is typically developed over a no. of years. | The Group's customer base is relatively well diversified, and this has been expanded this year through growth in both the number of clients and brands that the Group services. Further mitigation is evident in the number of brand teams engaged within our clients numbered 53 in 2019.<br><br>The Group has a very good working relationship with all its major customers. To further develop this, the investments in the year has focused on growing the key account management and sales teams to manage business delivery over an expanding geographical reach and provide customer support. |
| **The Group has a significant dependency on its ongoing access to patient diagnostic data**<br>Diaceutics acquires data from multiple sources including government, laboratory collaborators, key bodies and public domain sources. The failure of a significant data supplier may be disruptive to the Group's operations, although is not expected to provide a long-term issue to the Group in relation to the supply of data. | Diaceutics has invested in the essential datalake, databasing 2,500+ global laboratories and building laboratory liaison teams in all the top launch markets. It has amalgamated over 227m real world patient records from multiple sources and key precision testing markets into the data lake.<br><br>The Group has expanded its laboratory liaison team who are now working with the leading cancer labs across 30 countries including all 15 of the 'first launch' markets for the pharma industry. |
| **The Group's growth strategy is subject to compliance with information security and data privacy laws and requirements**<br>The rules on data protection afforded to patient data in different countries varies widely and there can be no assurance that the Group will be able to secure such datasets or that the basis of acquisition will be commensurate with the agreements in place to date. Furthermore, data protection laws are highly heterogeneous around the world and subject to evolution as privacy issues come to the fore. | Patient data is held by the Group on an anonymised and aggregated basis.<br><br>The Group's executive and legal counsel reviews the impact of changes to information security and data privacy regulations.<br><br>Systems and processes are in place to ensure compliance with these regulations and protect against data loss. Strong IT measures have been implemented and are reviewed regularly to ensure adequate protection is in place.<br><br>Staff are made aware of the potential impact of changing regulations and targeted training is provided. |
| **Market risks and economic conditions**<br>The Group may be affected by general market trends which are unrelated to the performance of the Group itself.<br><br>Any economic downturn either globally or locally in any area in which the Group operates may have an adverse effect on the demand for the Group's revenue, profit, growth and cash flow over a sustained period. | The Group's business model includes flexibility in both service offering and cost structure which can react to downturns in the market to lessen the immediate effect.<br><br>Ongoing engagement with stakeholders, regular dialogue with customers, research and marketing activities and regular strategic reviews of the overall business assist in maintaining a sustainable business. |



| Risk | Mitigation |
| --- | --- |
| **Events beyond the control of the Group may have adverse effects on the business**<br>The Group faces risks in relation to the political and economic instability associated with the UK leaving the European Union, as well as potential changes to the legal framework applicable to its business.<br><br>The possible threat of natural disasters affecting the ability to trade. | The overall impact of Brexit on the Group's business is expected to be low risk. Executive continues to monitor the situation and a Brexit strategy has been implemented, which includes the ability to attract talent from outside the UK and the use of the corporate structure to hold assets in Ireland as part of the EU regional activity.<br><br>The Directors have considered the financial impact of the spread of coronavirus globally. Based on current information, we are not getting any indications that clients are changing plans because of coronavirus. A coronavirus strategy has been implemented around client engagement and data ingestion which will continue to be reviewed and developed as additional information is provided.<br><br>A disaster recovery plan has been developed. |
| **Foreign exchange rate fluctuations may adversely affect the Group's results**<br>The Group prepares its financial statements in pounds sterling, but a substantial proportion of the Group's income and costs are and will continue to be in foreign currencies. To the extent that the Group's foreign currency assets and liabilities are not matched or hedged, fluctuations in exchange rates between pounds sterling and other currencies may result in realised or unrealised exchange gains and losses on translation of the underlying currency into pounds sterling. | A working capital model and cash flow projections are used to plan for business transacted into different currencies so that exchange rate risk is minimised. The Group seeks to match foreign currency costs and flex cash flows to align with corresponding foreign currency receivables.<br><br>The Group operates current bank accounts in multiple currencies. It aims to ensure that the receipts and payments in a particular currency are made through the bank account in that currency to reduce the amount of translation exposure.<br><br>In addition, the Group has entered into a revolving credit facility which can be drawn in US dollars, pounds sterling or euro. |

# Directors' and Corporate Governance Report

# The Board of Directors

## Non-Executive Directors

**Julie Goonewardene (age 61),**
**Non-Executive Chair**
Julie has extensive experience in healthcare, information technology, and business.

Having graduated from Purdue University, she spent the first twenty years of her career in the field of information technology, leading the growth and exit of companies in the sector. In 2005, she returned to Purdue to create the University's first venture fund and to help faculty inventors turn their research projects into commercial enterprises. Julie then went on to remake the corporate partnership and commercialisation capabilities at the University of Kansas and University of Kanas Medical Center.

She currently serves as the Senior Advisor to the Chancellor plus Chief Talent and Innovation Officer at the University of Texas System, which is one of the US's largest and most respected systems of higher education with a focus on healthcare.

Her Board experience includes American Medical Association (immediate past public member), Diaceutics and the Personalized Medicine Coalition (immediate past member). Additionally, she served as an advisor to the United States Secretary of Commerce as a member of the U.S. Department of Commerce's National Advisory Council on Innovation and Entrepreneurship (NACIE).

**Charles Hindson (age 60),**
**Non-Executive Director**
Charles joined the board as a Non-Executive director on IPO and chairs the audit and remuneration committees. He brings 16 years' experience of FTSE listed company board membership, having served in executive director roles with Filtronic plc, firstly as Group Finance Director and subsequently Chief Executive, and then with e2v technologies plc as Group Finance Director.

He is experienced in supporting business leaders develop technology businesses internationally, though organic growth and successful acquisitions, and this has been reflected in creating meaningful shareholder value with these listed companies.

His early career was with 3i and PwC, and then in HQ and international divisional finance roles with British Gas plc and British Telecom plc before becoming Finance Director with Eutelsat SA, based in Paris, France. He also serves as a director of Soter Analytics Limited, an early stage ergonomics company and as a trustee and chair of the audit committee of Trinity College London, the international exam board for performing arts and English language qualifications.

**Mike Wort (age 69),**
**Non-Executive Director**
Having trained as a microbiologist, Mike brings over 40 years' experience working with life science companies across the healthcare sector. Initially working with three of the top ten global pharma companies in a variety of sales, marketing and research positions, he was appointed Investor Relations Manager of Wellcome Plc and was actively involved in the global communications programme for the major £2.4 billion secondary offering of Wellcome Plc shares by the Wellcome Trust, which enabled him to develop working relationships with key figures in the life sciences industry.

After leaving Wellcome, Mike was a founding partner in the first specialist communications agency, in the United Kingdom, for the emerging biotechnology industry. Apart from a diversion caused by his involvement as the CEO during the privatisation of the Bulgarian pharma industry his career has been devoted to working with start-up and growing SMEs to maximise their potential for growth.



## Executive Directors

**Peter Keeling (age 59),**
**Chief Executive Officer**
Peter has over 30 years' experience as a leader, entrepreneur and strategist in the pharma industry. He has led international companies and teams with a focus on novel business models, product launches, including therapies, diagnostics and FMCG products.

Having commenced his career as Distribution Manager at American Monitor Corporation, where he oversaw the distribution of reagents and equipment globally, he subsequently spent 11 years leading projects in both Operational and Strategic roles at the pharma division of the Wellcome Foundation, including Sales Manager for the pharma business in North and West Africa, Commercial Director for a joint venture with Wellcome Indonesia (3.5 years), Brand Director at a global product level for Wellcome's antiviral franchise. Wellcome was merged into Glaxo in 2004. Subsequently he founded and was Chief Executive Officer of Diagnology Inc, a US/Irish based diagnostics company which specialised in development and commercialisation of tests for sexually transmitted diseases. Peter has driven Diaceutics from its inception in 2005 to become a diagnostic commercialisation leader in innovative solutions which currently services 30 of the world's largest pharma companies.

Peter holds a degree in business administration from Queens University Belfast, a Masters degree in European Marketing from Buckingham University Business School and spent an academic year as a Visiting Fellow at MIT's Sloan business school in 1994 where he led a multi-corporation US think tank designed to look at disruptive healthcare models for the pharma industry. Peter has published several peer reviewed papers on precision medicine and is a respected speaker at precision medicine events around the world.

**Ryan Keeling (age 37),**
**Chief Innovation Officer**
Ryan is an expert in commercialisation of diagnostics and associated technology, with over 10 years' experience in the field.

Ryan has led the development and commercialisation of the Group's technology, including its proprietary data lake. Ryan has played a pivotal role in the Group's technological and strategic development, previously acting as its Chief Operating Officer until June 2018. As CIO, Ryan is responsible for driving the Company's product innovation, with a near term focus on the development of Nexus. Prior to joining Diaceutics, Ryan spent eight years as a software engineer for Aepona Limited, providing network infrastructure and related services to telecommunications operators.

Ryan holds a software engineering degree in business administration from Queens University Belfast. Ryan is seen as a thought leader in the field of diagnostic commercialisation and data integration speaking at precision medicine and healthcare data conferences globally.

**Philip White FCA (age 45),**
**Chief Financial Officer**
Philip has over 15 years' commercial and technical experience in leading positions within export led growth companies and has been Chief Financial Officer of Diaceutics since 2011.

He is a fellow member of the Institute of Chartered Accountants in Ireland having trained in audit and tax in both UK and Republic of Ireland companies. Philip gained a degree in Law and Accountancy and a diploma in accounting from Queens University Belfast, and has completed the Senior Executive Programme at the London Business School. Prior to joining Diaceutics, Philip was involved in developing Asian supply chains, export expansion into EU and growth by acquisition, successfully integrating two key corporate acquisitions. Philip has in the past been a long term board member of a UK charity. Philip has responsibility for all financial and risk management operations and works with the executive management team to develop and implement strategies across the organisation.

# Corporate Governance Report

The Directors recognise the importance of sound corporate governance principles being embedded within and an integral part of the operations of the Group. Having listed on AIM, the Board has adopted the Quoted Companies Alliance Corporate Governance Code (the 'QCA Code').

The Board has responsibility for ensuring that appropriate corporate governance principles are in place and that these requirements are followed and applied across the Group. The corporate governance arrangements are designed, *inter-alia,* to deliver long term value for the Group's shareholders and to enable shareholders the opportunity to express their views and expectations for the Group in a manner that encourages open dialogue with the Board.

The QCA Code sets out ten principles which will be applied. These are listed below together with a short explanation of how the Group applies each of the principles:

## Principle 1

### Establish a strategy and business model which promote long-term value for shareholders

**Business overview**

Diaceutics is a diagnostic commercialisation company which serves the global pharma industry. It has combined a suite of real world data-driven products and laboratory implementation services into a business method. Its data enabled products, method and services are focused on removing the diagnostic testing hurdles for the biomarkers and companion tests required to guide selection of precision medicines. The Company currently provides services to 36 of the largest global pharma companies and their precision therapy brands. The outcome for patients is that they will receive effective treatment quicker.

Diaceutics has established a global network of testing laboratories that contribute data to the Group. In addition, the Group has developed a series of sophisticated and proprietary data mining tools to make sense of that raw data from testing laboratories and present it to pharma companies in a meaningful way. Through this, Diaceutics' key value to pharma companies is in providing products and services that focus on their understanding of where, when and how the necessary precision testing procedures take place. The data generated by Diaceutics enables pharma companies to identify the patients suitable for their therapeutic, allowing the company to reach peak sales for their new therapeutic sooner than would otherwise be possible.

Diaceutics' services result in more effective patient diagnoses for treatments which in turn lead to better patient healthcare outcomes. This is manifested through faster testing, better turnaround times, quicker positive identification and higher number of patients treated.

Diaceutics' strategy has focused on collating large amounts of real world laboratory, patient (on an anonymised and aggregated basis), claims and payor data which it uses to direct and deliver, via its laboratory liaison team, improved testing with over 2500 labs globally on behalf of leading pharma companies.

The overall market for Diaceutics specific services will increase with the expected market growth in the number of test dependent therapies alongside increased investment by pharma to remove testing hurdles to seamless treatment.

**Business strategy**

The Group seeks to have a balanced business model with revenues derived from three areas:

1. Data provision – applying its extensive dataset and analysis of real world. Evidence supplemented with proprietary algorithms, to provide new insights that fully align precision testing with their precision medicines;
2. Implementation services – providing test commercialisation services centred on the 'Diaceutics Method' and leveraging its global laboratory database and laboratory liaison team to implement rapid improvements to clinical testing with laboratory partners in key pharma markets; and
3. SaaS tools – using transformative technology developed inhouse to provide data and tools via a SaaS (Software as a Service) based platform Nexus which seeks to greatly

accelerate the uptake of the Group's services and make Diaceutics the partner of choice to pharma companies seeking access to precision testing in the global pharma markets.

The Group has identified multiple growth drivers for the years ahead. In the near term, the Group intends to continue with the organic growth within its core data analytics and implementation services business by offering end to end projects and selling an ever wider range of services to the same clients. The Group expects to derive growth from the greater number of precision medicines progressing through clinical development as well as expanding its addressable market through the following areas:

- Additional indications: The majority of the Group's operations are presently focussed on oncology, but additional datasets from testing in cardiovascular, central nervous system (CNS), autoimmune and infectious disease would open up companion diagnostic opportunities in these large therapeutic opportunities.
- Geographic scope: In 2019 the Group expanded its geographic reach, initially by building out its footprint in China, Japan and South Korea. The Group has 22 projects with an Asian deliverable, which are serviced through its 'hub' office in Singapore. The Asia team manages the process of mapping and engaging new laboratory network contacts in the region. These developing markets represent key new growth opportunities for pharma companies which have hereto depended on western markets for the bulk of their business, but now see these regions as one of the principal sources of volume growth going forward.

In the short term, the Directors expect the value of the Group to be driven by the automation of its core data analytics and implementation services delivering scale and efficiency. To achieve this the Group is building a client portal, Nexus, which will provide a SaaS platform which will initially provide access for laboratories to input data but will subsequently be extended to provide a data interface for its pharma clients allowing it to increase the scale and capacity of its services. The Group expects the first such pharma client engagement to begin Q4 of 2020.

In the longer term, the value of the Group is expected to come from pivoting the business model from a fee for service model, to a subscriptions and value sharing business model driven by the Group's ability to provide an end to end outsourced diagnostic commercialisation service to its clients whereby it can be rewarded for the delivery of key milestones.

## Principle 2
## Seek to understand and meet shareholder needs and expectations

The Board is committed to maintaining good communication and having constructive dialogue with both its institutional and private investors.

The Board actively seeks dialogue with its shareholders via investor roadshows, capital market days, one to one meetings and regular reporting. The Board believes that open communication with investors and its analysts is the best way to ensure shareholders understand the Group's business, strategy and performance and in turn understand what is expected of the Group in order to allow it to drive its business forward.

Throughout the year the Chief Executive Officer and Chief Financial Officer meet with the institutional shareholders who hold the majority of the shares. In addition, they regularly present at conferences attended by many potential and current retail investors and meet with specialist private client fund managers. The Board is provided with feedback from all meetings and communications with shareholders.

The Group communicates with shareholders through the statutory requirements of the Annual Report and Accounts, full-year and half-year announcements, the Annual General Meeting (AGM) and the release of news via London Stock Exchange Regulatory News Service (RNS).

Corporate information, including Group announcements and presentations, are available to shareholders, investors and the public on the Group's corporate website www.diaceutics.com. The Group's contact details, email and correspondence address are listed on the website for shareholder use and the website offers a facility to sign up for email alert notifications of Group news and regulatory announcements.

The Group has in place a process for answering communications made to the Board in a timely manner.



## Principle 3
## Take into account wider stakeholder and social responsibilities and their implications for long-term success

The Group has strong regard for the importance of its shareholders, suppliers, customers, patients and employees (many of whom are also shareholders).

The Group recognises that central to its success is the recruitment, retention, development and motivation of its staff, contractors and freelancers. Multiple HR projects have been introduced to attract and retain top talent including the introduction of a global healthcare and benefits programme, a multi-faceted recruitment process incorporating cultural interviews, psychometric testing and case study exercises complementing the traditional technical interview, a residential onboarding programme to integrate new employees and a robust Group-wide Performance Management Framework linking every employee's daily activity to the overall corporate goals. These initiatives are enhanced through delivery of bespoke developmental opportunities such as our internal mentoring programme and the Diaceutics EFFECTive Leaders programme which was recently accredited. This is in addition to an overall training and development plan that promotes and supports continuous development and learning.

