MODERN BIOSCIENCES PLC

REPORT AND FINANCIAL STATEMENTS

31 DECEMBER 2013

Registered number 05414023

Modern Biosciences plc

Report and financial statements for the year ended 31 December 2013

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Directors

Sam Williams
Ian Wilding
Lisa Patel
IP2IPO Services Limited

Secretary and registered office

IP2IPO Services Limited

24 Cornhill
London
EC3V 3ND

Company number

05414023

Independent Auditors

BDO LLP, 55 Baker Street, London, W1U 7EU

Business review

Results and Performance
Modern Biosciences plc ("Modern Biosciences" or "the Company") is a drug in-licensing and development company

Modern Biosciences' business model provides a channel for early stage drug candidates to reach industry and is based around

- sourcing drug candidates from partner organisations,
- funding and managing development programmes, and
- 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 The directors do not recommend the payment of a dividend

During 2013, the Company continued development of its lead programme, OsteoRx, with a total research and development spend of £887,592 The Company currently intends to continue to pursue limited early-stage pre-clinical development of selected programmes from its partner and other universities during 2014 dependent on the attractiveness of programmes following detailed due diligence at the time Further debt financing of £661,000 was received in the year from the Company's parent IP Group plc

The Company continues to utilise the Technology Strategy Board ("TSB") grant that is worth up to a maximum of £1,562,595 and contributes towards new activity and further development of OsteoRx The funding and grant period commenced in December 2012 During 2013 a total of £451,913 of approved funding was received from the TSB

No interim dividend was paid during the year (2012 £nil) and the directors do not propose a final dividend for the year ended 31 December 2013 (2012. £nil)

Business environment
Although there are some signs of recovery in parts of the global economy, the overall environment remains uncertain and volatile We have seen only low levels of GDP growth in Eurozone countries and sustained recovery is not yet assured However, all of the six largest Eurozone economies recorded quarterly expansions in the final quarter of 2013 for the first time in three years and the UK economy is forecast to grow faster than any other major European economy in 2014 As such there is growing appetite from the markets to acquire and license promising early stage drug candidates

Strategy
The directors continue to pursue out-license agreements with partners in the pharmaceutical and biotechnology industries through which revenues and profitability will potentially be generated 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

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 £7 7m financing loan to the extent that such repayment would cause doubt as to the Company's ability to continue as a going concern In addition, IP Group plc has confirmed that it will make incremental working capital available, subject to a maximum of £200,000, in order for the Company to meet its liabilities as they fall due

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 believe the Company will continue to see progress in its development of its lead programme, OsteoRx, and will continue in this research and development

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

ON BEHALF OF THE BOARD

Greg Smith
Signed on behalf of the board of directors, as Director of IP2IPO Services Limited
30 June 2014

The directors present their report together with the audited financial statements for the year ended 31 December 2013

Principal activity
Modern Biosciences plc is a drug in-licensing and 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
Ian Wilding
Lisa Patel (appointed 26 September 2013)
IP2IPO Services Limited

Charitable and political contributions
During the year the Company made no charitable or political contributions (2012 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 2013 was 22 days (2012 10 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 16 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 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
- 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
In March 2014 IP Group plc, the ultimate parent of the Company, conducted a tender for the overall Group's 2014 audit The conclusion of the parent's audit committee at the end of this process was to recommend the appointment of KPMG LLP as auditor of IP Group plc, and its subsidiaries (including Modern Biosciences plc), to replace BDO LLP The board of IP Group plc has approved the recommendation of the audit committee and subsequently its shareholders have approved the appointment of KPMG LLP as the auditor of the overall group for the 2014 financial year

On behalf of the board

Greg Smith
Signed on behalf of the board of directors, as Director of IP2IPO Services Limited
30 June 2014

