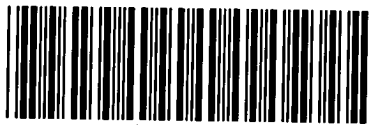


**REGISTERED NUMBER: 05414023 (England and Wales)**

**Strategic Report, Report of the Directors and  
Financial Statements for the Year Ended 31 December 2018**  
for  
**Modern Biosciences Limited**

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*for the year ended 31 December 2018*

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

**Company Information**

*for the year ended 31 December 2018*

**DIRECTORS:**

IP2IPO Services Limited  
Dr S C Williams

**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 2018*

The directors present their strategic report for the year ended 31 December 2018.

#### **RESULTS AND PERFORMANCE**

Modern Biosciences Ltd ("Modern Biosciences" or the "Company") is a drug development company. Its business model is focused on the development of MBS2320, a novel drug for the treatment of rheumatoid arthritis (RA) and related autoimmune conditions.

The statement of comprehensive income is set out on page 9 and shows the loss for the year.

Total research and development expenses of £3,008,416 (2017: £3,039,714) were incurred and total grant income received in the year was £nil (2017: £357,952). This is almost entirely attributable to the spend on MBS2320. During the year, the Company continued to benefit from its Option and Licence Agreement with Janssen Biotech, Inc ("JBI"), signed in November 2014, although no development-related milestones payment were received during the year (2017: £3.0 million).

No interim dividend was paid during the year (2017: £nil) and the directors do not propose a final dividend for the year ended 31 December 2018 (2017: £nil).

#### **BUSINESS ENVIRONMENT**

The overall economic backdrop has a significant bearing on the Company'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, there 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 2019 of 3.2%. The forecast for strong growth is the result of upward revisions to the EU and for many parts of Asia, though it also includes downward revisions for both the US and the 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 increase in the pace and size of deal-doing.

#### **STRATEGY**

The directors remain focussed on the company's lead development drug, MBS2320, and assuring its success in early clinical studies. In 2014, the Group signed an Option and Licence Agreement with Janssen Biotech Inc (JBI), a division of Johnson & Johnson, thus securing funding for early clinical development of MBS2320, as well as potential downstream revenues in the form of development-related milestones and royalties on any eventual sales. MBS2320 recently completed testing in a Phase 2a study in rheumatoid arthritis. The study met the primary objective of the study, which was to demonstrate acceptable safety and tolerability of the drug. In addition, evidence of clinical benefit was seen in efficacy parameters (or 'endpoints').

Following the results of this study, JBI had 3 months to decide if it wished to exercise its option to license the programme. During the course of this 3 months, JBI informed the Company that it would not exercise its option; hence the Agreement terminated on November 8<sup>th</sup>. The Company will now continue its own development of the drug using investment from its majority shareholder, Istesso Limited, and/or seek a new development partnership with a different pharmaceutical company.

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

**Strategic Report**

*for the year ended 31 December 2018*

**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.

**FUTURE OUTLOOK**

The directors will aim to continue to maximise the development potential and value of MBS2320, whether through its own development efforts or in conjunction with a different pharmaceutical company.

**ON BEHALF OF THE BOARD:**

  
.....  
Dr S C Williams - Director

Date: 26/11/2019

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

**Report of the Directors**

*for the year ended 31 December 2018*

The directors present their report with the financial statements of the company for the year ended 31 December 2018.

**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 3 (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 2018 (2017: £nil).

**EVENTS SINCE THE END OF THE YEAR**

Information relating to events since the end of the year is given in the notes to the financial statements.

**DIRECTORS**

The directors shown below have held office during the whole of the period from 1 January 2018 to the date of this report.

IP2IPO Services Limited  
Dr S C Williams

**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 (2017: 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 2018 was 34 days (2017: 24 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.

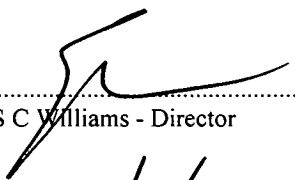
**Modern Biosciences Limited (Registered number: 05414023)**

**Report of the Directors**  
*for the year ended 31 December 2018*

**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

Date: 26/4/2019.....