The Group strives to achieve a supportive and inclusive work environment which promotes wellbeing and welfare, equality, respect and human rights. It has a range of policies, procedures and practices in place to support and inform staff and these are communicated widely to employees, both during the residential onboarding process and throughout their employment. Policies include equality, diversity and inclusion, whistleblowing and grievance among many others. Managers and staff are updated with regard to the content of these policies and have support from the Human Resources department in their implementation.

The Group has demonstrated its commitment to patients by establishing a formal 501(c)(6), non-profit organisation called the Precision Medicine Connective ('The Connective'). The Connective is on a mission to increase awareness about testing so that every patient is empowered to make the best possible decisions in their treatment journey. The Connective has partnered with international patient advocacy groups such as Inspire to Live, The European Cancer Patient Coalition (ECPC), Myeloma Patients Europe and Lungevity to disseminate valuable information about diagnostic testing to patients.

The Group has also sponsored charity events, with individuals participating in events such as the Prudential Ride London – Surrey, a 100 mile bike ride to raise funds for the Friends of the Cancer Centre in Northern Ireland and the Padres Pedal the Cause event, a two day ride in Southern California to raise funds for cancer research as well as The Great North Run Half Marathon in support of the Disability Assistance Dogs charity Support Dogs.

A formal partnership with the Union for International Cancer Control (UICC) and sponsorship of World Cancer Day has also provided a significant platform to elevate awareness around early detection and diagnosis of cancer, which is directly related to the Group mantra of driving better testing to deliver better treatment for patients.

## Principle 4
## Embed effective risk management, considering both opportunities and threats, throughout the organisation

The Board acknowledges its responsibility for reviewing the effectiveness of the systems that are in place to manage risk and to provide reasonable assurance with regard to the safeguarding of the Group's assets against misstatement. The Board is responsible for reviewing and approving overall Group strategy and determining the financial structure of the Group including treasury, tax and dividend policies.

There are comprehensive procedures for budgeting and planning, for monitoring and reporting to the Board business performance against those budgets and for forecasting expected performance over the remainder of the financial period. These cover profits, cash flows, capital expenditure and the balance sheet.

The principal business and financial risks have been identified and control procedures implemented. These are monitored using a structured approach in the format of a Board-Corporate risk register which is colour-coded to prioritise the most significant risks for ongoing Board attention. The risk management approach has been designed to identify the major risks identified within operational activity as well as Group-wide risks and those risks of a corporate nature covering strategy, markets and financial performance.

The Audit Committee ensures the maintenance of internal controls. It assists the Board in discharging its duties regarding the financial statements, accounting policies and the maintenance of proper internal business and operational and financial controls, including the review of results of work performed by the Group controls function.

Further to the Board, the Company has an executive committee ('Exco') comprising, Peter Keeling (Chief Executive Officer), Ryan Keeling (Chief Innovation Officer), Philip White (Chief Financial Officer), Dr Jordan Clark (Chief Technical Officer) and Damian Thornton (Chief Operating Officer). From April 2020 Susanne Munksted will be joining the Exco as Chief Precision Officer. The Exco have a weekly operations call and monthly strategy call to review the financial position of Group and current risks alongside future strategy for the business. A reporting pack is provided in advance of the meetings and is used to drive discussions on performance, position, cash flow and prospects of the business.

The Company has employed a General Counsel to assist and advise on all legal aspects of the business. The General Counsel provides legal support where necessary, reviews all material contracts and takes an active role to ensure that compliance is at the core of all aspects of the business.

The effectiveness of the established framework of business and internal financial controls is regularly reviewed by the Executive Management, the Audit Committee and the Board. Previously this review identified that the Group would benefit from a new ERP system which has been commissioned with further modules, expected to bring further operational and control benefits to the business in 2020.

The Board considers that the internal controls in place are appropriate for the size, complexity and risk profile of the Group.

## Principle 5
## Maintain the board as a well-functioning, balanced team led by the Chair

The Group is controlled by the Board of Directors, comprising three Executive Directors – Peter Keeling (Chief Executive Officer), Ryan Keeling (Chief Innovation Officer) and Philip White (Chief Financial Officer) – and three Non-Executive Directors, Julie Goonewardene, Mike Wort and Charles Hindson. The Chair, Julie Goonewardene, is responsible, *inter-alia*, for the proper functioning of the Board and the Chief Executive Officer, Peter Keeling, has executive responsibility for running the Group's business and implementing Group strategy. The Directors biographies, together with their respective Board Committees memberships, are set out on pages 30-31.

The Board considers that the Non-Executive Directors bring an independent judgement to bear notwithstanding the varying lengths of service. The Non-Executive Directors have a particular responsibility for bringing objective challenge, judgement and scrutiny to all matters of the Board. They critically challenge proposed strategies and current operational performance.

The Group holds Board meetings monthly. All Directors receive regular and timely information the Group's operational and financial performance with, as a minimum, a monthly reporting pack being provided. Relevant information is circulated to the Directors in advance of meetings. There is a formal schedule of matters reserved for the Board, which may only be amended by the Board.

All Directors are encouraged to debate and use independent judgement, based on their respective knowledge and experience, to challenge all matters effecting the business, whether strategic or operational.

All Directors have direct access to the advice and services of the Company Secretary and are able to take independent professional advice in the furtherance of the duties, if necessary, at the Group's expense.

The Board feels that it has an appropriate balance between independence, knowledge of the Company's technology, sector experience and professional standing to allow it to discharge its duties and responsibilities; pursue its strategic



goals and to address anticipated issues in the foreseeable future. However, it will continue to consider any potential additions to the Board to further broaden the experience and effectiveness of the Board as the Group continues to grow.

The Company has effective procedures in place to monitor and deal with conflicts of interest. The Board is aware of the other commitments and interests of its Directors, and changes to these commitments and interests are reported to and, where appropriate, agreed with the rest of the Board.

All Directors will stand for re-election at the AGM as this was the Company's maiden AGM. In accordance with the Company's Articles of Association Directors are required to seek re-election at least once every three years.

## Principle 6
## Ensure that between them the Directors have the necessary up-to-date experience, skills and capabilities

The biographies of the Board are set out on pages 30-31.

The Board is satisfied that, between the Directors, it has an effective and appropriate balance of skills, knowledge and experience and time to perform its duties; and is mindful of the need to continuously review the needs of the business to ensure that this remains true.

Board members are able to attend such courses or training, as they feel appropriate, to keep up to date. Involvement with a variety of other boards allows the members to witness alternative approaches to similar business issues and to benefit from the advice of more than just the Group's advisors.

Directors receive regular and timely information on the Group's operational and financial performance with information being circulated to the Directors in advance of meetings. The business reports monthly on its performance against its agreed budget.

Operational skills are maintained through an active day to day involvement of leading global experts from the laboratory, diagnostic and pharma industries. In addition, the Group harnesses the strategic insights of two industry experts on its external advisory board.

All Directors are able to take independent professional advice in the furtherance of their duties, if necessary, at the Group's expense. In addition, the Directors have direct access to the advice and services of the Company Secretary and Chief Financial Officer.

The Chair, together with the Company Secretary, ensures that the Directors' knowledge is kept up to date on key issues and developments pertaining to the Group, its operational environment and to the Directors' responsibilities as members of the Board.

## Principle 7
## Evaluate board performance based on clear and relevant objectives, seeking continuous improvement

Since IPO the Board has sought to improve the ways in which it interacts and the manner in which information is presented to it. The processes that have been put in place allow for a consistent approach to reporting, thus aiding analysis by the Board of all matters at hand.

A formal Board effectiveness review was undertaken following the first year of establishment of the current Board. This review was in the form of a structured questionnaire circulated to all Directors, asking them to rate the Board's performance in a number of strategically important areas and provide a rationale for their view. Results and outcomes were analysed by the Company Secretary and any key themes were reported and discussed with the Board, with appropriate recommendations arising from this review being implemented by the Board.

In addition to the formal appraisal process for Board members, the Chair and Chief Executive Officer regularly discuss the performance of the Board and the information provided by the executive team.

## Principle 8
## Promote a corporate culture that is based on ethical values and behaviours

The Board believes that an organisation is defined by its people. That is why the Group has established a culture based on the values of

Empowerment, Foresight, Fun, Entrepreneurship, Communication and Trust, together known as the Diaceutics EFFECT values and has appointed a senior manager to support the Exco team in keeping the culture agenda evolving.

Every year, the Group hosts a four-day Group meeting to ensure that these pillars remain effective and conducive to a productive and progressive environment. The Board has ensured that everybody is invested in and benefits from the Diaceutics vision. Prior to listing, the majority of the company's equity was held by employees and senior management.

The Group has established a formal working group, dubbed "The Culture Club", which has formulated the Diaceutics' "EFFECT" based on six specific corporate values. These values – Empowerment, Foresight, Fun, Entrepreneurial, Communication & Trust – are highlighted regularly in internal communications, included in the hiring process for new candidates for employment, and are a formal part of the Performance Management Form, which is established by each employee as annual objective to be measured and incentivised. Following initial introductions, a session on Diaceutics' culture and the EFFECT values is the first training module delivered in the Diaceutics' residential onboarding programme for all new starters, giving Culture a real emphasis from day one. Specific ongoing development training is aligned to these cultural behaviours also so that each component is well represented and permeates throughout the organisation. There are regular initiatives across the year, sometimes as a result of ideas developed in 'The Culture Club', to maintain, reinforce and continuously develop Diaceutics' culture.

The Board is committed to maintaining appropriate standards for all the Company's business activities and ensuring that these standards are set out in written policies. Key examples of such standards include the 'Equality, diversity and inclusion policy' and 'Whistleblowing policy'. Further policies will continue to be implemented to ensure that sound ethical values and behaviours continue to be embedded in the Group. The Board recognise that this culture is crucial to the ability of the Group to achieve its corporate objectives, and culture is in fact one of the pillars of the Diaceutics business plan.

## Principle 9

## Maintain governance structures and processes that are fit for purpose and support good decision-making by the Board

The Group's governance structures have been reviewed in light of the QCA Code. The Board believes them to be in accordance with best practice as adapted to best comply with the Group's circumstances.

The Board has overall responsibility for implementing the Group's strategy and promoting the long-term success of the Group. The Executive Directors have overall responsibility for managing the day to day operational, commercial and financial activities. The Non-Executive Directors are responsible for bringing independent and objective judgement to Board decisions.

The Board seeks to meet regularly, but in any event to hold no fewer than eight board meetings in each year. In addition to the scheduled meetings, informal discussions with both Executive Directors and senior operational managers of the Company in relation to strategic business development and other topics important to the Company's progress are held by members of the Board regularly.

The Board is supported by the Audit and Remuneration committees.

The Audit Committee is chaired by Charles Hindson and the other members of the Committee are Julie Goonewardene and Mike Wort. It meets at least twice a year at appropriate times in the reporting and audit cycle and otherwise as required. The Committee's responsibilities are set out in its terms of reference and include amongst other things, reviewing the adequacy of the Group's accounting and operating controls, reviewing the proposed accounts of the Group prior to publication and recommending the appointment of the auditor and review of the scope and results of its audit. It is also responsible for ensuring that an effective system of internal control is maintained.

The Remuneration Committee is chaired by Charles Hindson and the other members of the Committee are Julie Goonewardene and Mike Wort. It meets as required. The Committee's responsibilities include amongst other things, responsibility for determining the remuneration for the Group's Executive Directors and senior management and reviewing



the design of share incentive plans and sets performance conditions for approval by the Board.

The terms of reference of the Audit Committee and the Remuneration Committee are set out on the Group's website.

The Board and its committees are provided with information ahead of meetings to give time for review and analysis. Each committee has access to such resources, information and advice as it deems necessary, at the cost of the Group, to enable the committee to discharge its duties. For each Board meeting an agenda is prepared and approved by the Chair and followed.

The Group is confident that its governance structures and processes are consistent with its current size and complexity of the business. The appropriateness of the Company's governance structures will be reviewed annually in light of further developments of accepted best practice and the development of the Company.

## Principle 10

## Communicate how the company is governed and is performing by maintaining a dialogue with shareholders and other relevant stakeholders

The Company communicates with shareholders through the Annual Report and Accounts, full-year and half-year announcements, the Annual General Meeting (AGM), release of news via London Stock Exchange channels and by regular one-to-one meetings with large existing or potential new shareholders and by open events with private shareholders.

The Group encourages two-way communication with both its institutional and private investors and responds quickly to all queries received. The Chief Executive Officer talks regularly with the Group's major shareholders and ensures that their views are communicated fully to the Board. Investor roadshows are held following the release of half and full year results; and the Chief Executive Officer and Chief Finance Officer attend a number of investor and sector specific conferences which give smaller investors the opportunity to speak with the executive.

Corporate information, including Group announcements, financial reports and presentations, are also available to shareholders, investors and the public on the Group's corporate website www.diaceutics.com.

Employees and consultants are regularly updated with the development of the Group and its performance. A group intranet system is frequently updated for news on Group developments and events, industry related press releases, internal discussions and a regular update from the CEO. An all-company 'Town Hall' webinar is held as least twice a year updating staff and consultants on past performance and future plans for the Group and employee specific matters.

The Group regularly, at least biennially, hosts a four-day Group meeting to ensure that these corporate plans and goals are communicated and discussed, ultimately ensuring that the whole team is bought in, thus ensuring an effective and conducive environment to achieve these.

Philip White

**Mr P White**
Director
15 March 2020

# Directors' Remuneration Report

**Remuneration committee**
The Committee was chaired by Charles Hindson during the year and the other members of the Committee are Julie Goonewardene and Mike Wort.

**Role of the committee**
The Remuneration Committee is responsible for making recommendations to the Board on the Group's framework of executive remuneration and its cost within agreed terms of reference. The Committee determines the contract terms, remuneration and other benefits for each of the Executive Directors, including performance-related schemes (both short and long term) and pension rights. It also considers the remuneration of senior management within the Group. In performing its role, the Committee takes consideration of the general increases for employees throughout the Group. The Board itself determines the remuneration of the Chair and Non-Executive Directors.

The Committee appointed Deloitte LLP in June 2019 to provide independent remuneration advice on the strategy for Directors' compensation and its benchmarking. They reported to the Committee in September 2019.

**Remuneration policy**
Diaceutics' aim in setting a compensation policy is to attract and retain highly skilled and experienced staff and to incentivise and reward for successful short and longer term performance. The remuneration policy seeks to deliver a fair and balanced remuneration package for each of the Executive Directors that is consistent with compensation across the business for their seniority. The package consists of a number of different components of remuneration, structured to be aligned with the business strategy.

The policy has been developed during the year and the shorter term elements have been applied from 1 January 2020, with plans to grant the longer term incentives in the second quarter of 2020. The Committee liaised on the proposed strategy with selected key external shareholders in November 2019, and the proposals were supported.

**Basic salary**
The basic salary of the Executive Directors is reflective of the sector competitive rates in attracting, rewarding and retaining the necessary level of skills and experience required in the precision medicine sector and AIM environment. They are reviewed annually, usually at the same time as other staff, by the Committee taking into account changes in roles, responsibilities and specific retention issues.

In reviewing potential increases in the Executive Directors' basic salary, the Committee is guided by general increases for employees. Where an inflation based award is granted, this would be applied to the Directors, if considered appropriate. Certain Directors may be considered for additional increases recognising that their experience, remit and responsibilities have substantially increased in the year and new operational activities undertaken.

**Pension**
All employees in UK and Ireland can avail of a company pension scheme within which the employer makes pension contributions of 2% to 5% for employees who avail of this. Enhanced rates are agreed for a number of more senior staff.

The option to provide pension in other jurisdictions is currently being explored with the aim of being rolled out over the next 18 months.

The pension arrangements in place for the Executive Directors are that the company contributes 10% of salary for Peter Keeling and 5% of salary for Philp White and Ryan Keeling. These arrangements were reviewed and considered within with the range of company pension contribution for other staff, reflecting the individual Directors' salary levels.

**Private healthcare**
From 1 January 2020, all current employees, including Executive Directors, are offered private healthcare. The specific requirements for the new countries that are currently being added will be considered as these come through.



**Bonus and equity**
Prior to IPO, Diaceutics recognised staff contribution and performance with bonus awards, though these were not operated through a formal structure for Executive Directors or staff. While targets were set for senior staff, other staff were awarded bonuses on an ad-hoc basis based on contractual arrangements and/or commission levels.