Modern Biosciences plc

Independent auditor's report to the shareholders of Modern Biosciences plc

We have audited the financial statements of Modern Biosciences plc for the year ended 31 December 2013 which comprise the statement of comprehensive income, statement of financial position, statement of cash flows, statement of changes in equity and the related notes The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union

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

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

Scope of the audit of the financial statements
A description of the scope of an audit of financial statements is provided on the FRC's website at www frc org uk/auditscopeukprivate

Opinion on financial statements
In our opinion the financial statements

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

Opinion on other matters prescribed by the Companies Act 2006
In our opinion the information given in the strategic report and directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements

Matters on which we are required to report by exception
We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

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

BDO LLP

Neil Fung On (senior statutory auditor)
For and on behalf of BDO LLP, statutory auditor
London

30 June 2014

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127)

Modern Biosciences plc

Statement of comprehensive income for the year ended 31 December 2013

	Note	Year ended 31 December 2013 £	Year ended 31 December 2012 £
Other administrative expenses		(579,046)	(388,756)
Total administrative expenses		(579,046)	(388,756)
Other operating income		1,538	-
Operating loss	3	(577,508)	(388,756)
Finance income	7	1,029	852
Finance expense	7	(50,318)	(42,235)
Loss before taxation		(626,797)	(430,139)
Taxation	8	50,499	53,088
Loss for the year		(576,298)	(377,051)
Total comprehensive income		(576,298)	(377,051)

All amounts are derived from continuing operations in the year

The notes on pages 9 to 19 form part of these financial statements

Modern Biosciences plc
Registered number: 05414023
Statement of financial position as at 31 December 2013

	Note	2013 £	2012 £
ASSETS			
Non-current assets			
Property, plant & equipment	9	**597**	294
Equity investments	11	**-**	-
		597	294
Current assets			
Trade and other receivables	12	**129,901**	100,187
Cash and cash equivalents		**142,080**	16,966
		271,981	117,153
Total assets		**272,578**	117,447
EQUITY & LIABILITIES			
Equity attributable to equity holders of the Company			
Share capital	14	**55,162**	55,162
Share premium		**17,275**	17,275
Capital redemption reserve		**99,033**	99,033
Capital reserve		**62,818**	220,001
Retained earnings		**(7,813,797)**	(7,432,500)
Total shareholders' equity		**(7,579,509)**	(7,041,029)
Current liabilities			
Trade and other payables	13	**7,852,087**	7,158,476
Total equity and liabilities		**272,578**	117,447

The notes on pages 9 to 19 form part of these financial statements

These financial statements were approved by the Board of directors and authorised for issue on 30 June 2014 and were signed on its behalf by

Greg Smith
Signed on behalf of the board of directors, as Director of IP2IPO Services Limited

Modern Biosciences plc

Statement of cash flows for the year ended 31 December 2013

	2013 £	2012 £
Operating activities		
Loss before taxation	**(626,797)**	(430,139)
Adjusted for		
Finance income	**(1,029)**	(852)
Finance expense	**50,318**	42,235
Depreciation of property, plant & equipment	**287**	558
Changes in working capital		
Increase in trade and other receivables	**(16,967)**	(388)
Increase/(decrease) in trade and other payables	**20,111**	(5,663)
Operating cash flows		
Research & development tax credits received	**37,752**	-
Net cash outflow from operating activities	**(536,325)**	(394,249)
Investing activities		
Purchase of property, plant & equipment	**(590)**	(358)
Interest received	**1,029**	852
Net cash inflow from investing activities	**439**	494
Financing activities		
Financing loan received from related party	**661,000**	360,000
Net cash inflow from financing activities	**661,000**	360,000
Net increase/(decrease) in cash and cash equivalents	**125,114**	(33,755)
Cash and cash equivalents at the beginning of the year	**16,966**	50,721
Cash and cash equivalents at the end of the year	**142,080**	16,966

