

**MODERN BIOSCIENCES LIMITED**  
**REPORT AND FINANCIAL STATEMENTS**  
**31 DECEMBER 2016**

Registered number: 05414023



**Modern Biosciences Limited**

**Report and financial statements for the year ended 31 December 2016**

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**Directors**

Sam Williams  
Lisa Patel  
IP2IPO Services Limited

**Secretary and registered office**

IP2IPO Services Limited  
  
The Walbrook Building  
25 Walbrook  
London  
EC4N 8AF

**Company number**

05414023

**Independent Auditors**

KPMG LLP  
15 Canada Square  
London  
E14 5GL

## Modern Biosciences Limited

### Strategic report for the year ended 31 December 2016

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#### Business review

##### **Results and Performance**

Modern Biosciences Ltd ("Modern Biosciences" or the "Company") is a drug development company. Its business model provides a channel for early stage drug candidates to reach the clinic and, potentially, become subject to partnership with the pharmaceutical industry. In summary, it is based on:

- sourcing drug candidates from partner organisations (mainly academia);
- funding and managing development programmes from the laboratory through to clinical studies;
- forming commercial alliances with industry for later stage development and marketing.

The statement of comprehensive income is set out on page 6 and shows the loss for the year.

Total research and development expenses of £2,241,904 were incurred and total grant income received in the year was £1,193,290. This is almost entirely attributable to the spend on the Company's lead drug for rheumatoid arthritis, MBS2320, which in 2015 entered Phase 1 clinical studies. Throughout the year, the Company continued to benefit from its Option and Licence Agreement with Janssen Biotech, Inc ("JBI"), signed in November 2014, which contributed £8 million in development-related milestone payments to revenue during the year.

The Company also received grant income by virtue of an ongoing Innovate UK Biomedical Catalyst award which was won in 2014, started in March 2015 and followed on from the Company's first Biomedical Catalyst award made in 2012. This grant is worth up to a maximum of £2.4 million over a period of several years covering the execution of Pre-Clinical and early clinical studies.

No interim dividend was paid during the year (2015: £nil) and the directors do not propose a final dividend for the year ended 31 December 2016 (2015: £nil).

##### **Business environment**

The overall economic backdrop has a significant bearing on the Company's ability to pursue its strategic objectives. In this context, it is worth noting that these are very uncertain times both economically and politically, particularly following events such as the UK's vote in favour of leaving the European Union and the outcome of the US presidential election. From an economic perspective, last year, for example, the International Monetary Fund predicted global growth would slow to 3.1% in 2016 before recovering to 3.4% in 2017. The forecast had been revised down by 0.1 percentage point for 2016 and 2017. More recently, however, the World Bank predicted a moderate improvement in global economic growth in 2017. Its Global Economic Prospects report is forecasting 2.7% growth compared with the 2.3% seen last year. Nonetheless, it also flagged heightened uncertainty after the US Presidential election in particular. These factors may have an impact on the Company this year.

Within the pharmaceutical industry, pressure on pricing and reimbursement from governments and payers has increased the need to fill pipelines with innovative new drugs that can command premium pricing. Thus, the appetite for licensing and acquiring early-stage drug-development assets from smaller biotechnology companies such as MBS remains healthy, and a strong global balance sheet amongst the top-20 pharmaceutical companies has allowed for a significant pace and size of deal-doing.

##### **Strategy**

The directors remain focussed on the company's lead development drug, MBS2320, and assuring its success in early clinical studies. By signing the Option and Licence Agreement with JBI, the company secured funding for early clinical development of MBS2320, as well as potential downstream revenues in the form of development-related milestones and royalties on any eventual sales. If MBS2320 is successful, it is expected that such revenues shall provide for sustainable profitability and a significant return for shareholders. In the meantime, the revenue derived from the JBI deal has enabled MBS to actively review new programmes for in-licensing with the intention of developing them through to clinical studies. In this respect, MBS identified two new programmes in 2016 at a very early-stage of development, comprising: 1) a series of novel molecules for the treatment of rheumatoid arthritis and related autoimmune conditions that work via a different mechanism from that of MBS2320; and 2) a series of novel molecules for the treatment of multiple sclerosis. These programmes were licenced in early 2017. Regardless of whether the investment is in MBS2320 or new programmes, the directors regard the investment in research and development, as described in the principal activities above, as integral to the continuing success of the business.

