Microsaic Systems plc

Annual Report 2014

Microsaic Systems

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

Highlights

2014 Highlights

- Signing of two further OEM agreements. One with Gilson Inc. for our single quadruple unit (the 4000 MiD®) and a second with a leading global scientific company for our triple quadrupole mass spectrometry technology
- Signing of an important agreement with Plexus Corp. for the manufacture of the 4000 MiD® to meet increasing demand

Post-period update

- Signing of an OEM agreement with GE Healthcare for both the 4000 MiD® and our MiDas™ unit
- Signing of a distributor agreement with Kinesis Ltd for the distribution of our 4000 MiD® in the UK, Europe and India

Financial summary

- Revenue up 32% to £1.20 million (2013: £0.91 million)
- Placing of 10,500,000 ordinary shares raising £4.41 million before costs
- Cash at 31 December 2014 £4.55 million (2013: £3.24 million)

Chairman's statement
for the year ended 31 December 2014

I am pleased to present the Company's Annual Report & Financial Statements for the year ended 31 December 2014.

Delivering on our strategic aims
We established a number of business objectives for 2014 to underpin our ambitions and I am pleased to announce progress in all areas as follows.

An increased investment in marketing and communications has been undertaken to promote your Company, its products, technologies and core brand values. This has led to an increasing amount of in-bound interest in our products from potential partners and customers. We anticipate this continuing as we move forward.

In 2014 we signed two further OEM agreements. One is with Gilson Inc. for our single quadruple unit (the 4000 MiD®) and a second with a leading global scientific Company for our triple quadrupole mass spectrometry technology.

In addition, we signed an important agreement with Plexus Corp. for the manufacture of the 4000 MiD®. This will facilitate the scaling up of our production capabilities to meet increasing demand. It will enable your Company to optimise its potential now and in the future.

Our R&D programmes remain key areas in which we continue to invest, and we were pleased to announce early in 2014 the launch of the MiDas™, a compact interface module. This new product is intended to extend the use of the 4000 MiD® more widely throughout the scientific research community. Further exciting R&D programmes are in various stages of planning and development to ensure your Company remains at the forefront of its chosen fields.

Financial results
Microsaic generated revenues of £1.20 million in 2014, an increase of 32% over 2013 revenues (£0.91 million). The growth in consumable revenue is particularly noteworthy. The loss before tax of £3.16 million (2013: loss of £2.40 million), is a result of a larger cost base and is a reflection of our continued investment in the future of your Company as we lay the foundations and structures for a successful commercial enterprise.

Shareholders
The board is grateful for the ongoing support of shareholders which allowed your board to raise further funds of £4.1 million (after expenses) in October. These will provide the essential working capital required by your Company to finance its continuing growth and evolution.

Staff
On behalf of the Board, I would like to express my gratitude to our staff for their hard work, loyalty and for continuing to innovate, which is vital to the future success of the Company.

In addition, I am pleased to announce the appointment of Glenn Tracey as Chief Operating Officer. This is a new and important role given the increasing number of opportunities now available to your Company. Glenn will join the management team and report directly to Colin Jump.

The Board
As previously announced, Andrew Darby joined as our Finance Director in April, taking over from Malcolm Bateman. Peter Edwards, Technical Director, retired from the Board and Company in July. We thank both Malcolm and Peter for their important contributions to the business and wish them every success in the future.

Outlook
With the progress that the Company made in 2014 and the new announcements in 2015, the Board remains confident that Microsaic is well-positioned to capitalise on its leadership in its chosen fields and grow the business over the coming years.

Colin Nicholl
Chairman

20 March 2015

Strategic report – Company overview and business model
for the year ended 31 December 2014

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 during pharmaceutical development, and is also widely used in other industries including healthcare, environmental safety, 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 to capture value from the growing $3.9 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 successor to the 3500 MiD®, the 4000 MiD® was launched in March 2013 at Pittcon, the world's largest annual conference and exposition on laboratory science and scientific instrumentation. The 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.

To further expand the marketplace for the 4000 MiD®, in January 2014 the Company launched the MiDas™ compact interface module to extend the use of MS in the laboratory from specialist analytical chemists to the wider research community. The MiDas™ connects to the 4000 MiD® and offers automated sample preparation and handling for direct MS analysis in real time at the lab bench or in the fume hood.

The Company has an on-going R&D programme building on the achievements already made and focused on increasing the reach of its core Ionchip® technology, which underpins the MiD®. The product pipeline includes more sophisticated MS systems that will allow the Company 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.

Current partnerships are explained elsewhere in this report. 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, and since the year-end an agreement with Kinesis, a leading international supplier of analytical consumables and equipment, has been signed for distribution of Microsaic-branded 4000 MiD® instruments in the UK, Europe and India.

Manufacture of the non-chip based components of the 4000 MiD® has been out-sourced to Plexus, a leading manufacturer to technology companies, in preparation for production scale up.

History of the Company
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 2014

Microsaic has enjoyed another highly productive year in 2014, making good progress in our on-going evolution into a successful commercial business. We continued to execute our strategy of developing commercial partnerships with international suppliers of complementary equipment so that we can sell our products through their existing sales channels. In parallel, we made significant technological advances that will in time give us the capability needed for our next generation of products. These will further broaden the range of applications that our miniaturised mass spectrometry (MS) instruments can address.

Our technology and our products
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 reducing the overall cost of ownership and makes MS much more accessible to lab scientists than it has ever been before.