Statement of changes in equity for the year ended 31 December 2013

	Attributable to equity holders of the Company					
	Share capital £	Share premium £	Capital Redemption Reserve £	Capital Reserve £	Retained earnings £	Total equity £
At 1 January 2012	55,162	17,275	99,033	165,001	(7,055,449)	(6,718,978)
Total comprehensive income	-	-	-	-	(377,051)	(377,051)
Capital contribution [(i)]	-	-	-	55,000	-	55,000
At 1 January 2013	55,162	17,275	99,033	220,001	(7,432,500)	(7,041,029)
Total comprehensive income	-	-	-	-	(576,298)	(576,298)
Capital contribution [(i)]	-	-	-	(157,183)	195,001	37,818
At 31 December 2013	**55,162**	**17,275**	**99,033**	**62,818**	**(7,813,797)**	**(7,579,509)**

[(i)] The capital contribution made in the year arises as a result of the Company's parent, IP Group plc, making a non-interest bearing loan which will become repayable upon certain future contingent events The difference between the fair value of this financial liability on initial recognition and proceeds received has been recognised as a capital contribution As the commitment exceeds a 12 months in age and the imputed interest is applied to the fair value of the loan, the associated capital reserve is transferred to the retained earnings

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 2013 was £142,080 following receipt of further financing loans of £661,000 from the Company's parent company during the year As an emerging technology company, the Company continues to absorb cash until the related intellectual property is commercialised As such post year end the Company received further loans totalling £570,000 from its parent company, and the directors recognise that the Company will need additional funding during the current year

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 £7 7m financing loan to the extent that such repayment would cause doubt as to the Company's ability to continue as a going concern In addition, IP Group plc has confirmed that it will make incremental working capital available, subject to a maximum of £200,000, in order for the Company to meet its liabilities as they fall due These confirmations extend 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 2015, have been prepared to reflect this On the basis of these forecasts and the confirmations 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

The directors continue to pursue out-license agreements with partners in the pharmaceutical and biotechnology industries which have the potential to provide additional cash injection into the Company

Preparation of consolidated financial statements
The financial statements contain information about Modern Biosciences plc 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

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

(i) Available-for-sale

Investments in equity securities held by the Company, classified as being available-for-sale, are initially recognised at fair value, with any gain or loss arising from subsequent changes in fair value being recognised directly in equity, with the exception of impairment losses which are recognised in the income statement When these investments are no longer recognised as assets, the cumulative gain or loss previously recognised directly in equity is recognised in the income statement

The fair value of unlisted securities is established using the valuation following the latest round of equity funding or cost if no such valuation is available

Fair value hierarchy
The Group classifies financial assets using a fair value hierarchy that reflects the significance of the inputs used in making the related fair value measurements The level in the fair value hierarchy within which a financial asset is classified is determined on the basis of the lowest level input that is significant to that assets fair value measurement The fair value hierarchy has the following levels
Level 1 – Quoted prices in active markets
Level 2 – Inputs other than quoted prices that are observable, such as prices from market transactions
Level 3 – One or more inputs that are not based on observable market data

(ii) 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.

1. ACCOUNTING POLICIES (CONTINUED)

Financial liabilities (continued)
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

Impairment
When a decline in the fair value of an available-for-sale asset has been recognised directly in equity and there is objective evidence that the asset is impaired, the cumulative loss that had been recognised directly in equity is recognised in the income statement The amount of the cumulative loss that is recognised in the income statement is the difference between the acquisition cost and current fair value, less any impairment loss on that financial asset previously recognised in the income statement

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

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 estimates and assumptions that have the most significant effects on the carrying amounts of the assets and liabilities in the financial statements are considered to relate to the valuation of unquoted equity investments 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

New standards, interpretations and amendments effective from 1 January 2013
IFRS 10 Consolidated Financial Statements which became effective for periods beginning on or after 1 January 2013, establishes principles for the preparation and presentation of consolidated financial statements when a reporting entity controls one or more other entities The new standard replaces the consolidation requirements in SIC-12 Consolidation - Special Purpose Entities and IAS 27 Consolidated and Separate Financial Statements While IFRS 10 specifies new criteria for the assessment of control, it has not resulted in any conclusions differing to those reached under the previously applicable standards

