Microsaic Systems plc

Annual Report 2012

compact analysis™

Microsaic Systems

Microsaic Systems is the innovative high-technology company developing and marketing a new generation of compact analysis equipment for chemists.

Highlights

2012 Highlights

- Signing of OEM agreement with Biotage AB for application of MiD® in flash purification and unveiling of the Biotage-Microsaic combined system
- Commencement of regular production and shipments of systems to customers and other potential OEM partners
- Development of the 4000 MiD® and of future products, including working prototype of next-generation system, to address new market areas
- First shipments of the 4000 MiD® to Biotage and orders for further systems
- Appointment of Colin Jump as Chief Executive Officer
- Microsaic's 3500 MiD® wins R&D 100 award

Post-period update

- OEM agreement signed for the sale of the 4000 MiD® as a stand-alone instrument
- 4000 MiD® launched at Pittcon international trade fair in Philadelphia, USA
- Biotage-Microsaic joint product, the 'Isolera Dalton' presented at the American Chemical Society National Meeting

Financial summary

- Revenue up 126% to £0.61 million (2011: £0.27 million)
- Placing of 3,867,248 ordinary shares in June 2012 raising £1.45 million net
- Cash at 31 December 2012 £1.79 million (2011: £1.82 million)
- Loss for the year to 31 December 2012 £1.87 million (2011: £1.90 million)

Company profile

Microsaic Systems plc develops microengineered analytical instruments that are based on the scientific technique of mass spectrometry (MS). MS is widely accepted as one of the most reliable methods for identifying the chemical make-up of substances and Microsaic is the first and only company to have commercialised and patented chip-based MS technology using silicon microengineering (MEMS).

The analysis method of choice

Mass spectrometry is an established analytical technique used in many laboratories which enables the accurate identification and quantification of trace levels of chemical or biological compounds by recording their unique molecular weight. Today, MS is the standard means of measuring the composition of samples in pharmaceuticals and biotechnology, but is also widely used in a variety of other industries including healthcare, environmental, food and drink, security, petrochemicals and mining. By miniaturising MS to desk-top size, Microsaic has made it practical for a much wider range of users and applications within these fields and opens up new opportunities for the growing $3 billion MS market.

A step change in laboratory capability

The Company's first product, the Microsaic 3500 MiD®, was launched in January 2011 and became the world's smallest MS system. Users are particularly impressed by the self-contained nature of the system – no other mass spectrometer for liquid analysis has eliminated external pumps and computers – and this gives the MiD® a revolutionary advantage in deployability, ease of use and cost of ownership. These advantages have been recognised within the wider industry too. The 3500 MiD® gained the New Product Award from the US Society of Laboratory Automation and Screening in 2011 and a prestigious R&D 100 award in 2012 as one of the most technologically significant products to enter the marketplace globally. Several articles have been published in scientific journals citing new discoveries made using the MiD®.

Continuing evolution

The Microsaic 4000 MiD® has an even smaller footprint than the 3500 MiD® and fits even more comfortably into a standard laboratory fume hood. Its 'Plug & Play' components also enable users to maintain the system themselves, resulting in less down-time and greater flexibility within the laboratory. The 4000 MiD® was launched in March at Pittcon 2013, the world's largest annual conference and exposition on laboratory science and scientific instrumentation.

We have an on-going R&D programme building on the achievements already made and focused on increasing the reach of our core Ionchip® technology, which underpins the MiD®. Our product pipeline includes more complex MS systems which will allow us to address more technically demanding market areas, such as food and drink, and environmental safety.

Tapping into established sales channels through value-added partnerships

The Company's strategy is to generate revenue streams by introducing compact, deployable MS products, based on its patented chip technologies, into a series of markets and applications by selling through partnerships with existing sales channels. Typically these sales channels will be international suppliers of complementary equipment.

In 2012 one such partnership was formed with Biotage AB, a well established supplier in the areas of analytical and medicinal chemistry. Microsaic is providing its 4000 MiD® as an Original Equipment Manufacturer (OEM) as part of an integrated solution for mass-directed flash purification that will enable a leap forward in chemists' work flow and productivity.

Further similar relationships are planned with other leading suppliers of scientific equipment, which will enable the Company to build up volume sales. Direct sales to end users in niche application areas will also continue in parallel.

Quality innovation moving forward

Microsaic Systems was established in 2001 from the highly regarded Optical and Semiconductor Devices Group at Imperial College London. It has been based at headquarters in Woking, UK since September 2004 and was admitted to AIM, a market of the London Stock Exchange, in April 2011 (ticker: MSYS).

Chairman's statement
for the year ended 31 December 2012

Eric Yeatman
Chairman

2012 was a year of good progress for the Company. We signed an OEM (Original Equipment Manufacturer) agreement with Biotage AB, and developed our first integrated product with them, which has been introduced to the market at trade fairs and is being very well received by customers.

We also welcomed Colin Jump as our new Chief Executive to lead the Company in capturing the opportunities that lie ahead. Colin brings many years' experience with him from the scientific instrument sector. He joined us from Shimadzu UK where he was Managing Director and we are delighted to have him on board. In his first months he has already brought his expert knowledge of the industry to bear in our external relationships and our planning for the future. Colin's first statement as Chief Executive outlines the achievements of the Company over the past year and the strategy for delivering value to our shareholders over the coming year and beyond.

Peter Selway, a Non-executive Director of Microsaic for ten years, retired at the 2012 Annual General Meeting having reached the age of 70. We owe Peter a debt of gratitude for his contribution and wise counsel over that time and wish him a long and happy retirement.

On a personal note, I would like to take the opportunity to thank the Board and staff for their support whilst I was Acting CEO, and particularly to Colin Nicholl who took on the role of Chairman for that period. Following Colin Jump's appointment, I have resumed the role of Chairman and Colin Nicholl has reverted to Deputy Chairman.

I would also like to thank our shareholders for their support during 2012 and I look forward with confidence to 2013 as the Company, led by Colin Jump, advances towards achieving our business goals.

Eric Yeatman
Chairman

12 April 2013

Chief Executive's statement
for the year ended 31 December 2012

Colin Jump
Chief Executive Officer

It is with great pleasure that I provide my first report as Chief Executive of Microsaic Systems. Since joining in November 2012, I have had the opportunity to better understand the business, its technology, its people, its customers and the markets in which it operates. I am very excited about the opportunities that are opened up by the Company's technology in the field of chemical analysis, and the high level of market interest.

I would like to report on last year's achievements, including those before my appointment, and also provide a summary of ongoing activities and our intended direction for the business.

Microsaic's chip-based technology has allowed us to miniaturise the mass spectrometer (MS) – the gold standard for chemical analysis – far beyond any other product on the market. This miniaturisation greatly simplifies deployment, drastically cuts power consumption and other running costs, and makes MS practical for a wide range of new users and applications. 2012 saw the first regular shipments of our breakthrough compact MS product, the 3500 MiD®, following its launch in 2011. This is the only MS on the market for liquid analysis that requires no external pumps, being completely self-contained within the size of a desktop computer.

Our main route to market for the MiD® is to partner with companies that have established sales channels and complementary products, with an initial focus on the areas of pharma and biotechnology. A key milestone in this strategy was reached in May 2012 with the signing of an OEM arrangement with Biotage AB. Biotage, listed on the NASDAQ OMX Stockholm, is a well-established supplier in the areas of analytical and medicinal chemistry, with a global sales and service capability. Biotage is a leader in the supply of flash chromatography, a widely used separation and purification method in chemical synthesis. In collaboration with Microsaic, Biotage is introducing a fully integrated system incorporating the MiD® with its flash systems, which will greatly increase the power and effectiveness of flash, allowing, for example, automated mass-directed separation. This will be the first such product on the market, and early feedback from customers has been positive.

Since signing of the agreement, the 'Isolera Dalton' integrated system has been developed by Biotage in collaboration with Microsaic, and initial marketing has begun, with presentations having been given at international trade shows of the American Chemical Society in the USA and JASIS in Japan. Interest in this new

Chief Executive's statement (continued)

integrated system has been extremely encouraging and has exceeded our initial expectations.

A key technical milestone in 2012 was our development of an enhanced version of the 3500 MiD®, namely the 4000 MiD®. To ensure that MiD®s and the integrated Biotage systems can fit comfortably within fume hoods – an important capability for flash as well as other applications – the 4000 has a significantly reduced footprint compared to the 3500. Other enhancements were also incorporated, and the first system was shipped to Biotage to support the development programme in Q3 2012. Since then we have taken the 4000 through final development stages, including outsourcing of major sub-components, and continue to prepare the system for volume manufacture so we can benefit from economies of scale. Regular shipments of the 4000 MiD® have been made, and in March 2013 we launched the 4000 MiD® officially at Pittcon, the major international trade fair focused on scientific and laboratory equipment, which took place in Philadelphia, USA.

In addition to Biotage, we have been continuing to develop our relationships with a range of other potential commercial partners in the pharma, biotech and related sectors. Two major analytical instrument suppliers have conducted evaluations of 3500 systems; these led to proposed enhancements in hardware and software which have recently been implemented. Two other major scientific instrument suppliers contracted with us to develop versions of the MiD® with extended measurement capability to meet the requirements of their specific applications, and in both cases key technical targets have been met. These partner discussions and collaborations continue to advance towards the goal of OEM agreements to supply the MiD® in combined products. We are also pursuing funded development opportunities in other industry sectors. For example, our interest in security applications continues, where we have recently been awarded a grant to develop advanced MS instruments for on-site analysis of explosives and narcotics.

Our strategy for direct sales is to focus on new application areas and to ensure we have direct contact with users, so as to inform our product development and R&D programmes. To further build this channel in 2013 we are enhancing our business development and customer support functions with a number of key hires in these areas.

Technical progress continued in 2012 including significant enhancements to our production capability. Production of the key chip-based components is retained in-house and our productivity levels have been significantly increased. Sub-systems have been transferred to external suppliers and full system assembly will also be out-sourced later this year. Further enhancements have also been made to the user-replaceable components to make handling of these increasingly simple, as part of our 'Plug & Play' approach.