Today we market two products. Our lead MS instrument is the Microsaic 4000 MiD®, officially launched in March 2013. Sales of this product increased during the year, mainly through our OEM partner, Biotage AB, which features the 4000 MiD® as a core component of its Isolera™ Dalton instrument. In January 2014, we launched the MiDas™ compact interface module. This unit has been designed to extend the use of MS in the laboratory from specialist analytical chemists to the wider research community. The MiDas™ unit connects to the 4000 MiD® and offers automated sample preparation and handling for direct MS analysis in real-time at the lab bench or in the fume hood

Commercial strategy
The 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.

We signed additional agreements during 2014 with Gilson Inc. and with a leading global scientific company.

Our agreement with Gilson is for our 4000 MiD® to be combined with Gilson's high performance liquid chromatography instruments. I am pleased to report that initial units were shipped during January 2015 to Gilson where further development of the final combined product is being conducted.

Our agreement with a leading global scientific company is for our triple quadrupole technology for use in applied markets. Triple quadrupole technology provides us with an opportunity to extend the application of MS to the analysis of more complex materials, such as food, medical or environmental samples.

Since the year-end we have signed a further OEM agreement with GE Healthcare for a customised version of our 4000 MiD® to be deployed, together with the MiDas™, in combination with GE Healthcare's instruments as an innovative new analytical instrument for use in research and healthcare applications.

While commercial sensitivities prevent us disclosing more detail on the agreements we have signed or specific applications being targeted, we can state that we are delighted with the high quality of our partners and the strong working relationships we have established. This gives us confidence that resulting products have the best opportunity to fulfil their commercial potential.

Outsourcing the manufacture of the non-chip based components of the 4000 MiD® in preparation for production scale up was a key strategic aim during 2014. We were delighted therefore to sign an agreement in September 2014 with Plexus, a leading manufacturer to technology companies. The handover process is complete and the first finished units were delivered to us in early 2015.

Furthermore, since the year-end we have signed a distributor agreement with Kinesis, a leading international supplier of analytical consumables and equipment, for the distribution of the Microsaic-branded 4000 MiD® in the UK, Europe and India. Demonstration units have already been ordered and delivered.

We will continue to develop relationships with new potential commercial partners in the pharma, biotech and other targeted sectors.

Finally, to support our commercial strategy, we achieved ISO 9001 accreditation during 2014.

R&D

Our marketing plan for 2014 continued to be 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, described earlier.

Our R&D in 2015 will be directed towards achieving technical milestones in our OEM partnership opportunities, as well as developing next-generation products to expand our range of applications.

Microsaic maintains a large portfolio of patents, of which 52 are granted.

People

We have made significant investment in our business development, customer services and engineering teams over the last 18 months to position the Company for future commercial growth. The emphasis over the next 12 months will be to apply these teams in the execution of the business we have already won. We will continue to recruit new talent where it will complement the existing team in order to maintain a market-leading position.

The Company's Scientific Advisory Group, formed in 2013, met a number of times during the year and has made valuable contributions to the product marketing plan going forward.

Performance Measurement

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

The Company's revenues are monitored as follows:

Revenue metrics	**Year to 31 December 2014 £**	Year to 31 December 2013 £	Inc/(Dec) %
Products	**1,010,062**	835,770	21%
Consumables	**102,333**	59,232	73%

Revenues comprise sales of products, consumables thereon and service income associated with delivering the products. The growth in consumables income reflects the growing user base.

The Company's profit and cash are monitored as follows:

Profit & cash metrics	**Year to 31 December 2014 £**	Year to 31 December 2013 £	Inc/(Dec) £
Loss before share based payments, interest & tax	**(3,108,280)**	(2,339,514)	–33%
Cash used in operating and investing activities	**(2,878,993)**	(2,552,302)	–13%
Cash and cash equivalents	**4,548,545**	3,239,283	40%

The Company's profitability is monitored through monthly forecasting, which tracks where the business is and where it is forecast to be at a certain date. The cash position is monitored on a daily basis and re-forecast monthly.

The progress of the Company's research and development programmes is reviewed on a monthly basis by the senior management team. Progress is summarised for the board.

Financial Results

In line with the Company's transition from grant-generated revenues to product sales, an accounting policy change has been made to make the financial information more relevant. This will also make it easier for users to understand the financial statements. Accordingly, non-product sales are now presented under 'Other operating income' and cost of sales and operating expenses have been re-categorised so that cost of sales now includes only the raw materials cost of products sold. Operating expenses represents the cost base of the business. As a result of this accounting policy change, comparative figures have been restated.

Revenues increased 32% to £1,203,636 (2013: £908,442). Product sales increased by 21%, with a full in year contribution from Biotage, and consumables increased by 73%, reflecting the growing user base. In line with the Company's transition from being reliant on income from EU grants and prototype sales, other operating income was lower at £102,145 (2013: £256,793). Gross margins were 42% (2013: 36%) and, accordingly gross profit was £503,456 (2013: £326,919).

We have noted that one distribution channel has delivered softer than expected product sales in early 2015. The causes of this issue have been identified and management is taking steps to address this. The recently signed OEM agreements will begin contributing to sales growth as further new products are launched, anticipated in H2 2015 and 2016.

Operating expenses (excluding share-based payments) were £3,713,881 (2013: £2,923,226). The increase in operating expenses was mainly due to the Company's investment in the building of OEM partnerships, all of which are located overseas, and the investment in the manufacturing process to make it capable of being outsourced and ready for mass production.

Therefore, the loss for the period, before share-based payments, tax and interest, was £3,108,280 (2013: £2,339,514).

In October, the Company placed 10,500,000 ordinary shares with new and existing shareholders. This represented a 20% increase in the Company's issued share capital. The gross proceeds raised from the issue amounted to £4.4 million. The cash position at 31 December 2014 was £4.55 million (2013 £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 12 months. Further details are provided in the notes to the financial statements.