IFRS 12 Disclosure of Interests in Other Entities IFRS 12 sets out the disclosure requirements relating to an entity's interests in subsidiaries, joint arrangements, associates and structured entities The standard requires a reporting entity to disclose information that helps users to assess the nature and financial effects of the reporting entity's relationship with other entities As the new standard affects only disclosure, there is no effect on the Group's financial position or performance

IFRS 13 Fair Value Measurement IFRS 13 sets out the framework for determining the measurement of fair value and the disclosure of information relating to fair value measurement, when fair value measurements and/or disclosures are required or permitted by other IFRSs As a result, the guidance and requirements relating to fair value measurement that were previously located in other IFRSs have now been relocated to

1. ACCOUNTING POLICIES (CONTINUED)

IFRS 13 While there has been some rewording of the previous guidance, there are few changes to the previous fair value measurement requirements Instead, IFRS 13 is intended to clarify the measurement objective, harmonise the disclosure requirements, and improve consistency in application of fair value measurement IFRS 13 did not materially affect any fair value measurements of the Group's assets or liabilities, with changes being limited to presentation and disclosure, and therefore has no effect on the Group's financial position or performance. In addition, IFRS 13 is to be applied prospectively and therefore comparative disclosures have not been presented See note 3 Significant accounting estimates and judgements for more details and further references related to fair value measurement

No other new standards, interpretations and amendments effective for the first time from 1 January 2013 have had a material effect on the Group's financial statements

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 Group's future financial statements

- *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 Group 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
- *Amendment to IFRS 10 – Investment Entities* The amendments define an investment entity and require a parent that is an investment entity to measure its investments in particular subsidiaries at fair value through profit or loss, rather than consolidating them in its consolidated financial statements Measurement at fair value through profit or loss must also be applied to an investment entity's separate financial statements The amendments also introduce disclosure requirements for investment entities into IFRS 12 Disclosure of Interests in Other Entities and amend IAS 27 Separate Financial Statements The Group, after a provisional examination expects to not qualify for the investment entity exemption and consequently, considers that the amendment is unlikely to result in changes to the preparation and presentation of the Group's subsidiaries, associates or Limited Partnerships The mandatory adoption starts for periods beginning on or after 1 July 2014 following EU endorsement in November 2013

None of the other new standards, interpretations and amendments not yet effective is expected to have a material effect on the Group'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

2. FINANCIAL RISK MANAGEMENT (CONTINUED)

(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

	2013			2012		
	Floating rate	Interest free	Total	Floating rate	Interest free	Total
	£	£	£	£	£	£
Financial assets						
Equity investments	-	-	-	-	-	-
Trade and other receivables	-	16,889	16,889	-	4,142	4,142
Cash and cash equivalents	142,080	-	142,080	16,966	-	16,966
	142,080	16,889	158,969	16,966	4,142	21,108
Financial liabilities						
Trade and other payables	-	7,847,900	7,847,900	-	7,154,700	7,154,700
	-	7,847,900	7,847,900	-	7,154,700	7,154,700

At 31 December 2013, if interest rates had been 1% higher / lower, post-tax loss for the year, and other components of equity, would have been £2,507 (2012 £1,755) higher / lower as a result of higher 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

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 £nil of trade payables denominated in US$ and £11 of trade payables denominated in European Euro ("€") (2012 £3,447 in US$ and £nil in €)

The effect of a 25c strengthening / weakening of the Euro against pounds sterling 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 £1 (2012 £1,316)

(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 2013 and 31 December 2012, with the exception of equity investments and a £7 7m financing loan from IP Group plc, all financial assets and liabilities mature for payment within one year

