Microsaic Systems plc

Annual Report 2013

Microsaic Systems

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

Highlights

2013 Highlights

- Signing of an additional OEM agreement for the sale of the 4000 MiD® as a stand-alone instrument
- Launch of the Microsaic 4000 MiD® miniature mass spectrometer at Pittcon international trade fair
- Launch of the Isolera™ Dalton by Biotage AB, the first OEM product containing 4000 MiD®

Post-period update

- Launch of the MiDas™ compact interface module
- Signing of pre-contract OEM agreement for the sale of the 4000 MiD® and MiDas™ for use in protein separation applications
- Appointment of Andrew Darby as Finance Director

Financial summary

- Revenue up 92% to £1.17 million (2012: £0.61 million)
- Placing of 9,951,443 ordinary shares raising £4.28 million before costs
- Cash at 31 December 2013 £3.24 million (2012: £1.79 million)
- Total statutory loss for the year to 31 December 2013 £2.29 million (2012: £1.87 million)

Chairman's statement
for the year ended 31 December 2013

I am pleased to present the Company's Annual Report & Financial Statements for the year ended 31 December 2013.

2013 was a year where Microsaic achieved a number of key milestones, most notably the launch of the 4000 MiD®. It also saw the launch of the first OEM product to contain the 4000 MiD®, the Biotage Isolera™ Dalton. The Company's product development program continued apace with the more recent release of the MiDas™, which will extend the reach of Microsaic's technology into a wider range of applications and environments. The 4000 MiD® and the MiDas™ together form the core technologies behind our successful recent signing of a further commercial agreement for the detection of proteins. We are excited by the opportunity to work with a major global healthcare equipment company. The opportunities provided by our 'chip' based technologies and 'plug and play' offering will continue to grow, as we extend the capabilities of our technology and product range over the years to come.

Our relationship with Biotage AB has moved forward and we continue to work closely with them. In addition to this relationship, we are excited by the size and quality of companies that continue to approach us to discuss commercial opportunities. These relate to opportunities for our single quad technology, but also our in development triple quad where a number of major global companies are expressing a keen interest. This product has undergone successful prototype demonstrations and continues to make positive progress towards completion.

Over the last few years there has been a tangible transformation in the nature of our business. The evolution from a university spinout into a quoted commercial enterprise is evident. The Company's strategy, structure, culture, and infrastructure have all developed significantly which has led to a growing level of public and industry recognitions.

In the past 12 months there have been two changes to the Board. Last summer Eric Yeatman stood down from the role of Chairman. I would like to thank Eric for his invaluable input during his nine year tenure as Chairman. During this time the Company has achieved a growing reputation in pioneering mass spectrometry miniaturisation. We are pleased that Eric continues to serve as a member of the Board and brings expertise to bear on the advancement of our unique technology.

More recently we announced the resignation of Malcolm Bateman who has stepped down as Finance Director and will leave the Company at the end of April 2014 to pursue his other interests. Malcolm joined Microsaic in 2006 as Financial Controller and was appointed to the Board in 2011. He played a major part in the 2011 IPO and has been an important member of the management team over the past eight years. We would like to thank him for his contribution in securing Microsaic's development, and wish him well in the next stage of his career. We are pleased to welcome Andrew Darby ACA as our new Finance Director.

I would again like to thank our shareholders for their support during the last year. Over 2014 we shall continue to build upon the achievements already made and continue to capitalise on the opportunities that are becoming increasingly evident.

Colin Nicholl
Chairman

29 April 2014

Strategic report – Company overview and business model
for the year ended 31 December 2013

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 a 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 is enabling 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).

Strategic report – Chief Executive's review
for the year ended 31 December 2013

Microsaic has enjoyed a highly productive year in 2013, making notable progress in our on-going evolution into a successful commercial business. We continue to execute our strategy of developing commercial partnerships, whilst at the same time growing direct sales to end users. In parallel, we have continued to make significant technological advances that will in time give us the capability needed for our next generation of products. This will further broaden the range of applications that our miniaturised mass spectrometry (MS) instruments can address.

Microsaic's chip-based technology has allowed us to miniaturise the mass spectrometer – the gold standard for chemical analysis – far beyond any other product on the market. This miniaturisation greatly simplifies deployment, drastically cutting power consumption and other running costs, and makes MS much more accessible to lab scientists than it has ever been before.

Our lead MS instrument, the Microsaic 4000 MiD®, was officially launched in March 2013 at Pittcon, the major annual international trade fair focused on scientific and laboratory equipment, which took place in Philadelphia, USA. The market's response and subsequent acceptance of the 4000 MiD® has been enthusiastic and through a combination of direct sales and shipments to our OEM partner we achieved a near doubling of our revenue for the full year 2013 to £1.17 million (£0.61 million in 2012).

Commercial strategy

Our main route to market for our product is as an original equipment manufacturer (OEM) through partnerships with companies that have established global sales channels. These companies also have complementary products that when combined with our product can deliver synergistic benefits for the end users. During the year, we strengthened our relationship with our existing OEM partner, Biotage AB. In June Biotage AB launched its fully integrated system for flash chromatography and mass identification which incorporated our core MS instrument, the 4000 MiD®. Demand for the integrated product, the Isolera™ Dalton, has been good and shipments of the 4000 MiD® to Biotage are in line with expectations.

We continue to develop relationships with new potential commercial partners in the pharma, biotech and other related sectors. In this regard we were pleased to announce in April 2013 the signing of an OEM agreement for the global, non-exclusive marketing and sale of the 4000 MiD® as a stand-alone instrument for use in direct and rapid MS analysis. Successful trials have also been completed with a number of other potential partners and discussions are advancing with several of these aimed at securing commercial agreements.

We were pleased to announce on 14 April 2014 the signing of a pre-contract commercial agreement to provide the miniature mass spectrometer – the Microsaic 4000 MiD® – as an Original Equipment Manufacturer (OEM). The agreement is for the global, exclusive marketing and sale of the 4000 MiD®, along with the recently released MiDas™ interface unit, as a stand-alone instrument for use in protein separation applications. The partner is a major international healthcare equipment company.

