

hVIVO Services Limited

FINANCIAL STATEMENTS

for the year ended

31 December 2019



hVIVO Services Limited

Contents

	Page
Officers and Professional Advisers	1
Strategic Report	2 - 5
Directors' Report	6
Directors' Responsibilities Statement	7
Independent Auditor's report	8 – 10
Statement of Comprehensive Income	11
Statement of Financial Position	12
Statement of Changes in Equity	13
Statement of Cash Flows	14
Notes to the Financial Statements	15 - 36

hVIVO Services Limited

Officers and Professional Advisers

DIRECTORS

Trevor Phillips

Cathal Friel – appointed post period on 1 April 2020

Leo Toole – appointed post period on 1 April 2020

COMPANY SECRETARY

Anesh Patel – appointed on 31 July 2019

REGISTERED OFFICE

Queen Mary BioEnterprises Innovation Centre

42 New Road

London

E1 2AX

AUDITOR

Jeffreys Henry LLP

Chartered Accountants

5-7 Cranwood Street

Old Street

London

EC1V 9EE

hVIVO Services Limited

Strategic Report

INTRODUCTION AND PRINCIPAL ACTIVITIES

hVIVO Services Limited ("the Company" or "hVIVO") is an industry-leading clinical development services business pioneering human disease models based upon viral challenge. Using human challenge studies to establish early proof-of-concept, hVIVO's clinical trial platform can accelerate drug and vaccine development in respiratory and infectious diseases, specifically leveraging hVIVO's established human disease challenge models in influenza ("flu"), respiratory syncytial virus ("RSV") and human rhinovirus ("HRV") and more recently the expansion and development of these models in other respiratory indications for asthma, chronic obstructive pulmonary disease ("COPD"), cough and related new therapies and in special populations. Based in the UK, hVIVO has conducted 57 clinical studies and inoculated over 3,000 volunteers.

REVIEW OF BUSINESS

The Board of hVIVO is pleased to report a year of continued progress with 29.8% revenue growth combined with significant reductions in research & development ("R&D") and administrative expenses as the Company continued to successfully deliver client studies and rationalise its cost-base.

Following the business review in 2018, the Directors have continued to implement, and are on track to deliver annual cost savings of £11 million in the £17 million of R&D and administrative expenses in 2017, in line with previously stated intentions. However, throughout 2019, hVIVO has continued to manage the impact from a high level of cancelled contracts earlier in the year. The level of cancellations was unprecedented for hVIVO as a result of some clients reprioritising their pipelines, in some cases following disappointing results in preceding clinical studies. These cancellations, which occurred post expenditure to prepare the hVIVO facility for significant levels of occupancy, have had a negative impact on hVIVO's cash position with hVIVO continuing to consume cash through to the year-end.

The Directors believe that hVIVO has a strong pipeline of demand into 2020 and expect that this pipeline can be converted into contracted work, which along with the ongoing cost savings, will move hVIVO towards profitability.

Broadened Service Offerings

In addition to reducing the cost base, the new management team have implemented several key actions to enhance the breadth of revenue opportunities through the addition of new services:

- Phase I studies
- Extended leading position in RSV
- Respiratory models
- Laboratory services extended

These actions are expected to increase the long-term sustainability of the Company and its revenue growth potential.

Financial key performance indicators

The Directors consider the principal financial indicators of the Company to be:

	2019	2018
Revenue and other income	£15.1m	£13.6m
R&D expense	£1.4m	£4.8m
Administrative expense	£7.0m	£8.6m
Adjusted loss from operations*	£4.5m	£8.7m

* Adjusted loss from operations for both 2018 and 2019 excludes costs relating to the impairment of intangible assets, provision against virus inventory and, for 2019 only, one-off costs related to the merger with Open Orphan plc post period

Revenue and other income in 2019 was £15.1 million (2018: £13.6 million). Revenue increased 29.8% to £14.3 million (2018: £11.0 million) from the delivery of human challenge studies and laboratory services. Other income reduced to £0.7 million (2018: £2.6 million) due to completion of our flu contagiousness project with the Defense Advanced Research Projects Agency (DARPA) in 2019, with the final cost-share grant from DARPA of £0.1 million being received in the year (2018: £2.3 million). The remainder of Other income in 2019 is primarily a Research & Development Expenditure Credit ("RDEC") of £0.6 million (2018: £0.3 million).

hVIVO Services Limited

Strategic Report

R&D expense decreased by £3.4 million to £1.4 million (2018: £4.8 million), primarily due to the termination of hVIVO's discovery activities, with the majority of spend in 2019 relating to activities supporting the Company's clinical development services offering, including the manufacture of new virus stock to meet scheduled client study demand.