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

### **Statement of Directors' Responsibilities**

*for the year ended 31 December 2018*

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;
- 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.



## **Report of the Independent Auditors to the Members of Modern Biosciences Limited**

### **Opinion**

We have audited the financial statements of MBS4 Limited (“the company”) for the year ended 31 December 2018 which comprise the Statement of Comprehensive Income, Balance Sheet, 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 2018 and of its loss 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.

### **The impact of uncertainties due to Britain exiting the European Union on our audit**

Uncertainties related to the effects of Brexit are relevant to understanding our audit of the financial statements. All audits assess and challenge the reasonableness of estimates made by the directors, related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the company’s future prospects and performance.

Brexit is one of the most significant economic events for the UK, and at the date of this report its effects are subject to unprecedented levels of uncertainty of outcomes, with the full range of possible effects unknown. We applied a standardised firm-wide approach in response to that uncertainty when assessing the company’s future prospects and performance. However, no audit should be expected to predict the unknowable factors or all possible future implications for a company or partnership and this is particularly the case in relation to Brexit.

### **Going concern**

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the company or to cease its operations, and as they have concluded that the company’s financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements (“the going concern period”).

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 a year from the date of approval of the financial statements. In our evaluation of the directors’ conclusions, we considered the inherent risks to the company’s business model, including the impact of Brexit, and analysed how those risks might affect the company’s financial resources or ability to continue operations over the going concern period. We have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor’s report is not a guarantee that the company will continue in operation.

### **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;
-

## Report of the Independent Auditors to the Members of Modern Biosciences Limited

- 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.

### Directors' responsibilities

As explained more fully in their statement set out on page 6, 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.

*J. M. Mills*

Jonathan Mills (Senior Statutory Auditor)  
for and on behalf of KPMG LLP  
Chartered Accountants  
Registered Auditor  
15 Canada Square  
London  
E14 5GL

Date: *29 November 2019*

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

**Statement of Comprehensive Income**  
*for the year ended 31 December 2018*

	Notes	2018 £	2017 as restated <sup>1</sup> £
<b>TURNOVER</b>		<b>36,998</b>	3,000,000
Administrative expenses		<u>(3,499,367)</u>	<u>(3,097,129)</u>
<b>OPERATING LOSS</b>		<b>(3,462,369)</b>	(97,129)
Interest receivable and similar income		<u>9,083</u>	<u>13,024</u>
<b>LOSS BEFORE TAXATION</b>	5	<b>(3,453,286)</b>	(84,105)
Tax on loss	6	<u>972,042</u>	<u>473,756</u>
<b>(LOSS)/PROFIT FOR THE FINANCIAL YEAR</b>		<b>(2,481,244)</b>	389,651
<b>OTHER COMPREHENSIVE INCOME</b>		<u>-</u>	<u>-</u>
<b>TOTAL COMPREHENSIVE (LOSS)/INCOME FOR THE YEAR</b>		<b>(2,481,244)</b>	389,651

<sup>1</sup> See Note 3 for further details

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

**Statement of Financial Position**  
**31 December 2018**

		2018		2017 as restated <sup>1</sup>	
	Notes	£	£	£	£
<b>FIXED ASSETS</b>					
Tangible assets	8		14,737		30,320
<b>CURRENT ASSETS</b>					
Debtors: amounts falling due within one year	9	1,781,485		884,821	
Debtors: amounts falling due after more than one year	9	1,752,874		1,792,356	
Cash at bank		<u>1,158,440</u>		<u>4,599,245</u>	
		4,692,799		7,276,422	
<b>CREDITORS</b>					
Amounts falling due within one year	10	<u>(347,104)</u>		<u>(465,066)</u>	
<b>NET CURRENT ASSETS</b>			<u>4,345,695</u>		<u>6,811,356</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>			4,360,432		6,841,676
<b>CREDITORS</b>					
Amounts falling due after more than one year	11		<u>8,306,408</u>		<u>8,306,408</u>
<b>NET LIABILITIES</b>			<u>(3,945,976)</u>		<u>(1,464,732)</u>
<b>CAPITAL AND RESERVES</b>					
Called up share capital	14		70,205		70,205
Share premium	15		17,275		17,275
Capital redemption reserve	15		99,033		99,033
Capital reserve	15		64,318		64,318
Retained earnings	15		<u>(4,196,807)</u>		<u>(1,715,563)</u>
<b>SHAREHOLDERS' FUNDS</b>			<u>(3,945,976)</u>		<u>(1,464,732)</u>