## Modern Biosciences Limited

### Strategic report for the year ended 31 December 2016

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During 2016, the Directors decided to segregate each of its future new drug programmes into separate subsidiary companies. Hence, it was decided to establish two new wholly-owned subsidiary companies, MBS3 Limited and MBS4 Limited, as holding companies for each of the new programmes outlined above. This modular structure is designed to provide the Company with greater financial flexibility when seeking investment into individual programmes and when partnering with the pharmaceutical industry.

The Company's ultimate parent company, IP Group plc, has confirmed, subsequent to the balance sheet date, that it will not require repayment in cash of the £8.3m financing loan to the extent that such repayment would cause doubt as to the Company's ability to continue as a going concern.

#### Key performance indicators ("KPIs")

Given the nature of the business, the Company's directors are of the opinion that analysis using financial KPIs is not necessary for an understanding of the development, performance or position of the business.

#### Principal risks and uncertainties

The management of the business and the execution of the Company's strategy are subject to a number of risks.

The key business risks and uncertainties affecting the Company are considered to relate to the undertaking of early-stage development programmes, protection of intellectual property and retention of key personnel.

The directors manage these risks in a variety of ways including confidentiality agreements, industry specific insurance arrangements (including clinical trial insurance where considered appropriate), employee share schemes and utilising the expertise of highly experienced officers, employees, consultants and service providers.

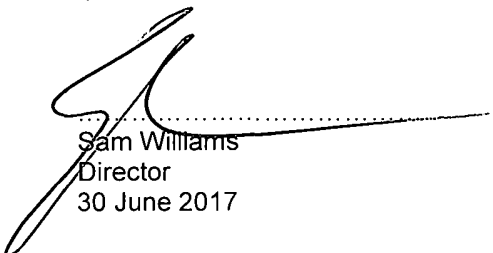
#### Future outlook

The directors will aim to continue to collaborate with JBI in relation to the development of MBS2320 and to assure the drug's progress through early clinical studies, after which JBI is expected to decide whether to exercise its option to license the programme and take on its own development. Further, the Company will continue to utilise the £2.4m grant from the UK Government's Biomedical Catalyst, though the last of this funding is expected to fall during 2017. The Company will also pursue the early pre-clinical development of the two new programmes in-licensed in early 2017.

Further to the creation of the new subsidiary companies MBS3 Limited and MBS4 Limited as holding companies for these programmes, the Directors decided to make further organisational changes to the Company during 2017, including the creation of a new holding company for Modern Biosciences, Istesso Limited. However, to facilitate this, Modern Biosciences plc was re-registered as a private company, Modern Biosciences Limited, with Companies House on 14<sup>th</sup> June 2017.

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The Strategic Report, as set out on pages 1 to 2, has been approved by the Board.

ON BEHALF OF THE BOARD

  
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Sam Williams  
Director  
30 June 2017

## **Modern Biosciences Limited**

### **Directors' report for the year ended 31 December 2016**

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The directors present their report together with the audited financial statements for the year ended 31 December 2016.

#### **Principal activity**

Modern Biosciences plc is a drug development company. Further detail is included in the strategic report.

#### **Business review and future developments**

The Directors' report should be read in conjunction with the Strategic report on pages 1 to 2 (which is incorporated in this Directors' report by reference), which together, include information about the Company's business, its financial performance during the year, and likely developments in the future.

#### **Directors**

The directors who held office during the year were as follows:

Sam Williams  
Lisa Patel  
IP2IPO Services Limited

#### **Charitable and political contributions**

During the year the Company made no charitable or political contributions (2015: nil).

#### **Qualifying third party indemnity provision**

The Company has arranged qualifying third party indemnity for all of its directors.

#### **Creditor payment policy**

It is the Company's current policy to establish payment terms with suppliers when agreeing terms of supply, to ensure that suppliers are made aware of the terms of payment, and to adhere to those terms. The Company's average trade payable payment period at 31 December 2016 was 33 days (2015: 54 days).

#### **Financial risk management**

Further information on the Company's financial risk management objectives and policies, including those in relation to credit risk, liquidity risk and market risk, is provided in note 2 to these financial statements, along with further information on the Company's use of financial instruments.

#### **Post balance sheet events**

Details of post balance sheet events are set out in note 15 to these financial statements.

#### **Branches**

The Company operates from a single location in the UK and consequently has no branches.

#### **Directors' responsibilities**

The directors are responsible for preparing the directors' 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 elected to prepare the 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 of the profit or loss of the company for that period.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the European Union subject to any material departures disclosed and explained in the financial statements; and

## Modern Biosciences Limited

### Directors' report for the year ended 31 December 2016

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- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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


#### **Disclosure of information to auditors**

All of the current directors have taken the steps that they ought to have taken to make themselves aware of any information needed by the Company's auditors for the purposes of their audit and to establish that the auditors are aware of that information. The directors are not aware of any relevant audit information of which the auditors are unaware.