Outlook

The Board is pleased with the progress that Microsaic has made across all areas of its business in 2014. We have signed a further three OEM agreements targeting specific applications, a manufacturing agreement that provides capacity to meet expected commercial demand and a distributor agreement for our own branded instruments in key markets. Together, this provides Microsaic with a strong base for the business to move forward and is a significant step forward from our position 12 months ago.

We are continuing to gain 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 are focused on three business objectives that underpin our ambitions for 2015 and beyond:

- Executing on our existing OEM agreements and distributor agreement
- Developing further OEM partnerships with synergistic companies, which can provide Microsaic with access to enhanced sales distribution channels alongside our own direct sales channel, and
- Furthering innovation and maintaining a leadership position in the field of miniaturised MS, which continues to be a core driver of our ongoing commercial strategy

All our activities are aligned to these 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 continue to put Microsaic Systems in a strong position to capitalise in an evolving market.

Risk Management

The Company manages risk and opportunity from an operational basis, where it assesses and weighs up the financial effect of risk and opportunity on the goals of the Company. The Company has set a risk tolerance level of £50,000 and reviews on a monthly basis those risks above this level.

The Company's top five risks/opportunities at 31 December 2014 were:

Risks

Description	Risk	Risk rating pre-mitigation	Mitigating action	Risk rating post-mitigation
Failing to deliver on customer expectations	The risk is that Microsaic would lose an important customer	HIGH	Investment in R&D and service teams to ensure customer expectations are met	MEDIUM/LOW
Losing competitive advantage	The risk that a new entrant to the market might capture market share	HIGH	Investment in strong commercial presence and R&D	MEDIUM/LOW
The theft of intellectual property	The loss of IP could lead to a competitor developing competing products	MEDIUM	The action would require both physical product and domain knowledge, the latter being protected contractually	LOW
The rate of cash burn in the commercialisation phase	That existing cash resources and access to cash resources would be insufficient to cover the commercialisation phase and cash runs out	MEDIUM/LOW	The Company has good controls in place to monitor cash management and performs long-term forecasting	LOW

Opportunity

Description	Opportunity	Opportunity rating pre-mitigation	Mitigating action	Opportunity rating post-mitigation
A new OEM opportunity is missed	The risk that the Company does not identify a valuable new OEM opportunity	HIGH	Investment in marketing, promotion of brand, attendance at trade shows, executives' knowledge of the market	MEDIUM/LOW

The Strategic Report was approved by the Board of Directors on 20 March 2015 and signed on its behalf by:

Colin Jump
Chief Executive Officer

Board of Directors
for the year ended 31 December 2014

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 18 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).

Directors' report
for the year ended 31 December 2014

The Directors present their report for the year ended 31 December 2014.

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 (2013: nil).

Directors
Since 1 January 2014 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	(Resigned 14 July 2014)
A S Holmes	
J C Ramage	
E M Yeatman	

Eric Yeatman and Andrew Darby were re-appointed at the Annual General Meeting on 2 June 2014.

At the forthcoming Annual General Meeting Andrew Holmes and Colin Jump will retire by rotation and be proposed for re-appointment.

Directors' interests
The Directors' interests in the shares of the Company at 31 December 2014 were:

	Ordinary shares of 0.25p each at 31 December 2014		Ordinary shares of 0.25p each at 31 December 2013	
	Number	**%**	Number	%
C J Nicholl	**3,268,711**	**5.17%**	3,030,616	5.77%
C R Jump	**23,256**	**0.04%**	23,256	0.04%
A H Darby	**–**	**–**	–	–
A S Holmes	**2,836,656**	**4.48%**	2,936,656	5.59%
J C Ramage	**284,990**	**0.45%**	261,190	0.50%
E M Yeatman	**3,287,723**	**5.20%**	3,252,723	6.19%
	9,701,336	**15.34%**	9,504,441	18.10%

Directors' report (continued)
for the year ended 31 December 2014

Significant shareholdings
Shareholders, excluding Directors, having a beneficial interest of 3% or more of the Company's shares as at 20 March 2015:

	Ordinary shares of 0.25p each at 20 March 2015	
	Number	%
N W Wray	7,298,032	11.51
Octopus Investments	5,319,276	8.39
Herald Investment Trust	5,125,348	8.09
Fidelity Worldwide Investment	4,867,265	7.68
BlackRock Investment Management	3,869,223	6.10
Aviva Investors	3,653,669	5.76
R R A Syms	3,635,200	5.74
Hargreave Hale	2,537,000	4.00
Amati Global Investors	2,293,000	3.62

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), which has now been withdrawn for new entrants.

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 3 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 up 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 has been withdrawn for new entrants during 2014 and an alternative plan is under consideration. There is currently one remaining employee within the plan. It enabled 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 was established for the purposes of acquiring the Company's shares. In accordance with SIP regulation employees could invest up to £1,500 from gross pay in any one year which was used to acquire shares known as 'Partnership Shares' and held within the Plan Trust. The Company was able to issue 'Matching Shares' in proportion to the Partnership Shares and also award employees with 'Free Shares'. Matching Shares and Free Shares vested on the completion by the participating employee of a further three years' service (and certain other events), and could be withdrawn from the plan tax-free after five years' service.

The option pool is defined as the amount of options available to be granted under the Company's existing shareholder mandate.

The Company received approval at its 2011 AGM to issue equity securities to employees and Directors on conversion of their options up to a maximum of 10% of the Company's issued share capital over a rolling ten year period. At 31 December 2014 63,253,376 shares were in issue, and so the maximum option pool was, therefore, 6,325,338.

3,155,391 unexercised options had been granted to employees and 11,977 shares had been issued to the SIP. During the last 10 years 1,958,900 equity securities had been issued in respect of converted options. Thus the remaining option pool was 1,199,070.