Administrative expense decreased by £1.6 million to £7.0 million (2018: £8.6 million) due to cost savings achieved through process improvements, rationalisation of premises and headcount reductions. Administrative expense in 2019 includes one-off costs of £0.002 million (2018: nil) related to the merger with Open Orphan plc post period end

Adjusted loss from operations, which measures underlying operating performance, reduced by almost half to £4.5 million (2018: £8.7 million) driven by revenue growth and operational efficiencies.

GOING CONCERN

Management has considered its forecast of the Company's cash requirements reflecting contracted and anticipated future revenue and the resulting net cash outflows. We have not yet seen a material disruption to our business as a result of the COVID-19 outbreak, however events are rapidly evolving and at this stage, it is difficult to assess reliably whether there will be any material disruption in the future which could adversely impact the Group's forecast. Although there is inherent uncertainty over the Company's forecasts and over the likelihood that the Company will win any individual contract, the Directors are satisfied that there are sufficient contracts in the pipeline such that they are satisfied that sufficient revenue will be generated to allow the Company to operate within its cash resources, including a letter of support from its ultimate parent company, Open Orphan Plc, which announced the successful completion of an equity fundraise of £5.3 million (before expenses) on 31st January 2020 to fund the growth and synergies programme following completion of its merger with the parent company hVIVO Limited (formerly hVIVO plc). Having made relevant and appropriate enquiries, including consideration of the Company's current cash resources, the ultimate parent company's ongoing support and the working capital forecasts, the Directors have a reasonable expectation that the Company will have adequate cash resources to continue to meet the requirements of the business for at least the next twelve months. Accordingly, the Board continues to adopt the going concern basis in preparing the financial statements.

PRINCIPAL RISKS AND UNCERTAINTIES

The Company encounters and has to manage several business risks of varying degrees. Principal risks include:

Cancellation or delay of client contracts

hVIVO undertakes clinical trials for the testing of experimental therapeutics on behalf of commercial clients. It is in the nature of such work that testing may be terminated early whether through matters of client funding or unforeseen adverse events in the course of the study. Even with a healthy backlog of clients, the timing of such cancellations, and the size of the studies involved present a risk to the company both in terms of cashflow and the efficient use of resources. hVIVO negotiates postponement and cancellation fees to mitigate against the lost revenue and adverse working capital effects.

Impact of COVID-19 outbreak

Events in relation to the COVID-19 outbreak are evolving rapidly and the Company is closely monitoring the situation as it develops. Our primary focus remains the safety of our employees and the Company has implemented government policies in relation the outbreak, including travel restrictions for staff which potentially impacts the delivery of studies, as well as limiting business development and marketing activities. These risks are mitigated using technology that allows staff to work from home effectively. The pandemic could result in the cancellation or delay of client contracts, however, this has not occurred to date. hVIVO, as a leader in providing services to global vaccine and anti-viral production companies will endeavour to contribute to global efforts in fighting the virus, including the re-commencing development of the world's first human coronavirus challenge study model to test the efficacy of new and existing vaccines and anti-virals. Notwithstanding this, given the rapidly evolving nature of the pandemic, financial risk mitigation plans are in place, including utilising the UK government's range of COVID-19 related support measures as necessary.

Competition

hVIVO remains an industry leader in providing challenge studies in respiratory diseases including possessing one of the only validated RSV challenge models commercially available. However, with the emergence of competitors, and the price pressures this brings, there is always the risk that the advantages and value of hVIVO's service may be eroded.

hVIVO Services Limited

Strategic Report

Likewise, the failure of the Company's business development function to secure new contracts could adversely affect operating results and cashflow. It is therefore key for hVIVO to keep pace with the rapid technological change in the biopharmaceutical industry. hVIVO employs experienced business development professionals to generate leads, win profitable new business and to gather market intelligence which helps hVIVO maintain its competitive advantage. As well as investing in the development of its platform, the Company also seeks to diversify its service offering to provide access to varied revenue streams as well as ensuring it is aligned to the needs of the market.

Macroeconomic uncertainty following the UK's decision to exit from the EU ("Brexit")

The progress of ongoing negotiations between the UK Government and the EU on the future of their relationship and the ratification of the outcome of those negotiations will likely determine the future terms of the UK's relationship with the EU following the end of the transition period. Until these processes are completed, it is difficult to anticipate the impact of Brexit on the Company. However, the possibility of a deterioration of economic conditions, exposure to adverse movements in exchange rates and changes in regulatory framework remain. hVIVO seeks to maintain diversification in the geographic mix of its client base, with a significant proportion of clients/potential clients outside of Europe and the UK. The functional currency of the Company is Sterling for its sales and the majority of its purchases. hVIVO seeks to negotiate the majority of its contracts with international clients in Sterling; however, where this is not possible, hVIVO will seek to hedge.