#### **Independent auditors**

A resolution to reappoint KPMG LLP, together with a resolution to authorise the Directors to determine their remuneration, was proposed at the IP Group plc AGM held on 10 May 2017. Pursuant to section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and KPMG LLP will therefore continue in office.

On behalf of the board



Sam Williams  
Director  
30 June 2017

## **Modern Biosciences Limited**

### **Independent auditor's report to the shareholders of Modern Biosciences Limited**

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We have audited the financial statements of Modern Biosciences Limited ("the company") for the year ended 31 December 2016 which comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Cash Flows, the Statement of Changes in Equity and related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2016 and of its loss for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

#### **Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the company in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

#### **Going concern**

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least twelve months from the date of approval of the financial statements. We have nothing to report in these respects.

#### **Strategic report and directors' report**

The directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

#### **Matters on which we are required to report by exception**

Under the Companies Act 2006, we are required 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; or
- the directors were not entitled to take advantage of the small companies exemption from the requirement to prepare a strategic report.

We have nothing to report in these respects.

#### **Directors' responsibilities**

As explained more fully in their statement set out on page 3, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

## Modern Biosciences Limited

### Independent auditor's report to the shareholders of Modern Biosciences Limited

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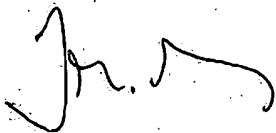
#### Auditor's responsibilities

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

A fuller description of our responsibilities is provided on the FRC's website at [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities).

#### The purpose of our audit work and to whom we owe our responsibilities

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 auditor's 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.



**Jonathan Mills (Senior Statutory Auditor)**  
for and on behalf of KPMG LLP, Statutory Auditor  
*Chartered Accountants*  
15 Canada Square  
London  
E14 5GL  
30 June 2017



## Modern Biosciences Limited

### Statement of comprehensive income for the year ended 31 December 2016

	Note	Year ended 31 December 2016 £	Year ended 31 December 2015 £
Licensing income		-	8,000,000
Other administrative expenses		<u>(1,353,687)</u>	<u>(2,559,582)</u>
Total administrative expenses		<u>(1,353,687)</u>	<u>(2,559,582)</u>
Other operating income		<u>77,909</u>	<u>106,139</u>
<b>Operating (loss)/profit</b>	3	<u>(1,275,778)</u>	<u>5,546,557</u>
Finance income		<u>41,849</u>	<u>13,505</u>
Finance expense	7	<u>-</u>	<u>(14,773)</u>
<b>(Loss)/profit before taxation</b>		<u>(1,233,929)</u>	<u>5,545,289</u>
Taxation	8	<u>135,999</u>	<u>49,895</u>
<b>(Loss)/profit for the year</b>		<u>(1,097,930)</u>	<u>5,595,184</u>
<b>Total comprehensive (loss)/income</b>		<u>(1,097,930)</u>	<u>5,595,184</u>

All amounts are derived from continuing operations in the year.

The notes on pages 9 to 18 form part of these financial statements.

**Modern Biosciences Limited**  
**Registered number: 05414023**  
**Statement of financial position as at 31 December 2016**

	Note	2016 £	2015 £
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant & equipment	9	5,712	2,259
Deferred tax asset	8	<u>188,228</u>	<u>52,629</u>
		<b>193,940</b>	<b>54,888</b>
<b>Current assets</b>			
Trade and other receivables	11	344,081	386,642
Cash and cash equivalents		<u>6,249,004</u>	<u>7,659,015</u>
		<b>6,593,085</b>	<b>8,045,657</b>
<b>Total assets</b>		<u><b>6,787,025</b></u>	<u><b>8,100,545</b></u>
<b>EQUITY &amp; LIABILITIES</b>			
<b>Equity attributable to equity holders of the Company</b>			
Share capital	13	70,205	68,105
Share premium		17,275	17,275
Capital redemption reserve		99,033	99,033
Capital reserve		64,318	64,318
Retained earnings		<u>(2,115,671)</u>	<u>(1,017,741)</u>
<b>Total shareholders' equity</b>		<u><b>(1,864,840)</b></u>	<u><b>(769,010)</b></u>
<b>Current liabilities</b>			
Trade and other payables	12	8,651,865	8,869,555
<b>Total equity and liabilities</b>		<u><b>6,787,025</b></u>	<u><b>8,100,545</b></u>

The notes on pages 9 to 18 form part of these financial statements.