Deloitte have advised the Company with the objective of setting a formalised bonus structure for middle and senior management, operating as both cash and share awards, to recognise and reward both short and longer term performance.

Cash awards, aligned to the Group's operational performance and personal objectives, were applied throughout 2019 and are operational from 1 January 2020. It is intended to introduce long term share incentives after the preliminary announcement of the Group's results for the year ended 31 December 2019. The first award is anticipated to be granted in the second quarter of 2020 in the form of market value share option awards. Awards in subsequent years are anticipated to be by way of performance share awards where the performance criteria are expected to be determined with criteria linked to both shareholder return and operating performance.

2019 has been a year of transition, where the new structure for senior and middle management for cash bonuses has been applied to financial targets set internally at the beginning of the year and referencing staff's personal objectives set within the Group's performance management system. The Remuneration Committee exercised its discretion for Executive Directors that half of their potential bonus would be assessed on having completed the successful IPO and that the other half on company performance, where 67% of the target performance range was achieved.

The bonus structure will continually be reviewed by the Remuneration Committee following this first year of formal implementation.

## Directors' Remuneration

The remuneration of the Board of Directors of Diaceutics PLC for the year ended 31 December 2019 is set out below:

| | Basic Salary £ | Bonus £ | Taxable Benefits £ | Pension £ | 2019 £ | 2018 £ |
|---|---|---|---|---|---|---|
| **Executive** | | | | | | |
| Peter Keeling | 206,970 | 57,750 | 522 | 18,699 | 283,941 | 100,268 |
| Ryan Keeling | 175,444 | 51,473 | 477 | 8,419 | 235,813 | 78,007 |
| Philip White | 199,384 | 51,473 | 856 | 9,451 | 261,164 | 154,434 |
| Delia Keeling | – | – | | – | – | £4,049 |
| | **581,798** | **160,696** | **1,855** | **36,569** | **780,918** | **336,758** |
| **Non-Executive** | | | | | | |
| Julie Goonewardene | £41,250 | – | – | – | £41,250 | – |
| Mike Wort | £22,500 | – | – | – | £22,500 | – |
| Charles Hindson | £26,250 | – | – | – | £26,250 | – |
| | **£90,000** | **–** | **–** | **–** | **£90,000** | **–** |
| **Total** | **671,798** | **160,696** | **1,855** | **36,569** | **870,918** | **336,758** |

Taxable benefits consist of life insurance and group income protection.

Delia Keeling's remuneration in 2018 reflects the remuneration paid until her retirement as a Director on 6 September 2018.

No share options are held by or were granted to the Directors during the year.



## Directors' Shareholdings

The interests of the Directors holding office at 31 December 2019 in the shares of the Company, including family interests, were:

| | Ordinary Shares | Percentage of that Class |
|---|---|---|
| **Executive directors** | | |
| Peter Keeling* | 17,526,049 | 25.2% |
| Philip White** | 3,026,330 | 4.3% |
| Ryan Keeling | 2,890,643 | 4.2% |
| | **23,443,022** | **33.7%** |
| **Non-Executive directors** | | |
| Julie Goonewardene | 1,614,127 | 2.3% |
| Mike Wort | 144,737 | 0.2% |
| Charles Hindson | 43,500 | 0.1% |
| | **1,802,364** | **2.6%** |
| **Total directors' shareholding** | **25,245,386** | **36.3%** |

* Includes 8,861,975 shares held by Delia Keeling, Peter's wife.
** Includes 1,009,800 shares held by the Philip White Tyres Pension Trust 81810.

Other transactions that occurred with Directors during the year are detailed in Note 28 to the financial statements under Related Party Transactions.

**Mr C Hindson**
Chair of the Remuneration Committee
15 March 2020

# Directors' Report

The Directors present their annual report and the audited Group financial statements for the year ended 31 December 2019. These will be laid before the shareholders of the Company at the next Annual General Meeting (AGM).

Diaceutics PLC is incorporated in Northern Ireland, registration number NI055207, and its registered office is 55–59 Adelaide Street, Belfast, BT2 8FE. The Company is listed on the Alternative Investment Market of the London Stock Exchange (AIM: DXRX).

**Principal activity**
The principal activity of the Group during the year continued to be data, data analytics and implementation services. The Group has established a core suite of products and outsourced advisory services which help its pharma clients to optimise and deliver their marketing and implementation strategies for companion diagnostics. Their mission is to design, create and implement innovative solutions that enhance speed to market and increase the effectiveness of all the stakeholders in the personalised medicine industry. The Group engage in research and development activities in the area of drug development science, testing data and software platform development.

**Results and dividends**
The profit for the year, after taxation, amounted to £397,881 (2018: £632,307).

A dividend of £Nil (2018: £300,216) was paid during the year. The Directors do not recommend the payment of a dividend.

**Going concern**
The financial statements have been prepared on the going concern basis which assumes that the Group will be able to continue in operational existence for the foreseeable future and to meet its liabilities as they fall due. In preparing the financial statements, the directors have taken into account the Group's future trading and cash flows and believe that it is appropriate to prepare the financial statements on the going concern basis.

**Directors**
The Directors who served during the year, and up to the date the financial statements were signed, were:

- Ms J Goonewardene
- Mr C Hindson
- Mr M Wort
- Mr P Keeling
- Mr R Keeling
- Mr P White

**Directors' interests and indemnity arrangements**
The Directors' interests in the shares of the Company are disclosed in the Remuneration Report on pages 40-43.

The Directors and officers of the Group have the benefit of a Directors' and Officers' liability insurance.

No Director had, during or at the end of the year, a material interest in any contract which was significant in relation to the Group's business except in respect of service agreements and share options and as disclosed in the Directors' Remuneration Report on pages 40-43.

**Share capital**
Details of the Company's issued share capital are shown in Note 26 to the consolidated financial statements.

The share capital of the Company comprises one class of ordinary shares and these are listed on AIM. At 31 December 2019 there were in issue 69,583,077 fully paid ordinary shares. All shares are freely transferable and rank pari passu for voting and dividend rights.



## Substantial shareholdings

At 31 December 2019, shareholders holding more than 3% of the share capital in Diaceutics PLC were:

| | Ordinary Shares | Percentage of that Class |
|---|---|---|
| Peter Keeling* | 17,526,049 | 25.2% |
| Elizabeth Considine | 5,512,169 | 7.9% |
| Marlborough UK Micro Cap Growth Fund | 4,800,000 | 6.9% |
| Baronsmead VCT 3 | 4,000,000 | 5.7% |
| Berenberg European Micro Cap | 3,969,500 | 5.7% |
| Philip White** | 3,026,330 | 4.3% |
| Ryan Keeling | 2,890,643 | 4.2% |
| SLP Innovations Ltd | 2,214,214 | 3.2% |

* Includes 8,861,975 shares held by Delia Keeling, Peter's wife.
** Includes 1,009,800 shares held by the Philip White Tyres Pension Trust 81810.

Save as referred to above, the Directors are not aware of any persons as at 31 December 2019 who were interested in 3% or more of the voting rights of the Company or could directly or indirectly, jointly or severally, exercise control over the Company.

**Political donations**
The Group has not made any political donations during the year (2018: £Nil).

**Disclosure of information to auditors**
Each of the persons who are Directors at the time when this Directors' Report is approved has confirmed that:

- so far as the Director is aware, there is no relevant audit information of which the Group's auditor is unaware
- the Director has taken all the steps that ought to have been taken as a director in order to be aware of any relevant audit information and to establish that the Group's auditor is aware of that information

**Auditors**
The auditors, PricewaterhouseCoopers LLP, will be proposed for reappointment in accordance with section 485 of the Companies Act 2006.

This report was approved by the board and signed on its behalf.

Philip White

**Mr P White**
Director
15 March 2020

# Statement of Directors' Responsibilities in relation to the Financial Statements

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the Directors have prepared the group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 'Reduced Disclosure Framework', and applicable law). Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and company and of the profit or loss of the group and company for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently
- state whether applicable IFRSs as adopted by the European Union have been followed for the group financial statements and United Kingdom Accounting Standards, comprising FRS 101, have been followed for the company financial statements, subject to any material departures disclosed and explained in the financial statements
- make judgements and accounting estimates that are reasonable and prudent
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and company will continue in business

The Directors are also responsible for safeguarding the assets of the group and company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group and Company's transactions and disclose with reasonable accuracy at any time the financial position of the group and company and enable them to ensure that the financial statements comply with the Companies Act 2006.

The directors are responsible for the maintenance and integrity of the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.



"The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation."

# Group Financial Statements

# Independent Auditors' Report to the members of Diaceutics PLC

## Report on the audit of the financial statements

**Opinion**

In our opinion:

- Diaceutics PLC's group financial statements and company financial statements (the "financial statements") give a true and fair view of the state of the Group's and of the Company's affairs as at 31 December 2019 and of the Group's profit and cash flows for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Directors' Report and Financial Statements (the "Annual Report"), which comprise: the Group and Company Balance Sheets as at 31 December 2019; the Group Profit and Loss Account and Group Statement of Comprehensive Income, the Group Statement of Cash Flows, and the Group and Company Statement of Changes in Equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

**Basis for opinion**

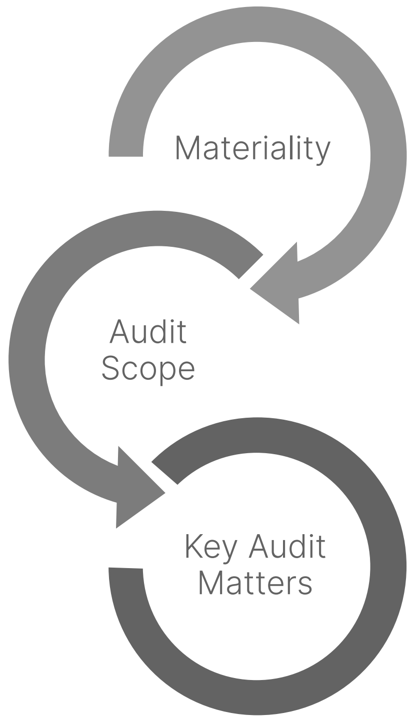
We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Independence**

We remained independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

## Our audit approach

**Overview**




- Overall Group materiality: £92,247 (2018: £36,451), based on 5% of profit before tax and exceptional costs.
- Overall Company materiality: £86,865 (2018: £32,806), based on 5% of profit before tax and exceptional costs.

- We focused our work over the Group's reporting packs for the key trading entities.
- We performed procedures over four Group companies, including Diaceutics Plc (the parent company of the Group), and the consolidation adjustments.
- The components where we performed our audit work, together with procedures over the consolidation adjustments, accounted for 100% of Group revenue and 100% of Group profit before tax and exceptional costs.

- Accounting for capitalised development costs (Group and Company)
- Revenue recognition including accrued and deferred income (Group and Company)

**The scope of our audit**

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.

**Key audit matters**

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. This is not a complete list of all risks identified by our audit.

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| **Accounting for capitalised development costs - Group and Company**<br>The Group and the Company capitalises costs associated with development of a Software as a Service (SaaS) platform which is being developed internally. The costs associated with the time spent on this development project are capitalised onto the balance sheet at the year end and represent the hours spent on this project by the dedicated team who work on the data collection or the development of the software platform.<br><br>On an annual basis, an impairment review of the costs capitalised is performed. | **To test the capitalised development costs:**<br><br>• We obtained the workings for the capitalisation of the internal labour costs and tested the inputs to this schedule and tested the mathematical accuracy of the workings;<br>• We agreed a sample of employees' base salaries to the payroll records;<br>• We agreed a sample of the individuals hours charged to the timesheets for those individuals;<br>• We obtained independent confirmations from a sample of employees on the time charged to the project as detailed in the schedule provided to us;<br>• We held a number of discussions with non-finance related employees and project managers who work on the project to corroborate the status of the project outside the finance function;<br>• We obtained the budget for the project and assessed how the project is progressing against this and ensured the necessary resources were in place to complete the project; and<br>• We have also assessed management's assessment of the economic benefits and ensured the capitalised costs met the criteria of IAS 38. |



| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| **Accounting for revenue including accrued and deferred revenue - Group and Company**<br>The Group and the Company recognises project revenue over time, based on the stage at which a particular project is in terms of completion. This is measured by comparing the actual hours to budget on any given project.<br><br>The Project Manager is responsible for updating the budget based on actual hours charged and comparing this to estimated cost to completion. | **To test the revenue recognition we:**<br>• We updated our understanding around revenue streams and respective recognition policies across the group, specifically for those that were live around the year end;<br>• Our five step approach to testing revenue recognition involved identifying the substance of the contracts, identifying the performance obligations included, determining the transaction price of the contract and subsequently identifying the allocation of the transactional price against the performance obligation milestones;<br>• We obtained budgets for a sample of projects and assessed the reasonableness of the percentage of completion calculation at the year end based on forecast hours to actual hours recorded on timesheets;<br>• We reviewed completed contracts post year end to confirm that they were delivered within the budgeted hours; and<br>• We traced any adjustments to deferred and accrued revenue to the financial statements, to ensure that this accurately reflected the timing difference |

**How we tailored the audit scope**

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the group and the company, the accounting processes and controls, and the industry in which they operate.

**Materiality**

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

| | Group financial statements | Company financial statements |
|---|---|---|
| Overall materiality | £92,247 (2018: £36,451) | £86,865 (2018: £32,806) |
| How we determined it | 5% of profit before tax and exceptional costs | 5% of profit before tax and exceptional costs |
| Rationale for benchmark applied | Profit before tax and exceptional costs is the primary measure used by the Board and the shareholders in evaluating the performance of the Group. This measure excludes exceptional costs which are non-recurring due to their nature. | Profit before tax and exceptional costs is the primary measure used by the Board and the shareholders in evaluating the performance of the Company. This measure excludes exceptional costs which are non-recurring due to their nature. |

For each component in the scope of our Group audit, we allocated a materiality that is less than our overall Group materiality. The range of materiality allocated across components was £6,440 and £86,865. Certain components were audited to a local statutory audit materiality that was also less than our overall Group materiality.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £4,612 (Group audit) (2018: £1,823) and £4,343 (Company audit) (2018: £1,640) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

**Conclusions relating to going concern**
ISAs (UK) require us to report to you when:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Group's and Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of the above matters.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's and Company's ability to continue as a going concern. For example, the terms of the United Kingdom's withdrawal from the European Union are not clear, and it is difficult to evaluate all of the potential implications on the Group's trade, customers, suppliers and the wider economy.

**Reporting on other information**
The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.



**Strategic Report and Directors' Report**
In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 December 2019 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the Group and Company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

## Responsibilities for the financial statements and the audit

**Responsibilities of the directors for the financial statements**
As explained more fully in the Statement of Directors' Responsibilities set out on page 46, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Group's and the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or the Company or to cease operations, or have no realistic alternative but to do so.

**Auditors' responsibilities for the audit of the financial statements**
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

**Use of this report**
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.

## Other required reporting

**Companies Act 2006 exception reporting**
Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the Company financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

**Kevin MacAllister**
(Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Belfast
15 March 2020

## Group Profit and Loss Account
for the year ended 31 December 2019

| | Notes | 2019 | 2018 |
|---|---|---|---|
| **Revenue** | 4 | **£13,442,121** | **£10,373,180** |
| Cost of sales | 5 | (£3,131,458) | (£3,571,225) |
| **Gross profit** | | **£10,310,663** | **£6,801,955** |
| Administrative expenses | 5 | (£8,388,161) | (£5,520,124) |
| Other operating income | 10 | £165,532 | £124,097 |
| Operating profit before exceptional liems | | £2,088,034 | £1,405,928 |
| Exceptional items | 11 | (£1,347,613) | (£205,000) |
| **Operating profit** | 5 | **£740,421** | **£1,200,928** |
| Finance income | 12 | £2,628 | – |
| Finance costs | 13 | (£245,725) | (£323,664) |
| **Profit before tax** | | **£497,324** | **£877,264** |
| Income tax expense | 14 | (£99,443) | (£244,957) |
| **Profit for the financial year** | | **£397,881** | **£632,307** |

All results relate to continuing operations.