Financial risk

Liquidity risk: As illustrated above, the operational uncertainties of providing clinical trial services presents risks to the Company's cashflow. As well as the contractual safeguards in place, hVIVO maintains good relationships with its banks, and ensures its working capital requirements are effectively anticipated through timely forecasting and reporting. Furthermore the Company has the ongoing support of its ultimate parent company, Open Orphan plc.

Credit risk: hVIVO bears a credit risk in respect of its trade receivables which is mitigated through appropriate due diligence procedures and timely milestone billing. However, no credit issues have previously been noted and hVIVO deems such risk to be low.

Foreign currency risk: hVIVO's functional currency is Sterling and where possible, the Company will seek to negotiate its international client contracts in GBP. Although the Company makes purchases in both Euros and US Dollars, the majority are made in Sterling. In the past, the Company has made use of foreign currency advisors and forward contracts to hedge the forex risks of material non-Sterling receipts. However, no such receipts were noted in 2019 and foreign currency risk is deemed to be low.

SUMMARY AND OUTLOOK

The Directors believe the markets in which hVIVO operates continue to be attractive and remain confident in the strategy to focus on providing clinical trial services which have been expanded in 2019 to drive revenue growth.

The cost savings introduced since 2018 are on-track to deliver the expected reductions to R&D and administrative expenses of £11 million by 2020 (from £17m in 2017) and with potential additional efficiency opportunities identified that can further reduce the Company's operating cost base.

The Directors consider the conversion of the hVIVO pipeline is linked to the Company being able to demonstrate long term balance sheet strength and until contracts are signed, there can be no certainty that the pipeline will convert to revenue producing contracts.

While the level of cancelled contracts this year was disappointing, these were a result of strategic portfolio decisions, on the back of strategic programme reviews, by certain of our customers and not a judgment on the value or quality of hVIVO's services. The timing of the cancellations, occurring post implementation of activities to gear up for a significant level of unit occupancy, had an impact on the Company's cash position. The Directors are confident in the Company's ability to convert its pipeline into contracted work over the course of 2020 and to generate cash as revenue builds. The pipeline of opportunities for 2020 looks strong, demand for our services is significant and with the new model additions, is broader than it has ever been. The aim is to establish a profitable business leader in the field of viral challenge services and the Board is confident of the Company's ability to deliver on its objectives.

hVIVO Services Limited

Strategic Report

On 9th December 2019, it was announced that the Boards of hVIVO Limited (formerly hVIVO plc) and Open Orphan plc ("Open Orphan") had reached agreement on the terms of a recommended all-equity offer to be made by Open Orphan for the entire share capital of hVIVO Limited (formerly hVIVO plc) (the "Offer"). **Post period-end:** The Offer was declared wholly unconditional in all respects on 17th January 2020, with valid acceptances representing 92.5% of hVIVO Limited (formerly hVIVO plc) share capital having been received by the final closing date. On 20th January 2020, hVIVO Limited (formerly hVIVO plc) de-listed from AIM and Open Orphan's existing share capital and new ordinary shares issued as consideration to hVIVO Limited (formerly hVIVO plc) shareholders who had accepted the Offer by the final closing date were re-admitted for trading on AIM. On 31st January 2020, Open Orphan announced the successful completion of an equity fundraise of £5.3 million (before expenses) to fund the growth and synergies programme following completion of the merger with hVIVO Limited (formerly hVIVO plc). On 9th March 2020, Open Orphan announced the completion of the compulsory acquisition process (pursuant to sections 974-991 of the Companies Act) and the issue of new ordinary shares to non-assenting hVIVO shareholders, resulting in Open Orphan owning the entire share capital of hVIVO Limited (formerly hVIVO plc) as at that date.