These financial statements were approved by the Board of directors and authorised for issue on 30 June 2017 and were signed on its behalf by:



Sam Williams  
 Director

**Modern Biosciences Limited**

**Statement of cash flows for the year ended 31 December 2016**

	2016 £	2015 £
<b>Operating activities</b>		
Operating (loss)/profit	(1,275,778)	5,546,557
<i>Adjusted for:</i>		
Depreciation of property, plant & equipment	1,902	1,243
<i>Changes in working capital:</i>		
Decrease in trade and other receivables	42,960	2,738,122
Decrease in trade and other payables	(217,689)	(694,657)
<b>Net cash (outflow)/inflow from operating activities</b>	<u>(1,448,605)</u>	<u>7,591,265</u>
<b>Investing activities</b>		
Purchase of property, plant & equipment	(5,355)	(1,761)
Interest received	41,849	13,505
<b>Net cash inflow from investing activities</b>	<u>36,494</u>	<u>11,744</u>
<b>Financing activities</b>		
Net proceeds from issue of share capital	2,100	-
<b>Net cash inflow from financing activities</b>	<u>2,100</u>	<u>-</u>
<b>Net (decrease)/increase in cash and cash equivalents</b>	<b>(1,410,011)</b>	<b>7,603,009</b>
<b>Cash and cash equivalents at the beginning of the year</b>	<b>7,659,015</b>	<b>56,006</b>
<b>Cash and cash equivalents at the end of the year</b>	<b><u>6,249,004</u></b>	<b><u>7,659,015</u></b>

**Statement of changes in equity for the year ended 31 December 2016**

	Attributable to equity holders of the Company					
	Share capital £	Share premium £	Capital Redemption Reserve £	Capital Reserve £	Retained earnings £	Total equity £
At 1 January 2015	68,105	17,275	99,033	64,318	(6,612,925)	(6,364,194)
Total comprehensive income	-	-	-	-	5,595,184	5,595,184
At 1 January 2016	<b>68,105</b>	<b>17,275</b>	<b>99,033</b>	<b>64,318</b>	<b>(1,017,741)</b>	<b>(769,010)</b>
Issue of share capital	2,100	-	-	-	-	2,100
Total comprehensive loss	-	-	-	-	(1,097,930)	(1,097,930)
At 31 December 2016	<b>70,205</b>	<b>17,275</b>	<b>99,033</b>	<b>64,318</b>	<b>(2,115,671)</b>	<b>(1,864,840)</b>

## **1. ACCOUNTING POLICIES**

### **Basis of preparation**

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

The preparation of financial statements in compliance with generally accepted accounting principles requires the use of estimates and assumptions that affect the amount reported of assets and liabilities at the balance sheet date and the amounts reported as revenue and expenditure of the reporting period.

### **Going concern**

The Company's cash position at 31 December 2016 was £6,249,004.

The Company's ultimate parent company, IP Group plc, has confirmed, subsequent to the balance sheet date, that it will not require repayment in cash of the £8.4m financing loan to the extent that such repayment would cause doubt as to the Company's ability to continue as a going concern. This confirmation extends for a period of not less than twelve months from the date of approval of these financial statements.

The operations of the Company are structured to focus on developing the most promising commercialisation opportunities whilst maintaining a controlled overhead base. Detailed financial forecasts for the Company, primarily comprising cash flows to June 2018, have been prepared to reflect this. On the basis of these forecasts and further expected payments from the Option and Licence Agreement with JBI and the confirmation from IP Group plc, the directors have concluded that the going concern basis of preparation remains appropriate. The financial statements do not include any adjustments that would result if the going concern basis of preparation were no longer appropriate.

### **Preparation of consolidated financial statements**

The financial statements contain information about Modern Biosciences Limited as an individual company and do not contain consolidated financial information as a parent of a group. The Company is exempt by virtue of section 400 of the Companies Act 2006 from the requirement to prepare group accounts on the basis that the parent company is included in the accounts of a larger group.

### **Property, plant and equipment**

All property, plant and equipment is shown at cost less subsequent depreciation and impairment. Cost includes expenditure that is attributable to the acquisition of the items. Depreciation on assets is calculated using the straight line method to allocate the cost of each asset to its residual value over its estimated useful life, as follows:

Office Equipment	Over 3 to 5 years
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Asset residual values and useful lives are reviewed and adjusted, if appropriate, at each balance sheet date.