A further major technical milestone for the Company was the first demonstration of a working prototype of a triple quadrupole MS system that can analyse more complex materials such as medical samples, for example, blood or saliva. This system will give us the capability needed for our next generation of MS products and further broaden the range of applications that our miniaturised MS instruments can address.

The importance of our products and their breakthrough capabilities were acknowledged by several external agencies in 2012. In June, the 3500 MiD® received a prestigious R&D 100 award, given to the most significant technological advances of the year across all sectors. We also published results in collaboration with a prestigious laboratory at Cambridge University in a leading peer-reviewed journal (Browne, D.L. *et al., Rapid Communications in Mass Spectrometry 26*, pp 1999-2010, 2012) on new capabilities in continuous reaction monitoring facilitated by the 3500 MiD®.

Financial results

Revenues in 2012 rose to £606,281 (2011: £267,999) having benefited from sales of our MiD® products on top of grant income streams funding future product development. We expect sales volumes to significantly grow in 2013 as our joint product with Biotage is rolled out internationally and market interest in our product increases.

Research and development expenditure in the year amounted to £1,298,129 (2011: £1,314,851) reflecting continuing investment in product development including enhancements to our existing products and future products.

The Company's manufacturing, sales and after-sales capabilities are being steadily built up. Operating expenses reported for the year increased to £1,179,516 (2011: £1,090,718), however this includes a one-off write back of £81,901 of prior year share-based payment charges following the lapsing of unexercised share options.

In June the Company placed 3,867,248 ordinary shares with existing and new shareholders. This represented a 10% increase in the Company's issued share capital and we gratefully acknowledge the on-going support shown by our investors. The net proceeds raised from the issue amounted to £1.45 million. These funds have enabled us to enhance our capability in several areas, particularly software development, production and applications development. We have made hires in each of these areas and these new employees are already adding to our capability to address market requirements and opportunities.

The loss for the year after tax was £1,867,069 (2011: £1,899,253) and the cash position at 31 December 2012 of £1,788,579 was at a similar level to a year previous (2011: £1,818,319), as the net cash used in operating activities was offset by that raised through the share issue.

As with previous years, the going concern basis has continued to be adopted in preparing the financial statements. Following the progress made by the Company to date and the progress anticipated in the near term, the Directors have a reasonable expectation of securing suitable additional funding as may be required to continue operations and provide for future expansion.

Outlook

Since the end of the financial year we have signed a second OEM agreement to provide the Microsaic 4000 MiD® as a stand-alone instrument on a non-exclusive basis. This agreement resulted directly from expressions of interest from customers and represents the first of what we anticipate will be a number of sales channels of this type, which will add significantly to our overall sales.

This new agreement together with good progress across other areas of our business and a growing profile within the scientific analytical instrumentation market, gives us confidence as we address three distinct business strategies that underpin our ambitions for 2013 and beyond:

- Developing OEM partnerships with synergistic companies, which can provide Microsaic with access to enhanced sales distribution channels alongside our own direct sales channel.
- Stepping up our marketing communications and the promotion of the core brand values of Microsaic.
- Outsourcing the manufacture of the main product ensuring high quality build, reliability and high volume capacity.

We will continue discussions with interested OEM partners who have established global sales distribution channels, in order to advance those relationships towards commercial agreements.

Further innovations around the concept of 'Plug & Play' components are planned. Within the MS market, our 'Plug & Play' designs are unique and will largely dispense with the need for highly technical operators or support/service staff, therefore increasing the operational use of system (reducing system down-time) and reducing cost to the user. This concept will provide a clearer differentiator between us and any other current vendors of MS instrumentation.

The Company has a wealth of committed expertise in its people. They have built a solid platform for growth and gained invaluable experience introducing new technology within an established, naturally conservative market. It is my and my fellow Directors' belief that these strengths and our shared vision can make Microsaic Systems a highly successful company moving forward.

Colin Jump
Chief Executive Officer

12 April 2013

Directors' report
For the year ended 31 December 2012

The Directors present their report and audited financial statements for the year ended 31 December 2012.

Principal activity, business review and business risks
The principal activity of the Company continued to be the research, development and commercialisation of scientific instruments. A review of the business and its prospects is contained within the Chairman's and Chief Executive's statements.

In common with other small companies developing new technologies, the Company is subject to a number of risks and uncertainties, which principally include:

Risk area	Key risks
Company development	— The early stage development of the business and its evolution into a successful trading Company with all the operational requirements that this entails — Current operating losses depleting the Company's capital and cash — The availability and terms of capital needed for continued business development and expansion — Recruitment and retention of personnel and requisite skills to run and build the business
Customer markets	— Market acceptance of the Company's revolutionary products — Competing products emerging from other companies — The ability of the Company to generate sufficient revenue from the sale of its products — The economic environment and recessionary effects that may restrict customer spending on capital equipment
Technical	— The product's technical performance and specification meeting customer requirements — The reproducibility of the Company's products as production volumes increase — The ability to protect Company intellectual property and defend infringement claims by others
Financial	— Sufficient cash flow liquidity — Credit risk attributable to trade receivables and cash deposits — Exchange rate risk on currency exposures

There is further explanation of the financial risks in note 23 to the financial statements.

The ongoing performance of the Company is managed and monitored using a number of key performance indicators, both financial and qualitative. In terms of financial performance, the Company does not currently generate profits and utilises cash for its operational activities. The forecasting and monitoring of the Company's cash resources is therefore critical in terms of the efficient allocation of those resources and in predicting future cash requirements. A key feature of the Company's internal management reporting is therefore the emphasis placed on operational cash spend by category and against forecast, which is monitored at both management and Board level on a monthly basis. The Company's net cash used in operating activities for the year ended 31 December 2012 was £1,373,092 (2011: £2,033,144) and the loss for the year after tax was £1,867,069 (2011: £1,899,253). Forecasts are updated on a regular basis to take account of changing circumstances in the business.

In terms of the Company's wider performance, the progress of its research and development programmes are reviewed against key qualitative milestones on a monthly basis to the Board. The more detailed aspects of these programmes are also discussed and monitored through separate project reviews. Research and development programmes are planned and executed against identified objectives which feed into the Company's product pipeline.

Results and dividends

The results for the Company are given in the statement of comprehensive income set out on page 20. The Directors do not recommend the payment of a dividend (2011: nil).

Directors

Since 1 January 2012 the following Directors held office:

E M Yeatman	
C J Nicholl	
C R Jump	(appointed 1 November 2012)
M R Bateman	
P I T Edwards	
A S Holmes	
P R Selway	(resigned 30 May 2012)
J C Ramage	

Peter Selway retired from the Board at the Annual General Meeting on 30 May 2012. Eric Yeatman and Andrew Holmes were re-appointed at that meeting and Colin Jump joined the Company and Board on 1 November 2012.

Following his appointment in the year, Mr Jump will retire at the forthcoming Annual General Meeting and be proposed for re-appointment. At the same meeting Messrs Nicholl and Ramage will retire by rotation and be proposed for re-appointment.

Directors' interests

The Directors' interests in the shares of the Company at 31 December 2012:

	Ordinary shares of 0.25p each at 31 December 2012		Ordinary shares of 0.25p each at 31 December 2011	
	Number	**%**	Number	%
E M Yeatman	**3,159,700**	**7.43**	3,097,200	8.01
C R Jump	**–**	**–**	n/a	n/a
M R Bateman	**25,000**	**0.06**	–	–
P I T Edwards	**25,000**	**0.06**	–	–
A S Holmes	**2,913,400**	**6.85**	2,888,400	7.47
C J Nicholl	**2,565,500**	**6.03**	2,378,000	6.15
P R Selway	**n/a**	**n/a**	382,800	0.99
J C Ramage	**163,480**	**0.38**	148,480	0.38
	8,852,080	**20.81**	8,894,880	23.00

Significant shareholdings

Shareholders, excluding Directors, having a beneficial interest of 3% or more of the Company's shares as at 31 March 2013:

	Ordinary shares of 0.25p each at 31 March 2013	
	Number	%
R R A Syms	3,735,200	8.78
BlackRock Investment Management	3,615,625	8.50
Fidelity Investments	3,417,400	8.03
Octopus Investments	3,379,015	7.94
N W Wray	3,203,800	7.53
A P Finlay	2,214,940	5.21
Hargreave Hale	2,539,000	5.97
Amati Global Investors	2,151,000	5.06
Herald Investment Trust	1,350,000	3.17

Employees

The Company regards the expertise and contributions of its employees as crucial to the future success of the business.

The Company operates approved and unapproved share option schemes as a means of encouraging ownership and aligning interests of staff and external shareholders. There were no share options exercised by Company employees (excluding Directors) during the year. As at 31 December 2012 there were 1,046,197 share options held by employees (excluding Directors) for the Company's ordinary 0.25p shares, with an average exercise price of 67p.

The Company has recently set up a Share Incentive Plan (SIP) which has been approved by HM Revenue & Customs. It is intended that the SIP will be used in future years to provide eligible employees with a stake in the Company through the issuing of partnership, matching and free shares in line with the SIP rules and legislation.

Health and safety and the environment

The Company is committed to providing a safe environment for its staff and other parties for whom it has a responsibility. It has set up systems and processes to ensure compliance with health and safety legislation and the Board considers health and safety matters at its regular monthly meetings.

The Company is also mindful of its corporate responsibilities concerning the impact of its activities on the environment and seeks to minimise this impact wherever possible.

Payment of creditors

The Company's policy for payment of suppliers is to agree payment terms in advance of the supply and to adhere to those payment terms. The trade creditors of the Company at the year end as a proportion of amounts invoiced by suppliers during the year represent 48 days' purchases (2011: 43 days).

Directors' indemnity and insurance

The Company has granted an indemnity to its Directors under which the Company will indemnify them, subject to the terms of the deed of indemnity, against all costs, charges, losses, damages and liabilities incurred by them in performance of their duties.

The Company also maintains insurance for its Directors and Officers against the consequences of actions brought against them in relation to their duties for the Company.

Related party transactions

The interests and of the Directors are shown above and their remuneration is detailed in the Directors' remuneration report. There were no other related party transactions.