Of the £7 7m financing loan from IP Group plc, £4 9m is repayable on demand and £2 8m 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 £7 7m financing loan to the extent that such repayment would cause doubt as to the Company's ability to continue as a going concern In addition, IP Group plc has confirmed that it will make incremental working capital available, subject to a maximum of £200,000, in order for the Company to meet its liabilities as they fall due These

2. FINANCIAL RISK MANAGEMENT (CONTINUED)

confirmations extend 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 LOSS

	2013 £	2012 £
Loss from operations is stated after charging		
Depreciation of owned tangible fixed assets	**287**	558
Net foreign exchange gains	**(313)**	(1,036)
Research and development expenditure	**436,474**	332,755

4. AUDITOR'S REMUNERATION

	2013 £	2012 £
Audit services		
Fees payable to company auditor for the audit of the financial statements	**1,010**	1,010
Non audit services		
Fees payable to the Company auditor and its associates for other services		
- auditing of accounts of subsidiaries pursuant to legislation	**820**	820
- other assurance services	**2,250**	-
- other taxation services		
- corporation tax compliance	**5,085**	5,450
- other tax advisory	**-**	-
	9,165	7,280

5. DIRECTORS' EMOLUMENTS

	2013 £	2012 £
Aggregate emoluments	**43,125**	33,750
Benefits in kind	**1,505**	177
	44,630	33,927

The highest paid director had aggregate emoluments of £23,125 (2012 £20,000) and benefits in kind of £289 (2012 £nil)

6. EMPLOYEE COSTS

Employee costs (including directors) comprise

	2013 £	2012 £
Salaries	**110,625**	40,833
Defined contribution pension cost	**2,266**	354
Social security	**13,337**	4,552
	126,228	45,385

The average monthly number of persons (including executive directors) employed by the Company during the year was 2 (2012 2), all of whom were involved in research and development activities During the year no options were granted under the Modern Biosciences Company Share Option Plan to employees (2012. nil options)

7. FINANCE EXPENSE

	2013 £	2012 £
Imputed interest on financing loan	**(50,318)**	(42,235)
	(41,383)	(41,383)

The £2 8 million loan received from the Company's parent, IP Group plc, during 2008, 2009, 2010, 2011, 2012 and 2013 is non-interest bearing The difference between fair value on initial recognition and expected repayment amount is being recognised as imputed interest through the income statement over the period until anticipated repayment

8 TAXATION

	2013 £	2012 £
Current tax	**-**	(53,088)
Adjustment in respect of previous periods	**533**	-
Withheld corporation tax on RDEC	**2,090**	-
Adjustment in respect of previous periods - group relief	**(53,072)**	-
	(50,449)	(53,088)

8. TAXATION (CONTINUED)

The tax assessed for the year is different than the standard rate of corporation tax in the UK (23 5%) Factors affecting the current tax charge for the year are explained below

	2013 £	2012 £
Loss on ordinary activities before taxation	**(626,797)**	(430,139)
Loss on ordinary activities multiplied by the standard rate of corporation tax in the UK of 23 25% (2012 24 25%)	**(145,730)**	(105,384)
Effects of		
Expenses not deductible for tax purposes	**2,735**	885
Fixed asset temporary differences	**66**	(969)
Other timing differences not recognised	**(82)**	87
Adjustment in respect of previous periods	**(52,539)**	-
Research and Development Tax Relief	**(1,956)**	61,526
Withheld corporation tax on RDEC	**2,090**	(62,884)
Movement on unutilised tax losses	**144,967**	53,651
Taxation on loss on ordinary activities	**(50,449)**	(53,088)

An analysis of deductible temporary differences and unused tax losses for which no deferred tax asset has been recognised is shown below

	2013 Amount £	2013 Deferred tax £	2012 Amount £	2012 Deferred tax £
Unused tax losses	**4,505,898**	**1,047,621**	4,101,370	1,004,836
Fixed asset temporary differences	**22,818**	**5,305**	18,017	4,414
Other timing differences	**-**	**-**	354	87
	4,528,716	**1,052,926**	4,119,741	1,009,337