### **Cash and cash equivalents**

Cash and cash equivalents include cash in hand and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

## **1. ACCOUNTING POLICIES (CONTINUED)**

### **Deferred tax**

Full provision is made for deferred tax on all temporary differences resulting from the carrying value of an asset or liability and its tax base. Deferred tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or deferred tax liability settled. Deferred tax assets are recognised to the extent that it is probable that the deferred tax asset will be recovered in the future.

### **Financial assets**

In respect of regular way purchases or sales, the Company uses trade date accounting to recognise or derecognise financial assets.

Financial assets are derecognised when the rights to receive cash flows from the assets have expired or the Company has transferred substantially all risks and rewards of ownership.

The Company classifies its financial assets into one of the categories listed below, depending on the purpose for which the asset was acquired. None of the Company's financial assets are categorised as fair value through profit or loss, held for trading or held to maturity.

#### *Loans and receivables*

These assets are non-derivative financial assets with fixed and determinable payments that are not quoted in an active market. They arise principally through the payment of expenses on behalf of other group companies and value added tax on expenses not yet recovered from HM Revenue & Customs. Loans and receivables are carried at cost less provision for impairment.

### **Financial liabilities**

Financial liabilities are comprised of trade payables and other short-term monetary liabilities, which are recognised at amortised cost.

Interest-free loans, which are not repayable on demand, are initially recognised at fair value and subsequently measured at amortised cost. The difference between fair value on initial recognition and proceeds received is recognised as income or a capital contribution, dependent upon the parties to the loan. This difference is recognised as imputed interest through the income statement using the effective interest method.

The fair value on initial recognition is determined as the net present value of future cash flows discounted at a market interest rate.

Unless otherwise indicated, the carrying amounts of the Company's financial liabilities are a reasonable approximation to their fair value.

### **Share capital**

Financial instruments issued by the Company are treated as equity if the holders have only a residual interest in the Company's assets after deducting all liabilities. The objective of the Company is to manage capital so as to provide shareholders with above average returns through capital growth over the medium to long term. The Company considers its capital to comprise its share capital, share premium and retained earnings. The Company is not subject to any externally imposed capital requirements.

## 1. ACCOUNTING POLICIES (CONTINUED)

### Significant accounting estimates and judgements

The directors make judgements and estimates concerning the future. Estimates and judgements are continually evaluated and are based on historical experience and other factors, such as expectations of future events, and are believed to be reasonable under the circumstances. Actual results may differ from these estimates. The judgements required in order to determine the appropriate valuation methodology of unquoted equity investments have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities.

### Revenue recognition

Income from licensing and similar income is recognised on an accruals basis in accordance with the terms of the relevant licensing agreements. Income from milestone payments are recognised once performance obligations are satisfied, on an accruals basis and in accordance with the terms of the relevant licensing agreements.

Grant income is recognised when it is received and is offset against the relevant R&D expenditure in the statement of comprehensive income.

### New standards, interpretations and amendments effective from 1 January 2016

#### (i) New standards, interpretations and amendments effective from 1 January 2016

No new standards, interpretations and amendments effective for the first time from 1 January 2016 have had a material effect on the Company's financial statements

#### (ii) New standards, interpretations and amendments not yet effective

The following new standards, which have not been applied in these financial statements, will or may have an effect on the Company's future financial statements:

*IFRS 15 Revenue from Contracts with Customers:* IFRS 15 was issued on 28 May 2014 and provides a single global standard on revenue recognition which aligns the IFRS and US GAAP guidance. It replaces existing revenue recognition guidance, including IAS 18 revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programmes. The Company has assessed the potential impact on its consolidated financial statements resulting from the application of IFRS 15 and does not foresee any material effect when the Standard is applied. While early adoption is permitted, IFRS 15 has an effective date of 1 January 2018 with the year ending 31 December 2018 being the first annual financial statements to which the standard applies.

*IFRS 9 Financial Instruments:* IFRS 9 will eventually replace IAS 39 in its entirety. The process has been divided into three main components, being classification and measurement; impairment; and hedge accounting. The Company provisionally assesses the potential effect to be immaterial given the majority of its financial assets are currently held at fair value through profit or loss. The previous effective date of 1 January 2015 has been withdrawn and is now expected to be implemented in 2018.

None of the other new standards, interpretations and amendments not yet effective is expected to have a material effect on the Company's future financial statements.

## 2. FINANCIAL RISK MANAGEMENT

Through its normal operations, the Company is exposed to a number of financial risks, the most significant of which are liquidity and market risks.