The agreement is focused on the use of the 4000 MiD® in conjunction with protein separation, a major application that is used globally and has increasing market demand. It follows a period of R&D collaboration in which Microsaic has successfully adapted and enhanced the 4000 MiD® to address this new application.

We will work towards completion and signing of a full commercial contract, which is anticipated to include a commitment to purchase up to 50 units and consumables of the 4000 MiD® in the first year, increasing to over 200 units and consumables from the fourth year onwards. The initial period of the contract is expected to be 48 months. The selling price is in line with the Board's expectations. Shipments under the agreement are anticipated to commence in Q1 2015.

In addition to OEM agreements for our products in the major MS application areas, we achieved a number of direct sales to customers in new and high-value application areas. Direct contact with users is proving to be valuable as a means of prioritising future product development and R&D programmes. A number of key direct sales have already been achieved and a pipeline has been established for the coming year.

The 4000 MiD® is currently manufactured at our facility in Woking, but in line with our commercial strategy, and as sales increase in 2014, we will be outsourcing the production of the units to an accredited third-party supplier.

New technologies

Our marketing plan for 2013 has been directed towards positioning Microsaic as a solution provider for chemical analysis, rather than simply as a mass spectrometer vendor. In line with this plan, we have been leveraging our technical expertise to develop next-generation products that we believe will significantly expand the range of applications that our innovative MS instruments can address and that end-users will increasingly demand.

In January 2014, we launched the MiDas™ compact interface module. The MiDas™ unit has been designed to extend the use of MS in the laboratory from specialist analytical chemists to the wider research community. It connects to the 4000 MiD® and offers automated sample preparation and injection for direct MS analysis in real-time at the lab bench or in the fume hood.

Our strategy is to commercialise MiDas™ alongside the 4000 MiD® through partnerships with well-established suppliers in the areas of analytical and medicinal chemistry, and directly to customers in niche application areas.

In June 2013, we presented a working prototype of our chip-based triple quadrupole mass spectrometer for the first time, at the American Society of Mass Spectrometry (ASMS). This new technology can analyse more complex materials, such as medical (e.g. blood or saliva) or environmental samples, and is an important achievement that has the potential to further extend Microsaic's leading position in miniaturised MS instrumentation. We recently exhibited our latest progress with this system at the major trade fair Pittcon in March 2014, where the reception from delegates was very encouraging. Negotiations are on-going with a number of possible key MS instrument partners to develop the triple quadrupole into a fully commercial product, with an expected launch date in 2015.

At the same event, we displayed our concept product, 4500 MiD® instrument for the first time. This system is an extension of the 4000 MiD® and has been designed for the mass identification of larger molecules in sample mixtures, such as proteins and peptides. We intend to launch this product in the next twelve months and are already engaged in discussions with potential OEM partners to develop this system further for commercialisation in several areas.

Strategic report – Chief Executive's review (continued)
for the year ended 31 December 2013

Financial results

Revenues increased 92% to £1,165,235 in 2013 (2012: £606,281). OEM sales volumes of the 4000 MiD® have been the principal contributor to this rise, with regular monthly shipments being made. Sales of consumables are also rising, and will become more significant over time as the installed base grows.

Research and development revenue streams are becoming a less significant proportion of the total company income, but continue to make a contribution. Spending on R&D amounted to £927,379 and was focused on product enhancements in order to open up new application opportunities for the MiD® and on our triple quadrupole mass spectrometer.

The total comprehensive loss for the year was £2,285,158 compared to £1,867,069 in the previous year. Excluding the effects of share-based payments accounting, the operating expenses for 2013 and 2012 were £1,462,395 and £1,228,084 – the increase arising from business development and marketing activities and augmenting the business infrastructure as commercial operations ramp up.

In May, the Company placed 9,951,443 ordinary shares with new and existing shareholders. This represented a 23% increase in the Company's issued share capital. We wish to thank our investors for supporting this placing, which will enable the Company to execute its organic revenue growth plans, as well as allow investment in the development and production of instruments and technologies. The gross proceeds raised from the issue amounted to £4.28 million. Cash in hand at 31 December 2013 was £3.24 million.

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 that the Company will have access to adequate funds to continue operations for at least twelve months. Further details are provided in the notes to the financial statements.

Enhancing the team

To ensure the Company is equipped with the necessary skills and personnel to drive continuing revenue growth and to support the transition into a successful commercial business, we have made a number of new hires during the year.
We have created a new business development team, whose objective is to grow direct sales and establish new commercial relationships and routes to market. Our customer services team has been enhanced significantly and the engineering team has been expanded in order to ensure our OEM and direct customers have the technical support they require. I am now confident that we have the commercial and technical personnel in place to support senior management as we look to drive the growth of the business in the years ahead.

I am delighted to report the appointment of Andrew Darby as Finance Director. Andrew Darby has over 17 years of experience in senior finance, strategic and operational roles within quoted companies in the information technology sector. He joins Microsaic from Active Risk Group plc, formerly an AIM-listed company specialising in enterprise risk management software solutions.

In October, we announced the formation of the Company's first Scientific Advisory Group. Members of the Group have impressive credentials across a wide range of areas in industry and research, and will be able to advise us on future applications for our chip-based technology.

Outlook

I am very pleased with the progress that Microsaic made across all areas of its business in 2013. We have built a strong foundation around the 4000 MiD® though our OEM partnerships and are confident of signing further agreements with other interested OEM partners who have established global sales distribution channels. Sales are building and we are gaining increasing recognition for the potential of our innovative MS technologies and new products within the scientific analytical instrumentation market, where we believe we have an opportunity to make MS accessible across a broader range of applications and to a much larger number of lab scientists than ever before.

We now have the team in place needed to support the expected growth and development of our business. We are focused on three business strategies that underpin our ambitions for 2014 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 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.

