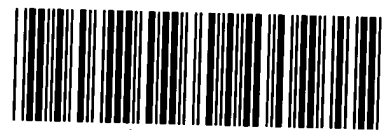


**REGISTERED NUMBER: 05414023 (England and Wales)**

**Strategic Report, Report of the Directors and  
Financial Statements for the Year Ended 31 December 2017**  
**for**  
**Modern Biosciences Limited**  
**(formally known as Modern Biosciences Plc)**

TUESDAY



LD2 \*L7HMVT2A\* #261  
30/10/2018  
COMPANIES HOUSE

**Modern Biosciences Limited (Registered number: 05414023)**

**Contents of the Financial Statements**  
*for the year ended 31 December 2017*

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# **Modern Biosciences Limited**

## **Company Information** *for the year ended 31 December 2017*

**DIRECTORS:** IP2IPO Services Limited  
Dr S C Williams  
Dr L Patel (resigned 3 October 2017)

**SECRETARY:** Pinsent Masons Secretarial Limited

**REGISTERED OFFICE:** The Walbrook Building  
25 Walbrook  
London  
EC4N 8AF

**REGISTERED NUMBER:** 05414023 (England and Wales)

**AUDITORS:** KPMG LLP  
Chartered Accountants  
Registered Auditor  
15 Canada Square  
London  
E14 5GL

## **Modern Biosciences Limited (Registered number: 05414023)**

### **Strategic Report**

*for the year ended 31 December 2017*

The directors present their strategic report for the year ended 31 December 2017.

#### **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 9 and shows the loss for the year.

Total research and development expenses of £2,809,530 (2016: £2,247,870) were incurred and total grant income received in the year was £357,952 (2016: £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 £3.0 million (2016: £nil) 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 (2016: £nil) and the directors do not propose a final dividend for the year ended 31 December 2017 (2016: £nil).

#### **BUSINESS ENVIRONMENT**

The overall economic backdrop has a significant bearing on the Group's ability to pursue its strategic objectives. In the shorter term, financial market volatility and investor risk appetite impacts access to capital for the development of spin-out companies which in turn can affect the likelihood of achieving exits and can influence the periodic valuations of holdings in portfolio companies. Over the longer-term, Government spending on fundamental R&D as well as policy support towards the commercialisation of IP are key areas affecting the Group's business model.

In this context, these are uncertain times both economically and politically, particularly following events including the UK's vote to leave the European Union and the economic policy changes made, and under consideration, in the US. Global economic activity, however, has been strengthening with the International Monetary Fund forecasting a global growth rate for 2018 of 3.9%. The forecast for strong growth is a result of upward revisions to the EU and for many parts of Asia, though it also includes downward revisions for both the US and UK.

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.

## **Modern Biosciences Limited (Registered number: 05414023)**

### **Strategic Report**

*for the year ended 31 December 2017*

#### **STRATEGY**

The directors remain focussed on the company's lead development drug, MBS2320, and assuring its success in early clinical studies. In 2014, the Group signed an Option and Licence Agreement with Janssen Biotech Inc (JBI), a division of Johnson & Johnson, thus securing funding for the early clinical development of MBS2320, as well as potential downstream revenues in the form of development-related milestones and royalties on any eventual sales. MBS2320 is currently being tested in a Phase 2a study in rheumatoid arthritis. Following the results of this study, JBI has 3 months to decide if it wishes to exercise its option to license the programme. If this happens, it is expected that future milestone and royalty revenue from JBI 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.

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.

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, which was also to become the direct holding company for MBS3 Ltd and MBS4 Ltd. However, to facilitate this, Modern Biosciences plc was re-registered as a private company, Modern Biosciences Limited, with Companies House on 14 June 2017. The reorganisation of the Company completed on 30 June 2017.

During the year, the financing loan of £8.3m payable by the Company to IP Group plc was restructured to make the repayment of the loan contingent on the receipt of milestones under the agreement with JBI. Further, at the date of signing, Istesso Limited was in the process of raising additional equity funding, the primary use of which will be the exploration of MBS2320 for other indications including certain cancers and other autoimmune conditions such as ulcerative colitis.