In general, risk management is carried out throughout the Company and the group headed by the Company's immediate parent undertaking, IP Group plc, under policies approved by the boards of directors. The following further describes the objectives, policies and processes for managing those risks and the methods used to measure them. Further quantitative information in respect of these risks is presented throughout these financial statements.

### (a) Market risk

#### (i) Price risk

The Company holds no financial assets other than cash and cash equivalents and trade and other receivables, and accordingly has little or no exposure to price risk.

#### (ii) Interest rate risk

As the Company has no significant interest bearing borrowings it has only a limited interest rate risk. The table below summarises the interest rate profile of the Company.

	2016			2015		
	Floating rate £	Interest free £	Total £	Floating rate £	Interest free £	Total £
<b>Financial assets</b>						
Trade and other receivables	-	130,297	130,297	-	90,409	90,409
Cash and cash equivalents	6,249,004	-	6,249,004	7,659,015	-	7,659,015
	<b>6,249,004</b>	<b>130,297</b>	<b>6,379,301</b>	<b>7,659,015</b>	<b>90,409</b>	<b>7,749,424</b>
<b>Financial liabilities</b>						
Trade and other payables	-	8,643,321	8,643,321	-	8,862,587	8,862,587
	-	<b>8,643,321</b>	<b>8,643,321</b>	-	<b>8,862,587</b>	<b>8,862,587</b>

At 31 December 2016, if interest rates had been 1% higher / lower, post-tax loss for the year, and other components of equity, would have been £67,090 (2015: £34,340) higher / lower as a result of higher/lower interest received on floating rate cash deposits.

#### (iii) Currency rate risk

The Company purchases contract research services from overseas organisations and is therefore exposed to the risk that its operations may be effected by changes in exchange rates.

**2. FINANCIAL RISK MANAGEMENT (CONTINUED)**

The Company's policy is, where possible, to negotiate payment terms in pounds sterling. Where this is not possible, the Company seeks to hedge significant currency payments through the use of forward contracts. There were no outstanding forward exchange contracts outstanding at either balance sheet date.

At the balance sheet date the Company had £35,297 of trade payables denominated in US Dollars ("US\$") and £17,423 of trade payables denominated in European Euro ("€") (2015: £nil in US\$ and £8,804 in €).

The effect of a 25c strengthening / weakening of the Euro against GBP at the balance sheet date, with all other variables held constant, would have resulted in a decrease in post-tax loss for the year end and other components of equity of £6,892 (2015: £4,040).

The effect of a 25c strengthening / weakening of the USD against GBP at the balance sheet date, with all other variables held constant, would have resulted in a decrease in post-tax loss for the year end and other components of equity of £10,855 (2015: £nil).

**(b) Liquidity risk**

The Company seeks to manage liquidity risk, to ensure sufficient liquidity is available to meet foreseeable needs and to invest cash assets safely and profitably. Accordingly the Company only invests working capital in immediate access accounts with reputable banking institutions.

As at 31 December 2016 and 31 December 2015, with the exception of equity investments and a £8.3m financing loan from IP Group plc, all financial assets and liabilities mature for payment within one year.

Of the £8.3m financing loan from IP Group plc, £4.9m is repayable on demand and £3.4m is only repayable upon certain contingent events. The Company's ultimate parent company, IP Group plc, has confirmed, subsequent to the balance sheet date, that it will not require repayment in cash of the £8.3m financing loan to the extent that such repayment would cause doubt as to the Company's ability to continue as a going concern. This confirmation extends for a period of not less than twelve months from the date of approval of these financial statements.

**(c) Credit risk**

The Company's credit risk is limited due to the low level of external receivables held. Cash and cash equivalents are deposited with reputable banking institutions and are immediately available.

The maximum exposure to credit risk for receivables and other financial assets is represented by their carrying amount.

**3. OPERATING PROFIT**

	2016 £	2015 £
Profit from operations is stated after charging/(crediting):		
Depreciation of owned tangible fixed assets	1,902	1,243
Net foreign exchange losses/(gains)	7,898	(6,568)
Research and development expenditure (net of grant income)	<u>1,048,614</u>	<u>2,042,849</u>



## Modern Biosciences Limited

### Notes to the financial statements for the year ended 31 December 2016

#### 4. AUDITOR'S REMUNERATION

	2016 £	2015 £
<b>Audit services</b>		
Fees payable to company auditor for the audit of the financial statements	2,370	2,320
<b>Non audit services</b>		
Fees payable to the Company auditor and its associates for other services:		
- auditing of accounts of subsidiaries pursuant to legislation	1,000	980
- other assurance services	-	-
- other taxation services:	-	-
	<u>3,370</u>	<u>3,300</u>

#### 5. DIRECTOR'S EMOLUMENTS

	2016 £	2015 £
Aggregate emoluments paid	292,746	465,875
Benefits in kind	4,706	4,843
Contributions to money purchase pension schemes	10,666	9,938
	<u>308,118</u>	<u>480,656</u>

The highest paid director had aggregate emoluments of £276,722 (2015: £271,750) and benefits in kind of £1,235 (2015: £3,221).