The hVIVO human challenge study and laboratory services expertise complements Open Orphan's services and enhances the Enlarged Group's service suite while maintaining a specialist capability in discrete competencies where the Enlarged Group's expertise can offer a competitive advantage. The Open Orphan and hVIVO Directors believe that the combination of the businesses will result in synergies across the Enlarged Group with each business providing complementary services with limited overlap in existing capabilities and customers. On 6th March 2020, Open Orphan, announced that hVIVO had signed a contract with a European biotechnology company for the provision of a RSV human challenge study to deliver £3.2 million in revenue in 2020 with the pivotal challenge study expected to commence end Q4 2020, with the potential to deliver significant further revenue from follow-on studies of at least £7 million. This is the first contract that utilises the complementary in-house Clinical Research Organisation ("CRO") services of hVIVO and those of Open Orphan's Venn Life Sciences ("Venn") division, resulting in substantial cost savings through the elimination of subcontractor costs where they can be replaced by new capabilities within the enlarged Open Orphan Group.



Dr Trevor Phillips
Director
6th May 2020

hVIVO Services Limited

Directors' Report

FINANCIAL STATEMENTS

The Directors submit their report and financial statements of the Company (registered company number 02326557) for the year ended 31 December 2019.

RESULTS AND DIVIDENDS

The loss for the year, after taxation, amounted to £4.6 million (2018: £10.6 million).

The Directors do not recommend the payment of a dividend (2018: £nil).

DIRECTORS

The Directors who served during the year and who were appointed post-year end were:

Dr Trevor Phillips
Cathal Friel (appointed post period on 1 April 2020)
Leo Toole (appointed post period on 1 April 2020)

The Company had Director's & Officers' Liability Insurance in place during the period.

MATTERS COVERED IN THE STRATEGIC REPORT

As permitted by S414c(11) of the Companies Act 2006, the Director has elected to disclose information required to be in the Directors' Report by Schedule 7 of the 'Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008', in the Strategic Report.

STATEMENT AS TO DISCLOSURE OF INFORMATION TO AUDITOR

Each of the persons who is a Director at the date of approval of this annual report confirms that:

- so far as the Director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- the Director has taken all the steps that he ought to have taken as a Director in order to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

Jeffreys Henry LLP were appointed as auditor to the Company and in accordance with section 485 of the Companies Act 2006, a resolution proposing that they be re-appointed will be put at a General Meeting.



Dr Trevor Phillips
Director
6th May 2020

hVIVO Services Limited

Directors' Responsibilities Statement

The Directors are responsible for preparing 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 Company financial statements in accordance with IFRS as adopted by the EU.

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 the Company 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 they have been prepared in accordance with applicable IFRS as adopted by the EU; 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.

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

Independent Auditor's Report

to the members of hVIVO Services Limited

OPINION

We have audited the financial statements of hVIVO Services Limited for the year ended 31 December 2019 which comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity, the Statement of Cash Flows and the related notes to the financial statements, including a summary of significant accounting policies. 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.

In our opinion, the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2019 and of the loss for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been properly prepared in accordance with the provisions 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 under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

OTHER MATTER

The financial statements of the Company for the year ended 31 December 2018 were audited by another auditor who expressed an unqualified opinion on those statements on 17 May 2019.

CONCLUSIONS RELATING TO GOING CONCERN

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's or the parent company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

OTHER INFORMATION

The other information comprises the information included in the Annual Report, other than the financial statements and our auditor's report thereon. The Directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

Independent Auditor's Report to the members of hVIVO Services Limited

We have nothing to report in this regard.

OPINIONS ON OTHER MATTERS PRESCRIBED BY THE COMPANIES ACT 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic report and the Directors' report have been prepared in accordance with applicable legal requirements.

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic report or the Directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the Company, 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.

RESPONSIBILITIES OF DIRECTORS

As explained more fully in the Directors' responsibilities statement, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for 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 the Directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

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 an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a 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 the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: <http://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

Independent Auditor's Report to the members of hVIVO Services Limited

USE OF THIS REPORT

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.



Sanjay Parmar (Senior Statutory Auditor)

For and on behalf of

Jeffreys Henry LLP, Statutory Auditor

Finsgate

5-7 Cranwood Street

London EC1V 9EE

6th May 2020

hVIVO Services Limited
Statement of Comprehensive Income
for the year ended 31 December 2019

	Note	2019 £'000	2018 £'000
Revenue from contracts with customers	5	14,314	11,025
Cost of sales		(11,195)	(8,901)
Gross profit		3,119	2,124
Other income	6	778	2,601
Research and development expense		(1,389)	(4,786)
Administrative expense		(6,966)	(8,640)
Impairment of intangible assets	12	—	(2,632)
Provision against virus inventory	14	(825)	(1,223)
Loss from operations	7	(5,283)	(12,556)
Finance income	9	6	11
Finance costs	10	(212)	(48)
Loss before taxation		(5,489)	(12,593)
Taxation	11	870	2,038
Loss for the year		(4,619)	(10,555)
Total comprehensive loss for the year attributable to owners of the Company		(4,619)	(10,555)

All activities relate to continuing operations.