## Group Statement of Comprehensive Income
for the year ended 31 December 2019

| | 2019 | 2018 |
|---|---|---|
| **Profit for the financial year** | **£397,881** | **£632,307** |
| Items that may be reclassified subsequently to profit or loss:<br>Exchange differences on translation of foreign operations | (£159,271) | £13,715 |
| **Total comprehensive income for the year, net of tax** | **£238,610** | **£646,022** |

## Earnings per Share
for the year ended 31 December 2019

| | Notes | 2019 (Pence) | 2018 (Pence) |
|---|---|---|---|
| Basic | 15 | 0.62 | 1.41 |
| Diluted | 15 | 0.62 | 1.41 |
| Basic adjusted | 15 | 2.46 | 1.86 |
| Diluted adjusted | 15 | 2.45 | 1.86 |



## Group Balance Sheet
as at 31 December 2019

| **Assets** | Notes | 2019 | 2018 |
|---|---|---|---|
| **Non-current assets** | | | |
| Intangible assets | 17 | £3,760,811 | £1,210,613 |
| Property, plant and equipment | 18 | £133,604 | £73,994 |
| Deferred tax asset | 14 | £55,737 | £62,849 |
| | | £3,950,152 | £1,347,456 |
| **Current assets** | | | |
| Trade and other receivables | 20 | £6,634,893 | £4,389,272 |
| Cash at bank and in hand | | £11,720,223 | £2,073,661 |
| Income tax receivable | | £65,768 | – |
| | | £18,420,884 | £6,462,933 |
| **Total assets** | | **£22,371,036** | **£7,810,389** |
| | | | |
| **Equity and liabilities** | | | |
| Equity share capital | 25 | £139,166 | £208 |
| Share premium | | £17,335,407 | £99,994 |
| Treasury shares | | – | (3) |
| Capital redemption reserve | | – | £108,850 |
| Translation reserve | | £19,590 | £178,861 |
| Profit and loss account | | £2,637,924 | £2,241,551 |
| **Total equity** | | **£20,132,087** | **£2,629,461** |
| | | | |
| **Non-current liabilities** | | | |
| Trade and other payables | 21 | – | £180,862 |
| Financial liabilities | 22 | – | £1,065,475 |
| | | – | £1,246,337 |
| **Current liabilities** | | | |
| Trade and other payables | 21 | £2,131,449 | £1,191,126 |
| Financial liabilities | 22 | £107,500 | £2,715,809 |
| Income tax payable | | – | £27,656 |
| | | £2,238,949 | £3,934,591 |
| **Total liabilities** | | **£2,238,949** | **£5,180,928** |
| | | | |
| **Total equity and liabilities** | | **£22,371,036** | **£7,810,389** |

The Group financial statements were approved and authorised for issue by the board and were signed on its behalf on 15 March 2020. The notes on pages 61-82 form an integral part of the Group financial statements.

Philip White

**Mr P White**
Director
15 March 2020

## Group Statement of Changes in Equity

| | Equity share capital | Share premium | Treasury shares* | Capital redemption reserve | Translation reserve | Profit and loss account | Total equity |
|---|---|---|---|---|---|---|---|
| **At 1 January 2018** | **£208** | **£99,994** | **(13)** | **£108,850** | **£165,146** | **£1,503,550** | **£1,877,735** |
| Profit for the year | – | – | – | – | | £632,307 | £632,307 |
| Other comprehensive income | – | – | – | – | £13,715 | – | £13,715 |
| Total comprehensive income for the year | – | – | – | – | £13,715 | £632,307 | £646,022 |
| **Transactions with owners, recorded directly in equity** | | | | | | | |
| Issue of shares from Treasury | – | – | 10 | – | – | (10) | – |
| Share based payments | – | – | – | – | – | £405,920 | £405,920 |
| Equity dividends paid | – | – | – | – | – | (£300,216) | (£300,216) |
| Total transactions with owners | – | – | 10 | – | – | £105,694 | £105,704 |
| **At 31 December 2018** | **£208** | **£99,994** | **(3)** | **£108,850** | **£178,861** | **£2,241,551** | **£2,629,461** |
| Profit for the year | – | – | – | – | – | £397,881 | £397,881 |
| Other comprehensive income | – | – | – | – | (£159,271) | – | (£159,271) |
| Total comprehensive income for the year | – | – | – | – | (£159,272) | £397,881 | £238,610 |
| **Transactions with owners, recorded directly in equity** | | | | | | | |
| Cancellation of Treasury shares | (3) | – | 3 | – | – | – | – |
| Reorganisation of shares | £2,050 | (£2,050) | – | – | – | – | – |
| Bonus issue of shares | £87,951 | (£87,951) | – | – | – | – | – |
| Conversion of loan notes | £4,223 | £1,225,222 | – | – | – | (£25,902) | £1,203,543 |
| Issue of shares on Placing | £44,737 | £16,100,192 | – | (£108,850) | – | – | £16,036,079 |
| Share based payment | – | – | – | – | – | £24,394 | £24,394 |
| Total transactions with owners | £138,958 | £17,235,413 | 3 | (£108,850) | – | (£1,508) | £17,264,016 |
| **At 31 December 2019** | **£139,166** | **£17,335,407** | **–** | **–** | **£19,590** | **£2,637,924** | **£20,132,087** |

* Treasury shares are presented separately in order to show the movements on these shares in each year. The balance as at each year end is deducted from retained earnings in calculating distributable profits.

# Group Statement of Cash Flows
for the year ended 31 December 2019

| | Notes | 2019 | 2018 |
|---|---|---|---|
| **Operating activities** | | | |
| Profit before tax | | £497,324 | £877,264 |
| ***Adjustments to reconcile profit before tax to net cash flows from operating activities*** | | | |
| Net finance costs | | £243,097 | £323,664 |
| Amortisation of intangible assets | 17 | £246,426 | £80,588 |
| Depreciation of property, plant and equipment | 18 | £38,433 | £37,092 |
| Research and development tax credits | | (£157,000) | (£122,533) |
| Increase in trade and other receivables | | (£2,325,622) | (£2,557,896) |
| Increase in trade and other payables | | £825,237 | £35,744 |
| Share based payments | | £24,394 | £405,920 |
| **Cash used in operations** | | **(£607,711)** | **(£920,157)** |
| Tax paid | | (£21,971) | (£33,881) |
| **Net cash outflow from operating activities** | | **(£629,682)** | **(£954,038)** |
| | | | |
| **Investing activities** | | | |
| Interest received | | £2,628 | – |
| Purchase of intangible assets | | (£2,827,797) | (£1,046,420) |
| Purchase of property, plant and equipment | | (£99,016) | (£61,211) |
| **Net cash outflow from investing activities** | | **(£2,924,185)** | **(£1,107,631)** |
| | | | |
| **Financing activities** | | | |
| Borrowing costs | | (£248,302) | (£301,576) |
| Repayment of borrowings | | (£3,450,976) | (£554,439) |
| Draw down of funds | | £105,968 | £1,751,640 |
| Issuance of convertible loan notes | | £850,066 | £452,568 |
| Equity dividends paid | | – | (£300,216) |
| Issue of shares | | 16,036,097 | 10 |
| **Net cash inflow from financing activities** | | **£13,292,853** | **£1,047,987** |
| | | | |
| **Net increase/(decrease) in cash and cash equivalents** | | **£9,738,986** | **(£1,013,682)** |
| Net foreign exchange (losses)/gains | | (£92,424) | £18,460 |
| Cash and cash equivalents at 1 January | | £2,073,661 | £3,068,883 |
| **Cash and cash equivalents at 31 December** | | **£11,720,223** | **£2,073,661** |



# Notes to the Group Financial Statements
for the year ended 31 December 2019

**1. General information**
The principal activity of Diaceutics PLC ('the Company') and its subsidiaries (together 'the Group') is data, data analytics and implementation services. The Group has established a core suite of products and outsourced advisory services which help its pharma clients to optimise and deliver their marketing and implementation strategies for companion diagnostics. Their mission is to design, create and implement innovative solutions that enhance speed to market and increase the effectiveness of all the stakeholders in the personalised medicine industry.

The financial statements are presented in sterling.

***Basis of preparation***
These consolidated financial statements have been prepared on a going concern basis and in accordance with International Financial Reporting Standards ('IFRS') as adopted by the European Union and the Companies Act 2006 applicable to companies reporting under IFRS. These financial statements have been prepared under the historical cost convention.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. Judgements in applying accounting policies and key sources of estimates and uncertainty are disclosed in the notes.

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

**2. Accounting policies**
***New and amended accounting standards adopted by the Group***

The Group has applied the following standards and amendments for the first time for their annual reporting period commencing 1 January 2019:

- IFRS 16 Leases
- Annual Improvements to IFRS Standards 2015–2017 Cycle
- Interpretation 23 Uncertainty over Income Tax Treatments

The group also elected to adopt the following amendments early:

- Amendments to IAS 1 and IAS 8 – Definition of Material

The above amendments did not have any impact on the amounts recognised in prior periods. The impact of applying IFRS16 is not material and thus no adjustment has been made. The other amendments listed above are not expected to significantly affect the current or future periods.

***New accounting standards and interpretations not yet adopted by the Group***
Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2019 reporting periods and have not been early adopted by the group. These standards are not expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

***Revenue recognition***
Revenue comprises the fair value of the consideration received or receivable for the provision of services in the ordinary course of the Group's activities. Revenue is shown net of value-added tax and after eliminating sales within the Group.

The Group has two revenue streams, Implementation services and Data. The Group's performance obligations for both revenue streams are deemed to be the provision of specific deliverables to the customer. Revenue billed to the customer is allocated to the various performance obligations, based on the relative fair value of those obligations, and is then recognised as follows:

- Where a contractual right to receive payment exists, revenue is recognised as over the period services are provided using the percentage of completion method, based on the input method using time spent
- Where no contractual right to receive payment exists, revenue is recognised upon completion of each separate performance obligation, which is typically when implementation services are complete or data has been provided to the customer

***Segment reporting***
The Group currently has one operating segment.

***Government grants***
Grants, which include research and development tax credits where the recovery of those credits is not restricted, are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions. Grants relating to costs are deferred and recognised in the profit and loss account over the period necessary to match them with the costs that they are intended to compensate. Grants relating to development projects are included in non-current liabilities as deferred income and are credited to the profit and loss account on a straight-line basis over the expected useful economic lives of the related assets.

***Foreign currency translation***
***(a) Functional and presentation currency***
Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements is presented in Sterling, which is the Group's presentation currency.

***(b) Transactions and balances***
Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit and loss account.

***(c) Group companies***
The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet
- income and expenses for each profit and loss account are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions)
- all resulting currency translation differences are recognised in other comprehensive income and disclosed as a separate component of equity in a foreign currency translation reserve

***Exceptional items***
The Group presents as exceptional items those material items of income and expense which, because of the nature and expected infrequency of the events giving rise to them, merit separate presentation on the face of the profit and loss account in order to allow shareholders to understand better the elements of financial performance in the year, so as to facilitate comparison with prior periods and to better assess trends in the financial performance.

***Employee benefits***
The Group operates a defined contribution pension scheme which is open to employees and directors. The assets of the scheme are held by investment managers separately from those of the Group. The contributions payable to the scheme is recorded in the profit and loss account in the accounting period to which they relate.

***Share based payments***
The company has a number of classes of shares in issue. Where shares are issued to employees that contain restrictions that mean they have obtained those shares by virtue of their employment, those shares are accounted for as share based payments. When the shares are issued a determination is made, based on the rights of those shares, as to whether there is a contractual liability for the Company to reacquire the shares at some point (cash settled) or not (equity settled). For equity settled shares, a fair value of those shares is established at the date the shares are granted and, if the employee is required to complete a period of service before the shares vest, this fair value is spread over that period (vesting period).

***Taxation***
The tax expense for the year comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the group's subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates and laws that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity of different taxable entities where there is an intention to settle the balances on a net basis.

***Intangible assets***
***Research and development***
Expenditure on research activities and patents is recognised in the profit and loss account as an expense as incurred.

Expenditure on development activities is capitalised if the product or process is technically and commercially feasible and the Group intends and has the technical ability and sufficient resources to complete development, future economic benefits are probable and if the Group can measure reliably the expenditure attributable to the intangible asset during its development. Development activities involve design for, construction or testing of the production of new or substantially improved products or processes. The expenditure capitalised includes the cost of infrastructure and direct labour including employer national insurance. Other development expenditure is recognised in the profit and loss account as an expense as incurred. Capitalised development expenditure is stated at cost until it is brought into use.

***Other intangible assets***
Other intangible assets that are acquired by the Group are stated at cost less accumulated amortisation and less accumulated impairment losses.

***Amortisation***
Amortisation is charged to the profit or loss on a straight-line basis over the estimated useful lives of intangible assets. Intangible assets are amortised from the date they are available for use. The estimated useful lives are as follows:

- Patents and trademarks, 3 years (33.3% straight line) from date of registration
- Datasets, 2 years (50% straight line)
- Software, 5 years (20% straight line)

The Group reviews the amortisation period and method when events and circumstances indicate that the useful life may have changed since the last reporting date.

***Property, plant and equipment***
Property, plant and equipment is stated at cost less accumulated depreciation and accumulated impairment losses.

The Group assesses at each reporting date whether there are indicators of impairment. Depreciation is charged to the profit and loss account on a straight-line basis over the estimated useful lives of each part of an item of tangible fixed assets. The estimated useful lives are as follows:

- Office equipment, 5 years (20% straight line)

Depreciation methods, useful lives and residual values are reviewed if there is an indication of a significant change since the last annual reporting date in the pattern by which the Group expects to consume an asset's future economic benefits.

***Lease liabilities***
Payments associated with short-term leases of equipment and vehicles and all leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise IT equipment and small items of office furniture.

***Financial assets***
*(a) Classification*
The Group classifies its financial assets in the following measurement categories:

- Those to be measured at amortised costs
- Those to be measured subsequently at fair value (either through Other Comprehensive Income of through profit and loss)

The classification depends on the Group's business model for managing the financial assets and the contractual terms of the cash flows. The Group reclassifies its financial assets when and only when its business model for managing those assets changes.

*(b) Recognition and measurement*
At initial recognition, the group measures a financial asset at its fair value plus transaction costs that are directly attributable to the acquisition of the financial asset.

Subsequent measurement of financial assets depends on the Group's business model for managing those financial assets and the cash flow characteristics of those financial assets. The Group only has financial assets classified at amortised cost. These assets are those held for contractual collection of cash flows, where those cash flows represent solely payments of principal and interest and are held at amortised cost. Any gains or losses arising on derecognition is recognised directly in profit or loss. Impairment losses are presented as a separate line in the profit and loss account.

*(c) Impairment*
The Group assesses on a forward-looking basis, the expected credit losses associated with its debt instruments carried at amortised cost. For trade receivables the Group applies the simplified approach permitted by IFRS9, which requires expected lifetime losses to be recognised from the initial recognition of the receivables. For other receivables the Group applies the three stage model to determine expected credit losses.

***Financial liabilities***
Financial liabilities comprise trade and other payables and borrowings due within one year and after one year, which are recognised initially at fair value and subsequently carried at amortised cost using the effective interest method. The Group does not use derivative financial instruments or hedge account for any transactions. Trade payables represent obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is due within one year. If not, they are presented as non-current liabilities.

The Group had issued convertible loan notes to employees, which include a conversion feature on change of control or IPO. This conversion feature is treated as an equity settled share based payment that vest immediately as there are no future service conditions, with the fair value being assessed on the date the convertible loan notes were issued. The underlying loan proceeds were recognised initially at fair value and subsequently carried at amortised cost.

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

***Equity***
Ordinary shares are classified as equity. Incremental costs directly attributable for the issue of new shares are shown in equity as a deduction from the proceeds.



Notes to the Company Financial Statements (continued)
for the year ended 31 December 2019

The share premium reserve represents the excess over the nominal value of the fair value of consideration received for equity shares, net of expenses on the share issue.

The capital redemption reserve records the nominal value of shares repurchased by the Company.

***Distributions to equity holders***
Dividends and other distributions to Company's shareholders are recognised as a liability in the financial statements in the period in which the dividends and other distributions are approved by the Company's shareholders. These amounts are recognised in the statement of changes in equity.

***Related party transactions***
The Group discloses transactions with related parties which are not wholly owned within the same group. Where appropriate, transactions of a similar nature are aggregated unless, in the opinion of the directors, separate disclosure is necessary to understand the effect of the transactions on the Group financial statements.

**3. Judgements in applying accounting policies and key sources of estimation uncertainty**
The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for income and expenditure during the year. However, the nature of estimation means that actual outcomes could differ from those estimates. The Group's only assets/liabilities that are significantly impacted by key sources of estimation uncertainty are the Group's intangible assets. The assessment of useful life of data purchases required estimation over the period in which that data will be utilised.

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

**4. Revenue**

***(a) Operating segments***
The Group currently operates under one reporting segment but revenue is analysed under two separate revenue streams.