#### **KEY PERFORMANCE INDICATORS**

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.

**Modern Biosciences Limited (Registered number: 05414023)**

**Strategic Report**

*for the year ended 31 December 2017*

**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 the ongoing Phase 2a study, after which JBI is expected to decide whether to exercise its option to license the programme and take on its own development. The Company will also pursue the early pre-clinical development of the new programmes in-licensed in early 2017. Further, at the date of signing these accounts, Istesso Limited was in the process of raising additional equity funding, the primary use of which will be the exploration of MBS2320 for other indications including certain cancers and other autoimmune conditions such as ulcerative colitis.

**ON BEHALF OF THE BOARD:**



.....  
Dr S C Williams - Director

Date: 26-10-2018

**Modern Biosciences Limited (Registered number: 05414023)**

**Report of the Directors**  
*for the year ended 31 December 2017*

The directors present their report with the financial statements of the company for the year ended 31 December 2017.

**PRINCIPAL ACTIVITY**

Modern Biosciences Limited 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 2 to 4 (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.

**DIVIDENDS**

No dividends will be distributed for the year ended 31 December 2017 (2016: £nil).

**DIRECTORS**

The directors shown below have held office during the whole of the period from 1 January 2017 to the date of this report.

IP2IPO Services Limited  
Dr S C Williams  
Dr L Patel (resigned 3 October 2017)

**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 7 to these financial statements, along with further information on the Company's use of financial instruments.

**CHARITABLE AND POLITICAL CONTRIBUTIONS**

During the year the Company made no charitable or political contributions (2016: nil).

**GOING CONCERN**

The Company has adequate financial resources and as a consequence, the Directors believe that the Company is well placed to manage its business risks successfully and to meet its liabilities as they fall due for at least twelve months from the date of approval of these financial statements.

**QUALIFYING THIRD PARTY INDEMNITY PROVISION**

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

**BRANCHES**

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

**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 2017 was 24 days (2016: 33 days).

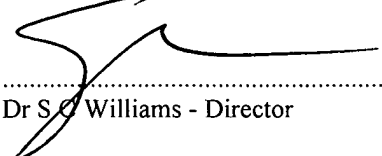
**DISCLOSURE OF INFORMATION TO AUDITORS**

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.

**AUDITORS**

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:**

  
.....  
Dr S C Williams - Director

26-10-2018  
.....  
Date

## **Modern Biosciences Limited (Registered number: 05414023)**

### **Statement of Directors' Responsibilities in respect of the Strategic Report, the Directors' Report and the Financial Statements** *for the year ended 31 December 2017*

The directors are responsible for preparing the Strategic Report, 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 they have elected to prepare the financial statements in accordance with UK accounting standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 101 *Reduced Disclosure Framework*.

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 estimates that are reasonable and prudent;
- state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use 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.

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 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, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.



## **Independent Auditor's Report to the Members of Modern Biosciences Limited**

### **Opinion**

We have audited the financial statements of Modern Biosciences Limited ("the company") for the period ended 31 December 2017 which comprise the Statement of Comprehensive Income, Statement of Financial Position and Statement of Changes in Equity and related notes, including the accounting policies in note 2.

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2017 and of its profit for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 101 *Reduced Disclosure Framework*; 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.

We have nothing to report in these respects.

## **Independent Auditor's Report to the Members of Modern Biosciences Limited**

### **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.

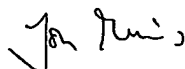
### **Auditor's responsibilities**

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  
Chartered Accountants  
Registered Auditor  
15 Canada Square  
London  
E14 5GL

Date: 26.10.2018.....