Auditors
Saffery Champness has expressed its willingness to remain in office as auditors of the Company, and a resolution for their re-appointment will be proposed at the forthcoming Annual General Meeting.

Directors' responsibilities
The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company, for safeguarding the assets of the Company, for taking reasonable steps for the prevention and detection of fraud and other irregularities, and for the preparation of a Directors' report which complies with the requirements of the Companies Act 2006.

The Directors are responsible for preparing the annual report and the financial statements in accordance with the Companies Act 2006. The Directors have chosen to prepare financial statements for the Company in accordance with International Financial Reporting Standards (IFRSs) as adopted for use in the European Union.

International Accounting Standard 1 requires that financial statements present fairly for each financial year the Company's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's 'Framework for the preparation and presentation of financial statements'. In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable IFRSs. A fair presentation also requires the Directors to:

- consistently select and apply appropriate accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information; and
- provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.

Statement of disclosure to auditors
So far as each Director is aware, there is no relevant audit information of which the Company's auditors are unaware. Additionally the Directors have taken all the steps that they ought to have taken as Directors in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

On behalf of the Board

Andrew Holmes
Company Secretary

12 April 2013

Company number 3568010

Board of Directors

Eric Yeatman, Non-executive Chairman
Eric Yeatman is Professor of Micro-Engineering at Imperial College London. He is a co-founder of the Company and has been Chairman of the Board since 2004. Eric was educated at Dalhousie University (Halifax, Canada) and Imperial College London, where he has been a member of staff since 1989. Professor Yeatman specialises in micro-systems research and has acted as an advisor to two venture capital funds.

Colin Nicholl, Non-executive Deputy Chairman
Colin Nicholl joined the Board of the Company in 2005 and has served as Deputy Chairman of the Board since 2006. He chairs the Board's Audit Committee and sits on the Board's Remuneration Committee. Mr Nicholl brings a wealth of financial and city experience to the Company as a former partner of Cazenove & Co. and Chief Investment Officer of Cazenove Asset Management. He is a Non-executive Director of IM Asset Management and was, until its takeover, Chairman of Membrane Extraction Technology Limited. Colin has a degree in mathematics from the University of York, and has actuarial and company secretarial professional qualifications.

Andrew Holmes, Non-executive Director
Andrew Holmes is Professor of Micro-Electro-Mechanical Systems at Imperial College London and a co-founder of the Company. Professor Holmes was educated at Cambridge University and Imperial College London, where he has been a member of staff since 1995 and specialises in research into microfabrication and micropower technologies. Andrew has been Company Secretary of the Company since 2004, and sits on the Board's Audit and Remuneration Committees.

James Ramage, Non-executive Director
James Ramage was appointed as a Director of the Company in April 2010. Dr Ramage is also Chairman of Tesla Engineering, a manufacturer of high value magnetic components for MRI scanners and other products. He is a veteran of the analytical instrumentation industry and served as a Director and Divisional Managing Director of VG Instruments plc and Fisons plc prior to becoming Chairman of Tesla. Dr Ramage sits on the Board's Audit Committee and chairs the Board's Remuneration Committee.

Colin Jump, Chief Executive Officer
Colin Jump has 30 years commercial and operational experience in the analytical instrumentation market. He joined Microsaic Systems in November 2012 from Shimadzu, a global manufacturer of scientific research instruments, where he spent 11 years as its UK Managing Director. He was previously European Commercial Director at SGE Europe (1999-2001) and prior to that, spent seven years in senior management and marketing positions at Mallinckrodt Baker in the UK and the Netherlands. Between 1983 and 1991 Colin served in sales and marketing positions at Bayer Diagnostics, Boehringer Mannheim and Wellcome Diagnostics. He was appointed to the Board on 1 November 2012.

Malcolm Bateman, Finance Director
Malcolm Bateman was appointed as Financial Controller to the Company in 2006 and elected to the Board of Directors from June 2011. Mr Bateman is a graduate in chemistry from Cambridge University and is a Chartered Accountant. Prior to joining the Company, Malcolm served in various senior executive roles with RMC Group plc (later acquired by CEMEX) for over ten years. Prior to joining RMC Group, Mr Bateman spent six years with the audit practice of Touche Ross & Co., London.

Peter Edwards, Technical Director
Peter Edwards joined the Company as Head of Research and Development in 2007 and was elected to the Board of Directors from June 2011. Mr Edwards, a Chartered Engineer, was awarded a BSc degree in engineering at Kingston Polytechnic, and between 1987 and 2007 served in senior positions with Applied Materials Inc., a Fortune 500 company and the global leader in nano-manufacturing technology solutions and a supplier of semiconductor manufacturing equipment. Between 2001 and 2005 he served as Engineering Director and was responsible for development of Applied Material's ion implanter products, before finally serving as Key Product Unit Director.

Directors' remuneration report
For the year ended 31 December 2012

This report on the Directors' remuneration sets out the Company's policy on the remuneration of Executive and Non-executive Directors, together with details of Directors' remuneration packages and service contracts.

Remuneration Committee
The remuneration policy for Executive Directors, determination of their individual remuneration packages and their performance appraisals have been delegated to the Board's Remuneration Committee comprising three Non-executive Directors.

In setting the remuneration levels, the Remuneration Committee considers a number of factors including:
- the basic salaries and benefits available to Executive Directors of comparable companies;
- the need to attract and retain Directors of an appropriate calibre;
- the need to ensure Executive Directors' commitment to the continued success of the Company by means of incentive schemes; and
- the need for the remuneration awarded to reflect performance.

Remuneration of the Non-executive Directors
The remuneration of the Non-executive Directors is agreed by the Board following recommendation by the Remuneration Committee, having a view to rates paid in comparable organisations and appointments. The Non-executive Directors did not receive any pension or other benefits from the Company, nor did they participate in any bonus or incentive schemes other than share options.

Remuneration policy for Executive Directors
The Company's remuneration policy for Executive Directors is to:
- have regard to the Directors' experience and the nature and complexity of their work in order to pay a competitive salary that attracts and retains management of the quality required to serve the business;
- link individual remuneration packages to the Company's performance through the award of discretionary bonus schemes; and
- provide employment-related benefits including life assurance and insurance relating to the Directors' duties.

Directors' emoluments

	Salaries and fees £	Other payments £	Pension contributions £	**Year to 31 December 2012 Total £**	Year to 31 December 2011 Total £
E M Yeatman	44,000	7,500	–	**51,500**	15,600
C J Nicholl	18,010	–	–	**18,010**	13,520
C R Jump	26,562	20,000	–	**46,562**(1)	–
A P Finlay	–	–	–	**–**	136,848(2)
M R Bateman	60,790	1,525	3,904	**66,219**	35,578(3)
P I T Edwards	96,545	–	7,219	**103,764**	59,573(3)
A S Holmes	18,800	–	–	**18,800**	15,600
P R Selway	3,900	–	–	**3,900**(4)	9,360
J C Ramage	13,750	–	–	**13,750**	10,000
	282,357	29,025	11,123	**322,505**	296,079

(1) from 1 November 2012
(2) to 7 December 2011
(3) from 1 June 2011
(4) to 30 May 2012

Directors' remuneration report (continued)

Directors' share options
Share options for the Company's ordinary shares held by the Directors during the year:

	At 1 January 2012 Number	Granted in the year Number	Exercised in the year Number	**At 31 December 2012 Number**	Exercise price p	Exercise period
C J Nicholl	116,000	–	–	**116,000**	43.1	24 May 2006 – 24 May 2013
	116,000	–	–	**116,000**	43.1	24 May 2008 – 24 May 2015
	116,000	–	–	**116,000**	43.1	24 May 2009 – 24 May 2016
C R Jump	–	1,276,191	–	**1,276,191**	39.0	10 Dec 2017 – 9 Dec 2022
M R Bateman	40,600	–	–	**40,600**	129.31	1 Dec 2010 – 19 Feb 2018
	19,333	–	–	**19,333**	25.86	3 Dec 2012 – 2 Dec 2020
	38,667	–	–	**38,667**	25.86	3 Dec 2013 – 2 Dec 2020
	–	80,000	–	**80,000**	42.0	2 Jul 2015 – 1 Jul 2022
P I T Edwards	191,400	–	–	**191,400**	129.31	11 Apr 2011 – 19 Feb 2018
	77,333	–	–	**77,333**	25.86	3 Dec 2012 – 2 Dec 2020
	154,667	–	–	**154,667**	25.86	3 Dec 2013 – 2 Dec 2020
	–	40,000	–	**40,000**	42.0	2 Jul 2015 – 1 Jul 2022
	870,000	1,396,191	–	**2,266,191**		

The above share options are subject to service and/or performance conditions. None of the share options held by the Directors were exercised during the year.

The share price on 1 January 2012 was 30p and on 31 December 2012 was 39p, with a high and low over the year of 43p and 25.5p respectively.

Directors' service contracts
Details of each Director's service contract are as follows:

	Contract Date	Term	Notice period
E M Yeatman	1 April 2006	Indefinite	3 months
C J Nicholl	24 April 2006	Indefinite	3 months
C R Jump	23 September 2012	Indefinite	6 months
M R Bateman	11 July 2011	Indefinite	3 months
P I T Edwards	30 June 2010	Indefinite	3 months
A S Holmes	1 April 2006	Indefinite	3 months
J C Ramage	21 June 2010	Indefinite	3 months

Corporate governance report
For the year ended 31 December 2012

As an AIM listed company, Microsaic Systems plc is not required to comply with the UK Corporate Governance Code, a set of recommended corporate governance principles for UK public companies issued by the Financial Reporting Council. However, the Board recognises the value of good governance and complies with the provisions of the UK Corporate Governance Code and the QCA Guidelines so far as is practicable for a company of its size, stage of development and nature.

The Board
During the year the composition of the Board changed with the appointment of Colin Jump (Chief Executive Officer) and the retirement of Peter Selway (Non-executive Director). Following the appointment of Mr Jump, Eric Yeatman and Colin Nicholl relinquished their positions as Chief Executive Officer and Chairman respectively, and Prof Yeatman resumed the role of Chairman and Mr Nicholl, Deputy Chairman.