Revenue represents the amounts derived from the provision of services which fall within the Group's ordinary activities, stated net of value added tax. Revenue is principally generated from implementation services and data.

The following tables present revenue of the Group for the years ended 31 December 2019 and 2018.

*(a) Revenue stream*

| | 2019 | 2018 |
|---|---|---|
| Implementation services | £3,707,157 | £2,312,035 |
| Data | £9,734,964 | £8,061,145 |
| | **£13,442,121** | **£10,373,180** |

*(b) Geographical area*

| | 2019 | 2018 |
|---|---|---|
| USA | £5,631,503 | £4,906,514 |
| UK | £744,157 | £102,501 |
| Europe | £5,030,932 | £4,373,526 |
| Asia and the Rest of the World | £2,035,529 | £990,639 |
| | **£13,442,121** | **£10,373,180** |

In 2019 two customers each had sales which exceeded 10% of total revenue with the largest customer accounting for £1,594,904 (11.9%) and the second accounting for £1,557,006 (11.6%) of revenue.

In 2018 three customers each had sales which exceeded 10% of total revenue with the largest customer accounting for £1,116,746 (10.8%) of revenue; the second accounting for £1,083,603 (10.4%) of revenue and the third accounting for £1,080,647 (10.4%) of revenue.

### 5. Operating profit is stated after charging

| | 2019 | 2018 |
|---|---|---|
| **Employee benefit costs** | | |
| Wages and salaries | £7,907,471 | £5,115,514 |
| Social security costs | £743,596 | £502,697 |
| Pension costs | £248,059 | £231,420 |
| Benefits | £165,438 | £75,624 |
| Share based payments | £24,394 | £405,920 |
| Capitalised development costs | (£2,160,365) | (£590,815) |
| | £6,928,593 | £5,740,360 |
| | | |
| Amortisation of intangible fixed assets | £246,426 | £80,588 |
| Depreciation of tangible fixed assets | £38,433 | £37,092 |
| Subcontractor costs | £684,153 | £664,967 |
| Travel costs | £1,157,950 | £588,416 |
| Legal and professional | £815,301 | £694,849 |
| Loss/(profit) on foreign exchanges | £198,148 | (£69,004) |
| Other expenses | £1,450,615 | £1,564,081 |
| | £4,591,026 | £3,350,989 |
| | | |
| **Total cost of sales and administrative expenses** | **£11,519,619** | **£9,091,349** |

### 6. Auditor's remuneration

| Included within administrative expenses (legal and professional) | 2019 | 2018 |
|---|---|---|
| Audit of parent and subsidiary financial information | £68,100 | £25,000 |
| Other assurance related services | £9,750 | – |
| **Included within exceptional items** | | |
| Fees in respect of IPO services | £80,000 | £80,000 |
| Fees relating to restructuring services | £65,000 | – |
| Fees relating to tax services | £68,500 | – |
| Fees relating to legal services | £57,855 | – |
| Included within equity: | | |
| Fees in respect of IPO services | £80,000 | – |
| | **£429,205** | **£105,000** |



Notes to the Company Financial Statements (continued)
for the year ended 31 December 2019

### 7. Staff numbers

The average monthly number of employees, excluding directors, during the year was made up as follows:

| | 2019 | 2018 |
|---|---|---|
| Administration | 25 | 24 |
| Technical | 55 | 34 |
| Business development | 6 | 2 |
| Finance | 5 | 5 |
| | **91** | **65** |

### 8. Directors emoluments

| | 2019 | 2018 |
|---|---|---|
| **Directors** | | |
| Aggregate emoluments | £834,349 | £320,223 |
| Pension contributions | £36,569 | £16,535 |
| | £870,918 | £336,758 |
| **Highest paid director** | | |
| Aggregate emoluments | £265,242 | £141,601 |
| Pension contributions | £18,699 | £12,833 |
| | £283,941 | £154,434 |
| **Key senior management** | | |
| Aggregate emoluments | £1,346,260 | £629,673 |
| Pension contributions | £64,139 | £43,893 |
| Share based payments | £1,064 | £265,502 |
| | **£1,411,463** | **£939,068** |

**9. Share based payments**

***(i) Employee share scheme***

Prior to the Admission, the Company had various classes of shares (B, C, D, E, F) in existence that were held by employees and which were accounted for as share based payments as the individuals had received those shares by virtue of their employment. The total numbers of shares held by employees in these share classes at 31 December 2018 was B: 6,200, C: 205, D: 2,057, E: 9,960 and F: 5,000. These shares were treated as equity settled and a fair value was calculated at grant date based on the fair value (using an earnings multiple approach) of the Company's shares at that date. This fair value has been charged to the profit and loss account when the shares were granted. As outlined in Note 26 the various classes of shares were all converted to ordinary shares as part of the share restructuring prior to admission to the AIM Market on the London Stock Exchange.

The total expense recognised in the profit and loss account and credited through the profit and loss account reserve, was £Nil (2018: £290,520).

***(ii) Convertible loan notes***

On 15 October 2018, the Company issued £453,543 of unsecured convertible loan notes to the Group's employees which converted into Ordinary Shares in the Company immediately prior to Admission.

The conversion price of these loan notes was set at a 25% discount to the placing price on the listing. This conversion feature had been treated as an equity settled share based payment with the fair value being assessed on the date the convertible loan notes were issued based on the fair value (using an earnings multiple approach) of the Company's shares as at the date of issue. These loan notes issued were deemed to vest immediately as there are no future service conditions to be met.

The total fair value, calculated at £Nil (2018: £115,400), has been charged in the profit and loss account and credited through the profit and loss account reserve.

***(iii) Employee share option plan***

The Company currently has an Employee Share Option Plan ('ESOP') for employees. In June 2019, 197,400 options were granted to certain employees to satisfy contractual obligations. These options, which have an exercise price of £0.002, are payable in shares at the end of three years to the extent that performance criteria are met.

Granted awards under the Company's ESOP that were outstanding at 31 December 2019 had a market value of £165,879 based on the prices at the date of award to the employee. This price ranged from £0.85 to £0.88, being on the closing price on the day of grant. The market value of the awards will be recognised over the three year vesting period from 1 July 2019, with £24,394 being charged through the profit and loss account in 2019 (2018: £Nil). It is intended the obligation arising with the above shares will be met within the existing employee benefit trust.

The option will only be exercisable provided the employee has received no more than two 'unsatisfactory' individual performance ratings in all of their individual performance reviews in the three year period from the date of grant.

**10. Other operating income**

| | 2019 | 2018 |
|---|---|---|
| Government grants | £8,532 | £1,564 |
| Research and developments credits | £157,000 | £122,533 |
| | £165,532 | £124,097 |

**11. Exceptional items**

| | 2019 | 2018 |
|---|---|---|
| IPO related costs | £1,347,613 | £205,000 |

The Group incurred costs of £2,596,887 of transaction costs and other IPO related costs as a result of the application made to the London Stock Exchange for all the issued and to be issued Ordinary share capital to be admitted to trading on AIM. £1,347,613 (2018: £205,000) has been included within operating profit and £1,044,274 (2018: £Nil) was offset against the Share Premium account in accordance with IAS 32 'Financial Instruments'.

**12. Finance income**

| | 2019 | 2018 |
|---|---|---|
| Bank interest received and receivable | £2,628 | – |





**13. Finance costs**

| | 2019 | 2018 |
|---|---|---|
| External loans | £179,256 | £251,347 |
| Revolving credit facilities | £39,712 | £27,214 |
| Change in fair value of embedded derivatives (convertible loan notes) | £23,325 | £22,088 |
| Directors' loans | £3,432 | £23,015 |
| | £245,725 | £323,664 |

**14. Income tax expense**

***(a) Tax on profit***

| | 2019 | 2018 |
|---|---|---|
| **Current income tax** | | |
| UK corporation tax on profits for the year | – | £149,797 |
| Adjustments in respect of previous years | (£160,646) | (£5,040) |
| | (£160,646) | £144,757 |
| **Foreign tax** | | |
| ROI corporation tax on profits for the year | £234,709 | £49,259 |
| US corporation tax on profits for the year | £59,636 | £1,502 |
| Adjustments in respect of previous years | (£41,368) | (£14,624) |
| | £252,977 | £36,137 |
| **Total current tax** | **£92,331** | **£180,894** |
| | | |
| **Deferred tax** | | |
| Origination and reversal of temporary differences | (£60,222) | £76,726 |
| Adjustments in respect of previous years | £67,334 | (£12,663) |
| Total deferred tax | (£7,112) | £64,063 |
| | | |
| **Total tax charge** | **£99,443** | **£244,957** |

*(b) Factors affecting the tax charge for the year*

The tax assessed for the year differs from the effective standard rate of corporation tax in the UK of 19.00% (2018: 19.00%). The differences are reconciled below:

| | 2019 | 2018 |
|---|---|---|
| Profit before tax | £497,324 | £877,264 |
| Tax using the UK corporation tax rate of 19.00% (2018: 19.00%). | £94,491 | £166,680 |
| **Effects of:** | | |
| Tax rates in foreign jurisdictions | (£5,490) | (£31,674) |
| Non-deductible expenses | £140,366 | £143,741 |
| Share based payments | (£11,617) | – |
| Non-taxable income | – | (£6,151) |
| Impact of change in tax rates | £41,959 | – |
| Research and development* | (£27,139) | – |
| Deferred tax not recognised | £1,553 | £4,688 |
| Adjustments in respect of previous years | (£134,680) | (£32,327) |
| **Total tax charge** | £99,443 | £244,957 |

* Relates to research and development tax credits arising in a subsidiary undertaking, which claims under the small and medium entity tax legislation in the UK.

*(c) Deferred tax*

| | 2019 | 2018 |
|---|---|---|
| **Deferred tax asset** | | |
| Tax losses carried forward | £577,946 | £56,346 |
| Other temporary differences | (£522,209) | £6,503 |
| | £55,737 | £62,849 |
| **Balance at 1 January** | **£62,849** | **£126,912** |
| Charged to the profit and loss account | (£7,112) | (£64,063) |
| **Balance at 31 December** | **£55,737** | **£62,849** |

The deferred tax asset includes amounts receivable after more than one year amounting to £Nil (2018: £Nil). Tax losses carried forward amount to £3,399,680 within Diaceutics PLC and Diaceutics Pte Limited (Singapore subsidiary). Due to the uncertainty of the recoverability of the tax losses, within a subsidiary, a potential deferred tax asset of £66,348 (2018: £61,582) has not been recognised. Deferred tax assets and liabilities have otherwise been recognised as they arise.



Notes to the Company Financial Statements (continued)
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**15. Earnings per share**

Basic earnings per share are calculated based on the profit for the financial year attributable to equity holders divided by the weighted average number of shares in issue during the year. The weighted average number of shares for all periods presented has been adjusted for the above reorganisation and bonus issue of shares undertaken on 13 March 2019 prior to the admission of the company to the AIM market of the London Stock Exchange.

Adjusted earnings per share are calculated based on the Profit for the financial year adjusted for exceptional items as disclosed in Note 11. Diluted earnings per share is calculated on the basic earnings per share adjusted to allow for the issue of ordinary shares on the assumed conversion of the convertible loan notes and employee share options.

| | 2019 | 2018 |
|---|---|---|
| **Profit attributable to shareholders** | | |
| Profit for the financial year | £397,881 | £632,307 |
| Exceptional costs | £1,347,613 | £205,000 |
| Tax impact of exceptional costs | (£171,166) | – |
| Adjusted profit for the financial year | £1,574,328 | £837,307 |

| **Weighted average number of shares to shareholders** | **Number** | **Number** |
|---|---|---|
| Shares in issue at the end of the year | 69,583,077 | 20,762 |
| Weighted average number of shares in issue | 64,069,906 | 44,898,142 |
| Weighted average number of treasury shares | (49) | (685) |
| Weighted average number of shares for basic and adjusted earnings per share | 64,069,857 | 44,897,457 |
| Effect of dilution of Convertible Loan Notes | 1,773 | 713 |
| Effect of dilution of Share Options | 97,650 | – |
| Weighted average number of shares for diluted earnings per share | 64,169,280 | 44,898,170 |

| **Earnings per share** | **Pence** | **Pence** |
|---|---|---|
| Basic | 0.62 | 1.41 |
| Diluted | 0.62 | 1.41 |
| Adjusted | 2.46 | 1.86 |
| Diluted adjusted | 2.45 | 1.86 |

**16. Dividends**

| | 2019 | 2018 |
|---|---|---|
| **Equity dividends on ordinary shares (per share)** | | |
| Dividends on A shares: £Nil (2018: £8.37) | – | £100,216 |
| Dividends on F shares: £Nil (2018: £50.00) | – | £200,000 |
| | – | £300,216 |

No dividends were proposed by the directors after the balance sheet date.

### 17. Intangible assets

| | Patents and trademarks | Datasets | Development expenditure | Software | Total |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| At 1 January 2018 | £963,348 | £278,319 | £205,783 | – | £1,447,450 |
| Foreign exchange translation | £15,235 | – | – | – | £15,235 |
| Additions | £38,880 | £157,962 | £606,578 | – | £803,420 |
| At 31 December 2018 | £1,017,463 | £436,281 | £812,361 | – | £2,266,105 |
| Foreign exchange translation | (£51,739) | (£950) | (£26,295) | – | (£78,984) |
| Additions | £88,871 | £850,657 | £1,674,841 | £209,778 | £2,824,147 |
| At 31 December 2019 | £1,054,595 | £1,285,988 | £2,460,907 | £209,778 | £5,011,268 |
| **Amortisation** | | | | | |
| At 1 January 2018 | £944,417 | £16,095 | – | – | £960,512 |
| Foreign exchange translation | £14,392 | – | – | – | £14,392 |
| Charge for the year | £16,465 | £64,123 | – | – | £80,588 |
| At 31 December 2018 | £975,274 | £80,218 | – | – | £1,055,492 |
| Foreign exchange | (£50,986) | (£475) | – | – | (£51,461) |
| Charge for the year | £52,588 | £113,062 | £77,765 | £3,011 | £246,426 |
| At 31 December 2019 | £976,876 | £192,805 | £77,765 | £3,011 | £1,250,457 |
| **Net book value** | | | | | |
| At 31 December 2019 | £77,719 | £1,093,183 | £2,383,142 | £206,767 | £3,760,811 |
| At 31 December 2018 | £42,189 | £356,063 | £812,361 | – | £1,210,613 |

Intangible assets relate to patents, trademarks, software and datasets which are recorded at cost and amortised over their useful economic life which has been assessed as 2 to 5 years. Development expenditure relates to an asset under construction and as such no amortisation has been applied. Amortisation will apply when the asset is commercialised.

The recoverable value of intangible assets is measured using discounted cash flow forecasts and the valuation model at 31 December 2019 indicated no impairment on these assets.





### 18. Property, plant and equipment

| | Office equipment |
|---|---|
| **Cost** | |
| At I January 2018 | £99,080 |
| Foreign exchange translation | £735 |
| Additions | £61,211 |
| At 31 December 2018 | £161,026 |
| Foreign exchange translation | (£1,983) |
| Additions | £99,016 |
| At 31 December 2019 | £258,059 |
| **Depreciation** | |
| At 1 January 2018 | £49,690 |
| Foreign exchange translation | £250 |
| Charge for the year | £37,092 |
| At 31 December 2018 | £87,032 |
| Foreign exchange translation | (£1,010) |
| Charge for the year | £38,433 |
| At 31 December 2019 | £124,455 |
| **Net book value** | |
| At 31 December 2019 | £133,604 |
| At 31 December 2018 | £73,994 |

**19. Investments**

***Group undertakings***

The following were subsidiaries of the Company at 31 December 2019:

| | Country of incorporation | Percentage of shares held |
|---|---|---|
| Diaceutics Ireland Limited | Republic of Ireland | 100% |
| Labceutics Limited | Northern Ireland | 100% |
| Diaceutics Inc | USA | 100% |
| Diaceutics Pte Limited | Singapore | 100% |

The principal business of all the subsidiary undertakings is data and implementation services. All entities were incorporated before 1 January 2018, with the exception of Diaceutics Pte Limited which was incorporated during the year ended 31 December 2018.