The Company has no recognised gains or losses other than the loss for the year.

The accompanying notes are an integral part of the statement of comprehensive income.

hVIVO Services Limited
Statement of Financial Position
At 31 December 2019

	Note	2019 £'000	2018 £'000
Assets			
Non-current assets			
Intangible assets	12	210	308
Property, plant and equipment	13	272	392
Right of use assets	4	3,094	—
		3,576	700
Current assets			
Inventories	14	925	887
Trade and other receivables	15	1,614	1,721
Contract assets	15	161	57
Research and development tax credit receivable	11	1,631	2,501
Cash and cash equivalents	16	1,363	5,851
		5,694	11,017
Total assets		9,270	11,717
Equity and liabilities			
Equity			
Share capital	20	1	1
Share premium account		2,961	2,961
Share-based payment reserve		1,155	855
Other reserve		2,340	2,340
Retained deficit		(71,942)	(67,266)
Total equity		(65,485)	(61,109)
Non-current liabilities			
Lease liabilities	4	2,213	—
Provisions	18	20	20
		2,233	20
Current liabilities			
Trade and other payables	17	69,680	65,082
Contract liabilities	17	1,850	6,546
Lease liabilities	4	992	—
Provisions	18	—	1,178
		72,522	72,806
Total liabilities		74,755	72,826
Total liabilities and equity		9,270	11,717

The financial statements of hVIVO Services Limited (registered company number 02326557) on pages 11 to 36 were approved and authorised for issue by the Board on 6th May 2020 and signed on its behalf by:



Dr Trevor Phillips
Director

The accompanying notes are an integral part of the statement of financial position.

hVIVO Services Limited
Statement of Changes in Equity
for the year ended 31 December 2019

	Share capital £'000	Share premium account £'000	Share -based payment reserve £'000	Other reserve £'000	Retained deficit £'000	Total equity £'000
As at 31 December 2017	1	2,961	401	2,340	(56,711)	(51,008)
Share-based payment	—	—	454	—	—	454
Loss for the year	—	—	—	—	(10,555)	(10,555)
As at 31 December 2018	1	2,961	855	2,340	(67,266)	(61,109)
Change in accounting policy (note 4 – IFRS 16)	—	—	—	—	(57)	(57)
Restated total equity	1	2,961	855	2,340	(67,323)	(61,166)
Share-based payment	—	—	300	—	—	300
Loss for the year	—	—	—	—	(4,619)	(4,619)
As at 31 December 2019	1	2,961	1,155	2,340	(71,942)	(65,485)

The accompanying notes are an integral part of the statement of changes in equity.

hVIVO Services Limited
Statement of Cash Flows
for the year ended 31 December 2019

	2019 £'000	2018 £'000
Cash flow from operating activities		
Loss before income tax	(5,489)	(12,593)
Adjustments for:		
Depreciation of property, plant and equipment and right of use assets	961	329
Amortisation and impairment of intangible assets	98	3,013
Share-based payment expense	300	454
Finance costs	212	48
Finance income	(6)	(11)
Research and Development Expenditure Credit included in other income	(627)	(318)
Provision against inventories	825	1,223
Operating cash flow before changes in working capital and provisions	(3,726)	(7,855)
Changes in working capital:		
Increase in inventories	(863)	(368)
Increase in trade and other receivables and contract assets	(15)	3,557
Decrease in trade and other payables and contract liabilities	(6,222)	(1,133)
Decrease in provisions	(1,178)	(1,082)
Cash used in operations	(12,004)	(6,881)
Finance costs	(44)	(48)
R&D tax credit received	2,368	2,481
Net cash used in operating activities	(9,680)	(4,448)
Cash flows from investing activities		
Acquisition of intangible assets	—	(89)
Acquisition of property, plant and equipment	(52)	(186)
Interest received	6	11
Net cash used in investing activities	(46)	(264)
Cash flows from financing activities		
Loans from parent company	6,124	3,779
Payment of lease liabilities	(886)	—
Net cash generated from financing activities	5,238	3,779
Net decrease in cash and cash equivalents	(4,488)	(933)
Cash and cash equivalents at the start of year	5,851	6,784
Cash and cash equivalents at the end of year	1,363	5,851

The accompanying notes are an integral part of the statement of cash flows.

hVIVO Services Limited

Notes to the Financial Statements

1. General information

hVIVO Services Limited (the "Company") is an industry-leading clinical development services business pioneering human disease models based upon viral challenge. Using human challenge studies to establish early proof-of-concept, hVIVO's clinical trial platform can accelerate drug and vaccine development in respiratory and infectious diseases, specifically leveraging hVIVO's established human disease challenge models in influenza ("flu"), respiratory syncytial virus ("RSV") and human rhinovirus ("HRV") and more recently the expansion and development of these models in other respiratory indications for asthma, chronic obstructive pulmonary disease ("COPD"), cough and related new therapies and in special populations. Based in the UK, hVIVO has conducted 57 clinical studies, inoculated over 3,000 volunteers. The Company carries out its core activities from the United Kingdom.