Role of the Board
The Board is responsible, *inter alia*, for strategy, budget, performance, approval of major capital expenditure and the framework of internal controls.

Board processes
The Board has established an Audit Committee and a Remuneration Committee with formally delegated responsibilities to assist with the execution of its responsibilities.

The full Board holds regular meetings on a monthly basis and additional meetings at any other times as may be necessary to deal with any urgent matters that arise. The agenda for Board meetings is prepared in conjunction with the Chairman and submissions are circulated in advance. The Company management team prepares regular reports which allow the Board to assess the Company's activities and review its performance and the Board has clearly specified the levels of authority delegated to management. Members of the Company's management team are regularly involved in Board discussions and Directors are able to have discussions with other employees where appropriate.

The Board is ultimately responsible for the Company's system of internal control and for reviewing its effectiveness. This includes financial, operational and compliance controls and risk-management systems. Internal control systems are designed to meet the Company's particular needs and the risks to which it is exposed. The internal control systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and by their nature can only provide reasonable and not absolute assurance against misstatement and loss.

Composition of the Board
The Board currently comprises seven Directors.

The role of the Chairman is filled by a Non-executive Director.

Directors appointed by the Board are subject to re-election by shareholders at the following Annual General Meeting and thereafter Directors are subject to re-election at least every three years.

Conflicts of interest
Directors must keep the Board advised of any interest that could potentially conflict with those of the Company. Where a conflict exists, the Director concerned is not present at the meeting whilst the relevant matter is considered.

Corporate governance report (continued)

Directors' attendance record
The following table shows the attendance at the meetings of the Board of Directors during the year:

	Meetings held Number	Meetings attended Number
E M Yeatman	12	12
C J Nicholl	12	12
C R Jump	2	2
M R Bateman	12	12
P I T Edwards	12	12
A S Holmes	12	11
P R Selway	5	3
J C Ramage	12	10

Audit Committee
The role of the Audit Committee is documented in its terms of reference which were adopted by the Board of Directors on 31 March 2011.

The purpose of the Committee is to assist the Board in the effective discharge of its responsibilities for corporate governance, financial reporting, corporate control and risk management. The Audit Committee normally meets at least twice a year and, amongst other things, reviews the annual report and accounts and interim statements with the external auditors. The Committee also approves external auditors' fees and ensures auditors' independence as well as focusing on compliance with legal requirements and accounting standards. The ultimate responsibility for reviewing and approving the annual financial statements and interim statements remains with the Board.

The members of the Audit Committee for 2011 were C J Nicholl (Chairman), J C Ramage, P R Selway (until 30 May 2012) and A S Holmes (from 30 May 2012). The external auditors, the Chief Executive Officer, Finance Director and other executives may be invited to the Audit Committee meetings at the discretion of the Committee.

The Audit Committee met 4 times in 2012.

Remuneration Committee
The role of the Remuneration Committee is documented in its terms of reference which were adopted by the Board of Directors on 31 March 2011.

The Remuneration Committee meets as required and at least once a year. Its responsibilities include reviewing the performance of the Executive Directors, setting their remuneration levels, determining the payment of bonuses and other benefits and considering the grant of options under the Company share option schemes.

The members of the Remuneration Committee for 2012 were J C Ramage (Chairman), C J Nicholl, P R Selway (until 30 May 2012) and A S Holmes (from 30 May 2012).

The Remuneration Committee met four times in 2012.

Board nominations
The appointment of replacement or additional Directors is the responsibility of the Board as a whole.

At this stage, it is not considered appropriate for the Company to have a formally constituted Nominations Committee, however this will be kept under review.

Communications with shareholders

The Board aims to keep shareholders informed of all major developments concerning the Company. Information is communicated through the following channels:

- The release of announcements, trading updates and interim financial statements through the Regulatory News Service and on the Company's website.
- The annual report and financial statements are sent to all registered shareholders.
- Notices of all meetings of shareholders also sent to all registered shareholders.

Independent auditors' report to the members of Microsaic Systems plc

We have audited the financial statements of Microsaic Systems plc for the year ended 31 December 2012 on pages 20 to 39. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRS) as adopted by the European Union as applied in accordance with the provisions of the Companies Act 2006.

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

Respective responsibilities of Directors and auditors
As explained more fully in the Directors' responsibilities statement set out on page 10, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements
An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements
In our opinion the financial statements:
— give a true and fair view of the state of affairs of the Company as at 31 December 2012 and of its loss for year then ended; and
— have been properly prepared in accordance with IFRS as adopted by the European Union; and
— have been prepared in accordance with the requirements of the Companies Act 2006.

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

Emphasis of matter – going concern
In forming our opinion, we have considered the adequacy of the disclosures made in note 3 to the financial statements concerning the Company's ability to meet its future working capital needs. In view of the significance of this uncertainty we consider that it should be drawn to your attention but our opinion is not modified in this respect.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if in our opinion:

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

Andrew Arnott
Senior Statutory Auditor
For and on behalf of Saffery Champness
Chartered Accountants
Statutory Auditors
Lion House
Red Lion Street
London WC1R 4GB

12 April 2013

Statement of comprehensive income
For the year ended 31 December 2012

	Notes	Year to 31 December 2012 £	Year to 31 December 2011 £
Revenue	5	**606,281**	267,999
Cost of sales		**(1,486,490)**	(1,314,851)
Gross loss		**(880,209)**	(1,046,852)
Operating expenses		**(1,179,516)**	(1,090,718)
Loss from operations	6	**(2,059,725)**	(2,137,570)
Finance income	7	**10,493**	28,605
Loss before tax		**(2,049,232)**	(2,108,965)
Tax on loss on ordinary activities	8	**182,163**	209,712
Total comprehensive loss for the year		**(1,867,069)**	(1,899,253)
Loss per share attributable to the equity shareholders of the Company			
Basic and diluted loss per ordinary share	9	**(4.56)p**	(5.47)p

All operations are continuing operations.

The notes on pages 24 to 39 form part of these financial statements.

Statement of changes in equity
For the year ended 31 December 2012

	Notes	Share capital £	Share premium £	Share option reserve £	Retained earnings £	Total equity £
At 1 January 2011		216	4,904,283	828,153	(4,857,333)	875,319
Bonus issue	16	62,323	(62,323)	–	–	–
Capital reduction	16	–	(4,841,960)	–	4,841,960	–
Shares issued		34,142	3,969,258	–	–	4,003,400
Share issue and initial public offering costs		–	(755,005)	–	–	(755,005)
Share options exercised		–	–	(202,121)	202,121	–
Total comprehensive loss for the year		–	–	–	(1,899,253)	(1,899,253)
Share based payments – share options		–	–	21,658	–	21,658
At 31 December 2011		96,681	3,214,253	647,690	(1,712,505)	2,246,119
Shares issued	16	9,668	1,537,231	–	–	1,546,899
Share issue costs		–	(100,074)	–	–	(100,074)
Share options lapsed		–	–	(99,552)	99,552	–
Total comprehensive loss for the year		–	–	–	(1,867,069)	(1,867,069)
Share based payments – share options		–	–	(48,568)	–	(48,568)
At 31 December 2012		**106,349**	**4,651,410**	**499,570**	**(3,480,022)**	**1,777,307**

The notes on pages 24 to 39 form part of these financial statements.

Statement of financial position

As at 31 December 2012

	Notes	31 December 2012 £	31 December 2011 £
Assets			
Non-current assets			
Intangible assets	10	**128,885**	137,372
Property, plant and equipment	11	**84,265**	87,494
Total non-current assets		**213,150**	224,866
Current assets			
Inventories	12	**190,352**	149,125
Trade and other receivables	13	**181,529**	311,441
Corporation tax receivable		**150,000**	190,000
Cash and cash equivalents		**1,788,579**	1,818,319
Total current assets		**2,310,460**	2,468,885
Total assets		**2,523,610**	2,693,751
Equity and liabilities			
Equity			
Share capital	16	**106,349**	96,681
Share premium	17	**4,651,410**	3,214,253
Share option reserve	17	**499,570**	647,690
Retained earnings		**(3,480,022)**	(1,712,505)
Total equity		**1,777,307**	2,246,119
Current liabilities			
Trade and other payables	14	**746,303**	447,632
Total equity and liabilities		**2,523,610**	2,693,751

The financial statements were approved for issue by the Board on 12 April 2013.

Colin Jump
Chief Executive Officer

Company number 3568010

The notes on pages 24 to 39 form part of these financial statements.

Statement of cash flows

For the year ended 31 December 2012

	Notes	Year to 31 December 2012 £	Year to 31 December 2011 £
Loss from operations		**(2,059,725)**	(2,137,570)
Amortisation of intangible assets	10	**67,169**	52,463
Depreciation of property, plant and equipment	11	**58,513**	55,929
Share based payments		**(48,568)**	21,658
(Increase) in inventories		**(41,227)**	(141,818)
Decrease/(Increase) in trade and other receivables		**129,912**	(127,205)
Increase in trade and other payables		**298,671**	3,559
Cash used in operations		**(1,595,255)**	(2,272,984)
Taxation received		**222,163**	239,840
Net cash used in operating activities		**(1,373,092)**	(2,033,144)
Cash flows from investing activities			
Purchases of intangible assets	10	**(58,682)**	(59,893)
Purchases of property, plant and equipment	11	**(55,284)**	(39,856)
Interest received		**10,493**	28,605
Net cash used in investing activities		**(103,473)**	(71,144)
Cash flows from financing activities			
Proceeds from share issues	16	**1,546,899**	4,003,400
Share issue and initial public offering costs		**(100,074)**	(755,005)
Net cash from financing activities		**1,446,825**	3,248,395
Net (decrease)/increase in cash and cash equivalents		**(29,740)**	1,144,107
Cash and cash equivalents at the beginning of the year		**1,818,319**	674,212
Cash and cash equivalents at the end of the year		**1,788,579**	1,818,319

The notes on pages 24 to 39 form part of these financial statements.

Notes to the financial statements
For the year ended 31 December 2012

1. Accounting policies

The following principal accounting policies have been used consistently in the preparation of these financial statements.

Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and the interpretations of the International Financial Reporting Interpretations Committee (IFRIC) as adopted by the European Union, and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

These financial statements have been prepared on the historic cost basis except where financial instruments are required to be carried at fair value under IFRS.

Revenue recognition

Revenue represents amounts receivable from the sale of goods and services and from development contracts, net of value added tax and trade discounts.

Revenue from the sale of goods is recognised when the risks and rewards of ownership of the goods passes to the customer, which is normally upon delivery.

Revenue from rendering services is recognised in the period in which the service is provided.

Revenue from development contracts is recognised under the percentage-of-completion method.

Income receivable in respect of government grants is included within revenue and is recognised in the same period as the related costs.

Segmental reporting

The Company currently has one business segment, being the research, development and commercialisation of scientific instruments. This is undertaken wholly within the United Kingdom and therefore a segmental analysis of turnover, profits/losses on ordinary activities before tax and net assets has not been presented. The Company is managed on the basis of its performance as a whole and not by any segments.

Intangible assets

Trademarks and patents are stated at historic cost of registration less accumulated amortisation and any accumulated impairment losses. Amortisation is calculated to write off the cost in equal annual instalments over five years, which is considered to be a prudent estimate of their useful economic lives.

Property, plant and equipment

Items of property, plant and equipment are stated at cost of acquisition or production costs less accumulated depreciation and impairment losses.

Depreciation is charged to the statement of comprehensive income on a straight-line basis to write-off the carrying value of each asset to residual value over its estimated useful economic life as follows:

Plant and equipment – 20% to 33.3% on a straight line basis
Fixtures and fittings – 33.3% on a straight line basis

Pensions

The Company operates a defined contribution retirement benefit scheme for its employees. Contributions are charged to the statement of comprehensive income in the period they are payable.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is based on the first-in first-out principle and includes expenditure incurred in acquiring the inventories and bringing them into their present locations and condition. The cost of finished goods and work in progress comprises raw materials, direct labour and other direct costs. Net realisable value is the estimated selling price in the ordinary course of business less applicable selling expenses.

Taxation

Current taxes are based on the results of the Company and are calculated according to local tax rules, using the tax rates that have been enacted by the balance sheet date.

Tax receivable in respect of research and development tax credits is recognised when the decision has been taken to claim such amounts in cash. Until such a decision is made, the potential tax benefit arising from research and development expenditure is included in tax losses carried forward.

Deferred tax is provided in full using the balance sheet liability method for all taxable temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Deferred tax is measured using currently enacted or substantially enacted tax rates.

Deferred tax assets are recognised to the extent the temporary difference will reverse in the foreseeable future and that it is probable that future taxable profit will be available against which the asset can be utilised.

Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date. Transactions in foreign currencies are recorded at the rate ruling at the date of transaction, or forward contract rate, if applicable. All differences are taken to the statement of comprehensive income.

Government grants

Grants towards revenue expenditure are released to the statement of comprehensive income as the related expenditure is incurred.

Financial instruments

The Company has adopted both IAS 32 and IAS 39.

Financial assets and financial liabilities are recognised on the Company's statement of financial position when the Company becomes a party to the contractual provisions of the instrument.

Cash and cash equivalents

The fair value of cash and cash equivalents is considered to be their carrying amount due to their short term maturity.

Trade receivables

Trade receivables do not carry interest and are stated at their nominal value as reduced by appropriate allowances for estimated irrecoverable amounts.

Financial liability and equity

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities.

Bank borrowings

Interest-bearing bank loans and overdrafts are recorded as the proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an accrual basis to the statement of comprehensive income using the effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

Notes to the financial statements (continued)

1. Accounting policies (continued)

Financial instruments (continued)

Trade payables

Trade payables are not interest bearing and are stated at their nominal value.

Equity instruments

Equity instruments issued by the Company are recorded at the value of the proceeds received net of direct issue costs.

Leases

Assets obtained under hire purchase contracts and finance leases are capitalised and depreciated over their useful lives. Obligations under such agreements are included in liabilities net of the finance charges allocated to future periods.

All other leases are considered operating leases, and the costs of which are expensed on a straight line basis over the lease term. Rent free periods and other incentives are spread on a straight line basis over the lease term.

Research and development

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

Development costs incurred on specific projects are capitalised when all the following conditions are satisfied:
- completion of the intangible asset is technically feasible so that it will be available for use or sale;
- the Company intends to complete the intangible asset and use or sell it;
- the Company has the ability to use or sell the intangible asset;
- the intangible asset will generate probable future economic benefits. Among other things, this requires that there is a market for the output from the intangible asset or for the intangible asset itself, or, if it is to be used internally, the asset will be used in generating such benefits;
- there are adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the expenditure attributable to the intangible asset during its development can be measured reliably.

Costs incurred which do not meet the above criteria are expensed as incurred. No development costs have been capitalised to date.

Share based payments

In accordance with IFRS 2 "Share-based payments", the Company reflects the economic cost of awarding shares and share options to directors, employees and advisors by recording an expense in the statement of comprehensive income equal to the fair value of the benefit awarded, fair value being determined by reference to option pricing models. The expense is recognised in the statement of comprehensive income over the vesting period of the award.

2. Application of new EU endorsed accounting standards, amendments to existing EU endorsed standards and interpretations

New Standards, amendments and interpretations effective in 2012 and relevant to the Company's results

None.

New standards, amendments and interpretations effective in 2012 not relevant to the Company's results or that do not have a significant impact on the Company's financial statements, other than additional disclosures:

IFRS 1 First Time Adoption of International Financial Reporting Standards (revised)
Standard amended to provide guidance for entities emerging from severe hyperinflation and resuming presentation of IFRS compliant financial statements, or presenting IFRS complaint financial statements for the first time.

Standard amended to remove the fixed date of 1 January 2004 relating to the retrospective application of the derecognition requirements of IAS 39, and relief for first-time adopters from calculating day 1 gains on transactions that occurred before the date of adoption.

IFRS 7 Financial Instruments: Disclosures
Amendments require additional disclosure on transfer transactions of financial assets, including the possible effects of any residual risks that the transferring entity retains. The amendments also require additional disclosures if a disproportionate amount of transfer transactions are undertaken around the end of a reporting period.

IAS 12 Income Taxes
This standard has been amended to introduce the rebuttable presumption than an investment property will be recovered in its entirety through sale.

New Standards, amendments and interpretations not yet effective and relevant to the Company's results:

IAS 1 Presentation of Financial Statements – Effective for periods beginning on or after 1 July 2012:
New requirements to group together items within other comprehensive income that may be reclassified to the profit or loss section of the income statement in order to facilitate the assessment of their impact on the overall performance of an entity.

New Standards, amendments and interpretations not yet effective and not relevant to the Company's results or do not have a significant impact on the Company's financial statements, other than additional disclosures:

IAS 16 Property, Plant and Equipment – Effective for periods beginning on or after 1 January 2013:
Annual Improvements 2009–2011 Cycle: Amendments to the recognition and classification of servicing equipment.

IAS 19 Employee Benefits – Effective for periods beginning on or after 1 January 2013:
Amendments to the accounting for current and future obligations resulting from the provision of defined benefit plans.

IAS 27 Consolidated and Separate Financial Statements – Effective for periods beginning on or after 1 January 2013:
Consequential amendments resulting from the issue of IFRS 10, 11 and 12.

IAS 28 Investments in Associates – Effective for periods beginning on or after 1 January 2013:
Consequential amendments resulting from the issue of IFRS 10, 11 and 12.

IAS 32 Financial instruments: presentation (revised) – Effective for periods beginning on or after 1 January 2014:
Amendments require entities to disclose gross amounts subject to rights of set-off, amounts set off in accordance with the accounting standards followed, and the related net credit exposure. This information will help investors understand the extent to which an entity has set off in its balance sheet and the effects of rights of set-off on the entity's rights and obligations.

– Effective for periods beginning on or after 1 January 2013:
Annual Improvements 2009–2011 Cycle: Amendments to clarify the tax effect of distribution to holders of equity instruments.

2. Application of new EU endorsed accounting standards, amendments to existing EU endorsed standards and interpretations (continued)

New Standards, amendments and interpretations not yet effective and not relevant to the Company's results or do not have a significant impact on the Company's financial statements, other than additional disclosures (continued):

IAS 34 Interim Financial Reporting (revised) – Effective for periods beginning on or after 1 January 2013:
Annual Improvements 2009–2011 Cycle: Amendments to improve the disclosures for interim financial reporting and segment information for total assets and liabilities.

IFRS 1 First-time Adoption of International Financial Reporting Standards (revised) – Effective for periods beginning on or after 1 January 2013:
Amendments add an exception to the retrospective application of IFRSs to require that first-time adopters apply the requirements in IFRS 9 Financial Instruments and IAS 20 Accounting for Government Grants and Disclosure of Government Assistance prospectively to government loans existing at the date of transition to IFRSs.

Annual Improvements 2009–2011 Cycle amendments clarifying the options available to users when repeated application of IFRS 1 is required and to add relevant disclosure requirements.

Annual Improvements 2009–2011 Cycle amendments to borrowing costs.

IFRS 7 Financial Instruments: Disclosures – Effective for periods beginning on or after 1 January 2013:
Amendments require entities to disclose gross amounts subject to rights of set-off, amounts set off in accordance with the accounting standards followed, and the related net credit exposure. This information will help investors understand the extent to which an entity has set off in its balance sheet and the effects of rights of set-off on the entity's rights and obligations.

IFRS 9 Financial Instruments – Effective for periods beginning on or after 1 January 2015:
New standard that forms the first part of a three-part project to replace IAS 39 Financial Instruments: Recognition and Measurement .

IFRS 10 Consolidated Financial Statements – Effective for periods beginning on or after 1 January 2013:
New standard that replaces the consolidation requirements in SIC-12 Consolidation—Special Purpose Entities and IAS 27 Consolidated and Separate Financial Statements. The standard builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company and provides additional guidance to assist in the determination of control where this is difficult to assess.

IFRS 11 Joint Arrangements – Effective for periods beginning on or after 1 January 2013:
New standard that deals with the accounting for joint arrangements and focuses on the rights and obligations of the arrangement, rather than its legal form. The standard requires a single method for accounting for interests in jointly controlled entities.