**20. Trade and other receivables**

| | 2019 | 2018 |
|---|---|---|
| Trade receivables | 6,134,029 | 4,082,099 |
| Other receivables | 171,205 | 221,954 |
| Prepayments | 329,659 | 85,219 |
| | 6,634,893 | 4,389,272 |

Trade receivables are non-interest bearing and are generally on 60 day terms and are shown net of a provision for impairment. The amount of the provision netted against the trade receivables balance was £19,666 (2018: £24,537). The default percentage used in the expected credit loss calculation was 0.16% (2018: 0.19%) for debt up to 30 days old; 0.20% (2018:0.21%) for debt between 31 and 60 days old; 0.31% (2018:0.32%) for debt between 61 and 90 days old; 0.84% (2018:0.65%) for debt between 91 and 180 days old and 8.09% (2018: 4.67%) for debt over 180 days old. Bad debts amounting to £Nil (2018: £Nil) were realised.

Other receivables are considered to have low credit risk and the loss allowance recognised during the year was therefore limited to 12 months expected credit losses. The amounts were not material. The age profile of the trade receivables are as follows:

| | Total | 0–30 days | 31–60 days | 61–90 days | >90 days |
|---|---|---|---|---|---|
| 2019 | 6,134,029 | 4,142,910 | 1,179,112 | 613,599 | 198,408 |
| 2018 | 4,082,099 | 1,808,893 | 1,331,938 | 559,207 | 382,061 |





Included within trade receivables are contract assets of £796,455 (2018: £289,385). The Group's contracts with customers are typically less than one year in duration and any contract assets as at the balance sheet date would be expected to be invoiced and received in the following year.

The carrying amount of trade and other receivables are denominated in the following currencies:

| | 2019 | 2018 |
|---|---|---|
| UK Sterling | £496,225 | £276,931 |
| Euro | £475,598 | £376,097 |
| US Dollar | £5,306,830 | £3,736,244 |
| Swiss Franc | £356,240 | – |
| | £6,634,893 | £4,389,272 |

The maximum exposure to credit risk is the carrying value of each class of receivables. The Group does not hold any collateral as security.

**21. Trade and other payables**

| | 2019 | 2018 |
|---|---|---|
| **Creditors:** falling due within one year | | |
| Trade payables | £290,764 | £223,788 |
| Accruals | £1,265,567 | £688,295 |
| Other tax and social security | £187,883 | £59,291 |
| Contract liabilities | £387,235 | £219,752 |
| | £2,131,449 | £1,191,126 |

| | | |
|---|---|---|
| **Creditors:** falling due after more than one year | | |
| Deferred income | – | £180,862 |

Included with creditors falling due after more than one year is a grant relating to development projects.

Contract liabilities of £387,235 (2018: £219,752) which arise in respect of amounts invoiced during the period for which revenue recognition criteria have not been met by the year end. The Group's contracts with customers are typically less than one year in duration and any contract liabilities would be expected to be recognised as revenue in the following year.

**22. Financial liabilities**

| | 2019 | 2018 |
|---|---|---|
| **Creditors:** falling due within one year | | |
| External loans | – | £381,423 |
| Fair value of embedded derivatives | – | £34,093 |
| Directors' loans | – | £86,008 |
| Revolving credit facilities | – | £1,751,640 |
| Convertible loan notes | £107,500 | £462,645 |
| | £107,500 | £2,715,809 |

| | | |
|---|---|---|
| **Creditors:** falling due after more than one year | | |
| External loans | – | £806,334 |
| Directors' loans | – | £259,141 |
| | – | £1,065,475 |

**23. Interest bearing loans and borrowings**

| | 2019 | 2018 |
|---|---|---|
| External loans (a) | – | £1,187,757 |
| Director's loans (b) | – | £345,149 |
| Revolving credit facilities (c) | – | £1,751,640 |
| Convertible loan notes (d) | £107,500 | £462,645 |
| | £107,500 | £3,747,191 |

The fair value of the Group's loans and borrowings is £107,500 (2018: £3,761,472). The fair value of current borrowings equals their carrying amounts as the impact of discounting is not significant. The 2018 fair values are based on cash flows discounted using a rate, within the level 2 hierarchy, based on the borrowing rate of 8%.





The following table shows the changes in liabilities arising from financing activities:

| | 2019 | 2018 |
|---|---|---|
| Balance at 1 January | £3,747,191 | £2,086,800 |
| Repayment of borrowings | (£3,450,976) | (£554,439) |
| Draw down of funds | £105,968 | £1,751,640 |
| Issuance of convertible loan notes | £850,066 | £452,568 |
| Conversion of convertible loan notes | (£1,225,222) | – |
| Interest on convertible loan notes | (£23,325) | £10,077 |
| Foreign exchange losses | £103,798 | £545 |
| Balance at 31 December | £107,500 | £3,747,191 |

The interest on convertible loan notes and foreign exchange losses are non-cash items.

***(a) External loans***

In 2018 external loans comprised four facilities all denominated in sterling. These loans were fully repaid in 2019 from the funds raised from the Company's listing on the London Stock Exchange.

***(b) Director's loans***

At 31 December 2018 there were two director's loans, both of which were unsecured. These loans were fully repaid during the year ended 31 December 2019.

***(c) Revolving credit facility***

In 2018 the Group entered into a revolving credit facility with Silicon Valley Bank who provided a credit facility for £2,500,000. This facility is available to be drawn in US dollars, Sterling or Euro and was unused at 31 December 2019. The Group currently has credit approval for £4,000,000 facility and expects to complete during H1 2020.

***(d) Convertible loan notes***

On 15 October 2018, the Company issued £453,543 of unsecured convertible loan notes ('Loan Notes') and on 15 February 2019, the Company issued a further £850,000 of Loan Notes. £1,203,543 of the Loan Notes were converted into Ordinary Shares in the Company immediately prior to Admission.

£100,000 of the Loan Notes issued on 15 February 2019 remain in place (10% interest rate paid annually from 1 April 2019). These loan notes can be converted into Ordinary Shares in the Company on or after 31 March 2022.

In line with IFRS 9, Financial Instruments, the total finance cost of the convertible loan notes is spread over the maturity period using an effective interest rate. Consequently, an interest charge of £23,325 (2018: £22,088) has been recognised in the profit and loss account using an effective rate of 8.9%.

**24. Financial instruments**

**(a) Classification of financial instruments**

The principal financial instruments used by the Group from which financial instrument risk arises are trade receivables, cash and cash equivalents and trade and other payables, loans, the revolving credit facility and convertible loan notes. The impact of the discounting of financial instruments is not material. The Group's financial instruments are classified as follows:

| Measured at amortised cost | 2019 | 2018 |
|---|---|---|
| **Assets** | | |
| Trade receivables | £6,134,029 | £4,082,099 |
| Other receivables | £171,205 | £221,954 |
| Cash at bank and in hand | £11,720,223 | £2,073,661 |

| Other financial liabilities at amortised cost | | |
|---|---|---|
| **Liabilities** | | |
| Trade payables | £290,764 | £223,788 |
| Accruals | £1,265,567 | £688,295 |
| External and Director's loans | – | £1,532,906 |
| Revolving credit facilities | – | £1,751,640 |
| Convertible loan notes | £107,500 | £462,645 |

The only financial liabilities held at fair value through profit and loss are the embedded derivatives which have a fair value of £Nil (2018: £34,093).

**(b) Capital structure and risk management**

***Capital management***
The Group's objectives when managing capital are to safeguard its ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders, to operate within the terms of the Group's revolving credit facility and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the company may issue new shares or sell assets to provide working capital.

Consistent with others in the industry at this stage of development, the Group has relied on issuing new shares and cash generated from operations.

***General objectives, policies and processes – risk management***
The Group is exposed through its operations to the following financial instrument risks: credit risk; liquidity risk and foreign currency risk. The Board reviews each of these risks and agrees policies for managing them that seek to reduce risk as far as possible without unduly affecting the Group's competitiveness and flexibility. The policy for each of the above risks is described in more detail below.

***Credit risk***
Credit risk is the risk that the counterparty fails to discharge their obligation in respect of the instrument. The Group trades only with recognised, creditworthy third parties. Receivable balances are monitored on an on-going basis with the result that exposure to bad debts is normally not significant. As the Group trades only with



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recognised third parties there is no requirement for collateral. Other financial assets comprise of cash and cash equivalents which are therefore subject to minimal credit risk.

***Liquidity risk***
Liquidity risk arises from the Group's management of working capital and is the risk that the Group will encounter difficulty in meeting its financial obligations as they fall due.

Group policy is that funding is reviewed in line with operational cash flow requirements and investment strategy. Repayment terms and conditions are approved by the Board in advance of acceptance of any facility. At each board meeting, and at the reporting date, the cash flow projections are considered by the Board to confirm that the Group has sufficient funds and available funding facilities to meet its obligations as they fall due.

The Group had a revolving credit facility for up to £2,500,000.

***Foreign currency risk***
Foreign currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Group seeks to transact the majority of its business in its reporting currency (£Sterling). However, many customers and suppliers are outside the UK and a proportion of these transact with the company in US dollars and euro. For this reason, the Group operates current bank accounts in US dollars and euro as well as in its reporting currency and has a revolving credit facility available which can be drawn in US dollars, pounds sterling or euro.

To the maximum extent possible receipts and payments in a particular currency are made through the bank account in that currency to reduce the amount of funds translated to or from the reporting currency. Cash flow projections are used to plan for those occasion when funds will need to be translated into different currencies so that exchange rate risk is minimised. In addition, the Group has entered into a revolving credit facility which can be drawn in US dollars, pounds sterling or euro.

If the exchange rate between sterling and the US dollar had been 10% higher/lower at the reporting date, the effect on profit would have been approximately (£120,000)/£147,000 respectively (2018: £33,000). If the exchange rate between sterling and euro had been 10% higher/lower at the reporting date the effect on profit would have been approximately (£195,000)/£239,000 respectively (2018: £10,000). If the exchange rate between sterling and the US dollar had been 10% higher/lower at the reporting date, the effect on equity would have been approximately (£374,000)/£457,000 respectively (2018: £162,000). If the exchange rate between sterling and euro had been 10% higher/lower at the reporting date the effect on equity would have been approximately (£195,000)/£238,000 respectively (2018: £36,000).

***Interest rate risk***
Cash flow interest risk arises from the Group's external loans and revolving credit facilities, which carry interest based on underlying base rates in the UK, US and the EU. These loans were fully repaid in 2019 from the funds raised from the Company's listing on the London Stock Exchange. The revolving credit facility remains unused at 31 December 2019.

**(c) Maturity**

The Group's financial liabilities measured as a contractual undiscounted cash flow mature as follows:

| | Less than one year | Between one and two years | Between two and five years |
|---|---|---|---|
| **As at 31 December 2019** | | | |
| Trade payables and other payables | £1,556,331 | – | – |
| | £1,556,331 | – | – |
| **As at 31 December 2018** | | | |
| Trade payables and other payables | £912,083 | – | – |
| External loans | £494,583 | £395,249 | £495,378 |
| Fair value of embedded derivatives | £34,093 | – | – |
| Director's loans | £86,008 | £269,507 | – |
| Revolving credit facilities | £1,751,640 | – | – |
| | £3,278,407 | £664,756 | £495,378 |

At each year end there are no financial liabilities due after five years.

**25. Share capital**

| | 2019 | 2018 |
|---|---|---|
| **Allotted, called up and fully paid** | | |
| 69,583,077 Ordinary shares of £0.002 each | £139,166 | – |
| Nil (2018: 6,000; 2016: 6,000) A class ordinary shares of £0.01 each | – | £60 |
| Nil (2018: 5,200; 2016: 5,700) B class ordinary shares of £0.01 each | – | £62 |
| Nil (2018: 205; 2016: 205) C class ordinary shares of £0.01 each | – | £2 |
| Nil (2018: 2,057; 2016: 1,557) D class ordinary shares of £0.01 each | – | £21 |
| Nil (2018 and 2016: 10,000) E class ordinary shares of £0.001 each | – | £10 |
| Nil (2018 and 2016: 5,000) F class ordinary shares of £0.01 each | – | £50 |
| Nil (2018 and 2016: 1,300) treasury shares of £0.01 each | – | £3 |
| | £139,166 | £208 |



Notes to the Company Financial Statements (continued)
for the year ended 31 December 2019

On 13 March 2019:

- The 300 D shares of £0.01 each and 40 E shares of £0.001 each held in treasury were cancelled
- The issued E share capital was consolidated so that the 9,960 E shares of £0.001 each became 996 E shares of £0.01 each
- 205,050 new A shares of £0.01 each were allotted and issued to the existing shareholders of the Company at par value
- All of the issued B shares of £0.01 each, C shares of £0.01 each, D shares of £0.01 each, E shares of £0.01 each and F shares of £0.01 each were converted into A shares of £0.01 each

Following this consolidation of shares, the Company passed a resolution to re-designate all of the 225,516 issued A shares of £0.01 each as 225,516 issued ordinary shares of £0.01 each.

The issued ordinary share capital of the Company was then sub-divided so that every 1 ordinary share of £0.01 each become 5 ordinary shares of £0.002 each ('Ordinary Shares'). Following the sub-division, the Company had an issued share capital of 1,127,580 Ordinary Shares of £0.002 each.

The Company then undertook a bonus issue of Ordinary Shares based on 39 new Ordinary Shares for every one Ordinary Share held, such new Ordinary Shares being fully paid out of share premium. As a result, 43,975,620 new Ordinary Shares were allotted at a price of £0.002 per Ordinary Share. Following the bonus issue, the Company had an issued share capital of 45,103,200 Ordinary Shares.

On 15 March 2019, the Company allotted and issued 175,438 Ordinary Shares to a third party investor at a price of £0.57 per share.

Immediately prior to the admission to the AIM Market on the London Stock Exchange on 21 March 2019, the Company allotted and issued, in aggregate, 1,936,012 Ordinary Shares on conversion of £1,103,543 of the outstanding Convertible Loan Notes. Thus. immediately prior to admission to AIM, the issued and fully paid share capital of the Company was 47,214,650 Ordinary Shares.

On the listing of the Company on AIM, 22,368,427 new Ordinary shares were allotted and issued under a Placing Agreement with the Company's nomad, Cenkos Securities PLC. The issued share capital of the Company immediately following Admission and at 30 June 2019 was 69,583,077 Ordinary Shares of £0.02.

All Ordinary Shares rank *pari passu* in all respects including voting rights and the right to receive all dividends and other distributions, if any, declared or made or paid in respect of Ordinary Shares.

***Reserves***

*Share premium account:* This reserve records the amount above the nominal value received for shares sold, less transaction costs.

*Capital redemption reserve:* This reserve records the nominal value of shares repurchased by the Company.

**26. Commitments and contingencies**

There are no material capital commitments, financial commitments or contingent liabilities at the balance sheet date not provided for in these financial statements.

**27. Related parties**

At 31 December 2019 directors were owed £Nil (2018: £350,149) by the Group. During the year interest of £3,432 (2018: £23,015) was charged on these loans and repayments of £352,352 (2018: £166,160) were made.

During the year the Group was charged £20,800 (2018: £100,000) by Blue Shark Limited, a related party through common directorship, in respect of IT expertise provided for development projects. The provision of these services by Blue Shark Limited ceased when the Company listed.

During the year the Group was charged £9,225 (2018: £18,450) by PharmScape Limited, a related party through common directorship, in respect of Consultancy services provided. The provision of these services by PharmsScape Limited ceased when the Company listed.

During the year dividends amounting to £Nil (2018: £300,216) were paid to A and F shareholders of the Company. These shareholders are also directors or related parties of the Company.