**Modern Biosciences Limited (Registered number: 05414023)**

**Statement of Profit or Loss and Other Comprehensive Income**  
*for the year ended 31 December 2017*

	Notes	31/12/17 £	31/12/16 £
<b>CONTINUING OPERATIONS</b>			
Revenue		3,000,000	-
Other operating income		-	77,909
Administrative expenses		<u>(2,932,874)</u>	<u>(1,353,687)</u>
<b>OPERATING PROFIT/(LOSS)</b>		67,126	(1,275,778)
Finance income	4	<u>13,024</u>	<u>41,849</u>
<b>PROFIT/(LOSS) BEFORE TAXATION</b>	5	80,150	(1,233,929)
Taxation	6	<u>438,378</u>	<u>135,999</u>
<b>PROFIT/(LOSS) FOR THE YEAR</b>		518,528	(1,097,930)
<b>OTHER COMPREHENSIVE INCOME</b>		<u>-</u>	<u>-</u>
<b>TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR</b>		<u>518,528</u>	<u>(1,097,930)</u>

The notes on pages 14 to 23 form part of these financial statements

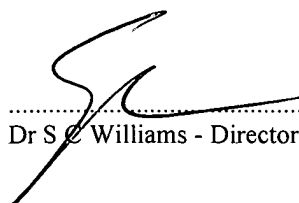
**Modern Biosciences Limited (Registered number: 05414023)**

**Statement of Financial Position**

**31 December 2017**

	Notes	31/12/17 £	31/12/16 £
<b>ASSETS</b>			
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	8	30,320	5,712
Deferred tax	15	<u>268,963</u>	<u>188,228</u>
		<u>299,283</u>	<u>193,940</u>
<b>CURRENT ASSETS</b>			
Trade and other receivables	9	2,372,836	344,081
Cash and cash equivalents	10	<u>4,599,245</u>	<u>6,249,004</u>
		<u>6,972,081</u>	<u>6,593,085</u>
<b>TOTAL ASSETS</b>		<u><u>7,271,364</u></u>	<u><u>6,787,025</u></u>
<b>EQUITY</b>			
<b>SHAREHOLDERS' EQUITY</b>			
Called up share capital	11	70,205	70,205
Share premium	12	17,275	17,275
Capital redemption reserve	12	99,033	99,033
Capital reserve	12	64,318	64,318
Retained earnings	12	<u>(1,586,686)</u>	<u>(2,115,671)</u>
<b>TOTAL EQUITY</b>		<u><u>(1,335,855)</u></u>	<u><u>(1,864,840)</u></u>
<b>LIABILITIES</b>			
<b>NON-CURRENT LIABILITIES</b>			
Trade and other payables	13	8,306,408	-
<b>CURRENT LIABILITIES</b>			
Trade and other payables	13	<u>300,811</u>	<u>8,651,865</u>
<b>TOTAL LIABILITIES</b>		<u><u>8,607,219</u></u>	<u><u>8,651,865</u></u>
<b>TOTAL EQUITY AND LIABILITIES</b>		<u><u>7,271,364</u></u>	<u><u>6,787,025</u></u>

The financial statements were approved by the Board of Directors on 26-10-2018 and were signed on its behalf by:

  
 .....  
 Dr S C Williams - Director

**Modern Biosciences Limited (Registered number: 05414023)**

**Statement of Changes in Equity**  
*for the year ended 31 December 2017*

	Called up share capital £	Retained earnings £	Share premium £
<b>Balance at 1 January 2016</b>	68,105	(1,017,741)	17,275
<b>Changes in equity</b>			
Issue of share capital	2,100	-	-
Total comprehensive income	-	(1,097,930)	-
<b>Balance at 31 December 2016</b>	<u>70,205</u>	<u>(2,115,671)</u>	<u>17,275</u>
<b>Changes in equity</b>			
Total comprehensive income	-	518,528	-
LTIP share option charge	-	10,457	-
<b>Balance at 31 December 2017</b>	<u>70,205</u>	<u>(1,586,686)</u>	<u>17,275</u>
	Capital redemption reserve £	Capital reserve £	Total equity £
<b>Balance at 1 January 2016</b>	99,033	64,318	(769,010)
<b>Changes in equity</b>			
Issue of share capital	-	-	2,100
Total comprehensive income	-	-	(1,097,930)
<b>Balance at 31 December 2016</b>	<u>99,033</u>	<u>64,318</u>	<u>(1,864,840)</u>
<b>Changes in equity</b>			
Total comprehensive income	-	-	518,528
LTIP share option charge	-	-	10,457
<b>Balance at 31 December 2017</b>	<u>99,033</u>	<u>64,318</u>	<u>(1,335,855)</u>