The Company is a private company limited by shares incorporated and domiciled in the United Kingdom. The Company's registered office address is Queen Mary BioEnterprises Innovation Centre, 42 New Road, London E1 2AX, United Kingdom.

The Company's immediate and ultimate parent company is hVIVO Limited (formerly hVIVO plc). The results of the Company have been included in the consolidated financial statements of hVIVO Limited (formerly hVIVO plc), which is the smallest group of which the Company is a member and for which group financial statements are prepared. The registered office address of hVIVO Limited (formerly hVIVO plc) is Queen Mary BioEnterprises Innovation Centre, 42 New Road, London E1 2AX, United Kingdom.

Post year-end, on 17th January 2020, hVIVO Limited (formerly hVIVO plc) was acquired by Open Orphan plc and so from this date the Company's ultimate parent company is Open Orphan plc.

2. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union and as issued by the International Accounting Standards Board ("IASB"). The financial statements also comply with the requirements of the Companies Act 2006 applicable to companies reporting under IFRS.

The financial statements are presented in Pounds Sterling (£) and all values are rounded to the nearest thousand (£'000) except where indicated otherwise.

The financial statements have been prepared under the historical cost convention.

Going concern

The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic report and Directors' report on pages 2 to 6.

In determining the basis for preparing the financial statements, the Director is required to consider whether the Company can continue in operational existence for the foreseeable future, being a period of not less than twelve months from the date of the approval of the financial statements. As at 31 December 2019, the Company had cash and cash equivalents of £1.4 million (2018: £5.9 million) and net current liabilities of £66.8 million (2018: £61.8 million). The Company has been provided with a letter of financial support from its ultimate parent company, Open Orphan Plc, for a minimum of twelve months from the date of issuing these financial statements, which announced the successful completion of an equity fundraise of £5.3 million (before expenses) on 31st January 2020 to fund the growth and synergies programme following completion of its merger with hVIVO Limited (formerly hVIVO plc).

The Company has historically been loss making given the level of Research & Development activity and has no borrowing facilities. In line with other CROs, the Company has a relatively fixed cost base which means that in order to continue to operate as a going concern it has to win and deliver sufficient contracts to cover its cost base and operate within the cash resources it has.

Management prepares detailed working capital forecasts which are reviewed by the Board on a regular basis. The forecasts include assumptions regarding the status of client engagements and sales pipeline, future revenues and

hVIVO Services Limited

Notes to the Financial Statements

costs together with various scenarios which reflect growth plans, opportunities, risks and mitigating actions. Management have reviewed the contracts in the Company's order pipeline, discussed the likelihood of the contracts being placed with the counterparties and in the light of that assessed the likelihood of the forecast revenue being achieved.

The majority of forecast revenue through to end Q3 2020 is contracted or under a signed start-up agreement however the majority of revenue beyond then is dependent on winning and delivering new contracts. We have not yet seen a material disruption to our business as a result of the COVID-19 outbreak, however events are rapidly evolving and at this stage, it is difficult to assess reliably whether there will be any material disruption in the future which could adversely impact the Group's forecast. Although there is inherent uncertainty over the Company's forecasts beyond 2020 and over the likelihood that the Company will win any individual contract, the pipeline of prospective studies for 2020-2021 is strong with several opportunities anticipated to advance to contract or start-up agreement before year-end and the Directors are satisfied that there are sufficient contracts in the pipeline such that they are satisfied that sufficient revenue will be generated to allow the Company to operate within its cash resources including the ongoing financial support of its ultimate parent company.

Having made relevant and appropriate enquiries, including consideration of the Company's and Company's current cash resources, the letter of support from the ultimate parent and the working capital forecasts, the Directors have a reasonable expectation that the Company will have adequate cash resources to continue to meet the requirements of the business for at least the next twelve months. Accordingly, the Board continues to adopt the going concern basis in preparing the financial statements.