**28. Ultimate controlling party**

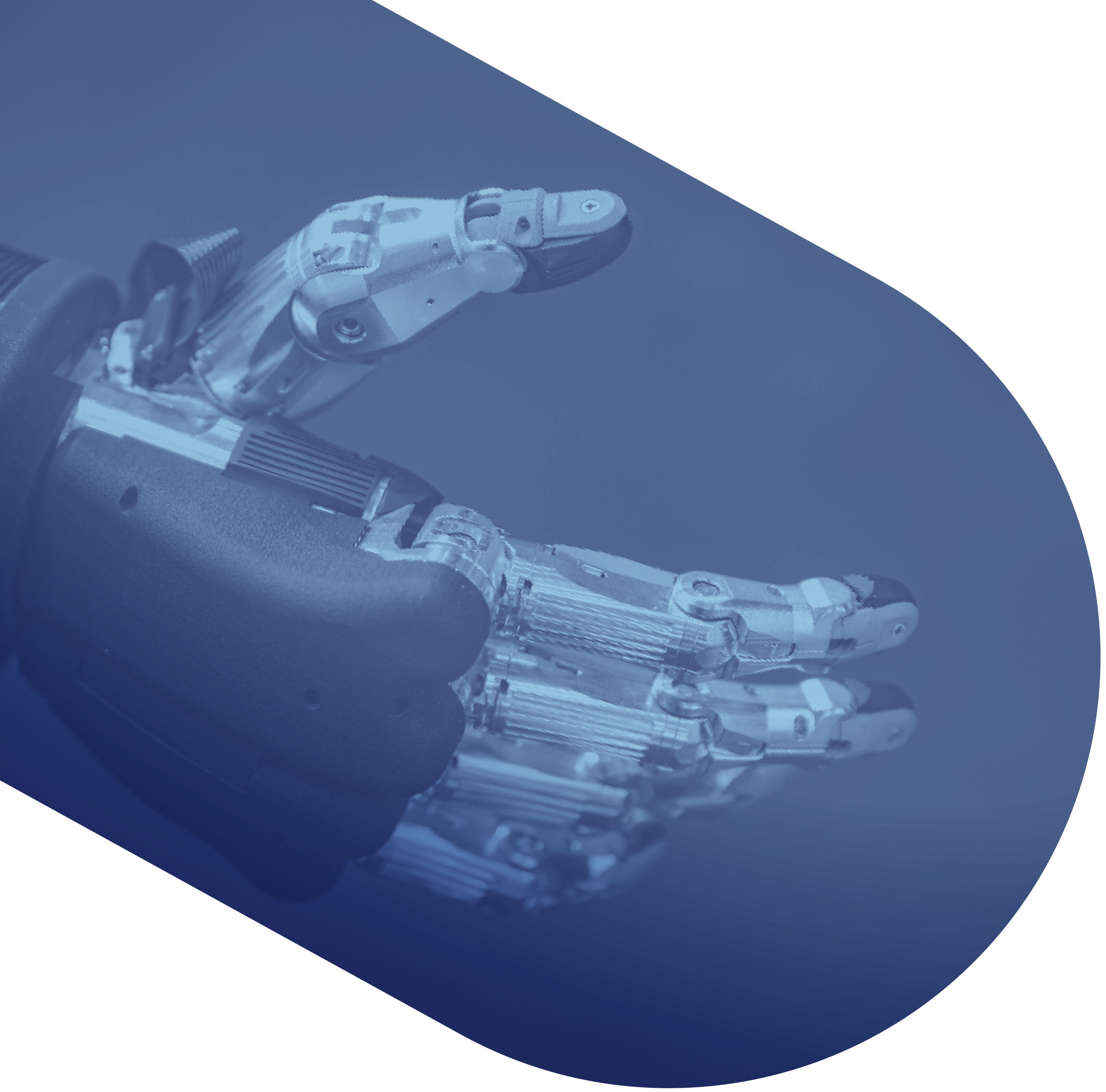
The Company is controlled by its shareholders.

**29. Subsequent events**

The Group hosts a four-day Group meeting for all staff at least biennially to ensure that the Group's corporate plans and goals are communicated and discussed. The next meeting was scheduled to take place in Tenerife at the start of March 2020. However, following the confirmation of the COVID-19 virus in Tenerife and other regions, the meeting was cancelled.

Under IAS10, outbreak of COVID-19 is considered a non-adjusting post balance sheet event and so £125,097 is held as a Prepayment in the Group Balance Sheet in relation to non-refundable, committed spend at 31 December 2019.

# Company Financial Statements



## Company Balance Sheet
as at 31 December 2019

| | Notes | 2019 | 2018 |
|---|---|---|---|
| **Fixed assets** | | | |
| Intangible assets | 4 | £1,903,125 | £623,766 |
| Property, plant and equipment | 5 | £117,370 | £57,974 |
| Deferred tax asset | 6 | £347,165 | – |
| Investments | 7 | £57,612 | £969 |
| | | £2,425,272 | £682,709 |
| **Current assets** | | | |
| Trade and other receivables | 8 | £6,528,309 | £3,940,423 |
| Income tax receivable | 9 | £292,893 | £21,871 |
| Cash at bank and in hand | | £9,705,586 | £870,994 |
| | | £16,526,788 | £4,833,288 |
| **Total assets** | | **£18,952,060** | **£5,515,997** |
| **Equity and liabilities** | | | |
| Equity share capital | 13 | £139,166 | £208 |
| Share premium account | | £17,335,407 | £99,994 |
| Treasury shares | | – | (3) |
| Capital redemption reserve | | – | £108,850 |
| Profit and loss account – including loss for the year of (£1,160,260) (2018: £122,636) | | £5,021 | £1,140,887 |
| **Total equity** | | **£17,479,594** | **£1,349,936** |
| **Non-current liabilities** | | | |
| Trade and other payables | 10 | – | £180,862 |
| Financial liabilities | 11 | – | £806,334 |
| | | – | £987,196 |
| **Current liabilities** | | | |
| Trade and other payables | 10 | £1,364,966 | £1,409,604 |
| Financial liabilities | 11 | £107,500 | £1,769,261 |
| | | £1,472,466 | £3,178,865 |
| **Total liabilities** | | **£1,472,466** | **£4,166,061** |
| **Total equity and liabilities** | | **£18,952,060** | **£5,515,997** |

The financial statements were approved and authorised for issue by the board and were signed on its behalf on 15 March 2020. The notes on pages 90-101 form an integral part of these financial statements.

Philip White

**Mr P White**
Director
15 March 2020

## Company Statement of Changes in Equity

| | Called up share capital | Share premium account | Treasury shares* | Capital redemption reserve | Profit and loss account | Total equity |
|---|---|---|---|---|---|---|
| **At 1 January 2018** | **£208** | **£99,994** | **(13)** | **£108,850** | **£1,157,829** | **£1,366,868** |
| Loss for the year | – | – | – | – | (£122,636) | (£122,636) |
| Other comprehensive income | – | – | – | – | – | – |
| Total comprehensive expense for the year | – | – | – | – | (£122,636) | (£122,636) |
| **Transactions with owners, recorded directly in equity** | | | | | | |
| Issue of shares from treasury | – | – | 10 | – | (10) | – |
| Share based payments | – | – | – | – | £405,920 | £405,920 |
| Equity dividends paid | – | – | – | – | (£300,216) | (£300,216) |
| Total transactions with owners | – | – | 10 | – | £105,694 | £105,704 |
| **At 31 December 2018** | **£208** | **£99,994** | **(3)** | **£108,850** | **£1,140,887** | **£1,349,936** |
| Loss for the year | – | – | – | – | (£1,160,260) | (£1,160,260) |
| Total comprehensive expense for the year | – | – | – | – | (£1,160,260) | (£1,160,260) |
| **Transactions with owners, recorded directly in equity** | | | | | | |
| Cancellation of Treasury shares | (3) | – | 3 | – | – | – |
| Reorganisation of shares | £2,050 | (£2,050) | – | – | – | – |
| Bonus issue of shares | £87,951 | (£87,951) | – | – | – | – |
| Conversion of loan notes | £4,223 | £1,225,222 | – | – | – | £1,229,445 |
| Share based payment | – | – | – | - | £24,394 | |
| Issue of shares on Placing | £44,737 | £16,100,192 | – | (£108,850) | – | £16,036,079 |
| Total transactions with owners | £138,958 | £17,235,413 | 3 | (£108,850) | £24,394 | £17,265,524 |
| **At 31 December 2019** | **£139,166** | **£17,335,407** | **–** | **–** | **£5,021** | **£17,479,594** |

* Treasury shares are presented separately in order to show the movements on these shares in each year. The balance as at each year end is deducted from retained earnings in calculating distributable profits.

**1. General information**
Diaceutics PLC is incorporated and domiciled in Northern Ireland. These financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101). The Company's financial statements are presented in Sterling.

***Parent company profit and loss account***
The directors' have taken advantage of the exemption available under Section 408 of the Companies Act 2006 and have not presented an income statement for the company alone.

The results of Diaceutics PLC are included in the consolidated financial statements of Diaceutics PLC which are available from 55–59 Adelaide Street, Belfast.

***Basis of preparation***
The accounts are prepared under the historical cost convention, and in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework. There were no material amendments on the adoption of FRS 101.

The accounting policies which follow set out those policies which apply in preparing the financial statements for the year ended 31 December 2019. The Company has taken advantage of the following disclosure exemptions under FRS 101:

- the requirements of paragraphs 45(b) and 46–52 of IFRS 2 Share Based Payments
- the requirements of paragraphs 10(d), 10(f), 16, 38(a)–(d), 39(c), 40(a)–(d), 111 and 134–136 of IAS 1 Presentation of Financial Statements
- the requirements of IAS 7 Statement of Cash Flows
- the requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors
- the requirements of paragraph 17 of IAS 24 Related Party Disclosures; and the requirements in IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member

**2. Accounting policies**
***Revenue recognition***
Revenue comprises the fair value of the consideration received or receivable for the provision of services in the ordinary course of the Company's activities. Revenue is shown net of value-added tax and after eliminating sales within the Company.

The Company has two revenue streams, Implementation services and Data. The Company's performance obligations for both revenue streams are deemed to be the provision of specific deliverables to the customer. Revenue billed to the customer is allocated to the various performance obligations, based on the relative fair value of those obligations, and is then recognised as follows:

- Where a contractual right to receive payment exists, revenue is recognised as over the period services are provided using the percentage of completion method, based on the input method using time spent
- Where no contractual right to receive payment exists, revenue is recognised upon completion of each separate performance obligation, which is typically when implementation services are complete or data has been provided to the customer

***Government grants***
Grants, which include research and development tax credits where the recovery of those credits is not restricted, are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Company will comply with all attached conditions. Grants relating to costs are deferred and recognised in the profit and loss account over the period necessary to match them with the costs that they are intended to compensate. Grants relating to development projects are included in non-current liabilities as deferred income and are credited to the profit and loss account on a straight-line basis over the expected useful economic lives of the related assets.

***Foreign currencies***
Transactions in foreign currencies are translated to the Company's functional currency at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date





are retranslated to the functional currency at the foreign exchange rate ruling at that date. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Foreign exchange differences arising on translation are recognised in the profit and loss account.

***Investments***
Investments in subsidiaries are held at historical cost less any provisions for impairment in value. The carrying values of investments are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

***Intangible assets***
*Research and development*
Expenditure on research activities is recognised in the profit and loss account as an expense as incurred.

Expenditure on development activities is capitalised if the product or process is technically and commercially feasible and the Company intends and has the technical ability and sufficient resources to complete development, future economic benefits are probable and if the Company can measure reliably the expenditure attributable to the intangible asset during its development. Development activities involve design for, construction or testing of the production of new or substantially improved products or processes. The expenditure capitalised includes the cost of materials and direct labour. Other development expenditure is recognised in the profit and loss account as an expense as incurred. Capitalised development expenditure is stated at cost until it is brought into use.

*Other intangible assets*
Other intangible assets that are acquired by the Company are stated at cost less accumulated amortisation and less accumulated impairment losses.

*Amortisation*
Amortisation is charged to the profit or loss on a straight-line basis over the estimated useful lives of intangible assets. Intangible assets are amortised from the date they are available for use. The estimated useful lives are as follows:

- Patents and trademarks, 3 years (33.3% straight line) from the date of registration
- Datasets, 2 years (50% straight line)
- Software, 5 years (20% straight line)

The Company reviews the amortisation period and method when events and circumstances indicate that the useful life may have changed since the last reporting date.

***Property, plant and equipment***
Property, plant and equipment is stated at cost less accumulated depreciation and accumulated impairment losses.

The Company assesses at each reporting date whether there are indicators of impairment.

Depreciation is charged to the profit and loss account on a straight-line basis over the estimated useful lives of each part of an item of tangible fixed assets. The estimated useful lives are as follows:

- Office equipment, 5 years (20% straight line)

Depreciation methods, useful lives and residual values are reviewed if there is an indication of a significant change since the last annual reporting date in the pattern by which the Company expects to consume an asset's future economic benefits.

***Taxation***
The tax expense for the year comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company's subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities. *(continued)*

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates and laws that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity of different taxable entities where there is an intention to settle the balances on a net basis.

***Employee benefits***

The Company operates a defined contribution pension scheme which is open to employees and directors. The assets of the scheme are held by investment managers separately from those of the Company. The contributions payable to the scheme is recorded in the profit and loss account in the accounting period to which they relate.

***Share based payments***

The Company has a number of classes of shares in issue. Where shares are issued to employees that contain restrictions that mean they have obtained those shares by virtue of their employment, those shares are accounted for as share based payments. When the shares are issued a determination is made, based on the rights of those shares, as to whether there is a contractual liability for the Company to reacquire the shares at some point (cash settled) or not (equity settled). For equity settled shares, a fair value of those shares is established at the date the shares are granted and, if the employee is required to complete a period of service before the shares vest, this fair value is spread over that period (vesting period).

***Financial assets***

*(a) Classification*

The Company classifies its financial assets in the following measurement categories:

- Those to be measured at amortised costs
- Those to be measured subsequently at fair value (either through Other Comprehensive Income of through profit and loss)

The classification depends on the Company's business model for managing the financial assets and the contractual terms of the cash flows. The Company reclassifies its financial assets when and only when its business model for managing those assets changes.

*(b) Recognition and measurement*

At initial recognition, the Company measures a financial assets at its fair value plus transaction costs that are directly attributable to the acquisition of the financial asset. Subsequent measurement of financial assets depends on the Company's business model for managing those financial assets and the cash flow characteristics of those financial assets. The Company only has financial assets classified at amortised cost. These assets are those held for contractual collection of cash flows, where those cash flows represent solely payments of principal and interest and are held at amortised cost. Any gains or losses arising on derecognition is recognised directly in profit or loss. Impairment losses are presented as a separate line in the profit and loss account.

*(c) Impairment*

The Company assesses on a forward-looking basis, the expected credit losses associated with its debt instruments carried at amortised cost. For trade receivables the Company applies the simplified approach permitted by IFRS9, which





requires expected lifetime losses to be recognised from the initial recognition of the receivables. For other receivables the Company applies the three stage model to determine expected credit losses.

***Financial liabilities***

Financial liabilities comprise trade and other payables and borrowings due within one year end after one year, which are recognised initially at fair value and subsequently carried at amortised cost using the effective interest method. The Company does not use derivative financial instruments or hedge account for any transactions. Trade payables represent obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is due within one year. If not, they are presented as non-current liabilities.

The Company had issued convertible loan notes to employees, which include a conversion feature on change of control or IPO. This conversion feature is treated as an equity settled share based payment that vest immediately as there are no future service conditions, with the fair value being assessed on the date the convertible loan notes are issued. The underlying loan proceeds were recognised initially at fair value and subsequently carried at amortised cost.

***Cash and cash equivalents***

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

***Equity***

Ordinary shares are classified as equity. Incremental costs directly attributable for the issue of new shares are shown in equity as a deduction from the proceeds.

The share premium reserve represents the excess over the nominal value of the fair value of consideration received for equity shares, net of expenses on the share issue.

The capital redemption reserve records the nominal value of shares repurchased by the Company.

***Distributions to equity holders***

Dividends and other distributions to Company's shareholders are recognised as a liability in the financial statements in the period in which the dividends and other distributions are approved by the Company's shareholders. These amounts are recognised in the statement of changes in equity.

**3. Judgements in applying accounting policies and key sources of estimation uncertainty**

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for income and expenditure during the year. However, the nature of estimation means that actual outcomes could differ from those estimates. The Company's only assets/liabilities that are significantly impacted by key sources of estimation uncertainty are the Company's intangible assets. The assessment of useful life of data purchases required estimation over the period in which that data will be utilised.