This asset has not been recognised in the financial statements due to current uncertainties surrounding the reversal of the underlying timing differences The deferred tax asset would be recovered if there were future taxable profits from which the reversal of the underlying timing differences could be deducted

9. PROPERTY, PLANT AND EQUIPMENT

	Office Equipment £
Cost	
At 1 January 2013	**52,352**
Additions	**590**
At 31 December 2013	**52,942**
Accumulated depreciation	
At 1 January 2013	**52,058**
Charge for the year	**287**
At 31 December 2013	**52,345**
Net book value at 31 December 2013	**597**
Net book value at 31 December 2012	294

9. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Office Equipment £
Cost	
At 1 January 2012	51,994
Additions	358
At 31 December 2012	52,352
Accumulated depreciation	
At 1 January 2012	51,500
Charge for the year	558
At 31 December 2012	52,058
Net book value at 31 December 2012	294
Net book value at 31 December 2011	494

10. CATEGORISATION OF FINANCIAL INSTRUMENTS

Financial assets	Loans and receivables £'m	Total £'m
At 31 December 2013		
Equity investments	-	-
Trade and other receivables	**16,889**	**16,889**
Cash and cash equivalents	**142,080**	**142,080**
Total	**158,969**	**158,969**
At 31 December 2012		
Equity investments	-	-
Trade and other receivables	4,143	4,143
Cash and cash equivalents	16,966	16,966
Total	21,109	21,109

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

11. EQUITY INVESTMENTS

	Unquoted equity investments £
At 1 January 2012	-
Investments acquired during the year	-
Disposal in the year	-
At 31 December 2012	-
Impairment loss in the year	-
At 31 December 2013	-

Details of the Company's subsidiary undertakings at 31 December 2013 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

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

12. TRADE AND OTHER RECEIVABLES

	2013 £	2012 £
Prepayments	**796**	93
Research and development tax credit receivable	**90,832**	90,832
Other receivables	**38,273**	9,262
	129,901	100,187

13. TRADE AND OTHER PAYABLES

	2013 £	2012 £
Trade payables	**22,229**	4,995
Amounts due to related parties	**7,819,231**	7,143,324
Social security and other taxes	**4,187**	3,777
Accrued expenses	**6,440**	6,380
	7,852,087	7,158,476

Amounts due to related parties are unsecured, interest free and repayable on demand or certain contingent events Of the £7 7m financing loan from IP Group plc, £4 9m is repayable on demand and £2 8m 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 £7 7m 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

14. SHARE CAPITAL

	2013 £	2012 £
Authorised		
170,000,000 ordinary shares of 0 1p each (2012 170,000,000 ordinary shares of 0 1p each)	**170,000**	170,000
	170,000	170,000
Allotted, called up and fully paid		
55,161,615 ordinary shares of 0 1p each (2012 55,161,615 ordinary shares of 0 1p each)	**55,162**	55,162
	55,162	55,162

15. 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 (2012 £nil).

During 2013, the Company received a total of £0 66m in cash financing loans from IP Group plc, its parent company This loan together with £0 36m loaned in 2012, £0 25m loaned in 2011, £0 25m loaned in 2010, £0 25m loaned in 2009 and £1 07m loaned in 2008, totals to the amount outstanding at the balance sheet date alongside the £4 91m further loans made in the prior years

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.

	2013 £	2012 £
PIMCO 2664 Limited	**887,592**	322,755

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

16. POST BALANCE SHEET EVENT

On 27 February 2014 and on 21 May 2014, the Company received further cash financing loans, amounting to £0 30m and £0 27m respectively, from IP2IPO Limited, a fellow subsidiary of IP Group plc, its parent company

17. 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, 24 Cornhill, London, EC3V 3ND