Management of risk
The management of operational risk is covered in the Risk Management Report. Financial risk is managed as follows:

Liquidity risk
The Company finances 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 2014.

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' report (continued)
for the year ended 31 December 2014

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 the performance of their duties.

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

Related party transactions
The interests 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 preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

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

In preparing the financial statements the Directors are required to:
- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent; and
- state whether IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements.

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

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

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 20 March 2015 and signed on its behalf.

Andrew Darby
Director

Company number 3568010

Directors' remuneration report
for the year ended 31 December 2014

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 policy
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.

Remuneration of the executive Directors
In setting remuneration for executive Directors, the Remuneration Committee considers a number of factors including:
— the basic salaries and benefits available to executive Directors of comparable companies;
— the need to pay executive Directors a competitive salary in line with the nature and complexity of their work;
— the need to attract and retain executive 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 do 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 and non-executive Directors are not entitled to participate in any Company share option schemes.

Remuneration of the Directors
The Remuneration of the executive Directors consists of a basic salary, a contributory personal pension and life assurance.

The remuneration of the non-executive Directors is an annual fee, paid monthly. Non-executive Directors are engaged on service contracts and are not employees.

Share options
It is the normal practice of the Company to award share options to executive Directors on joining the Company. The award of additional options to executive Directors, as well as to other employees, is reviewed annually.

Directors' emoluments

	Salaries and fees £	Other payments £	Pension contributions £	**Year to 31 December 2014 Total £**	Year to 31 December 2013 Total £
C J Nicholl	35,750	–	–	**35,750**	23,209
C R Jump	174,186	37,000	–	**211,186**	174,372
M R Bateman (1)	30,312	–	5,127	**35,439**	89,759
P I T Edwards (2)	72,598	32,500	19,206	**124,304**	116,229
A S Holmes	25,150	–	–	**25,150**	21,750
J C Ramage	25,150	–	–	**25,150**	19,577
E M Yeatman	25,150	–	–	**25,150**	22,772
A H Darby (3)	100,500	11,728	6,500	**118,728**	–
	488,796	81,228	30,833	**600,857**	467,668

(1) Until 15 April 2014
(2) Until 7 July 2014
(3) From 24 March 2014

Other payments comprise amounts paid and payable to Directors in relation to their service in addition to salaries and fees.

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. Mr Bateman's matching shares lapsed when he left the Company during the year. The Company incorrectly included Dr Ramage in the SIP in 2013 and discussions are underway with the relevant external parties to unwind his holding.

Directors' share options

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

	At 1 January 2014 Number	Granted in the year Number	Lapsed in the year Number	Exercised in the year Number	**At 31 December 2014 Number**	Exercise price p	Exercise period
C J Nicholl	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
	–	300,000	–	–	**300,000**	46.80p	10 Dec 2017 – 1 May 2024
A H Darby	–	350,000	–	–	**350,000**	46.80p	2 May 2017 – 1 May 2024
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	–	–	(22,667)	**132,000**	25.86p	3 Dec 2013 – 2 Dec 2020
	40,000	–	(40,000)	–	**–**	42.00p	2 Jul 2015 – 1 Jul 2022
	2,150,191	650,000	(160,600)	(158,000)	**2,481,591**		

The above share options are subject to service and/or performance conditions.

The share price on 1 January 2014 was 43.50p and on 31 December 2014 was 46.00p, with a high and low over the year of 50.25p and 42.50p respectively.

The share based payment charge for the Directors was £45,414 (2013: £49,792).

Regarding the share options of Mr Edwards as at 31 December 2014, 191,400 have lapsed and 132,000 have been exercised since the year end.

Directors' service contracts

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

	Contract Date	Term	Notice period
C J Nicholl	24-Apr-06	Indefinite	3 months
C R Jump	23-Sep-12	Indefinite	6 months
A H Darby	24-Mar-14	Indefinite	6 months
A S Holmes	01-Apr-06	Indefinite	3 months
J C Ramage	21-Jun-10	Indefinite	3 months
E M Yeatman	01-Apr-06	Indefinite	3 months

Corporate governance report
for the year ended 31 December 2014

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
The Board currently comprises six Directors consisting of the Chairman, two executive Directors (the CEO and Finance Director), and three non-executive Directors.

The Chairman is 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.

Independence of the non-executive Directors
The Board believes that its non-executive Directors are independent. While some of these Directors have significant shareholdings in the Company, the Board believe that the advice and behaviour of its non-executive Directors is independent and at all times in the best interest of all shareholders equally. In addition, the skills and business judgement which they possess and exercise contribute to ensuring that the Company is managed in an efficient, effective and entrepreneurial manner.

The Board keeps under review the relevance and appropriateness of the non-executives' skills in light of the continuing evolution of the marketplace, technology and business strategy.

Role of the Board
The Board is responsible for ensuring that the Company is managed in an efficient, effective and entrepreneurial manner. These responsibilities include oversight of and approval of (in line with agreed authority limits) corporate strategy, financial budgets, corporate performance, approval of major capital expenditure, executive performance and the framework of internal controls.

Role of the Management Team
The Management team is composed of the Executive Directors and a number of senior managers. This team is responsible for the day to day execution of the strategy of the business. Within agreed authority limits they run the operations of the business and work towards defined goals and KPIs that are embedded within the Company's strategy, budget and performance goals.

The team meets once per month.

Engagement with staff
The Senior Management team holds a quarterly meeting with all the staff within the Company, to communicate progress and to receive feedback on improvements to operations in line with the achievement of Company goals.

Board processes
The Board has an established 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 by the Executive Directors (following an established framework) and agreed with the Chairman. All submissions are circulated in advance to allow due consideration of matters therein.