The notes on pages 14 to 23 form part of these financial statements

**Modern Biosciences Limited (Registered number: 05414023)**

**Statement of Cash Flows**  
*for the year ended 31 December 2017*

		31/12/17	31/12/16
		£	£
<b>Cash flows from operating activities</b>			
Cash generated from operations	1	(1,706,162)	(1,448,605)
Tax received		<u>80,709</u>	<u>-</u>
Net cash from operating activities		<u>(1,625,453)</u>	<u>(1,448,605)</u>
<b>Cash flows from investing activities</b>			
Purchase of tangible fixed assets		(37,330)	(5,355)
Interest received		<u>13,024</u>	<u>41,849</u>
Net cash from investing activities		<u>(24,306)</u>	<u>36,494</u>
<b>Cash flows from financing activities</b>			
Share issue		<u>-</u>	<u>2,100</u>
Net cash from financing activities		<u>-</u>	<u>2,100</u>
<b>Decrease in cash and cash equivalents</b>		<b>(1,649,759)</b>	<b>(1,410,011)</b>
Cash and cash equivalents at beginning of year	2	<u>6,249,004</u>	<u>7,659,015</u>
Cash and cash equivalents at end of year	2	<u><u>4,599,245</u></u>	<u><u>6,249,004</u></u>

The notes on pages 14 to 23 form part of these financial statements

**Modern Biosciences Limited (Registered number: 05414023)**

**Notes to the Statement of Cash Flows**  
*for the year ended 31 December 2017*

**1. RECONCILIATION OF PROFIT/(LOSS) BEFORE TAXATION TO CASH GENERATED FROM OPERATIONS**

	31/12/17	31/12/16
	£	£
Profit/(loss) before taxation	80,150	(1,233,929)
Depreciation charges	12,722	1,902
LTIP Share option charge	10,457	-
Finance income	<u>(13,024)</u>	<u>(41,849)</u>
	90,305	(1,273,876)
(Increase)/decrease in trade and other receivables	(1,751,821)	42,960
Decrease in trade and other payables	<u>(44,646)</u>	<u>(217,689)</u>
<b>Cash generated from operations</b>	<b><u>(1,706,162)</u></b>	<b><u>(1,448,605)</u></b>

**2. CASH AND CASH EQUIVALENTS**

The amounts disclosed on the Statement of Cash Flows in respect of cash and cash equivalents are in respect of these Statement of Financial Position amounts:

**Year ended 31 December 2017**

	31/12/17	01/01/17
	£	£
Cash and cash equivalents	<u>4,599,245</u>	<u>6,249,004</u>

**Year ended 31 December 2016**

	31/12/16	01/01/16
	£	£
Cash and cash equivalents	<u>6,249,004</u>	<u>7,659,015</u>

## **Modern Biosciences Limited (Registered number: 05414023)**

### **Notes to the Financial Statements** *for the year ended 31 December 2017*

#### **1. STATUTORY INFORMATION**

Modern Biosciences Limited is a private company, limited by shares, registered in England and Wales. The company's registered number and registered office address can be found on the Company Information page.

#### **2. 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 2017 was £4,599,245.

During the year, the financing loan of £8.3m payable by the Company to IP Group plc was restructured to make the repayment of the loan contingent on the receipt of milestones under the agreement with JBI.

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 December 2020, 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 amendment to the terms of the loan 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.

##### **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.



## **Modern Biosciences Limited (Registered number: 05414023)**

### **Notes to the Financial Statements - continued** *for the year ended 31 December 2017*

#### **2. ACCOUNTING POLICIES - continued**

##### **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

Asset residual values and useful lives are reviewed and adjusted, if appropriate, at each balance sheet date.