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. *(continued)*

### 4. Intangible assets

| | Patents and trademarks | Datasets | Development expenditure | Software | Total |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| At 1 January 2018 | £45,304 | £278,319 | £205,783 | – | £529,406 |
| Additions | £38,880 | £157,962 | £12,104 | – | £208,946 |
| At 31 December 2018 | £84,184 | £436,281 | £217,887 | – | £738,352 |
| Additions | £27,433 | £519,842 | £731,404 | £209,778 | £1,488,457 |
| At 31 December 2019 | £111,617 | £956,123 | £949,291 | £209,778 | £2,226,809 |
| **Amortisation** | | | | | |
| At 1 January 2018 | £39,596 | £16,095 | – | – | £55,691 |
| Charge for the year | £8,565 | £50,330 | – | – | £58,895 |
| At 31 December 2018 | £48,161 | £66,425 | – | – | £114,586 |
| Charge for the year | £15,261 | £113,062 | £77,765 | £3,010 | £209,098 |
| At 31 December 2019 | £63,422 | £179,487 | £77,765 | £3,010 | £323,684 |
| **Net book value** | | | | | |
| At 31 December 2019 | £48,195 | £776,636 | £871,526 | £206,768 | £1,903,125 |
| At 31 December 2018 | £36,023 | £369,856 | £217,887 | – | £623,766 |

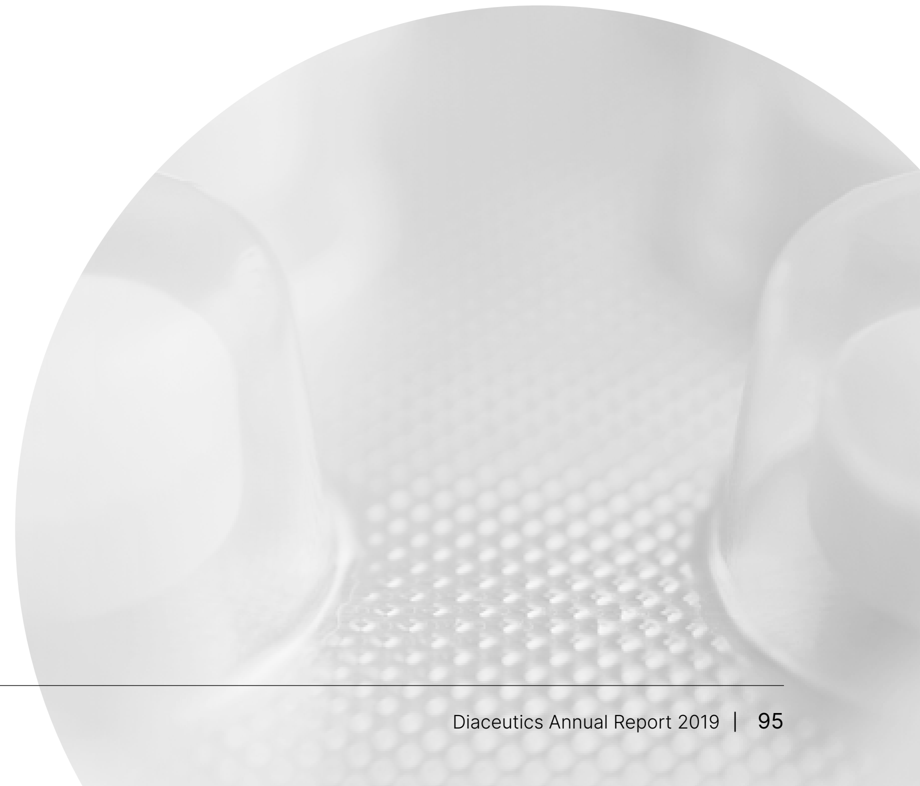
Intangible assets relate to patents, trademarks, software and datasets which are recorded at cost and amortised over their useful economic life which has been assessed as 2 to 5 years. Development expenditure relates to an asset under construction and as such no amortisation has been applied. Amortisation will apply when the asset is commercialised.





### 5. Property, plant and equipment

| | Office equipment |
|---|---|
| **Cost** | |
| At I January 2018 | £79,097 |
| Additions | £45,501 |
| At 31 December 2018 | £124,598 |
| Additions | £88,684 |
| At 31 December 2019 | £213,282 |
| **Depreciation** | |
| At 1 January 2018 | £39,333 |
| Charge for the year | £27,291 |
| At 31 December 2018 | £66,624 |
| Charge for the year | £29,288 |
| At 31 December 2019 | £95,912 |
| **Net book value** | |
| At 31 December 2019 | £117,370 |
| At 31 December 2018 | £57,974 |



**6. Deferred Tax asset**

Tax losses carried forward amount to £3,047,921(2018: £Nil). The deferred tax asset includes amounts receivable after more than one year amounting to £Nil (2018: £Nil).

| | 2019 | 2018 |
|---|---|---|
| Tax losses carried forward | £518,147 | – |
| Other temporary differences | (£170,982) | – |
| | £347,165 | – |

| | | |
|---|---|---|
| Balance at 1 January | – | – |
| Credited to the profit and loss account | £347,165 | – |
| Balance at 31 December | £347,165 | – |

**7. Investments**

| | Investment in subsidiaries |
|---|---|
| At 1 January 2018 | £912 |
| Additions | £57 |
| At 31 December 2018 | £969 |
| Additions | £56,643 |
| At 31 December 2019 | £57,612 |

The following were subsidiaries of the Company at 31 December 2019:

| | Registered office | Country of incorporation | Percentage of shares held |
|---|---|---|---|
| Diaceutics Ireland Limited | Unit 3, Creative Spark, Clontygora Ct, Muirhevnamon, Dundalk, County Louth | Republic of Ireland | 100% |
| Labceutics Limited | 727 Antrim Road, Belfast, BT15 4EJ | Northern Ireland | 100% |
| Diaceutics Inc | 2001 Route 46 Waterview Plaza Suite 310, Parsippany, New Jersey, 07054 | US | 100% |
| Diaceutics Pte Limited | 6 Temesak Boulevard, #20–00 Suntec Tower Four, Singapore | Singapore | 100% |

All entities were incorporated before 1 January 2016, with the exception of Diaceutics Pte Limited which was incorporated during the year ended 31 December 2018.





**8. Trade and other receivables**

| | 2019 | 2018 |
|---|---|---|
| Trade receivables | £2,240,683 | £2,516,713 |
| Amounts owed by group undertakings | £3,819,555 | £1,141,626 |
| Other debtors | £175,041 | £253,945 |
| Prepayments | £293,030 | £28,139 |
| | £6,528,309 | £3,940,423 |

All amounts are due within one year.

The default percentage used in the expected credit loss calculation was 0.16% (2018: 0.19%) for debt up to 30 days old; 0.20% (2018:0.21%) for debt between 31 and 60 days old; 0.31% (2018:0.32%) for debt between 61 and 90 days old; 0.84% (2018:0.65%) for debt between 91 and 180 days old and 8.09% (2018: 4.67%) for debt over 180 days old.

Other receivables are considered to have low credit risk and the loss allowance recognised during the year was therefore limited to 12 months expected credit losses.

Included within trade receivables are contract assets of £416,327 (2018: £289,385). The Company's contracts with customers are typically less than one year in duration and any contract assets as at the balance sheet date would be expected to be invoiced and received in the following year.

**9. Income Tax receivable**

| | 2019 | 2018 |
|---|---|---|
| Balance at 1 January | £21,871 | £78,293 |
| Credited/(charged) to the profit and loss account | £271,022 | (£56,422) |
| Balance at 31 December | £292,893 | £21,871 |

The credit/(charge) to the profit and loss account relates to a credit on losses/profits for the year amounting to £114,022 (2018: charge of £178,955) plus credits relating to research and development tax credits amounting to £157,000 (2018: £122,533).

**10. Trade and other payables**

| | 2019 | 2018 |
|---|---|---|
| **Creditors:** falling due within one year | | |
| Trade payables | £266,568 | £117,038 |
| Amounts owed by group undertakings | – | £602,374 |
| Accruals | £799,095 | £576,377 |
| Contract liabilities | £148,008 | £38,462 |
| Other creditors | £26,755 | – |
| Other tax and social security | £124,540 | £75,353 |
| | £1,364,966 | £1,409,604 |

| | | |
|---|---|---|
| **Creditors:** amounts falling after more than one year | | |
| Deferred income | – | £180,862 |

Contract liabilities of £148,008 (2018: £38,462) which arise in respect of amounts invoiced during the period for which revenue recognition criteria have not been met by the year end. The Company's contracts with customers are typically less than one year in duration and any contract liabilities would be expected to be recognised as revenue in the following year.

**11. Financial liabilities**

| | 2019 | 2018 |
|---|---|---|
| **Creditors:** falling due within one year | | |
| External loans | – | £381,423 |
| Fair value of embedded derivatives | – | £34,093 |
| Revolving credit facilities | – | £891,100 |
| Convertible loan notes | £107,500 | £462,645 |
| | £107,500 | £1,769,261 |

| | | |
|---|---|---|
| **Creditors:** falling due after more than one year | | |
| External loans | – | £806,334 |

Refer to Note 12 for further detail.





**12. Interest bearing loans and borrowings**

| | 2019 | 2018 |
|---|---|---|
| External loans (a) | – | £1,187,757 |
| Revolving credit facilities (b) | – | £891,100 |
| Convertible loan notes (c) | £107,500 | £462,645 |
| | £107,500 | £2,541,502 |

***(a) External loans***
In 2018 external loans comprised four facilities all denominated in sterling. These loans were fully repaid in 2019 from the funds raised from the Company's listing on the London Stock Exchange.

***(b) Revolving credit facility***
In 2018 the Company entered into a revolving credit facility with Silicon Valley Bank who provided a credit facility for £2,500,000. This facility is available to be drawn in US dollars, pounds sterling or euro.

***(c) Convertible loan notes***
On 15 October 2018, the Company issued £453,543 of unsecured convertible loan notes ('Loan Notes') and on 15 February 2019, the Company issued a further £750,000 of Loan Notes.

£1,103,543 of the Loan Notes were converted into Ordinary Shares in the Company immediately prior to Admission.

£100,000 of the Loan Notes issued on 15 February 2019 remain in place. Interest is charged at 10% and paid annually. These loan notes can be converted into Ordinary Shares in the Company on or after 31 March 2022.

Under IFRS 9, Financial Instruments, the total finance cost of the convertible loan notes is required to be spread over the maturity period using an effective interest rate. Consequently, an interest charge of £23,325 (2018: £10,077) has recognised in the profit and loss account using an effective rate of 8.9%.

**13. Share capital**

| | 2019 | 2018 |
|---|---|---|
| **Allotted, called up and fully paid** | | |
| 69,583,077 Ordinary shares of £0.002 each | £139,166 | – |
| Nil (2018: 6,000; 2016: 6,000) A class ordinary shares of £0.01 each | – | £60 |
| Nil (2018: 5,200; 2016: 5,700) B class ordinary shares of £0.01 each | – | £62 |
| Nil (2018: 205; 2016: 205) C class ordinary shares of £0.01 each | – | £2 |
| Nil (2018: 2,057; 2016: 1,557) D class ordinary shares of £0.01 each | – | £21 |
| Nil (2018 and 2016: 10,000) E class ordinary shares of £0.001 each | – | £10 |
| Nil (2018 and 2016: 5,000) F class ordinary shares of £0.01 each | – | £50 |
| Nil (2018 and 2016: 1,300) treasury shares of £0.01 each | – | £3 |
| | £139,166 | £208 |

On 13 March 2019:

- The 300 D shares of £0.01 each and 40 E shares of £0.001 each held in treasury were cancelled
- The issued E share capital was consolidated so that the 9,960 E shares of £0.001 each became 996 E shares of £0.01 each
- 205,050 new A shares of £0.01 each were allotted and issued to the existing shareholders of the Company at par value
- All of the issued B shares of £0.01 each, C shares of £0.01 each, D shares of £0.01 each, E shares of £0.01 each and F shares of £0.01 each were converted into A shares of £0.01 each

Following this consolidation of shares, the Company passed a resolution to re-designate all of the 225,516 issued A shares of £0.01 each as 225,516 issued ordinary shares of £0.01 each.

The issued ordinary share capital of the Company was then sub-divided so that every 1 ordinary share of £0.01 each become 5 ordinary shares of £0.002 each ('Ordinary Shares'). Following the sub-division, the Company had an issued share capital of 1,127,580 Ordinary Shares of £0.002 each.

The Company then undertook a bonus issue of Ordinary Shares based on 39 new Ordinary Shares for every one Ordinary Share held, such new Ordinary Shares being fully paid out of share premium. As a result, 43,975,620 new Ordinary Shares were allotted at a price of £0.002 per Ordinary Share. Following the bonus issue, the Company had an issued share capital of 45,103,200 Ordinary Shares.

On 15 March 2019, the Company allotted and issued 175,438 Ordinary Shares to a third party investor at a price of £0.57 per share.

Immediately prior to the admission to the AIM Market on the London Stock Exchange on 21 March 2019, the Company allotted and issued, in aggregate, 1,936,012 Ordinary Shares on conversion of £1,103,543 of the outstanding Convertible Loan Notes. Thus, immediately prior to admission to AIM, the issued and fully paid share capital of the Company was 47,214,650 Ordinary Shares.

On the listing of the Company on AIM, 22,368,427 new Ordinary shares were allotted and issued under a Placing Agreement with the Company's nomad, Cenkos Securities PLC. The issued share capital of the Company immediately following Admission and at 30 June 2019 was 69,583,077 Ordinary Shares of £0.02.

All Ordinary Shares rank *pari passu* in all respects including voting rights and the right to receive all dividends and other distributions, if any, declared or made or paid in respect of Ordinary Shares.

***Reserves***

***Share premium account:*** This reserve records the amount above the nominal value received for shares sold, less transaction costs.

***Capital redemption reserve:*** This reserve records the nominal value of shares repurchased by the Company.

***Dividends***

During the year dividends amounting to £Nil (2018: £300,216) were paid. No dividends were proposed by the directors after the balance sheet date.

***Share based payments***

***(i) Employee share scheme***

Prior to the Admission, the Company had various classes of shares (B, C, D, E, F) in existence that were held by employees and which were accounted for as share based payments as the individuals had received those shares by virtue of their employment. The total numbers of shares held by employees in these share classes at 31 December 2018 was B: 6,200, C: 205, D: 2,057, E: 9,960 and F: 5,000. These shares were treated as equity settled and a fair value was calculated at grant date based on the fair value (using an earnings multiple approach) of the Company's shares at that date. This fair value has been charged to the profit and loss account when the shares were granted. As outlined in Note 11 the various classes of shares were all converted to ordinary shares as part of the share restructuring prior to admission to the AIM Market on the London Stock Exchange.

The total expense recognised in the profit and loss account and credited through the profit and loss account reserve, was £Nil (2018: £290,520).





*(ii) Convertible loan notes*

On 15 October 2018, the Company issued £453,543 of unsecured convertible loan notes to the Group's employees which converted into Ordinary Shares in the Company immediately prior to Admission.

The conversion price of these loan notes was set at a 25% discount to the placing price on the listing. This conversion feature has been treated as an equity settled share based payment with the fair value being assessed on the date the convertible loan notes are issued based on the fair value (using an earnings multiple approach) of the Company's shares as at the date of issue. These loan notes issued were deemed to vest immediately as there are no future service conditions to be met.

The total fair value, calculated at £Nil (2018: £115,400), has been charged in the profit and loss account and credited through the profit and loss account reserve.

*(iii) Employee share option plan*

The Company currently has an Employee Share Option Plan ('ESOP') for employees. At the end of June 2019, 197,400 options were granted to certain employees to satisfy contractual obligations. These options, which have an exercise price of £0.002, are payable in shares at the end of three years to the extent that performance criteria are met.

Granted awards under the Company's ESOP that were outstanding at 31 December 2019 had a market value of £165,879 based on the prices at the date of award to the employee. This price ranged from £0.85 to £0.88, being on the closing price on the day of grant. The market value of the awards will be recognised over the three year vesting period from 1 July 2019, with £24,394 being charged in the six months to 31 December 2019.

The option will only be exercisable provided the employee has received no more than two 'unsatisfactory' individual performance ratings in all of their individual performance reviews in the three year period from the date of grant.

**14. Commitments and contingencies**

There are no material capital commitments, financial commitments or contingent liabilities at the balance sheet date not provided for in these financial statements.

**15. Related party transactions**

As outlined in note 1 the Company has taken advantage of the exemption in IAS 24 'Related Party Disclosures' from disclosing transactions between two or more members of a group, provided that any subsidiary which is party to the transaction is wholly owned by such a member. There were no other transactions which fall to be disclosed under the terms of IAS 24.

During the year dividends amounting to £Nil (2018: £300,216) were paid to A and F shareholders of the Company. These shareholders are also directors or related parties of the Company.

**16. Subsequent events**

The Company hosts a four-day Company meeting for all staff at least biennially to ensure that the Group's corporate plans and goals are communicated and discussed. The next meeting was scheduled to take place in Tenerife at the start of March 2020. However, following the confirmation of the COVID-19 virus in Tenerife and other regions, the meeting was cancelled.

Under IAS10, outbreak of COVID-19 is considered a non-adjusting post balance sheet event and so £125,097 is held as a Prepayment in the Group Balance Sheet in relation to non-refundable, committed spend at 31 December 2019.

# Better Testing, Better Treatment

Registered Number: NI055207