The Executive Directors prepare 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 involved in Board discussions, as required, and non-executive Directors are able to have discussions with other employees where they feel it is appropriate. Non-executive Directors also have the authority to seek external independent advice as they think fit at the expense of the Company.

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 minimise 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.

Conflicts of interest
Directors must keep the Board advised of any interest that could potentially conflict with those of the Company. Where a material 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 2014:

	Meetings held Number	Meetings attended Number
C J Nicholl	19	15
C R Jump	19	16
A H Darby	19	14
A S Holmes	19	15
J C Ramage	19	16
E M Yeatman	19	16
M R Bateman	19	4
P I T Edwards	19	8

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 2014 were E M Yeatman (Committee Chairman), C J Nicholl, 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 twice in 2014.

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 2014 were J C Ramage (Committee Chairman), A S Holmes and E M Yeatman.

The Remuneration Committee met six times in 2014.

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,
- Face to face meetings with major shareholders following the release of interim and preliminary results

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 2014

We have audited the financial statements of Microsaic Systems plc for the year ended 31 December 2014 on pages 20 to 41. 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 12, 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 2014 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.

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

23 March 2015

Statement of comprehensive income

for the year ended 31 December 2014

	Notes	Year to 31 December 2014 £	Year to 31 December 2013 £
Revenue	5	**1,203,636**	908,442
Cost of sales		**(700,180)**	(581,523)
Gross profit		**503,456**	326,919
Other operating income	6	**102,145**	256,793
Operating expenses		**(3,713,881)**	(2,923,226)
Loss from operations before share based payments	7	**(3,108,280)**	(2,339,514)
Share based payments		**(55,850)**	(74,003)
Loss from operations after share based payments		**(3,164,130)**	(2,413,517)
Finance income	8	**5,596**	7,843
Loss before tax		**(3,158,534)**	(2,405,674)
Tax on loss on ordinary activities	9	**154,414**	120,516
Total comprehensive loss for the year		**(3,004,120)**	(2,285,158)
Loss per share attributable to the equity holders of the Company			
Basic and diluted loss per ordinary share	10	**(5.47)p**	(4.71)p

The notes on pages 24 to 41 form part of these financial statements.

Statement of financial position
as at 31 December 2014

	Notes	Year to 31 December 2014 £	Year to 31 December 2013 £
Assets			
Non-current assets			
Intangible assets	11	**116,565**	131,831
Property, plant and equipment	12	**128,272**	210,546
Total non-current assets		**244,837**	342,377
Current assets			
Inventories	13	**241,175**	204,841
Trade and other receivables	14	**515,396**	415,220
Corporation tax receivable		**100,000**	80,000
Cash and cash equivalents		**4,548,545**	3,239,283
Total current assets		**5,405,116**	3,939,344
Total assets		**5,649,953**	4,281,721
Equity and liabilities			
Equity			
Share capital	17	**158,133**	131,271
Share premium	18	**12,790,887**	8,629,494
Share option reserve	18	**438,662**	382,812
Retained earnings		**(8,578,539)**	(5,574,419)
Total equity		**4,809,143**	3,569,158
Current liabilities			
Trade and other payables	15	**774,143**	712,563
Non-current liabilities			
Provisions	16	**66,667**	–
Total liabilities		**840,810**	712,563
Total equity and liabilities		**5,649,953**	4,281,721

The financial statements were approved for issue by the Board of Directors on 20 March 2015 and signed on its behalf by:

Colin Jump
Chief Executive Officer

Company number 3568010

The notes on pages 24 to 41 form part of these financial statements.

Statement of changes in equity

for the year ended 31 December 2014

	Notes	Share capital £	Share premium £	Share option reserve £	Retained earnings £	Total equity £
At 1 January 2013		106,349	4,651,410	499,570	(3,480,022)	1,777,307
Shares issued		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
Shares issued	17	26,862	4,446,495	–	–	4,473,357
Share issue costs		–	(285,102)	–	–	(285,102)
Transfer in respect of lapsed share options		–	–	–	–	–
Total comprehensive loss for the year		–	–	–	(3,004,120)	(3,004,120)
Share based payments-share options		–	–	55,850	–	55,850
At 31 December 2014		**158,133**	**12,790,887**	**438,662**	**(8,578,539)**	**4,809,143**

The notes on pages 24 to 41 form part of these financial statements.

Statement of cash flows
for the year ended 31 December 2014

	Notes	Year to 31 December 2014 £	Year to 31 December 2013 £
Total comprehensive loss for the year		**(3,004,120)**	(2,285,158)
Amortisation of intangible assets	11	**49,256**	56,843
Depreciation of property, plant and equipment	12	**121,820**	93,261
Loss on disposal of property, plant and equipment		**7,977**	–
Share based payments		**55,850**	74,003
Tax on loss on ordinary activities		**(154,414)**	(120,516)
Interest received		**(5,596)**	(7,843)
Increase in inventories		**(36,334)**	(14,489)
Increase in trade and other receivables		**(100,176)**	(233,691)
Increase/(Decrease) in trade and other payables		**128,247**	(33,740)
Cash used in operations		**(2,937,490)**	(2,471,330)
Taxation received		**134,414**	190,516
Net cash used in operating activities		**(2,803,076)**	(2,280,814)
Cash flows from investing activities			
Purchases of intangible assets	11	**(33,990)**	(59,789)
Purchases of property, plant and equipment	12	**(47,523)**	(219,542)
Interest received		**5,596**	7,843
Net cash used in investing activities		**(75,917)**	(271,488)
Cash flows from financing activities			
Proceeds from share issues	17	**4,473,357**	4,284,620
Share issue costs		**(285,102)**	(281,614)
Net cash from financing activities		**4,188,255**	4,003,006
Net increase in cash and cash equivalents		**1,309,262**	1,450,704
Cash and cash equivalents at beginning of the year		**3,239,283**	1,788,579
Cash and cash equivalents at the end of the year		**4,548,545**	3,239,283

The notes on pages 24 to 41 form part of these financial statements.