IFRS 12 Disclosure of Interest in Other Entities – Effective for periods beginning on or after 1 January 2013:
New and comprehensive standard on disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles.

IFRS 13 Fair Value Measurement – Effective for periods beginning on or after 1 January 2013:
New guidance on fair value measurement and disclosure requirements.

IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine – Effective for periods beginning on or after 1 January 2013:
Clarifies the requirements for accounting for stripping costs associated with waste removal in surface mining.

3. Going concern

The financial statements have been prepared on a going concern basis, which assumes that sufficient funds will be available for the Company to continue in operational existence for at least 12 months.

The Company's business activities together with the factors likely to affect its future development, performance and position are set out in the business review sections within the annual report.

The Company has been developing its technologies for the market place and as such has been absorbing funds. The Company is now in the early commercialisation phase of its development, and the financing of operations in the future will be from employment of existing cash reserves, revenue from product sales and new funding.

Although there remain uncertainties associated with both the amount of sales revenue and the availability of additional funding, after considering these and assessing the business's prospects, the Directors have a reasonable expectation that the Company will have access to adequate resources to be able to continue in operational existence for at least 12 months from the signing of this report, and consequently they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

4. Critical accounting estimates and judgements

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

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates could, by definition, differ from the actual outcome.

The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are summarised below:

Going concern

The financial statements have been prepared on a going concern basis, which assumes that sufficient funds will be available for the Company to continue in operational existence for at least 12 months. More details are provided in note 3.

Revenue recognition

The revenue recognised from development contracts reflects management's best estimate about the contract's outcome and stage of completion. The Company's management assesses the contracts at each balance sheet date, including the costs to completion, which are subject to estimation uncertainty.

Amortisation of trademarks and patents

Capitalised costs relating to trademarks and patents are amortised over their estimated useful lives. As the product development programme is still ongoing and the lifetime of the Company's intellectual property is difficult to determine, the Directors have applied a prudent estimate of five years. This assumption is reviewed at each balance sheet date and amended if required.

Share based payments

The calculation of the share based payments expense utilises assumptions and estimates (for example volatility, future exercise rates) which may differ from actual results. Details of the assumptions are set out in note 22.

Research and development tax credits

The Company recognises research and development tax credits receivable in cash as a current asset under the heading corporation tax receivable. These credits are subject to acceptance by HM Revenue & Customs and the resulting cash receipt from HM Revenue & Customs may be greater or less than this amount.

Notes to the financial statements (continued)

5. Revenue

Throughout 2012 the Company operated in one business segment, that of research, development and commercialisation of scientific instruments. All of the Company's assets are held in the UK and all of its capital expenditure arises in the UK. The revenue of the Company for the year has been derived from its principal activity undertaken in the United Kingdom. Although the Company's operations are solely in the United Kingdom, some of the Company's revenues sourced from other geographic markets and are analysed as follows:

	Year to 31 December 2012 £	Year to 31 December 2011 £
Northern America	**116,556**	27,108
United Kingdom and Europe	**489,725**	240,891
	606,281	267,999

Government grants

Included within the Company's revenue for the year ended 31 December 2012 is £294,580 (2011: £200,090) from UK Government grants and European grant funded projects.

In 2009 the Company was awarded a grant of up to €360,000 under the European Commission's 7th Framework Programme as part of a consortium for a research project. Revenue of £315,645 has been recognised to date as the Company believes it has fulfilled its practical and administrative obligations under this project. Final project sign-off by the European Commission was completed in early 2013.

In 2010 the Company was awarded a grant of up to €964,000 under the European Commission's 7th Framework Programme as part of a consortium for a research project. Revenue of £575,087 has been recognised to date as the Company believes it has fulfilled its practical and administrative obligations under this project and is committed to fulfilling its future obligations, which are subject to European Commission reviews annually and final project sign-off in 2013/2014.

6. Expenses by nature

	Year to 31 December 2012 £	Year to 31 December 2011 £
Loss from operations is stated after charging/(crediting)		
Amortisation of intangible assets	**67,169**	52,463
Depreciation of property, plant and equipment	**58,513**	55,929
Pension costs	**54,755**	52,133
Share based payments – equity settled	**(48,568)**	21,658
Operating lease rentals – land and buildings	**66,225**	69,480
Exchange loss/(gain)	**2,618**	(28)
Research and development expenditure	**1,298,129**	1,314,851
Directors' emoluments	**322,505**	296,079

	Year to 31 December 2012 £	Year to 31 December 2011 £
Services provided by the Company's auditors		
Fees payable to the Company's auditors for the audit of the financial statements	**12,000**	5,000
Fees payable to the Company's auditors for other services		
– Tax compliance	**4,000**	2,500
– As reporting accountant for AIM admission	**–**	78,893
– Other	**1,250**	2,900
	17,250	89,293

7. Finance income

	Year to 31 December 2012 £	Year to 31 December 2011 £
Bank interest	**7,313**	28,605
Other interest	**3,180**	–
	10,493	28,605

8. Tax on loss on ordinary activities

	Year to 31 December 2012 £	Year to 31 December 2011 £
Domestic current period tax		
UK corporation tax	**(150,000)**	(190,000)
Adjustment for prior periods	**(32,163)**	(19,712)
Current tax credit	**(182,163)**	(209,712)
Deferred tax	**–**	–
Tax on loss on ordinary activities	**(182,163)**	(209,712)
Factors affecting the current tax credit for the period		
Loss before tax	**(2,049,232)**	(2,108,965)
Loss before tax multiplied by standard rate of UK corporation tax of 20% (2011: 20.25%)	**(409,846)**	(427,065)
Effects of:		
Non deductible expenses	**(7,207)**	2,659
Depreciation	**11,703**	11,326
Capital allowances	**(13,111)**	(10,661)
Research and development expenditure	**(4,833)**	(20,438)
Tax losses carried forward	**273,294**	254,179
Previous period research and development adjustment	**(32,163)**	(19,712)
Current tax credit	**(182,163)**	(209,712)

The Company has estimated tax losses of £5,762,000 (2011: £4,396,000) available for carry forward against future trading profits. A deferred tax asset in respect of these losses has only been recognised to the extent of the deferred tax liability in respect of accelerated capital allowances (see note 15).

9. Basic and diluted loss per ordinary share

	Year to 31 December 2012 £	Year to 31 December 2011 £
Loss after tax attributable to equity shareholders	**£(1,867,069)**	£(1,899,253)
Weighted average number of ordinary 0.25p shares for the purpose of basic and diluted loss per share*	**40,935,477**	34,712,966
Basic and diluted loss per ordinary share	**(4.56)p**	(5.47)p

* The weighted average numbers of shares have been adjusted to reflect the bonus issue and share sub-division in April 2011.

Potential ordinary shares are not treated as dilutive as the Company is loss making, therefore the weighted average number of ordinary shares for the purposes of the basic and diluted loss per share are the same.

10. Intangible assets

Intangible assets comprise patents and trademarks owned by the Company. The cost is amortised on a straight line basis over a five year period as this has been judged as their estimated useful life.

	£
Cost	
At 1 January 2012	343,072
Additions	58,682
Disposals	(59,590)
At 31 December 2012	**342,164**
Amortisation	
At 1 January 2012	205,700
Charge for the year	67,169
Disposals	(59,590)
At 31 December 2012	**213,279**
Net book value	
At 31 December 2012	**128,885**
At 31 December 2011	137,372

11. Property, plant and equipment

	Plant and equipment £	Fixtures and fittings £	Total £
Cost			
At 1 January 2012	507,540	124,723	632,263
Additions	54,313	971	55,284
Disposals	(5,750)	(2,200)	(7,950)
At 31 December 2012	**556,103**	**123,494**	**679,597**
Depreciation			
At 1 January 2012	429,591	115,178	544,769
Charge for the year	53,129	5,384	58,513
Disposals	(5,750)	(2,200)	(7,950)
At 31 December 2012	**476,970**	**118,362**	**595,332**
Net book value			
At 31 December 2012	**79,133**	**5,132**	**84,265**
At 31 December 2011	77,949	9,545	87,494

The gross carrying amount of fully depreciated assets still in use at 31 December 2012 is £429,773.

12. Inventories

	Year to 31 December 2012 £	Year to 31 December 2011 £
Raw materials	**109,133**	56,670
Work in progress	**66,371**	92,455
Finished goods	**14,848**	–
	190,352	149,125

13. Trade and other receivables

	Year to 31 December 2012 £	Year to 31 December 2011 £
Amounts falling due within one year		
Trade receivables	**24,000**	37,500
Other receivables	**127,499**	189,715
Other taxes and social security	**30,030**	84,226
	181,529	311,441

Notes to the financial statements (continued)

14. Trade and other payables

	Year to 31 December 2012 £	Year to 31 December 2011 £
Amounts falling due within one year		
Trade payables	**286,339**	176,790
Other taxes and social security	**53,756**	39,708
Other payables	**9,840**	8,261
Accruals and deferred income	**396,368**	222,873
	746,303	447,632

15. Provisions

Deferred tax

	£
Balance at 1 January and 31 December 2012	–

Deferred taxation provided in the financial statements

	31 December 2012 £	31 December 2011 £
Accelerated capital allowances	**15,602**	15,964
Tax losses carried forward	**(15,602)**	(15,964)
	–	–

A deferred tax asset in respect of tax losses has only been recognised to the extent of the deferred tax liability in respect of accelerated capital allowances.

16. Share capital

	Number	£
Allotted, called up and fully paid ordinary shares of 0.25p each		
Ordinary shares as at 31 December 2011	38,672,500	96,681
Ordinary shares issued for cash in the year	3,867,248	9,668
Ordinary shares as at 31 December 2012	**42,539,748**	**106,349**

Following adoption of new articles of association in April 2011, the Company does not have a stated authorised share capital. Previously the authorised share capital was £100,000 comprising 10,000,000 ordinary shares of 1p each.

In April 2011 the Company made a bonus issue of 289 ordinary shares of 1p each for each 1p ordinary share held. Subsequently, each 1p ordinary share was subdivided into four ordinary shares of 0.25p each. The Company has just this one class of share, with each share carrying one vote and equal rights to discretionary dividends.