Foreign currencies

The financial statements of the Company are presented in the currency of the primary economic environment in which it operates (its functional currency). For the purpose of the financial statements, the results and financial position are expressed in Pounds Sterling (£), which is the functional currency of the Company, and the presentation currency for the financial statements.

In preparing the financial statements of the Company, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchange prevailing at the date of transaction. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Revenue recognition

Revenue from contracts with customers is recognised at an amount that reflects the consideration to which the Company expects to be entitled in exchange for the goods or services and is shown net of Value Added Tax.

Service revenues

The Company primarily earns revenues by undertaking client clinical services engagements. A client clinical services engagement typically comprises a number of quarantine cohorts. Each quarantine cohort lasts two to three weeks, but the timeline of work involved in building up to undertaking a clinical study is in the range of three to twelve months. Whether a client clinical services engagement is for one quarantine cohort or for a number of quarantine cohorts, the overall timeline of the engagement is much the same, apart from the additional time for the quarantine cohorts themselves and the time lags in between quarantine cohorts (with some cohorts offset in parallel and some sequential), as much of the upfront work is the same whether for one or a number of quarantine cohorts.

Client clinical services revenue is recognised based on a performance over time, as the performance of the clinical services engagements do not create an asset with an alternative use to the Company and the Company has an enforceable right to payment for the performance completed to date.

The Company measures its progress towards the satisfaction of performance obligations using output measures. Depending on the contractual terms, revenue from contracts with customers is recognised based on the level of work completed to date in respect of each individual performance obligation of the client clinical services contract.

Contracts generally contain provisions for renegotiation in the event of changes in the scope, nature, duration, volume of services or conditions of the contract (contract modifications). Contract modifications are assessed based

hVIVO Services Limited

Notes to the Financial Statements

on the terms of the contract. Contract modifications which are distinct and provided at a stand-alone selling price are accounted for as a separate contract. Where modifications are not distinct or provided at a stand-alone selling price, the Company evaluates whether the remaining goods or services are distinct from those already provided. If so, the modification is accounted for as a termination of the existing contract and the creation of a new contract. If not, the transaction price and measure of progress is updated for the single performance obligation and amounts are recognised as revenue by revision to the total contract value arising as a result. Provisions for losses to be incurred on contracts are recognised in full in the period in which it is determined that a loss will result from the performance of the contractual arrangement.

The difference between the amount of revenue from contracts with customers recognised and the amount invoiced on a particular contract is included in the statement of financial position as contract liabilities. Normally amounts become billable in advance upon the achievement of certain milestones, in accordance with pre-agreed invoicing schedules included in the contract or on submission of appropriate detail. Any cash payments received as a result of this advance billing are not representative of revenue earned on the contract as revenues are recognised over the period during which the specified contractual obligations are fulfilled. Amounts included in contract liabilities are expected to be recognised within one year and are included within current liabilities.

In the event of contract termination, if the value of work performed and recognised as revenue from contracts with customers is greater than aggregate milestone billings at the date of termination, cancellation clauses provide for the Company to be paid for all work performed to the termination date (enforceable right to payment for services provided to date).

Licensing revenues

Where licensing arrangements have a single contracted performance obligation to provide the right to use intellectual property which exists at a certain point in time, such as the delivery of a licence for study data, revenue from contracts with customers is recognised when the Company has transferred to the customer control over the intellectual property, which generally occurs at the beginning of the period for which the customer has the right to use the intellectual property. Licence revenue for such arrangements is therefore generally recognised at the point of delivery of the data when the performance obligation has been satisfied. Until this point in time, any amount invoiced in respect of the arrangement is presented in the statement of financial position as a contract liability. Costs associated with development of the study data are capitalised as a current intangible asset from the point that it is probable future economic benefits will be generated and are transferred to cost of sales upon handover of the deliverable.

Where licensing arrangements are determined to have contracted performance obligations to provide a right of access to the intellectual property, revenue is recognised over time, in line with the methods applied in recognising service revenues.

Government grants

Government grants are recognised when there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the related costs, for which it is intended to compensate, are expensed. When the grant relates to an asset, it is recognised as income in equal amounts over the expected useful life of the asset.

Internally generated intangible assets – research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred. Development costs are capitalised when the related products meet the recognition criteria of an internally generated intangible asset, the key criteria being as follows:

- technical feasibility of the completed intangible asset has been established;
- it can be demonstrated that the intangible asset will generate probable future economic benefits;
- adequate technical, financial and other resources are available to complete the development;
- the expenditure attributable to the intangible asset can be reliably measured; and
- management has the ability and intention to use or sell the intangible asset.

hVIVO Services Limited

Notes to the Financial Statements

Expenses for research and development include associated wages and salaries, material costs, depreciation on non-current assets and directly attributable overheads. Development costs recognised as assets are amortised over their expected useful life.