Notes to the financial statements
for the year ended 31 December 2014

The principal activity of the Company continued to be the research, development and commercialisation of scientific instruments. It is incorporated in England and its registered address is GMS House, Boundary Road, Woking, Surrey GU21 5BX.

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.

Change in accounting policy for non-product income

In line with the Company's transition from grant-generated revenues to product sales, an accounting policy change has been made to make the financial information more relevant. This will also make it easier for users to understand the financial statements. Accordingly, non-product sales are now presented under 'Other operating income' and cost of sales and operating expenses have been re-categorised so that cost of sales now includes only the raw materials cost of products sold. Operating expenses represents the cost base of the business. As a result of this accounting policy change, comparative figures have been restated as follows: £256,793 of 'Revenue' has been reclassified as 'Other operating income'. £1,460,831 of 'Cost of sales' has been reclassified in 'Operating Expenses'.

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. Revenue by geography is analysed between the UK and non-UK.

Intangible assets

Trademarks and patents are stated at historic cost of registration less accumulated amortisation and any accumulated impairment losses. Amortisation is charged to operating expenses and 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.

Provisions

Provisions are established where the Directors have identified an obligation which is probable and where the amount can be estimated reliably.

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.

1. Accounting policies (continued)

Financial instruments (continued)

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.

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 2014 and relevant to the Company's results:

None.

New standards, amendments and interpretations effective in 2014 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 27 Consolidated and Separate Financial Statements
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
Consequential amendments resulting from the issue of IFRS 10, 11 and 12.

IAS 32 Financial instruments: presentation (revised)
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 10 Consolidated Financial Statements
New standard that replaces the consolidation requirements in SIC-12 *Consolidation – Special Purpose Entities* and IAS 27 *Consolidated and Separate Financial Statements*. 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, thus 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
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. 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, thus limiting the requirements to provide adjusted comparative information.

IFRS 12 Disclosure of Interest in Other Entities
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, thus limiting the requirements to provide adjusted comparative information.

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

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

IAS 36 Impairment of Assets
Amendments to the disclosure requirements regarding the measurement of the recoverable amount for impaired assets.

IAS 39 Financial Instruments
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.

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:

IFRS 2 Share-based payment
Effective for periods beginning on or after 1 July 2014 – Annual Improvements 2010-2012 Cycle: Amendments to enhance the definition of vesting conditions and address implementation difficulties.

IFRS 3 Business Combinations
Effective for periods beginning on or after 1 July 2014 – Annual Improvements 2010-2012 Cycle: Amendments to clarify the recognition, measurement and presentation of contingent consideration.

IAS 19 Defined Benefit Plans
Effective for periods beginning on or after 1 July 2014: Amendments to provide additional guidance concerning the recognition of employee contributions.

IAS 40 Investment Property
Effective for periods beginning on or after 1 July 2014 – Annual Improvements 2011-2013 Cycle: Amendments to clarify the interaction between IAS 40 and IFRS 3.

IFRIC Interpretation 21
Clarifies the identification and recognition of obligating events relating to the payment of levies.

New standards, amendments and interpretations not yet effective and not yet endorsed by the EU:

IFRS 9 Financial Instruments
New standard setting out the recognition and measurement of financial assets, financial liabilities and some contracts to buy or sell non-financial items.

IFRS 15 Revenue from Contracts with Customers
New standard specifying how and when revenue should be recognised and guidance for more informative and relevant disclosures.

The Directors do not expect that the adoption of the Standards above will have a material impact on the financial statements of the Company in future periods beyond additional disclosure, this will be subject to a more detailed review once the standards have been endorsed by the EU.

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 12 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 five years. This assumption is reviewed at each balance sheet date and amended if required.

Share based payments

The calculation of the share based payments expense utilises assumptions and estimates (for example volatility, future exercise rates) which may differ from actual results. Details of the assumptions are set out in note 23.

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 2014 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 geographical analysis of revenue was as follows:

	Year to 31 December 2014 £	Year to 31 December 2013 £ (Restated)
UK	**145,465**	69,377
Non-UK	**1,058,171**	839,065
	1,203,636	908,442

Further attribution of the non-UK revenue is not possible due to the nature of the sales via OEM agreements which are then distributed globally.

One customer represented 74% of total revenue (2013: 84%).

6. Government grants

Included within the Company's other operating income for the year ended 31 December 2014 is £98,637 (2013: £157,841) 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 £95,233 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. The project was completed during the year together with final project sign-off by the European Commission. Revenue of £734,932 was recognised over the duration of the project.

7. Expenses by nature

	Year to 31 December 2014 £	Year to 31 December 2013 £
Loss from operations is stated after charging/(crediting)		
Amortisation of intangible assets	**49,256**	56,843
Depreciation of property, plant and equipment	**121,820**	93,261
Loss on disposal of fixed assets	**7,977**	–
Provision for dilapidations	**66,667**	–
Pension costs	**82,417**	60,998
Share based payments – equity settled	**55,850**	74,003
Operating lease rentals – land and buildings	**97,400**	78,225
Exchange loss/(gain)	**157**	(1,785)
Research and development expenditure	**858,486**	927,379
Directors' emoluments	**600,857**	467,668

	Year to 31 December 2014 £	Year to 31 December 2013 £
Services provided by the Company's auditors		
Fees payable to the Company's auditors for the audit of the financial statements	**13,000**	13,000
Fees payable to the Company's auditors for other services		
– Tax compliance	**5,000**	5,000
– Other	**1,800**	–
	19,800	18,000