The Company issued the following ordinary shares of 0.25p each for cash in the year:

	Shares issued Number	Issue price p	Cash consideration £
Placing – June 2012	3,867,248	40	1,546,899

17. Reserves

The share premium account represents the excess over the nominal value for shares allotted, less issue costs.

The share option reserve represents accumulated charges made under IFRS 2 in respect of share based payments.

18. Operating lease commitments

At the year end the Company had future minimum lease payments under non-cancellable operating leases which fall due as follows:

	31 December 2012 £	31 December 2011 £
Land and buildings		
Within one year	**47,557**	66,067
Between one and two years	**–**	41,500
	47,557	107,567

19. Capital commitments

At the balance sheet date the Company had the following capital commitments.

	31 December 2012 £	31 December 2011 £
Contracted for but not provided in the financial statements	**–**	–

20. Directors' emoluments

	Year to 31 December 2012 £	Year to 31 December 2011 £
Salaries and fees	**282,357**	243,343
Other payments	**29,025**	41,200
Pension costs	**11,123**	11,536
	322,505	296,079

During the year, no options were exercised by the Directors and options over 1,396,191 shares were granted amongst three Directors.

In the year to 31 December 2012 two Directors accrued benefits under money purchase retirement benefit schemes (2011: three).

Further information is provided in the Directors' remuneration report.

Notes to the financial statements (continued)

21. Employees

	Year to 31 December 2012 Number	Year to 31 December 2011 Number
The average monthly numbers of employees		
Directors	**7**	7
Other staff	**24**	21
	31	28

	Year to 31 December 2012 £	Year to 31 December 2011 £
Employment costs (including Directors)		
Wages and salaries	**1,329,969**	1,167,320
Social security costs	**151,302**	135,378
Pension costs	**54,755**	52,133
Employment related share based payments	**(48,568)**	21,658
	1,487,458	1,376,489

The employment related share based payments credit of £48,568 for 2012 is due to the write back of prior year share based payment charges totalling £81,901 following the exit of staff members from the Company's share option schemes.

22. Share-based payment transactions

The Company operates approved and unapproved share option schemes as a means of encouraging ownership and aligning interests of staff and shareholders.

	Year to 31 December 2012		Year to 31 December 2011	
	Number of options	**Weighted average exercise price**	Number of options	Weighted average exercise price
Outstanding at the beginning of the year	**1,944,025**	**59.43p**	2,601	£392.84
Adjustment for share subdivision	–		3,014,559	
Total after share subdivision	**1,944,025**	**59.43p**	3,017,160	33.86p
Granted during the year	**1,984,863**	**41.21p**	136,165	100.67p
Cancelled during the year	**(616,500)**	**32.38p**	(52,200)	0.26p
Exercised during the year	–	–	(1,157,100)	0.29p
Outstanding at 31 December	**3,312,388**	**53.55p**	1,944,025	59.43p
Exercisable at 31 December	**1,174,757**	**81.55p**	1,117,525	92.55p

In April 2011 the Company made a bonus issue of 289 ordinary shares of 1p each for each 1p ordinary share held and subsequently, each 1p ordinary share was subdivided into four ordinary shares of 0.25p each. In accordance with the share option scheme rules, the share options then extant were adjusted in both quantity and exercise price to reflect this change in share capital.

The estimated fair values of the share options were calculated by applying the Black Scholes model. The period of exercise for all options granted is between one and 10 years from date of grant and the vesting periods last up to five years from the date of grant. The model inputs were:

Date of grant	Share price	Risk free rate	Expected volatility	Gross dividend yield
October 2004	£3	5.25%	35%	–
March 2006	£3	5.25%	35%	–
May 2006	£1,247	5.25%	35%	–
February 2008	£1,500	5.25%	35%	–
December 2010	£300	1.50%	75%	–
April 2011	32p	0.50%	50%	–
June 2012	40p	0.50%	33%	–
July 2012	42p	0.50%	33%	–
December 2012	39p	1.00%	33%	–

Date of grant	Exercise price	Latest exercise date	Estimated fair value	**Number of options 31 December 2012**	Number of options 31 December 2011
Director and employee share options:					
March 2006	0.3p	Mar 2012	42.9p	–	130,500
March 2006	0.3p	Mar 2012	42.9p	–	232,000
May 2006	43.1p	May 2013	79.5p	**116,000**	116,000
May 2006	43.1p	May 2015	79.5p	**116,000**	116,000
May 2006	43.1p	May 2016	79.5p	**116,000**	116,000
February 2008	129.3p	Feb 2018	26.6p	**266,800**	382,800
December 2010	25.86p	Dec 2020	11.0p	**406,000**	464,000
July 2012	42.0p	Jul 2022	12.1p	**590,000**	–
December 2012	39.0p	Dec 2022	13.6p	**1,276,191**	–
Advisor share options:					
May 2006	100.7p	May 2013	54.8p	**250,560**	250,560
April 2011	100.7p	May 2013	1.1p	**136,165**	136,165
June 2012	100.7p	May 2013	1.6p	**38,672**	–
				3,312,388	1,944,025

23. Financial instruments

The Company's financial instruments comprise cash and various items such as trade receivables and trade payables that arise directly from its operations. No trading in financial instruments is undertaken.

The main risks arising from the Company's financial instruments are liquidity, currency and interest rate. The Board oversees the management of these risks, which are summarised below.

Liquidity risk

Until the Company becomes cash generative, it is financing its operations by raising equity funding and investing the proceeds on a short term basis. The Company seeks to manage financial risk to ensure sufficient liquidity to meet foreseeable requirements and to invest cash profitably and at low risk.

The Company holds investments in bank deposits as a liquid resource to fund its operations. The Company's strategy for managing cash is to maximise interest income whilst ensuring availability to match the profile of the Company's expenditure.

Interest rate risk

The Company does not face any significant interest rate risk as it has no borrowings.

Surplus funds are invested to maintain a balance between accessibility of funds and competitive rates of return whilst investing funds safely.

Credit risk

The Company manages its credit risk in cash and cash equivalents by spreading surplus funds between creditworthy financial institutions.

The Company's is also exposed to credit risk attributable to trade and other receivables. The maximum credit risk in respect of the financial assets at each period end is represented by the balance outstanding on trade and other receivables. The Company has limited exposure to credit risk, as the majority of its trade and other receivables are due from national governmental bodies and major international corporations.

Foreign currency risk

The Company is based in the United Kingdom and the majority of its costs are denominated in pounds sterling.

The Company has no long term commitments to purchase goods or services in foreign currencies. Purchases denominated in foreign currency are expensed at the exchange rate prevailing at the date of the transaction, and comprise an immaterial proportion of the Company's total expenditure.

The only assets and liabilities denominated in foreign currencies relate to trade receivables and trade payables with overseas counterparties together with small balances of US dollar and Euro currencies to settle these liabilities. The risks and sums involved are considered to be immaterial.

Where a significant transaction in a foreign currency is anticipated with a high degree of certainty, the Company takes out a forward exchange contract to mitigate the risk of currency fluctuation. No such instruments were held at 31 December 2012.

Fair values

The Directors consider that there is no material difference between the book value and the fair value of the financial instruments at 31 December 2012 and 31 December 2011.

Capital management

The Company's capital base comprises equity attributable to shareholders, particularly as represented by cash. As the Company's focus has been on establishing itself as a supplier of scientific instruments, the primary objective in managing cash spend has been to achieve progress on product development and commercialisation in a cost efficient manner and in managing liquidity risk to ensure the Company continues as a going concern.

24. Related party transactions

The remuneration paid to the Directors is shown in note 20 to the financial statements and in the Directors' remuneration report.

There were no other related party transactions.

25. Control

As at 31 December 2012, no individual shareholder had a controlling interest in the Company.

26. Subsequent events

Since the balance sheet date the Company has exercised an option to terminate the lease for its premises. This decision will give rise to an estimated restoration and dilapidations liability of £50,000 during 2013.

Notice of the annual general meeting

Microsaic Systems plc

Company number 3568010

Notice is hereby given that the Annual General Meeting of Microsaic Systems plc (the "Company") shall be held at the offices of Citigate Dewe Rogerson, 3 London Wall Buildings, London Wall, London EC2M 5SY on 15 May 2013 at 11 a.m. for the purpose of considering and, if thought fit, passing the following resolutions of which resolutions 1 to 6 inclusive shall be proposed as ordinary resolutions and resolution 7 shall be proposed as a special resolution.

Ordinary resolutions

1. THAT the Company's financial statements for the year ended on 31 December 2012, together with the Directors' report and auditors' report thereon, be and are hereby received and considered;
2. THAT upon the recommendation of the Directors, Saffery Champness be and hereby are reappointed as auditors to the Company, and that the Board be authorised to fix the remuneration of the auditors;
3. THAT Colin Robert Jump be and hereby is re-appointed as a Director of the Company, following his retirement pursuant to Article 81.1(a) of the of the articles of association of the Company (the "Articles");
4. THAT Colin James Nicholl be and hereby is re-appointed as a Director of the Company, following his retirement pursuant to Article 81.1(c) of the Articles;
5. THAT James Cumming Ramage be and hereby is re-appointed as a Director of the Company, following his retirement pursuant to Article 81.1(c) of the Articles;
6. THAT the Directors be and are hereby generally and unconditionally authorised, in accordance with section 551 of the Companies Act 2006, to exercise all the powers of the Company to allot equity securities (as defined by section 560 of the Companies Act 2006) up to an aggregate nominal value of £35,449.79, representing one third of the Company's issued share capital at the date of this document, provided that this authority shall (unless renewed, varied or extended by the Company in general meeting) expire on the date which is 15 months after the date on which this resolution is passed or, if earlier, on the conclusion of the next annual general meeting of the Company, save that the Company may before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry, and the Directors may allot such equity securities in pursuance of such offer or agreement as if this authority had not expired, and provided further that this authority shall revoke and replace all unexercised authorities previously granted to the Directors to allot shares but without prejudice to any allotment of shares or grant of rights already made, offered or agreed to be made pursuant to such authorities;