All our activities are aligned to these three priorities. Our 'plug & play' usability designs remain unique and the increasing market acceptance of our chip-based technology will provide the platform for further growth and differentiation from competitors. We remain intent on broadening the application base and enhancing user experience of the MiD® in order to make it the benchtop analytical tool of choice for chemists. It is my belief that these strengths, and focused strategy puts Microsaic Systems in a strong position to capitalise in an evolving market.

Strategic report – Risks and uncertainties
for the year ended 31 December 2013

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 — Establishing and maintaining a high reputation as a supplier of 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

The main financial risks arising from the Company's activities are liquidity risk and credit risk. The Company seeks to manage liquidity by ensuring sufficient funds are available to meet expected needs and to invest cash assets safely and profitably. In order to minimise risk to the Company's capital, funds are invested with financial institutions with strong credit ratings. Cash forecasts are updated regularly to ensure that there is sufficient cash available for foreseeable requirements. The Company has no external financing facilities therefore its interest rate risk is limited to the level of interest received on its cash surpluses.

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

This Annual Report contains certain forward looking statements that have been made by the Directors in good faith based on the information available at the time of the approval of the Annual Report. By their nature, such forward looking statements involve risks and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future. Actual results may differ from those expressed in such statements.

Strategic report – Performance measurement
for the year ended 31 December 2013

The ongoing performance of the Company is managed and monitored using a number of key performance indicators, both financial and qualitative.

Whilst there are many financial and operating measures regularly monitored by the Company, the primary financial metrics are:

	Year to 31 December 2013 £	Year to 31 December 2012 £
Revenue	**1,165,235**	606,281
Loss before tax and share based payments	**(2,331,671)**	(2,097,800)
Cash used in operating and investing activities	**(2,552,302)**	(1,476,565)
Cash and cash equivalents	**3,239,283**	1,788,579

Revenues comprise sales of products and income from development projects. Product sales now form the majority of the Company's revenue. Product launch is a key driver of our product revenue and 2013 saw both the launch of the Microsaic 4000 MiD® chip based mass spectrometer and the first OEM product incorporating the 4000 MiD®, namely the Isolera™ Dalton from Biotage AB, a fully integrated system for flash chromatography and mass identification.

Maintaining tight control over costs is another key objective in managing the developing business. This is monitored through monthly management accounts for each cost type and in the overall trading results (which are calculated excluding share based payments).

The Company is not yet profitable 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 an emphasis on operational cash flow forecasts, which are monitored at both management and Board level on a monthly basis.

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 by the Board. The more detailed aspects of these programmes are also discussed and monitored through separate project reviews. Research and development programmes which feed into the Company's product pipeline are planned and executed against identified objectives and timelines. The Company's intellectual property rights provide an indicator of the success of its R&D activities and the protection of its technology from competitors. Microsaic maintains a large portfolio of patents, of which 52 are granted.

This Strategic Report was approved by the Board of Directors on 29 April 2014 and signed on its behalf.

Colin Jump
Chief Executive Officer

Board of Directors
for the year ended 31 December 2013

Colin Nicholl, Non-executive Chairman
Colin Nicholl joined the Board of the Company in 2005 and has served as Chairman since July 2013, having previously been Deputy Chairman from 2006 until June 2013. He sits on the Board's Audit Committee. Colin brings a wealth of business, 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.

Eric Yeatman, Non-executive Director
Eric Yeatman is Professor of Micro-Engineering at Imperial College London. Professor Yeatman is a co-founder of the Company and was Chairman of the Board from 2004 to June 2013. He chairs the Board's Audit Committee and sits on the Board's Remuneration Committee. Eric was educated at Dalhousie University (Halifax, Canada) and Imperial College London, where he has been a member of staff since 1989. He specialises in micro-systems research and has acted as an advisor to two venture capital funds.

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.

Andrew Darby, Finance Director
Andrew Darby was appointed as Finance Director to the Company in April 2014. Mr Darby is a graduate of Cambridge University and a Chartered Accountant with over 17 years of experience in senior finance, strategic and operational roles within quoted companies.
He joined Microsaic from Active Risk Group plc, formerly an AIM-listed company specialising in enterprise risk management software solutions, where he spent seven years as Chief Operations Officer and Chief Financial Officer until its successful sale to Sword Group SE. Prior to joining Active Risk, Andrew held senior positions with Misys plc and Generali SpA and qualified as a Chartered Accountant with Coopers & Lybrand (now PriceWaterhouseCoopers).

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' report
for the year ended 31 December 2013

The Directors present their report for the year ended 31 December 2013.

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 Strategic Report.

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 (2012: nil).

Directors
Since 1 January 2013 the following Directors have held office:
C J Nicholl
C R Jump
M R Bateman (Resigned 15 April 2014)
A H Darby (Appointed 16 April 2014)
P I T Edwards
A S Holmes
J C Ramage
E M Yeatman

Colin Jump, Colin Nicholl and James Ramage were re-appointed at the Annual General Meeting on 15 May 2013.

At the forthcoming Annual General Meeting Peter Edwards and Eric Yeatman will retire by rotation and be proposed for re-appointment. Following his appointment since the year end, Andrew Darby will also retire at the Annual General Meeting and be proposed for re-appointment.

Directors' interests
The Directors' interests in the shares of the Company at 31 December 2013 were:

	Ordinary shares of 0.25p each at 31 December 2013		Ordinary shares of 0.25p each at 31 December 2012	
	Number	**%**	Number	%
C J Nicholl	**3,030,616**	**5.77**	2,565,500	6.03
C R Jump	**23,256**	**0.04**	–	–
M R Bateman	**36,664**	**0.07**	25,000	0.06
P I T Edwards	**31,977**	**0.06**	25,000	0.06
A S Holmes	**2,936,656**	**5.59**	2,913,400	6.85
J C Ramage	**261,190**	**0.50**	163,480	0.38
E M Yeatman	**3,252,723**	**6.19**	3,159,700	7.43
	9,573,082	**18.22**	8,852,080	20.81

Directors' report (continued)
for the year ended 31 December 2013

Significant shareholdings
Shareholders, excluding Directors, having a beneficial interest of 3% or more of the Company's shares as at 29 April 2014:

	Ordinary shares of 0.25p each at 29 April 2014	
	Number	%
BlackRock Investment Management	5,035,198	9.59
Fidelity Worldwide Investment	4,684,841	8.92
N W Wray	4,134,032	7.87
R R A Syms	3,735,200	7.11
Herald Investment Trust	2,745,348	5.23
Hargreave Hale	2,537,000	4.83
Octopus Investments	2,442,980	4.65
Amati Global Investors	2,293,000	4.36
A P Finlay	1,935,040	3.69

Employees
The Company regards the expertise and contributions of its employees as crucial to the future success of the business. The Company engages its employees to understand all aspects of the business and seeks to remunerate its employees fairly. The Company gives full and fair consideration to applications for employment received regardless of age, gender, colour, ethnicity, disability, nationality, religious beliefs or sexual orientation. The Board takes account of employees' interests when making decisions and suggestions from employees aimed at improving the Company's performance are encouraged.

Company share ownership plans
The Company operates two Share Ownership Plans for the benefit of its employees and Directors, an Employee Share Option Scheme (ESOS) and a Share Incentive Plan (SIP).

The ESOS was formed in 2006 to enable the incentivisation of key employees to be aligned to the performance of the Company. Under the ESOS the Company grants to employees options to acquire the Company's ordinary shares subject to:
- vesting periods (normally 5 years for new grants)
- a total exercise period of 10 years from date of grant
- the exercise price normally being the market price of the ordinary shares at the date of grant
- performance conditions, as appropriate

Options are granted to the maximum amount allowed under the limits of the Enterprise Management Incentive ('EMI') Scheme – these options are called 'Approved Options'. The EMI scheme is subject to the provisions of Schedule 5 of the Income Tax (Earnings and Pensions) Act 2003. Any options granted above EMI limits are 'Unapproved Options'.

The SIP enables all employees (subject to minimum service criteria) the opportunity to take a continuing stake in the Company. It was approved by HMRC in November 2012 and operated for the first time in 2013. A Plan Trust has been established for the purposes of acquiring the Company's shares. In accordance with SIP regulation employees can invest up to £1,500 from gross pay in any one year which is used to acquire shares known as 'Partnership Shares' and held within the Plan Trust. The Company may issue 'Matching Shares' in proportion to the Partnership Shares and also award employees with 'Free Shares'. Matching Shares and Free Shares vest on the completion by the participating employee of a further three years' service (and certain other events), and can be withdrawn from the plan tax-free after five years' service.

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.

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.

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 47 days’ purchases (2012: 48 days).

Related party transactions

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

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.

Auditors

Saffery Champness have expressed their 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.

This Directors’ Report was approved by the Board of Directors on 29 April 2014 and signed on its behalf.

Andrew Holmes
Company Secretary

Company number 3568010

Directors' remuneration report
for the year ended 31 December 2013

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, bonus or other benefits from the Company. Since becoming a public limited company, no share options have been issued to Non-executive Directors. Non-executive Directors may participate in Company share ownership plans on the same terms as other staff.

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 2013 Total £**	Year to 31 December 2012 Total £
C J Nicholl	23,209	–	–	**23,209**	18,010
C R Jump	159,372	15,000	–	**174,372**	46,562(1)
M R Bateman	79,128	5,961	4,670	**89,759**	66,219
P I T Edwards	98,821	10,013	7,395	**116,229**	103,764
A S Holmes	21,750	–	–	**21,750**	18,800
P R Selway	–	–	–	**–**	3,900(2)
J C Ramage	19,577	–	–	**19,577**	13,750
E M Yeatman	22,772	–	–	**22,772**	51,500
	424,629	30,974	12,065	**467,668**	322,505

(1) from 1 November 2012
(2) to 30 May 2012

Share Incentive Plan (SIP)

M R Bateman and J C Ramage participated in the Company SIP in 2013 and were each awarded 1,562 Matching shares under the terms of the scheme. These interests remained at 31 December 2013 (2012: nil).

Directors' share options

Share options over the Company's ordinary shares held by the Directors during the year were:

	At 1 January 2013 Number	Lapsed in the year Number	Exercised in the year Number	**At 31 December 2013 Number**	Exercise price p	Exercise period
C J Nicholl	116,000	(116,000)	–	**–**	43.10p	24 May 2006 – 24 May 2013
	116,000	–	–	**116,000**	43.10p	24 May 2008 – 24 May 2015
	116,000	–	–	**116,000**	43.10p	24 May 2009 – 24 May 2016
C R Jump	1,276,191	–	–	**1,276,191**	39.00p	10 Dec 2017 – 9 Dec 2022
M R Bateman	40,600	–	–	**40,600**	129.31p	1 Dec 2010 – 19 Feb 2018
	19,333	–	–	**19,333**	25.86p	3 Dec 2012 – 2 Dec 2020
	38,667	–	–	**38,667**	25.86p	3 Dec 2013 – 2 Dec 2020
	80,000	–	–	**80,000**	42.00p	2 Jul 2015 – 1 Jul 2022
P I T Edwards	191,400	–	–	**191,400**	129.31p	11 Apr 2011 – 19 Feb 2018
	77,333	–	–	**77,333**	25.86p	3 Dec 2012 – 2 Dec 2020
	154,667	–	–	**154,667**	25.86p	3 Dec 2013 – 2 Dec 2020
	40,000	–	–	**40,000**	42.00p	2 Jul 2015 – 1 Jul 2022
	2,266,191	(116,000)	–	**2,150,191**		

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 2013 was 39p and on 31 December 2013 was 43.5p, with a high and low over the year of 48p and 38p respectively.

Directors' service contracts

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

	Contract Date	Term	Notice period
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
E M Yeatman	1 April 2006	Indefinite	3 months

Corporate governance report
for the year ended 31 December 2013

As an AIM-listed company, Microsaic Systems plc is not required to comply with the UK Corporate Governance Code (2010), a set of recommended corporate governance principles for UK public companies issued by the Financial Reporting Council. However, the Directors support high standards of corporate governance and have established a set of corporate governance principles which they regard as appropriate for the size, nature and stage of development of the Company based on the QCA Guidelines.