#### 6. EMPLOYEE COSTS

Employee costs (including directors and net of salary re-charge to group companies) comprise:

	2016 £	2015 £
Salaries	173,629	405,534
Defined contribution pension cost	12,270	9,938
Social security	40,170	65,385
	<u>226,069</u>	<u>480,857</u>

The average monthly number of persons (including executive directors) employed by the Company during the year was 2 (2015: 2), all of whom were involved in research and development activities. During the year options were granted under the Modern Biosciences Company Share Option Plan to employees (2015: nil options). The employee costs represent the amounts paid to the two directors employed by the Company less any amounts re-charged to IP Group plc for the services one of the directors provided in the year.

#### 7. FINANCE EXPENSE

	2016 £	2015 £
Imputed interest on financing loan	-	(14,773)
	<u>-</u>	<u>(14,773)</u>

£3.4 million of the total £8.3m loans received from the Company's parent, IP Group plc, between 2008 and 2014 that are not repayable on demand are non-interest bearing. The difference between fair value on initial recognition and expected repayment amount is being recognised as imputed interest through the statement of comprehensive income over the period until anticipated repayment.

**Modern Biosciences Limited**

**Notes to the financial statements for the year ended 31 December 2016**

**8. TAXATION**

	2016 £	2015 £
<b>Total tax charge/(credit)</b>		
Group relief	-	2,734
Deferred tax movement	<b>(135,599)</b>	(52,629)
	<u><b>(135,599)</b></u>	<u>(49,895)</u>
<b>Deferred tax movement</b>		
Accelerated capital allowances	<b>(1,638)</b>	(2,962)
Short term temporary differences	<b>(202)</b>	(67)
Tax losses carried forward and other deductions	<b>(186,388)</b>	(49,600)
	<u><b>(188,228)</b></u>	<u>(52,629)</u>

The tax assessed for the year is different than the standard rate of corporation tax in the UK (20.0%). Factors affecting the current tax charge for the year are explained below:

	2016 £	2015 £
Profit on ordinary activities before taxation	<b>(1,233,929)</b>	5,545,289
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 20.0% (2015: 21.3%)	<b>(246,786)</b>	1,122,920
Effects of:		
Expenses not deductible for tax purposes	<b>181</b>	1,837
Patent box additional deduction	-	(421,859)
Previously unrecognised deferred tax	-	(750,007)
Adjustments to tax charge in respect of previous periods – deferred tax	<b>(17,012)</b>	-
Rate change on deferred tax balances	<b>(10)</b>	(2,786)
Difference in tax rate on patent box losses	<b>127,176</b>	-
RDEC prior year adjustment	<b>852</b>	-
Taxation on profit on ordinary activities	<u><b>(135,599)</b></u>	<u>(49,895)</u>

	2016 £	2015 £
<b>Deferred tax asset</b>		
Opening deferred tax balance	<b>52,629</b>	-
Movement in deferred tax during the year	<b>135,599</b>	52,629
Closing deferred tax balance	<u><b>188,228</b></u>	<u>52,629</u>

**Modern Biosciences Limited**

**Notes to the financial statements for the year ended 31 December 2016**

**9. PROPERTY, PLANT AND EQUIPMENT**

	<b>Office Equipment £</b>
<b>Cost</b>	
At 1 January 2016	56,410
Additions	5,355
At 31 December 2016	<u>61,765</u>
<b>Accumulated depreciation</b>	
At 1 January 2016	54,151
Charge for the year	1,902
At 31 December 2016	<u>56,053</u>
<b>Net book value at 31 December 2016</b>	<u>5,712</u>
Net book value at 31 December 2015	2,259
	<b>Office Equipment £</b>
<b>Cost</b>	
At 1 January 2015	54,649
Additions	1,761
At 31 December 2015	<u>56,410</u>
<b>Accumulated depreciation</b>	
At 1 January 2015	52,908
Charge for the year	1,243
At 31 December 2015	<u>54,151</u>
<b>Net book value at 31 December 2015</b>	<u>2,259</u>
Net book value at 31 December 2014	1,741

**10. CATEGORISATION OF FINANCIAL INSTRUMENTS**

<b>Financial assets</b>	Loans and receivables £	Total £
At 31 December 2016		
Trade and other receivables	130,297	130,297
Cash and cash equivalents	6,249,004	6,249,004
<b>Total</b>	<u>6,379,301</u>	<u>6,379,301</u>
At 31 December 2015		
Trade and other receivables	90,409	90,409
Cash and cash equivalents	7,659,015	7,659,015
<b>Total</b>	<u>7,749,424</u>	<u>7,749,424</u>

All financial liabilities are categorised as other financial liabilities and recognised at amortised cost.