The financial statements were approved by the Board of Directors on ..... 26/11/2019 ..... and were signed on its behalf by:

.....  
 Dr S C Williams - Director

<sup>1</sup> See Note 3 for further details

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

**Statement of Changes in Equity**  
*for the year ended 31 December 2018*

	Called up share capital £	Retained earnings £	Share premium £
<b>Balance at 1 January 2017</b>	-	(2,115,671)	17,275
<b>Changes in equity</b>			
Issue of share capital	70,205	-	-
Total comprehensive income	-	518,528	-
LTIP share option charge	-	10,457	-
<b>Balance at 31 December 2017 – as previously reported</b>	<u>70,205</u>	<u>(1,586,686)</u>	<u>17,275</u>
Prior year adjustment (Note 3)	-	(128,877)	-
<b>Balance at 31 December 2017 – as restated</b>	<u>70,205</u>	<u>(1,715,563)</u>	<u>17,275</u>
<b>Changes in equity</b>			
Total comprehensive loss	-	(2,481,244)	-
<b>Balance at 31 December 2018</b>	<u>70,205</u>	<u>(4,196,807)</u>	<u>17,275</u>
	Capital redemption reserve £	Capital reserve £	Total equity £
<b>Balance at 1 January 2017</b>	99,033	64,318	(1,935,045)
<b>Changes in equity</b>			
Issue of share capital	-	-	70,205
Total comprehensive income	-	-	518,528
LTIP share option charge	-	-	10,457
<b>Balance at 31 December 2017 – as previously reported</b>	<u>99,033</u>	<u>64,318</u>	<u>(1,335,855)</u>
Prior year adjustment	-	-	(128,877)
<b>Balance at 31 December 2017 – as restated</b>	<u>99,033</u>	<u>64,318</u>	<u>(1,464,732)</u>
<b>Changes in equity</b>			
Total comprehensive loss	-	-	(2,394,274)
<b>Balance at 31 December 2018</b>	<u>99,033</u>	<u>64,318</u>	<u>(3,859,006)</u>

The notes form part of these financial statements

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

**Notes to the Financial Statements**  
*for the year ended 31 December 2018*

**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**

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Company's financial statements. These financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework ("FRS 101"). The amendments to FRS 101 issued subsequently and which are effectively immediately have been applied.

In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs"), but makes amendments where necessary in order to comply with Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

In these financial statements, the Company has applied the exemptions available under FRS 101 in respect of the following disclosures: a Cash Flow Statement and related notes; disclosures in respect of capital management; the effects of new but not yet effective IFRSs; and disclosures of transactions with a management entity that provides key management personnel services to the Company.

The Company proposes to continue to adopt the reduced disclosure framework of FRS 101 in its next financial statements.

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 2018 was £1,158,440 (2017: £4,599,245).

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 for the 12-month period post signing of the accounts, have been prepared. On the basis of these forecasts 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.

**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.

**Tangible fixed assets**

Depreciation is provided at the following annual rates in order to write off each asset over its estimated useful life.

Computer equipment - between 20% and 33% on cost

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

**Notes to the Financial Statements - continued**  
*for the year ended 31 December 2018*

**2. ACCOUNTING POLICIES - continued**

**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.

**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.

**Notes to the Financial Statements - continued**  
*for the year ended 31 December 2018*

**2. ACCOUNTING POLICIES - continued**

**Changes in accounting policies**

**(i) New standards, interpretations and amendments effective from 1 January 2018**

The following new standards have been applied in these 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.