##### **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.

##### **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.

##### **Employee benefit costs**

The company operates a defined contribution pension scheme. Contributions payable to the company's pension scheme are charged to the income statement in the period to which they relate.

##### **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.

**Notes to the Financial Statements - continued**  
*for the year ended 31 December 2017*

**2. ACCOUNTING POLICIES - continued**

**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.

**Changes in Accounting Policies**

**(i) New standards, interpretations and amendments effective from 1 January 2017**

No new standards, interpretations and amendments effective for the first time from 1 January 2017 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 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 effective date is 1 January 2018.

*IFRS 16 Leases:*

IFRS 16 Leases was issued on 13 January 2016 and replaces IAS 17 Leases. IFRS 16 requires all operating leases in excess of one year, where the Company is the lessee, to be included on the Company's statement of financial position, and recognised as a right-of-use ("ROU") asset and a related lease liability representing the obligation to make lease payments. The ROU asset will be amortised on a straight-line basis with the lease liability being amortised using the effective interest method. Optional exemptions are available under IFRS 16 for short-term leases (lease terms less than 12 months) and for small-value leases. Based on the preliminary assessment, the Company expects its existing operating lease arrangements as a lessee to be recognised as ROU assets with corresponding lease liabilities under the new standard. The Company has assessed the potential impact on its consolidated financial statements resulting from the application of IFRS 16 and does not foresee any material effect when the Standard is applied. Early adoption is permitted if IFRS 15 Revenue from Contracts with customers has been applied but IFRS 16 has an effective date of 1 January 2019 with the year ending 31 December 2019 being the first annual financial statements to which the standard applies.

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

**Modern Biosciences Limited (Registered number: 05414023)**

**Notes to the Financial Statements - continued**  
*for the year ended 31 December 2017*

**3. EMPLOYEES AND DIRECTORS**

	<b>31/12/17</b>	31/12/16
	£	£
Wages and salaries	<b>219,093</b>	173,629
Social security costs	<b>42,650</b>	40,170
Other pension costs	<b>11,094</b>	12,270
	<u><b>272,837</b></u>	<u>226,069</u>

The average number of employees during the year was as follows:

	<b>31/12/17</b>	31/12/16
Administrative and Directors	<u><b>2</b></u>	<u>2</u>

During the year options were granted under the Modern Biosciences Company Share Option Plan to employees. 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.

	<b>31/12/17</b>	31/12/16
	£	£
Directors' remuneration	<b>216,317</b>	292,746
Directors' pension contributions to money purchase schemes	<u><b>6,810</b></u>	<u>10,666</u>

**4. NET FINANCE INCOME**

	<b>31/12/17</b>	31/12/16
	£	£
Finance income:		
Deposit account interest	<u><b>13,024</b></u>	<u>41,849</u>

**5. PROFIT/(LOSS) BEFORE TAXATION**

The profit before taxation (2016 - loss before taxation) is stated after charging:

	<b>31/12/17</b>	31/12/16
	£	£
Depreciation - owned assets	<b>12,722</b>	1,902
Auditors' remuneration	<b>2,500</b>	2,370
The auditing of accounts of any associate of the company	<b>1,026</b>	1,000
Foreign exchange differences	<u><b>903</b></u>	<u>7,898</u>

**Modern Biosciences Limited (Registered number: 05414023)**

**Notes to the Financial Statements - continued**  
*for the year ended 31 December 2017*

6. TAXATION

**Analysis of tax income**

	31/12/17	31/12/16
	£	£
Current tax credit	(357,643)	-
Deferred tax movement	<u>(80,735)</u>	<u>(135,999)</u>
Total tax income in statement of profit or loss and other comprehensive income	<u>(438,378)</u>	<u>(135,999)</u>

**Factors affecting the tax expense**

The tax assessed for the year is lower (2016 - higher) than the standard rate of corporation tax in the UK. The difference is explained below:

	31/12/17	31/12/16
	£	£
Profit/(loss) before taxation	<u>80,150</u>	<u>(1,233,929)</u>
Profit/(loss) multiplied by the standard rate of corporation tax in the UK of 19.25% (2016 - 20%)	15,426	(246,786)
Effects of:		
Expenses not deductible for tax purposes	2,013	181
Adjustments to tax charge in respect of previous periods	(85,671)	(17,012)
Tax rate changes	(613)	(10)
Difference in tax rates on patent box losses	-	127,176
RDEC prior year adjustment	-	852
Effect of R & D relief	(361,858)	-
Other adjustments	-	(400)
Patent box deduction	<u>(7,675)</u>	<u>-</u>
Tax income	<u>(438,378)</u>	<u>(135,999)</u>

**Modern Biosciences Limited (Registered number: 05414023)**

**Notes to the Financial Statements - continued**  
*for the year ended 31 December 2017*

**7. 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 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.

	2017			2016		
	Floating rate £	Interest free £	Total £	Floating rate £	Interest free £	Total £
<b>Financial assets</b>						
Trade and other receivables	-	1,901,644	1,901,644	-	130,297	130,297
Cash and cash equivalent	4,599,245	-	4,599,245	6,249,004	-	6,249,004
	<u>4,599,245</u>	<u>1,901,644</u>	<u>6,500,889</u>	<u>6,249,004</u>	<u>130,297</u>	<u>6,379,301</u>
<b>Financial liabilities</b>						
Trade and other payables	-	287,030	287,030	-	8,643,321	8,643,321
Long term loan	-	8,306,408	8,306,408	-	-	-
	<u>-</u>	<u>8,593,438</u>	<u>8,593,438</u>	<u>-</u>	<u>8,643,321</u>	<u>8,643,321</u>

At 31 December 2017, if interest rates had been 1% higher / lower, post-tax loss for the year, and other components of equity, would have been £57,084 (2016: £67,090) 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 affected by changes in exchange rates.

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 £22,360 of trade payables denominated in US Dollars ("US\$") and £101 of trade payables denominated in European Euro ("€") (2016: £35,297 in US\$ and £17,423 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 £22 (2016: £6,892).

**Modern Biosciences Limited (Registered number: 05414023)**

**Notes to the Financial Statements - continued**  
*for the year ended 31 December 2017*

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 an increase/decrease in post-tax profit for the year end and other components of equity of £5,590 (2016: £10,855).

**(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 2017 and 31 December 2016, 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.

The £8.3m refinancing loan was restructured to make the repayment of the loan contingent on the receipt of milestones under the agreement with JBI.

**(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.

**8. PROPERTY, PLANT AND EQUIPMENT**

	<b>Computer equipment £</b>
<b>COST</b>	
At 1 January 2017	61,765
Additions	<u>37,330</u>
At 31 December 2017	<u>99,095</u>
<b>DEPRECIATION</b>	
At 1 January 2017	56,053
Charge for year	<u>12,722</u>
At 31 December 2017	<u>68,775</u>
<b>NET BOOK VALUE</b>	
At 31 December 2017	<u>30,320</u>
At 31 December 2016	<u>5,712</u>

**9. TRADE AND OTHER RECEIVABLES**

	31/12/17 £	31/12/16 £
Current:		
Amounts owed by group undertakings	1,792,356	-
Amounts owed by related parties	50,273	50,273
Other debtors	100,768	141,132
Research and development tax credit receivable	423,089	146,445
Prepayments	<u>6,350</u>	<u>6,231</u>
	<u>2,372,836</u>	<u>344,081</u>

**Modern Biosciences Limited (Registered number: 05414023)**

**Notes to the Financial Statements - continued**  
*for the year ended 31 December 2017*

**10. CASH AND CASH EQUIVALENTS**

	31/12/17 £	31/12/16 £
Bank accounts	<u>4,599,245</u>	<u>6,249,004</u>

**11. CALLED UP SHARE CAPITAL**

Allotted, issued and fully paid: Number:	Class:	Nominal value:	31/12/17 £	31/12/16 £
70,204,880	Ordinary	0.1p	<u>70,205</u>	<u>70,205</u>