The Board
In July 2013 Colin Nicholl became Chairman of the Board in succession to Eric Yeatman, who continues to serve as a Non-executive Director.

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.

Directors' attendance record
The following table shows the attendance at the meetings of the Board of Directors during 2013:

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

Audit Committee
The remit 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 2013 were E M Yeatman (from July 2013, Committee Chairman), C J Nicholl (Committee Chairman until June 2013), J C Ramage and A S Holmes. 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 three times in 2013.

Remuneration Committee
The remit 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 2013 were J C Ramage (Committee Chairman), C J Nicholl (until June 2013), A S Holmes and E M Yeatman (from July 2013).

The Remuneration Committee met four times in 2013.

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 of the London Stock Exchange and on the Company's website,
— The annual report and financial statements are sent to all registered shareholders,
— Notices of all meetings of shareholders are also sent to all registered shareholders.

Independent auditors' report to the members of Microsaic Systems plc

for the year ended 31 December 2013

We have audited the financial statements of Microsaic Systems plc for the year ended 31 December 2013 on pages 20 to 39. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union 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 with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and auditors

As explained more fully in the Directors' responsibilities statement set out on page 13, 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 and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of affairs of the Company as at 31 December 2013 and of its loss for the year then ended; and
- have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

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

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

29 April 2014

Statement of comprehensive income
for the year ended 31 December 2013

	Notes	Year to 31 December 2013 £	Year to 31 December 2012 £
Revenue	5	**1,165,235**	606,281
Cost of sales		**(2,042,354)**	(1,486,490)
Gross loss		**(877,119)**	(880,209)
Operating expenses		**(1,536,398)**	(1,179,516)
Loss from operations	6	**(2,413,517)**	(2,059,725)
Finance income	7	**7,843**	10,493
Loss before tax		**(2,405,674)**	(2,049,232)
Tax on loss on ordinary activities	8	**120,516**	182,163
Total comprehensive loss for the year		**(2,285,158)**	(1,867,069)
Loss per share attributable to the equity shareholders of the Company			
Basic and diluted loss per ordinary share	9	**(4.71)p**	(4.56)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 2013

	Notes	Share capital £	Share premium £	Share option reserve £	Retained earnings £	Total equity £
At 1 January 2012		96,681	3,214,253	647,690	(1,712,505)	2,246,119
Shares issued		9,668	1,537,231	–	–	1,546,899
Share issue costs		–	(100,074)	–	–	(100,074)
Transfer in respect of lapsed share options		–	–	(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
Shares issued	16	24,922	4,259,698	–	–	4,284,620
Share issue costs		–	(281,614)	–	–	(281,614)
Transfer in respect of lapsed share options		–	–	(190,761)	190,761	–
Total comprehensive loss for the year		–	–	–	(2,285,158)	(2,285,158)
Share based payments – share options		–	–	74,003	–	74,003
At 31 December 2013		**131,271**	**8,629,494**	**382,812**	**(5,574,419)**	**3,569,158**

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

Statement of financial position
as at 31 December 2013

	Notes	31 December 2013 £	31 December 2012 £
Assets			
Non-current assets			
Intangible assets	10	131,831	128,885
Property, plant and equipment	11	210,546	84,265
Total non-current assets		342,377	213,150
Current assets			
Inventories	12	204,841	190,352
Trade and other receivables	13	415,220	181,529
Corporation tax receivable		80,000	150,000
Cash and cash equivalents		3,239,283	1,788,579
Total current assets		3,939,344	2,310,460
Total assets		4,281,721	2,523,610
Equity and liabilities			
Equity			
Share capital	16	131,271	106,349
Share premium	17	8,629,494	4,651,410
Share option reserve	17	382,812	499,570
Retained earnings		(5,574,419)	(3,480,022)
Total equity		3,569,158	1,777,307
Current liabilities			
Trade and other payables	14	712,563	746,303
Total equity and liabilities		4,281,721	2,523,610

The financial statements were approved for issue by the Board of Directors on 29 April 2014.

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 2013

	Notes	Year to 31 December 2013 £	Year to 31 December 2012 £
Loss from operations		**(2,413,517)**	(2,059,725)
Amortisation of intangible assets	10	**56,843**	67,169
Depreciation of property, plant and equipment	11	**93,261**	58,513
Share based payments		**74,003**	(48,568)
(Increase) in inventories		**(14,489)**	(41,227)
(Increase)/Decrease in trade and other receivables		**(233,691)**	129,912
(Decrease)/Increase in trade and other payables		**(33,740)**	298,671
Cash used in operations		**(2,471,330)**	(1,595,255)
Taxation received		**190,516**	222,163
Net cash used in operating activities		**(2,280,814)**	(1,373,092)
Cash flows from investing activities			
Purchases of intangible assets	10	**(59,789)**	(58,682)
Purchases of property, plant and equipment	11	**(219,542)**	(55,284)
Interest received		**7,843**	10,493
Net cash used in investing activities		**(271,488)**	(103,473)
Cash flows from financing activities			
Proceeds from share issues	16	**4,284,620**	1,546,899
Share issue costs		**(281,614)**	(100,074)
Net cash from financing activities		**4,003,006**	1,446,825
Net increase/(decrease) in cash and cash equivalents		**1,450,704**	(29,740)
Cash and cash equivalents at the beginning of the year		**1,788,579**	1,818,319
Cash and cash equivalents at the end of the year		**3,239,283**	1,788,579

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

Notes to the financial statements
for the year ended 31 December 2013

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.

The Company recognises research and development tax credits receivable in cash as a current asset under the heading corporation tax receivable. Any difference with amounts actually received are dealt with as adjustments to prior period tax.

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.

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, 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 2013 and relevant to the Company's results:

IAS 1 Presentation of Financial Statements
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.

Annual Improvements 2009–2011 Cycle: Amendments clarifying the requirements for comparative information including minimum and additional comparative information required.