**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.

No new standards, interpretations and amendments effective for the first time from 1 January 2018 have had a material effect on the Group's financial statements.

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

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

**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 Group is the lessee, to be included on the Group'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 Group expects its existing operating lease arrangements as a lessee to be recognised as ROU assets with corresponding lease liabilities under the new standard. The Group 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 Group's future financial statements.

**3. PRIOR YEAR ADJUSTMENT**

R&D expenditure totalling £164,255 relating to services performed in 2017 was not recognised in the prior year financial statements. The prior period comparatives have accordingly been restated resulting in an increase in the 2017 administrative expenses of £164,255, and the recognition of a trade and other payable amount as at 31 December 2017 of £164,255 in respect of the amounts payable.

The adjustment to administrative expenses has resulted in the Company now making a loss before tax of £84,105, which when multiplied by the standard rate of corporation tax of 19.25% has the effect of adjusting the previous profit multiplied by the standard rate from £(15,426) to a loss multiplied by the standard rate of £16,193. A further adjustment of £4,125 is made to the effect of R&D relief to capture the total adjustment. The total adjustment on tax income is a credit of £35,378 and a corresponding adjustment has been made to tax on loss and debtors: amounts falling due within one year. The overall impact of this adjustment is a charge to retained losses of £128,877.



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

**Notes to the Financial Statements - continued**  
*for the year ended 31 December 2018*

**4. EMPLOYEES AND DIRECTORS**

	2018	2017
	£	£
Wages and salaries	263,838	219,093
Social security costs	34,225	42,650
Other pension costs	<u>16,891</u>	<u>11,094</u>
	<u><b>314,954</b></u>	<u><b>272,837</b></u>

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

	2018	2017
Administrative and Directors	<u>2</u>	<u>2</u>

	2018	2017
	£	£
Directors' remuneration	30,601	216,317
Directors' pension contributions to money purchase schemes	<u>2,665</u>	<u>6,810</u>

**5. LOSS BEFORE TAXATION**

The loss before taxation is stated after charging/(crediting):

	2018	2017
	£	£
Depreciation - owned assets	15,583	12,722
Auditors' remuneration	3,453	2,500
The auditing of accounts of any associate of the company	-	1,026
Foreign exchange differences	<u>(1,854)</u>	<u>903</u>

**6. TAXATION**

**Analysis of tax income**

	2018	2017
	£	as restated £
Current tax: Tax	(795,526)	(393,021)
Deferred tax	<u>(176,516)</u>	<u>(80,735)</u>
Total tax income in statement of comprehensive income	<u><b>(972,042)</b></u>	<u><b>(473,756)</b></u>

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

**Notes to the Financial Statements - continued**  
*for the year ended 31 December 2018*

**6. TAXATION (continued)**

**Factors affecting the tax expense**

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

	<b>2018</b>	2017
	£	As restated £
Loss before income tax	<u>(3,453,286)</u>	<u>(84,105)</u>
Loss multiplied by the standard rate of corporation tax in the UK of 19% (2017 - 19.25%)	(656,125)	(16,193)
Effects of:		
Expenses not deductible for tax purposes	16,550	2,013
Adjustments to tax charge in respect of previous periods	41,065	(85,671)
Tax rate changes	25,598	(613)
Effect of R & D relief	(399,130)	(365,617)
Patent box deduction	<u>-</u>	<u>(7,675)</u>
Tax income	<u>(972,042)</u>	<u>(473,756)</u>