## Modern Biosciences Limited

### Notes to the financial statements for the year ended 31 December 2016

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#### 11. TRADE AND OTHER RECEIVABLES

	2016 £	2015 £
Prepayments	6,231	16,105
Amounts due from group undertakings	50,273	50,273
Research and development tax credit receivable	146,445	137,571
Other receivables	141,132	182,693
	<u>344,081</u>	<u>386,642</u>

#### 12. TRADE AND OTHER PAYABLES

	2016 £	2015 £
Trade payables	224,869	426,773
Amounts due to related parties	8,410,981	8,409,729
Social security and other taxes	8,545	6,968
Accrued expenses	7,470	26,085
	<u>8,651,865</u>	<u>8,869,555</u>

Amounts due to related parties are unsecured, interest free and repayable on demand or certain contingent events. IP Group plc has made financing loans totally £8.4m to the Company, of which £4.9m is repayable on demand and £3.4m is only repayable upon certain contingent events. The Company's ultimate parent company, IP Group plc, has confirmed, subsequent to the balance sheet date, that it will not require repayment in cash of the £8.4m financing loan to the extent that such repayment would cause doubt as to the Company's ability to continue as a going concern. This confirmation extends for a period of not less than twelve months from the date of approval of these financial statements.

#### 13. SHARE CAPITAL

	2016 £	2015 £
<b>Authorised</b>		
170,000,000 ordinary shares of 0.1p each (2015: 170,000,000 ordinary shares of 0.1p each)	<u>170,000</u>	170,000
	<u>170,000</u>	170,000
<b>Allotted, called up and fully paid</b>		
70,204,880 ordinary shares of 0.1p each (2015: 68,104,880 ordinary shares of 0.1p each)	<u>70,205</u>	68,105
	<u>70,205</u>	68,105

## Modern Biosciences Limited

### Notes to the financial statements for the year ended 31 December 2016

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#### 14. RELATED PARTY TRANSACTIONS

The Company receives business support services from IP2IPO Limited, a fellow subsidiary company of IP Group plc. No amounts were invoiced or are outstanding at balance sheet date for these services during the year (2015: £nil). The Company has received a total of £8.4m in short term working capital loans from IP Group plc, its parent company since 2008.

As part of the provision of ongoing financial support to a number of its subsidiaries, the Company has permitted those subsidiaries to recharge the Company for their research related expenditure in the year. An analysis of the amounts recharged is as follows:

	2016	2015
	£	£
PIMCO 2664 Limited	2,240	5,949

With the exception of the above, the Company has not sold to, or purchased from, any related party in the year. The amounts owed by group undertakings arose through the settlement of expenses by the Company which were incurred by another group undertaking. This amount is repayable on demand and does not bear interest. Its book value is considered to be its fair value at the balance sheet date.

The directors consider the key management of the Company to solely comprise the board of directors whose aggregate remuneration is that disclosed in note 5 to the financial statements.

Details of the Company's subsidiary undertakings at 31 December 2016 are as follows:

Name of subsidiary	Place of incorporation (or registration) and operation	Proportion of ownership interest and voting power held %
PIMCO 2664 Limited*	England & Wales	100
Modern Biosciences Nominees Limited *	England & Wales	100
MBS Secretarial Limited *	England & Wales	100
MBS Director Limited *	England & Wales	100
MBS3 Limited	England & Wales	100
MBS4 Limited	England & Wales	100

All companies above undertake the activity of drug development with the exception of those marked with a \* which are dormant.

#### 15. POST BALANCE SHEET EVENTS

There were no post balance sheet events at the date of signing this report.

#### 16. IMMEDIATE AND ULTIMATE PARENT COMPANY AND CONTROLLING PARTY

The immediate parent company and the ultimate controlling party is considered to be IP Group plc. Copies of the ultimate parent company's financial statements may be obtained from the secretary of IP Group plc, The Walbrook Building, 25 Walbrook, London, EC4N 8AF.