New standards, amendments and interpretations effective in 2013 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:

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.

IAS 16 Property, Plant and Equipment
Annual Improvements 2009–2011 Cycle: Amendments to the recognition and classification of servicing equipment.

IAS 19 Employee Benefits
Amendments to the accounting for current and future obligations resulting from the provision of defined benefit plans.

IAS 32 Financial instruments: presentation (revised)
Annual Improvements 2009–2011 Cycle amendments to clarify the tax effect of distribution to holders of equity instruments.

IAS 34 Interim Financial Reporting (revised)
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)
Standard amended to provide guidance for entities emerging from severe hyperinflation and resuming presentation of IFRS compliant financial statements, or presenting IFRS compliant 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.

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.

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

IFRS 7 Financial Instruments: Disclosures
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 13 Fair Value Measurement
New guidance on fair value measurement and disclosure requirements.

IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine
Clarifies the requirements for accounting for stripping costs associated with waste removal in surface mining.

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

None.

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 27 Consolidated and Separate Financial Statements – Effective for periods beginning on or after 1 January 2014:
Consequential amendments resulting from the issue of IFRS 10, 11 and 12.

Requirement to account for interests in 'Investment Entities' at fair value under IFRS 9, Financial Instruments, or IAS 39, Financial Instruments: Recognition and Measurement, in the separate financial statements of a parent.

IAS 28 Investments in Associates – Effective for periods beginning on or after 1 January 2014:
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.

IAS 36 Impairment of Assets – Effective for periods beginning on or after 1 January 2014:
Amendments to the disclosure requirements regarding the measurement of the recoverable amount for impaired assets.

IAS 39 Financial Instruments – Effective for periods beginning on or after 1 January 2014:
Amendments to provide an exception to the requirement for discontinuation of hedge accounting in circumstances where a hedging instrument is required to be novated to a central counterparty as a result of laws or regulations.

IFRS 10 Consolidated Financial Statements – Effective for periods beginning on or after 1 January 2014:
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.

Amendments to the transition guidance of IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements and IFRS 12 Disclosure of Interests in Other Entities limiting the requirements to provide adjusted comparative information.

IFRS 10 exception to the principle that all subsidiaries must be consolidated; entities meeting the definition of 'Investment Entities' must be accounted for at fair value under IFRS 9, Financial Instruments, or IAS 39 Financial Instruments: Recognition and Measurement.

IFRS 11 Joint Arrangements – Effective for periods beginning on or after 1 January 2014:
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.

Amendments to the transition guidance of IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements and IFRS 12 Disclosure of Interests in Other Entities limiting the requirements to provide adjusted comparative information.

IFRS 12 Disclosure of Interest in Other Entities – Effective for periods beginning on or after 1 January 2014:
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.

Amendments to the transition guidance of IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements and IFRS 12 Disclosure of Interests in Other Entities limiting the requirements to provide adjusted comparative information.

New disclosures required for Investment Entities (as defined in IFRS 10).

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 from the date of signing.

The Company's business activities together with the factors likely to affect its future development, performance and position are set out in the strategic 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 commercialisation phase of its development, and the financing of operations in the future will be from employment of existing cash reserves and revenue from product sales.

The Directors have prepared trading and cash flow projections that extend beyond 12 months from the date of this report. These include increasing revenue levels which the Directors believe will be derived from the sale of its products and are supported by market feedback that has been received. There is no certainty that the expected level of sales will be achieved and if there were a significant shortfall it may be necessary for the Company to secure alternative sources of funding to enable it to remain a going concern. Whilst the Company has been successful securing funding in the past, this is no guarantee that it will be possible in the future. However, the Directors have a reasonable expectation that the Company will have access to sufficient funding to continue operations for at least twelve months from the signing of this report and therefore they continue to adopt the going concern basis for the preparation of the 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 5 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.

5. Revenue

Throughout 2013 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. An analysis of revenue by geographic market has not been presented as many of the Company's products are sold through international distribution channels and it is not possible to determine their final destinations. The Directors consider that an analysis of revenue by geographic market using distributor locations would be misleading.

Government grants

Included within the Company's revenue for the year ended 31 December 2013 is £157,841 (2012: £294,580) from UK Government grants and European grant funded projects.

In 2013 the Company was awarded a grant of up to €308,000 under the European Commission's 7th Framework Programme as part of a consortium for a research project. Revenue of £26,879 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 2015.

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 £704,649 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 2014.

6. Expenses by nature

	Year to 31 December 2013 £	Year to 31 December 2012 £
Loss from operations is stated after charging/(crediting)		
Amortisation of intangible assets	**56,843**	67,169
Depreciation of property, plant and equipment	**93,261**	58,513
Pension costs	**60,998**	54,755
Share based payments – equity settled	**74,003**	(48,568)
Operating lease rentals – land and buildings	**78,225**	66,225
Exchange (gain)/loss	**(1,785)**	2,618
Research and development expenditure	**927,379**	1,298,129
Directors' emoluments	**467,668**	322,505

	Year to 31 December 2013 £	Year to 31 December 2012 £
Services provided by the Company's auditors		
Fees payable to the Company's auditors for the audit of the financial statements	**13,000**	12,000
Fees payable to the Company's auditors for other services		
– Tax compliance	**5,000**	4,000
– Other	**–**	1,250
	18,000	17,250

7. Finance income

	Year to 31 December 2013 £	Year to 31 December 2012 £
Bank interest	**7,843**	7,313
Other interest	**–**	3,180
	7,843	10,493