**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.

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

**Notes to the Financial Statements - continued**  
*for the year ended 31 December 2018*

**7. 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.

	2018			2017		
	Floating rate £	Interest free £	Total £	Floating rate £	Interest free £	Total £
<b>Financial assets</b>						
Trade and other receivables	-	1,859,266	1,859,266	-	1,901,644	1,901,644
Cash and cash equivalent	<u>1,158,440</u>	<u>-</u>	<u>1,158,440</u>	<u>4,599,245</u>	<u>-</u>	<u>4,599,245</u>
	<u>1,158,440</u>	<u>1,859,266</u>	<u>3,017,706</u>	<u>4,599,245</u>	<u>1,901,644</u>	<u>6,500,889</u>
<b>Financial liabilities</b>						
Trade and other payables	-	335,649	335,649	-	451,285	451,285
Long term loan	<u>-</u>	<u>8,306,408</u>	<u>8,306,408</u>	<u>-</u>	<u>8,306,408</u>	<u>8,306,408</u>
	<u>-</u>	<u>8,642,057</u>	<u>8,642,057</u>	<u>-</u>	<u>8,757,693</u>	<u>8,757,693</u>

At 31 December 2018, if interest rates had been 1% higher / lower, post-tax loss for the year, and other components of equity, would have been £11,584 (2017: £57,084) higher / lower as a result of higher/lower interest received on floating rate cash deposits.

**(iii) Currency rate risk**

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

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 £245,246 of trade payables denominated in US Dollars ("US\$") and no trade payables denominated in European Euro ("€") (2017: £22,360 in US\$ and £101 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 £nil (2017: £22).

The effect of a 25c strengthening / weakening of the USD against GBP at the balance sheet date, with all other variables held constant, would have resulted in a decrease in post-tax loss for the year end and other components of equity of £40,230 (2017: £5,590).

**(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 2018 and 31 December 2017, 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.

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

**Notes to the Financial Statements - continued**  
*for the year ended 31 December 2018*

**7. FINANCIAL RISK MANAGEMENT (continued)**

**(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. TANGIBLE FIXED ASSETS**

	<b>Computer equipment £</b>
<b>COST</b>	
At 1 January 2018 and 31 December 2018	<u>99,095</u>
<b>DEPRECIATION</b>	
At 1 January 2018	68,775
Charge for year	<u>15,583</u>
At 31 December 2018	<u>84,358</u>
<b>NET BOOK VALUE</b>	
At 31 December 2018	<u>14,737</u>
At 31 December 2017	<u>30,320</u>

**9. DEBTORS**

	<b>2018 £</b>	<b>2017 As restated £</b>
Amounts falling due within one year:		
Amounts owed by participating interests	-	50,273
Other debtors	106,391	59,014
Tax	1,187,412	458,467
VAT	42,203	41,754
Deferred tax asset	445,479	268,963
Prepayments	<u>-</u>	<u>6,350</u>
	<u>1,781,485</u>	<u>884,821</u>
	<b>2018 £</b>	<b>2017 £</b>
Amounts falling due after more than one year:		
Amounts owed by group undertakings	<u>1,752,874</u>	<u>1,792,356</u>
Aggregate amounts	<u>3,534,359</u>	<u>2,677,177</u>

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

**Notes to the Financial Statements - continued**  
*for the year ended 31 December 2018*

**10. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR**

	<b>2018</b>	2017 as restated
	£	£
Trade creditors	295,715	256,539
Social security and other taxes	11,455	13,781
Other creditors	12,882	23,891
Accruals and deferred income	<u>27,052</u>	<u>170,855</u>
	<u><b>347,104</b></u>	<u><b>465,066</b></u>

**11. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR**

	<b>2018</b>	2017
	£	£
Financing loan due to IP Group plc	<u><b>8,306,408</b></u>	<u><b>8,306,408</b></u>

**12. CATEGORISATION OF FINANCIAL INSTRUMENTS**

	Loans and receivables £	Total £
<b>Financial assets</b>		
At 31 December 2018		
Trade and other receivables	1,859,266	1,859,266
Cash and cash equivalents	<u>1,158,440</u>	<u>1,158,440</u>
	<u><b>3,017,706</b></u>	<u><b>3,017,706</b></u>
At 31 December 2017		
Trade and other receivables	1,901,644	1,901,644
Cash and cash equivalents	<u>4,599,245</u>	<u>4,599,245</u>
	<u><b>6,500,889</b></u>	<u><b>6,500,889</b></u>