Special resolution

7. THAT the Directors be and are hereby empowered, pursuant to section 570 of the Companies Act 2006 Act, to allot equity securities (as defined by section 560 of the Companies Act 2006) for cash as if section 561(1) of the Companies Act 2006 did not apply to any such allotment, provided that this power shall be limited to:

   (a) the allotment of equity securities pursuant to an offer or issue by way of rights, open offer or other pre-emptive offer:

      (i) to the holders of ordinary shares in the capital of the Company and other person entitled to participate therein in proportion (as nearly as may be practicable) to their respective holdings; and

      (ii) to holders of other equity securities as required by the rights of those securities or as the Directors otherwise consider necessary, but subject to such exclusions or other arrangements as the Directors may deem necessary or expedient in relation to treasury shares, fractional entitlements, record dates, legal or practical problems in or under the laws of any territory or the requirements of any regulatory body or stock exchange; and

(b) the allotment (otherwise than pursuant to resolution 7(a) above) of equity securities up to an aggregate nominal amount of £10,634.94 representing 10% of the Company's issued share capital at the date of this document, and such power shall expire (if it has not previously expired by non-fulfilment of conditions) on the date which is 15 months after the date on which this resolution is passed or, if earlier, the conclusion of the Company's next annual general meeting (unless renewed, varied or revoked by the Company prior to or on such date) save that the Company may, before such expiry make offers or agreements which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities in pursuance of any such offer or agreement notwithstanding that the power conferred by this resolution has expired.

provided that this authority revokes and replaces all unexercised powers previously granted to the Directors to allot equity securities as if section 561(1) of the Companies Act 2006 did not apply but without prejudice to any allotment of equity securities already made or agreed to be made pursuant to such authorities.

By order of the Board

Andrew Holmes
Company Secretary

12 April 2013

Registered Office
GMS House
Boundary Road
Woking
Surrey
GU21 5BX

Explanatory notes to the resolutions proposed at the Annual General Meeting (the "Meeting") of the Company to be held at the offices of Citigate Dewe Rogerson, 3 London Wall Buildings, London Wall, London EC2M 5SY on 15 May 2013 at 11 a.m.

Resolution 1 – The Company is required by its Articles and by the Companies Act 2006 to lay the Directors' and auditors' reports and copies of the annual accounts before the Meeting.

Resolution 2 – This resolution concerns the re-appointment of Saffery Champness ("SC"), recommended by the Directors, as auditors to the Company. Whilst resolving to reappoint SC as auditors to the Company, the resolution also authorises the Board to fix the auditors' remuneration.

Resolutions 3 to 5 – Directors appointed by the Board since the last annual general meeting are required to retire from office by the Articles of the Company and seek re-appointment at the Meeting. Similarly, a third of the Directors are also required to retire each year and seek re-appointment at the Meeting. Biographies of the Directors are contained in the Company's annual report for the year ended 31 December 2012.

Resolutions 6 and 7 – These resolutions concern the authority of the Directors to allot up to one third of the Company's existing issued share capital (including up to 10% as if the statutory pre-emption rights did not apply, so as to raise funds at short notice).

Please also read the notes below which provide further information in respect of the Meeting.

Notice of the annual general meeting (continued)

Notes

Quorum

1. The quorum for the meeting shall be two shareholders present in person or by proxy. If, within 15 minutes from the appointed time for the meeting, a quorum is not present, then the meeting will stand adjourned to the same day in the next week (or if that day is a public holiday to the next working day thereafter) at the same time and place or to such other day, time or place as the Directors may determine and no notice of such adjournment need be given. At an adjourned meeting, shareholders present in person or by proxy will form a quorum.

Website address

2. Information regarding the meeting is available from www.microsaic.com

Entitlement to attend and vote

3. Only those holders of ordinary shares of £0.0025 each in the capital of the Company ("Shares") registered on the Company's register of members at 11 a.m. on 13 May 2013 shall be entitled to attend and vote at the meeting.

Appointment of proxies

4. Members entitled to attend, speak and vote at the meeting (in accordance with Note 3 above) are entitled to appoint one or more proxies to attend, speak and vote in their place. If you wish to appoint a proxy please use the form of proxy enclosed with this document (the "Form of Proxy"). In the case of joint members, only one need sign the Form of Proxy. The vote of the senior joint member will be accepted to the exclusion of the votes of the other joint members. For this purpose, seniority will be determined by the order in which the names of the members appear in the register of members in respect of the joint shareholding. The completion and return of the Form of Proxy will not stop you attending and voting in person at the meeting should you wish to do so. A proxy need not be a member of the Company. You may appoint more than one proxy provided each proxy is appointed to exercise the rights attached to a different share or shares held by you. If you choose to appoint multiple proxies use a separate copy of this form (which you may photocopy) for each proxy, and indicate after the proxy's name the number of shares in relation to which they are authorised to act (which, in aggregate, should not exceed the number of Shares held by you). Please also indicate if the proxy instruction is one of multiple instructions being given. All forms must be signed and returned in the same envelope.

5. You can appoint the Chairman of the meeting, or any other person, as your proxy. If you wish to appoint someone other than the Chairman, cross out the words "the Chairman of the meeting" on the Form of Proxy and insert the full name of your appointee.

6. You can instruct your proxy how to vote on each resolution by ticking the "For" and "Against" boxes as appropriate (or entering the number of shares which you are entitled to vote). If you wish to abstain from voting on any resolution please tick the box which is marked "Vote Withheld". It should be noted that a vote withheld is not a vote in law and will not be counted in the calculation of the proportion of votes "For" and "Against" a resolution.

   If you do not indicate on the Form of Proxy how your proxy should vote, he/she can exercise his/her discretion as to whether, and if how so how, he/she votes on each resolution, as he/she will do in respect of any other business (including amendments to resolutions) which may properly be conducted at the meeting.

   A company incorporated in England and Wales or Northern Ireland should execute the Form of Proxy under its common seal or otherwise in accordance with Section 44 of the Companies Act 2006 or by signature on its behalf by a duly authorised officer or attorney whose power of attorney or other authority should be enclosed with the Form of Proxy.

Appointment of proxy using hard copy form

7. The Form of Proxy and any power of attorney (or a notarially certified copy or office copy thereof) under which it is executed must be received by Capita Registrars at PXS, 34 Beckenham Road, Beckenham, Kent BR3 4TU, United Kingdom at 11 a.m. on 13 May 2013 in respect of the meeting. Any Forms of Proxy received before such time will be deemed to have been received at such time. In the case of an adjournment, the Form of Proxy must be received by Capita Registrars no later than 48 hours before the rescheduled meeting.

On completing the Form of Proxy, sign it and return it to Capita Registrars at the address shown on the reverse of the Form of Proxy. As postage has been prepaid no stamp is required. You may, if you prefer, return the Form of Proxy in a sealed envelope to the address shown above.

Termination of proxy appointments

8. In order to revoke a proxy instruction you will need to inform the Company. Please send a signed hard copy notice clearly stating your intention to revoke your proxy appointment to Capita Registrars at PXS, 34 Beckenham Road, Beckenham, Kent BR3 4TU, United Kingdom.

   In the case of a member which is a company incorporated in England and Wales or Northern Ireland, the revocation notice must be executed under its common seal or otherwise in accordance with section 44 of the Companies Act 2006 or by signature on its behalf by an officer or attorney whose power of attorney or other authority should be included with the revocation notice.

   If you attempt to revoke your proxy appointment but the revocation is received after the time of the meeting or the taking of the vote at which the proxy is used, then, subject to the paragraph directly below, your proxy will remain valid.

   If you submit more than one valid proxy appointment in respect of the same Shares, the appointment received last before the latest time for receipt of proxies will take precedence.

   Completion of a Form of Proxy will not preclude a member from attending and voting in person. If you have appointed a proxy and attend the meeting in person, your proxy appointment will be automatically terminated.

Issued shares and total voting rights

9. The total number of Shares in issue in the capital of the Company at the date of this notice is 42,539,748 ordinary shares of £0.0025 each.

   On a vote by a show of hands, every holder of Shares who (being an individual) is present by a person, by proxy or (being a corporation) is present by a duly authorised representative, not being himself a member, shall have one vote. On a poll every holder of Shares who is present in person or by proxy shall have one vote for every complete Share held by him and such proportion of a vote that represents the number of fractions of a Share so held.

Communication

10. Except as provided above, members who have general queries about the Meeting should use the following means of communication (no other methods of communication will be accepted):

    — calling Capita Registrars' shareholder helpline (lines are open from 9a.m. to 5p.m. Monday to Friday, excluding public holidays):
      (i) From the UK: 0871 664 0300 (calls cost 10p per minute plus network extras);
      (ii) From outside the UK: +44 208 639 3399 (calls from outside the UK are charged at applicable international rates); or
    — in writing to Capita Registrars at The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU, United Kingdom.

    You may not use any electronic address provided either:
    — in this notice of meeting; or
    — any related documents (including the Form of Proxy for this meeting), to communicate with the Company for any purposes other than those expressly stated.

Corporate information and advisors

Directors	E M Yeatman	Chairman
	C J Nicholl	Deputy Chairman
	C R Jump	Chief Executive Officer
	M R Bateman	
	P I T Edwards	
	A S Holmes	
	J C Ramage	
Company Secretary	A S Holmes	
Company number	3568010	
Company website	www.microsaic.com	
Registered office	GMS House Boundary Road Woking Surrey GU21 5BX	
Auditors	Saffery Champness Chartered Accountants Lion House Red Lion Street London WC1R 4GB	
Bankers	HSBC Bank plc 95 Gloucester Road London SW7 4SX	
Solicitors	Dorsey & Whitney (Europe) LLP 21 Wilson Street London EC2M 2TD	
Nominated adviser and broker	Numis Securities Limited The Stock Exchange Building 10 Paternoster Square London EC4M 7LT	
Registrars	Capita Registrars Limited The Registry 34 Beckenham Road Beckenham Kent BR3 4TU	
Financial PR	Citigate Dewe Rogerson Limited 3 London Wall Buildings London Wall London EC2M 5SY	

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