**12. RESERVES**

	Retained earnings £	Share premium £	Capital redemption reserve £	Capital reserve £	Totals £
At 1 January 2017	(2,115,671)	17,275	99,033	64,318	(1,935,045)
Profit for the year	518,528				518,528
LTIP share option charge	<u>10,457</u>	-	-	-	<u>10,457</u>
At 31 December 2017	<u>(1,586,686)</u>	<u>17,275</u>	<u>99,033</u>	<u>64,318</u>	<u>(1,406,060)</u>

**13. TRADE AND OTHER PAYABLES**

	31/12/17 £	31/12/16 £
Current:		
Trade creditors	256,539	224,869
Amounts owed to group undertakings	-	8,410,981
Social security and other taxes	13,781	8,545
Other creditors	23,891	-
Accruals and deferred income	<u>6,600</u>	<u>7,470</u>
	<u>300,811</u>	<u>8,651,865</u>
Non-current:		
Amounts owed to related parties	<u>8,306,408</u>	-
Aggregate amounts	<u>8,607,219</u>	<u>8,651,865</u>

Amounts due to related parties were unsecured, interest free and repayable on demand or certain contingent events. During the year, the financing loan of £8.3m payable by the Company to IP Group plc was restructured to make the repayment of the loan contingent on the receipt of milestones under the agreement with JBI, which changed the classification of the loan to a long-term creditor.

The long-term creditor payable to IP Group plc is unsecured, interest free and repayable upon achievement of milestones under the agreement with JBI. Prior to the restructuring and during 2016, the loan was disclosed as amounts owed to group undertakings in current liabilities.

**Modern Biosciences Limited (Registered number: 05414023)**

**Notes to the Financial Statements - continued**  
*for the year ended 31 December 2017*

**14. CATEGORISATION OF FINANCIAL INSTRUMENTS**

	Loans and receivables £	Total £
<b>Financial assets</b>		
At 31 December 2017		
Trade and other receivables	1,901,644	<b>1,901,644</b>
Cash and cash equivalents	<u>4,599,245</u>	<u><b>4,599,245</b></u>
	<u>6,500,889</u>	<u><b>6,500,889</b></u>
At 31 December 2016		
Trade and other receivables	130,297	130,297
Cash and cash equivalents	<u>6,249,004</u>	<u>6,249,004</u>
	<u>6,379,301</u>	<u>6,379,301</u>

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

**15. DEFERRED TAX**

	31/12/17 £	31/12/16 £
Balance at 1 January	<b>(188,228)</b>	(52,629)
Movement in deferred tax during the year	<u><b>(80,735)</b></u>	<u>(135,599)</u>
Balance at 31 December	<u><b>(268,963)</b></u>	<u>(188,228)</u>

The deferred tax asset comprises:

	2017 £	2016 £
Accelerated capital allowance	<b>3,048</b>	(1,638)
Short term timing differences	<b>(201)</b>	(202)
Tax losses carried forward and other deductions	<u><b>(271,810)</b></u>	<u>(186,388)</u>
	<u><u><b>(268,963)</b></u></u>	<u><u>(188,228)</u></u>



## Modern Biosciences Limited (Registered number: 05414023)

### Notes to the Financial Statements - continued for the year ended 31 December 2017

#### 16. RELATED PARTY TRANSACTIONS

The Company receives business support services from IP2IPO Limited, a subsidiary company of IP Group plc. No amounts were invoiced or are outstanding at balance sheet date for these services during the year (2016: £nil). The Company has received a total of £8.4m in short term working capital loans from IP Group plc.

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:

	2017	2016
	£	£
PIMCO 2664 Limited	<u>2,776</u>	<u>2,240</u>

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 2017 are as follows:

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

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

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

The immediate parent company and the ultimate controlling party is Istesso Limited, following a restructuring during the current year. Copies of the ultimate parent company's financial statements may be obtained from its registered address.

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