8. Tax on loss on ordinary activities

	Year to 31 December 2013 £	Year to 31 December 2012 £
Domestic current period tax		
UK corporation tax	**(80,000)**	(150,000)
Adjustment for prior periods	**(40,516)**	(32,163)
Current tax credit	**(120,516)**	(182,163)
Deferred tax	**–**	–
Tax on loss on ordinary activities	**(120,516)**	(182,163)
Factors affecting the current tax credit for the period		
Loss before tax	**(2,405,674)**	(2,049,232)
Loss before tax multiplied by standard rate of UK corporation tax of 20% (2012: 20%)	**(481,135)**	(409,846)
Effects of:		
Non deductible expenses	**18,875**	(7,207)
Depreciation	**18,652**	11,703
Capital allowances	**(47,592)**	(13,111)
Research and development expenditure	**13,523**	(4,833)
Tax losses carried forward	**397,677**	273,294
Previous period research and development adjustment	**(40,516)**	(32,163)
Current tax credit	**(120,516)**	(182,163)

The Company has estimated tax losses of £7,746,000 (2012: £5,758,000) 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 2013	Year to 31 December 2012
Loss after tax attributable to equity shareholders	**£(2,285,158)**	£(1,867,069)
Weighted average number of ordinary 0.25p shares for the purpose of basic and diluted loss per share	**48,481,309**	40,935,477
Basic and diluted loss per ordinary share	**(4.71)p**	(4.56)p

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 2013	342,164
Additions	59,789
Disposals	(29,050)
At 31 December 2013	**372,903**
Amortisation	
At 1 January 2013	213,279
Charge for the year	56,843
Disposals	(29,050)
At 31 December 2013	**241,072**
Net book value	
At 31 December 2013	**131,831**
At 31 December 2012	128,885

11. Property, plant and equipment

	Plant and equipment £	Fixtures and fittings £	Total £
Cost			
At 1 January 2013	556,103	123,494	679,597
Additions	120,221	99,321	219,542
Disposals	(32,101)	–	(32,101)
At 31 December 2013	**644,223**	**222,815**	**867,038**
Depreciation			
At 1 January 2013	476,970	118,362	595,332
Charge for the year	13,063	80,198	93,261
Disposals	(32,101)	–	(32,101)
At 31 December 2013	**457,932**	**198,560**	**656,492**
Net book value			
At 31 December 2013	**186,291**	**24,255**	**210,546**
At 31 December 2012	79,133	5,132	84,265

The gross carrying amount of fully depreciated assets still in use at 31 December 2013 is £441,931.

12. Inventories

	Year to 31 December 2013 £	Year to 31 December 2012 £
Raw materials	**203,538**	109,133
Work in progress	**1,303**	66,371
Finished goods	**–**	14,848
	204,841	190,352

13. Trade and other receivables

	Year to 31 December 2013 £	Year to 31 December 2012 £
Amounts falling due within one year		
Trade receivables	**178,132**	24,000
Other receivables	**126,988**	127,499
Other taxes and social security	**110,100**	30,030
	415,220	181,529

14. Trade and other payables

	Year to 31 December 2013 £	Year to 31 December 2012 £
Amounts falling due within one year		
Trade payables	**346,323**	286,339
Other taxes and social security	**57,029**	53,756
Other payables	**39,449**	9,840
Accruals and deferred income	**269,762**	396,368
	712,563	746,303

15. Provisions

Deferred tax

	£
Balance at 1 January and 31 December 2013	–

Deferred taxation provided in the financial statements

	31 December 2013 £	31 December 2012 £
Accelerated capital allowances	**36,321**	15,602
Tax losses carried forward	**(36,321)**	(15,602)
	–	–

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 2012	42,539,748	106,349
Ordinary shares issued for cash in the year	9,968,628	24,922
Ordinary shares as at 31 December 2013	**52,508,376**	**131,271**

Following adoption of new articles of association in April 2011, the Company does not have a stated authorised share capital. The Company has one class of share, ordinary shares of 0.25p each, 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 – May 2013	9,951,443	43	4,279,120
Share Incentive Plan – June 2013	17,185	32	5,500
	9,968,628		**4,284,620**

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. Where share options expire unexercised at the end of their exercise period, the amounts within the share option reserve relating to those options are transferred to retained earnings.

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 2013 £	31 December 2012 £
Land and buildings		
Within one year	**97,400**	47,557
Between one and two years	**164,768**	–
	262,168	47,557

19. Capital commitments

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

	31 December 2013 £	31 December 2012 £
Contracted for but not provided in the financial statements	**–**	–

20. Directors' emoluments

	Year to 31 December 2013 £	Year to 31 December 2012 £
Salaries and fees	**424,629**	282,357
Other payments	**30,974**	29,025
Pension costs	**12,065**	11,123
	467,668	322,505

During the year, no options were exercised by or granted to the Directors.

In the year to 31 December 2013 two Directors accrued benefits under money purchase retirement benefit schemes (2012: two).

Further information is provided in the Directors' remuneration report.

21. Employees

	Year to 31 December 2013 Number	Year to 31 December 2012 Number
The average monthly numbers of employees		
Directors	**7**	7
Other staff	**28**	24
	35	31

	Year to 31 December 2013 £	Year to 31 December 2012 £
Employment costs (including Directors)		
Wages and salaries	**1,556,991**	1,329,969
Social security costs	**180,818**	151,302
Pension costs	**60,998**	54,755
Employment related share based payments	**74,003**	(48,568)
	1,882,810	1,487,458

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 payments

Share option schemes

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 2013		Year to 31 December 2012	
	Number of options	**Weighted average exercise price**	Number of options	Weighted average exercise price
Outstanding at the beginning of the year	**3,312,388**	**53.5p**	1,944,025	59.4p
Granted during the year	**–**	**–**	1,984,863	41.2p
Cancelled during the year	**(541,397)**	**88.3p**	(616,500)	32.4p
Exercised during the year	**–**	**–**	–	–
Outstanding at 31 December	**2,770,991**	**46.8p**	3,312,388	53.5p
Exercisable at 31 December	**904,800**	**60.8p**	1,174,757	81.5p

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 1 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
May 2006	*107.50p	5.25%	35%	–
February 2008	*129.31p	5.25%	35%	–
December 2010	*25.86p	1.50%	75%	–
April 2011	32.00p	0.50%	50%	–
June 2012	40.00p	0.50%	33%	–
July 2012	42.00p	0.50%	33%	–
December 2012	39.00p	1.00%	33%	–

* The share prices and corresponding option exercise prices for grants made up to 2010 have been adjusted for a bonus issue and share sub-division that took place in April 2011.