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

**13. DEFERRED TAX**

	£
Balance at 1 January 2018	(268,963)
Prior year charge	41,065
Current year credit	<u>(217,581)</u>
Balance at 31 December 2018	<u><b>(445,479)</b></u>

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

**Notes to the Financial Statements - continued**  
*for the year ended 31 December 2018*

**14. CALLED UP SHARE CAPITAL**

Allotted, issued and fully paid:				
Number:	Class:	Nominal value:	<b>2018</b>	<b>2017</b>
70,204,880	Ordinary	0.1p	£	£
			<u><b>70,205</b></u>	<u><b>70,205</b></u>

**15. RESERVES**

	<b>Retained earnings</b>	<b>Share premium</b>	<b>Capital redemption reserve</b>	<b>Capital reserve</b>	<b>Totals</b>
	£	£	£	£	£
At 1 January 2018 – as previously reported	<b>(1,586,686)</b>	<b>17,275</b>	<b>99,033</b>	<b>64,318</b>	<b>(1,406,060)</b>
Prior year adjustment	<u><b>(128,877)</b></u>	<u>-</u>	<u>-</u>	<u>-</u>	<u><b>(128,877)</b></u>
At 1 January 2018 - as restated	<b>(1,715,563)</b>	<b>17,275</b>	<b>99,033</b>	<b>64,318</b>	<b>(1,534,937)</b>
Deficit for the year	<u><b>(2,394,274)</b></u>	<u>-</u>	<u>-</u>	<u>-</u>	<u><b>(2,394,274)</b></u>
At 31 December 2018	<u><b>(4,109,837)</b></u>	<u><b>17,275</b></u>	<u><b>99,033</b></u>	<u><b>64,318</b></u>	<u><b>(3,929,211)</b></u>

**16. RELATED PARTY TRANSACTIONS**

The Company receives business support services from IP2IPO Limited, a subsidiary company of IP Group plc, which is a significant shareholder in the Company's parent company Istesso Limited. No amounts were invoiced or are outstanding at balance sheet date for these services during the year (2017: £nil).

The Company has received an £8.3m financing loan 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:

	<b>2018</b>	<b>2017</b>
	£	£
PIMCO 2664 Limited	<u><b>3,951</b></u>	<u><b>2,776</b></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.

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

**Notes to the Financial Statements - continued**  
*for the year ended 31 December 2018*

**16. RELATED PARTY TRANSACTIONS (continued)**

The directors consider the key management of the Company to solely comprise the board of directors whose aggregate remuneration is that disclosed in note 4 to the financial statements. Details of the Company's subsidiary undertakings at 31 December 2018 are as follows:

	<b>Place of incorporation (or registration) and operation</b>	<b>Place of ownership interest and voting power held %</b>
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

All the above companies marked with a \* are dormant.

**17. EVENTS AFTER THE REPORTING PERIOD**

On 15 July 2019, Istesso Limited announced positive headline results from MBS's Phase 2a study of MBS2320, for the treatment of rheumatoid arthritis ("RA"). The study was a randomised, double-blind, placebo-controlled trial for which the primary objective was to assess the safety and tolerability of MBS2320 over 12 weeks of treatment in patients receiving background methotrexate therapy. This primary objective was met, with MBS2320 being generally well-tolerated with no drug-related serious adverse events.

Following the results of this study, Janssen Biotech Inc ("JBI") had 3 months to decide if it wished to exercise its option to license the programme. During the course of this 3 months, JBI informed the Company that it was not planning to exercise its option; hence, the Agreement terminated on November 8<sup>th</sup> 2019.

**18. IMMEDIATE AND ULTIMATE PARENT COMPANY AND CONTROLLING PARTY**

The immediate parent company and the ultimate controlling party is Istesso Limited. Copies of the ultimate parent company's financial statements may be obtained from its registered address.