8. Finance income

	Year to 31 December 2014 £	Year to 31 December 2013 £
Bank interest	**5,596**	7,843

9. Tax on loss on ordinary activities

	Year to 31 December 2014 £	Year to 31 December 2013 £
Domestic current period tax		
UK corporation tax	**(100,000)**	(80,000)
Adjustment for prior periods	**(54,414)**	(40,516)
Current tax credit	**(154,414)**	(120,516)
Tax on loss on ordinary activities	**(154,414)**	(120,516)
Factors affecting the current tax credit for the period		
Loss before tax	**(3,158,534)**	(2,405,674)
Loss before tax multiplied by standard rate of UK corporation tax of 20% (2013: 20%)	**(631,707)**	(481,135)
Effects of:		
Non deductible expenses	**30,772**	18,875
Depreciation	**25,959**	18,652
Capital allowances	**(13,882)**	(47,592)
Research and development expenditure	**20,134**	13,523
Tax losses carried forward	**468,724**	397,677
Previous period research and development adjustment	**(54,414)**	(40,516)
Current tax credit	**(154,414)**	(120,516)

The Company has estimated tax losses of £10,089,000 (2013: £7,746,000) available for carry forward against future trading profits.

10. Basic and diluted loss per ordinary share

	Year to 31 December 2014	Year to 31 December 2013
Loss after tax attributable to equity shareholders	**(3,004,120)**	(2,285,158)
Weighted average number of ordinary 0.25p shares for the purpose of basic and diluted loss per share	**54,968,708**	48,481,309
Basic and diluted loss per ordinary share	**(5.47)p**	(4.71)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.

11. 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.

Year ended 31 December 2014:

	£
Cost	
At 1 January 2014	372,903
Additions	33,990
Disposals	–
At 31 December 2014	**406,893**
Amortisation	
At 1 January 2014	241,072
Charge for the year	49,256
Disposals	–
At 31 December 2014	**290,328**
Net book value	
At 31 December 2014	**116,565**
At 31 December 2013	131,831

The gross carrying amount of fully depreciated assets still in use at 31 December 2014 is £179,873.

Year ended 31 December 2013:

	£
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

12. Property, plant and equipment

Year ended 31 December 2014:

	Plant and equipment £	Fixtures and fittings £	Total £
Cost			
At 1 January 2014	644,223	222,815	867,038
Additions	45,438	2,085	47,523
Disposals	(15,954)	–	(15,954)
At 31 December 2014	**673,707**	**224,900**	**898,607**
Depreciation			
At 1 January 2014	457,932	198,560	656,492
Charge for the year	84,008	37,812	121,820
Reclassification	69,276	(69,276)	–
Disposals	(7,977)	–	(7,977)
At 31 December 2014	**603,239**	**167,096**	**770,335**
Net book value			
At 31 December 2014	**70,468**	**57,804**	**128,272**
At 31 December 2013	186,291	24,255	210,546

The gross carrying amount of fully depreciated assets still in use at 31 December 2014 is £635,364.

Year ended 31 December 2013:

	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

13. Inventories

	Year to 31 December 2014 £	Year to 31 December 2013 £
Raw materials	**187,854**	203,538
Work in progress	**27,523**	1,303
Finished goods	**25,798**	–
	241,175	204,841

14. Trade and other receivables

	Year to 31 December 2014 £	Year to 31 December 2013 £
Amounts falling due within one year		
Trade receivables	**183,529**	178,132
Other receivables	**307,207**	126,988
Other taxes and social security	**24,660**	110,100
	515,396	415,220

The ageing of trade receivables was as follows:

	Year to 31 December 2014 £	Year to 31 December 2013 £
Not past due	**160,187**	164,322
Up to 30 days past due	**23,342**	–
30 days to 60 days past due	**–**	13,810
More than 60 days past due	**–**	–
	183,529	178,132

15. Trade and other payables

	Year to 31 December 2014 £	Year to 31 December 2013 £
Amounts falling due within one year		
Trade payables	**315,748**	346,323
Other taxes and social security	**59,097**	57,029
Other payables	**44,849**	39,449
Accruals and deferred income	**354,449**	269,762
	774,143	712,563

16. Provisions

	£
Balance at 1 January 2014	–
Movement during the year	66,667
Balance at 31 December 2014	66,667

The provisions are in respect of anticipated dilapidations on the Company's leased property in Woking, whose lease expires in September 2016.

Deferred tax

	£
Balance at 1 January and 31 December 2014	–

Deferred taxation provided in the financial statements

	31 December 2014 £	31 December 2013 £
Accelerated capital allowances	**21,796**	36,321
Tax losses carried forward	**(21,796)**	(36,321)
	–	–

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.

17. Share capital

	Number	£
Allotted, called up and fully paid ordinary shares of 0.25p each		
Ordinary shares as at 31 December 2013	52,508,376	131,271
Ordinary shares issued for cash in the year	10,745,000	26,862
Ordinary shares as at 31 December 2014	**63,253,376**	**158,133**

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 £
Exercise of options – June 2014	58,000	25.86	14,999
Placing – October 2014	10,500,000	42.00	4,410,000
Exercise of options – October 2014	187,000	25.86	48,358
	10,745,000		4,473,357

18. 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.

19. 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 2014 £	31 December 2013 £
Land and buildings		
Within one year	**153,524**	97,400
Between one and two years	**177,536**	164,768
	331,060	262,168

20. Capital commitments

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

	31 December 2014 £	31 December 2013 £
Contracted for but not provided in the financial statements	**–**	–

21. Directors' emoluments

	Year to 31 December 2014 £	Year to 31 December 2013 £
Salaries and fees	**488,796**	424,629
Other payments	**81,228**	30,974
Pension costs	**30,833**	12,065
	600,857	467,668

During the year, 650,000 options (2013: nil) were granted to Directors. 158,000 options (2013: nil) were exercised by Directors.