Date of grant	Exercise price	Latest exercise date	Estimated fair value	**Number of options 31 December 2013**	Number of options 31 December 2012
Director and employee share options:					
May 2006	43.10p	May 2013	79.5p	**–**	116,000
May 2006	43.10p	May 2015	79.5p	**116,000**	116,000
May 2006	43.10p	May 2016	79.5p	**116,000**	116,000
February 2008	129.31p	Feb 2018	26.6p	**266,800**	266,800
December 2010	25.86p	Dec 2020	11.0p	**406,000**	406,000
July 2012	42.00p	Jul 2022	12.1p	**590,000**	590,000
December 2012	39.00p	Dec 2022	13.6p	**1,276,191**	1,276,191
Advisor share options:					
May 2006	100.67p	May 2013	54.8p	**–**	250,560
April 2011	100.67p	May 2013	1.1p	**–**	136,165
June 2012	100.67p	May 2013	1.6p	**–**	38,672
				2,770,991	3,312,388

22. Share-based payments (continued)

Share Incentive plan (SIP)

All employees are eligible to participate in the Company's HM Revenue and Customs approved SIP after 12 months' service. The SIP operated for the first time in 2013. Participating employees made a cash contribution to the plan from their gross pay which was used by the Plan Trust to purchase Partnership Shares. The Company issued one Matching Share for each two Partnership Shares. The Matching shares vest on the completion by the participating employee of a further three years' service and can be withdrawn from the plan tax-free after five years' service.

There were 4 participants in the scheme at 31 December 2013. During the year the Company issued 11,457 ordinary shares as Partnership shares into the SIP for consideration of £5,500. 5,728 ordinary shares were issued as Matching shares with a market value of £2,750. At the year end the SIP held 17,185 ordinary shares (2012: nil) on behalf of the scheme participants. The fair value of the Matching Shares is taken as the Company share price at the time of the granting, and this is charged to the statement of income over the three year vesting period. The charge for 2013 was £458 (2012: nil).

23. Financial instruments

The Company's financial instruments comprise cash and various 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

The Company is financing its operations from equity funding provided by shareholders and revenues generated by the business. The Company seeks to manage liquidity risk to ensure sufficient funds are available to meet requirements.

The Company invests its cash reserves in bank and money market deposits as a liquid resource to fund its operations. The Company's strategy for managing cash is to maximise interest income at low risk whilst ensuring availability to match the profile of the Company's cash flows.

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 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 major international corporations and institutions.

Foreign currency risk

The Company is based in the United Kingdom and the majority of its transactions 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 2013.

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 2013 and 31 December 2012.

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 successful 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 2013, no individual shareholder had a controlling interest in the Company.

26. Subsequent events

There have been no significant events after the balance sheet date.

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 Numis Securities Limited, The London Stock Exchange Building, 10 Paternoster Square, London EC4M 7LT on 2 June 2014 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 2013, together with the Directors' report and auditors' report thereon, be and are hereby received and adopted;
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 Andrew Hamish Darby be and hereby is re-appointed as a Director of the Company, following his appointment to the Board with effect from 16 April 2014 and his subsequent retirement pursuant to Article 81.1(a) of the articles of association of the Company (the "Articles");
4. THAT Peter Ivor Tudor Edwards be and hereby is re-appointed as a Director of the Company, following his retirement pursuant to Article 81.1(b) of the Articles;
5. THAT Eric Morgan Yeatman 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 £43,756.98, 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, 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 persons 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 £26,254.19 representing 20 (twenty) per cent. 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

8 May 2014

Registered Office
GMS House
Boundary Road
Woking
Surrey
GU21 5BX

Explanatory comments on the resolutions proposed at the Annual General Meeting (the "Meeting") of the Company to be held at the offices of Numis Securities Limited, The London Stock Exchange Building, 10 Paternoster Square, London EC4M 7LT on 2 June 2014 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 minimum of one 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 2013.

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 20 per cent. 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)

The following notes explain your general rights as a shareholder and your rights to attend and vote at the Meeting or to appoint someone else to vote on your behalf

Notes

Quorum

1. The quorum for the Meeting shall be two shareholders present in person or by proxy. If, within fifteen 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, including information required by section 311A of the Companies Act 2006, is available from www.microsaic.com

Entitlement to attend and vote

3. Only those holders of ordinary shares of 0.25p each in the capital of the Company ("Shares") registered on the Company's register of members at 6 p.m. on 29 May 2014 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 member that is a company or other organisation not having a physical presence cannot attend in person but can appoint someone to represent it. This can be done in one of two ways: either by the appointment of a proxy (described in Notes 4 to 6 above) or of a corporate representative. Members considering the appointment of a corporate representative should check their own legal position, the Company's articles of association and the relevant provision of the Companies Act 2006

   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 Asset Services at PXS1, 34 Beckenham Road, Beckenham, BR3 4ZF, United Kingdom at 11 a.m. on 29 May 2014 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 Asset Services no later than 48 hours before the rescheduled Meeting.

   On completing the Form of Proxy, sign it and return it to Capita Asset Services 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 Asset Services at PXS1, 34 Beckenham Road, Beckenham, BR3 4ZF, 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 52,508,376 ordinary shares of 0.25p each.

   On a vote by a show of hands, every holder of Shares who (being an individual) is present in 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 Asset Services' shareholder helpline (lines are open from 9.00am to 5.00pm 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 Asset Services at The Registry, 34 Beckenham Road, Beckenham, 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	C J Nicholl	Chairman
	C R Jump	Chief Executive Officer
	A H Darby	
	P I T Edwards	
	A S Holmes	
	J C Ramage	
	E M Yeatman	
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 199 Bishopsgate London EC2M 3UT	
Nominated adviser and broker	Numis Securities Limited The Stock Exchange Building 10 Paternoster Square London EC4M 7LT	
Registrars	Capita Asset Services 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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