In the year to 31 December 2014 three Directors accrued benefits under money purchase retirement benefit schemes (2013: two).

There are no key management personnel other than the Directors.

Further information is provided in the Directors' remuneration report.

22. Employees

	Year to 31 December 2014 Number	Year to 31 December 2013 Number
Directors	**7**	7
Other staff	**32**	28
	39	35

	Year to 31 December 2014 £	Year to 31 December 2013 £
Employment costs (including Directors)		
Wages and salaries	**1,948,109**	1,566,991
Social security costs	**198,241**	180,818
Pension costs	**82,417**	60,998
Employment related share based payments	**55,850**	74,003
	2,284,617	1,882,810

23. 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 2014		Year to 31 December 2013	
	Number of options	**Weighted average exercise price**	Number of options	Weighted average exercise price
Outstanding at the beginning of the year	**2,770,991**	**46.8p**	3,312,388	53.5p
Granted during the year	**930,000**	**47.1p**	–	–
Cancelled during the year	**(300,600)**	**53.8p**	(541,397)	88.3p
Exercised during the year	**(245,000)**	**25.86p**	–	–
Outstanding at 31 December	**3,155,391**	**47.8p**	2,770,991	46.8p
Exercisable at 31 December	**619,200**	**70.1p**	904,800	60.8p

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 expected volatility has been determined by calculating the historical volatility of the share price over the previous year. 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%	–
May 2014	46.80p	2.69%	16%	–
November 2014	49.50p	2.05%	18%	–

* 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 2014**	Number of options 31 December 2013
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	**226,200**	266,800
December 2010	25.86p	Dec 2020	11.0p	**161,000**	406,000
July 2012	42.00p	Jul 2022	12.1p	**330,000**	590,000
December 2012	39.00p	Dec 2022	13.6p	**1,276,191**	1,276,191
May 2014	46.80p	May 2024	11.4p	**830,000**	–
November 2014	49.50p	Nov 2024	11.9p	**100,000**	–
				3,155,391	2,770,991

Share Incentive plan (SIP)

The SIP has been withdrawn for new entrants during 2014 and an alternative plan is under consideration. There is currently one remaining employee within the plan. It enabled 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 was established for the purposes of acquiring the Company's shares. In accordance with SIP regulation employees could invest up to £1,500 from gross pay in any one year which was used to acquire shares known as 'Partnership Shares' and held within the Plan Trust. The Company was able to issue 'Matching Shares' in proportion to the Partnership Shares and also award employees with 'Free Shares'. Matching Shares and Free Shares vested on the completion by the participating employee of a further three years' service (and certain other events), and could be withdrawn from the plan tax-free after five years' service.

At the year end the SIP held 11,977 ordinary shares (2013: 17,185) 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 2014 was £458 (2013: £458).

24. 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.

	Year to 31 December 2014 £	Year to 31 December 2013 £
Trade receivables	**183,529**	178,132
Other receivables	**307,207**	126,988
	490,736	305,120

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 2014.

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 2014 and 31 December 2013.

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.

25. Related party transactions

The remuneration paid to the Directors is shown in the Directors' remuneration report.

There were no other related party transactions.

26. Control

As at 31 December 2014, no individual shareholder had a controlling interest in the Company.

27. Subsequent events

There have been no significant events after the balance sheet date, other than those disclosed in the Chairman's Statement and the Strategic Report.

Corporate information and advisors

Directors	C J Nicholl	Chairman
	C R Jump	Chief Executive Officer
	A H Darby	
	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	

Notice of the annual general meeting

Microsaic Systems plc

Company number 3568010

Notice is hereby given that the Annual General Meeting of Microsaic Systems plc (the "Company") shall be held at the offices of Citigate Dewe Rogerson, 3 London Wall Buildings, London Wall, London EC2M 5SY on 19 May 2015 at 11 a.m. for the purpose of considering and, if thought fit, passing the following resolutions of which resolutions 1 to 5 inclusive shall be proposed as ordinary resolutions and resolution 6 shall be proposed as a special resolution.

Ordinary resolutions

1. THAT the Company's financial statements for the year ended on 31 December 2014, 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 Holmes be and hereby is re-appointed as a Director of the Company, following his retirement pursuant to Article 81.1(b) of the Articles;

4. THAT Colin Jump be and hereby is re-appointed as a Director of the Company, following his retirement pursuant to Article 81.1(c) of the Articles;

5. THAT 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 £52,821.15, 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

6. 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;

Notice of the annual general meeting (continued)

(b) the allotment (otherwise than pursuant to resolution 7(a) above) of equity securities up to an aggregate nominal amount of £15,846.34 representing ten (10) 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

27 March 2015

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 Citigate Dewe Rogerson, 3 London Wall Buildings, London Wall, London EC2M 5SY on 19 May 2015 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 4 – 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 2014.

Resolutions 5 and 6 – These resolutions concern the authority of the Directors to allot up to one third of the Company's existing issued share capital (including up to 10 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.

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 15 May 2015 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.

Notice of the annual general meeting (continued)

Appointment of proxies

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 15 May 2015 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 following address: FREEPOST CAPITA PXS (this is all that is required on the envelope).

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 63,385,376 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 9.00 a.m. to 5.30 p.m. Monday to Friday, excluding public holidays):
      (i) From the UK: 0871 664 0300 (calls cost 10p per minute plus network extras);
      (ii) From outside the UK: +44 (0) 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.

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