Intangible assets

The cost of a purchased intangible asset is the purchase price plus any cost directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended. Intangible assets acquired in a business combination and recognised separately from goodwill are recognised at their fair value at the acquisition date (which is regarded as their cost). Intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight-line basis over their estimated useful lives. The estimated life and the amortisation method for each intangible asset are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. The useful lives of assets for amortisation range from five to ten years.

Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and any impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All repairs and maintenance costs are charged to the statement of comprehensive income during the period in which they are incurred.

Depreciation is charged, on a straight-line basis, so as to write off the costs of assets less their residual values, over their estimated useful lives, on the following basis:

Leasehold improvements	the shorter of five years or the life of the lease
Plant and machinery	four years straight line
Computer equipment	three years straight line

The assets' estimated useful lives, depreciation basis and residual values are reviewed, and adjusted if appropriate, at the end of each reporting period.

The gain or loss arising on the disposal of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the statement of comprehensive income.

Impairment of tangible and intangible assets

At each reporting date, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Company estimates the recoverable amount of the cash generating unit to which the asset belongs.

The recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash generating unit) is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Inventories

Inventories are reported at the lower of cost (purchase price and/or production cost) and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and applicable variable selling expenses.

Inventories comprise completed manufactured grade viruses, work in process in relation to the manufacture of viruses, and laboratory and clinical consumables. The cost of virus inventory is calculated using the weighted average

hVIVO Services Limited

Notes to the Financial Statements

cost method for each individual strain, with cost including direct materials and, where applicable, direct labour costs and an attributable portion of production overheads that have been incurred in bringing the inventories to their present location and condition. Adjustments are made for any inventories where net realisable value is lower than cost, or which are considered to be obsolete. Any inventories which management considers are not usable on future commercial engagements are provided against in the statement of comprehensive income.

Financial instruments

Financial assets and financial liabilities are recognised in the statement of financial position when the Company becomes party to the contractual provisions of the instrument. Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire or when the contractual rights to those assets are transferred. Financial liabilities are derecognised when the obligation specified in the contract is discharged, cancelled or expired.

Trade receivables

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. Appropriate provisions for estimated irrecoverable amounts are recognised in the statement of comprehensive income using the expected credit loss method. The carrying amount of these assets approximates their fair value.

Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. The carrying amount of these assets approximates their fair value.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Trade and other payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are recognised initially at their fair value and are subsequently measured at their amortised cost using the effective interest rate method. Due to the short-term nature of these balances, the carrying amount of trade payables approximates to their fair value.

Borrowings

Borrowings, including advances received from related parties are initially recognised at the fair value of the consideration received less directly attributable transaction costs. After initial recognition borrowings are subsequently measured at amortised cost using the effective interest method.

Current and deferred tax

The tax credit recognised within the statement of comprehensive income represents the sum of the taxes currently payable or recoverable and the movements in deferred tax assets and liabilities.

The tax currently payable is based on taxable profit or loss for the year. Taxable profit or loss differs from net profit or loss before income tax as reported in the statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Company's liability for current tax is calculated by using tax rates that have been enacted or substantively enacted by the reporting date.

Credit is taken in the accounting period for research and development tax credits, which will be claimed from HM Revenue & Customs, in respect of qualifying research and development costs incurred in the same accounting period.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit and is accounted for using the liability method. Deferred tax liabilities are generally recognised for all taxable

hVIVO Services Limited

Notes to the Financial Statements

temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis. Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised, or the liability is settled based upon tax rates that have been enacted or substantively enacted by the reporting date. Deferred tax is charged or credited in the statement of comprehensive income, except when it relates to items credited or charged directly to equity, in which case the deferred tax is also dealt with in equity.

Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Research and Development Expenditure Credits to be received in cash are recorded in other income in the period in which the qualifying expenditure was incurred, once the underlying claim methodology has been agreed with HM Revenue & Customs.

Operating leases

As explained in note 4 below, the Company has changed its accounting policy for leases where the Company is the lessee. The new policy and the impact of the change are described in note 4.

Until 31 December 2018 the determination of whether an arrangement was a lease was based on the substance of the arrangement at the inception of the lease. The arrangement was a lease if fulfilment of the arrangement was dependent on the use of a specific asset and the arrangement conveyed a right to use the asset, even if that asset was not explicitly specified in an arrangement.

Rentals payable under operating leases were charged to expense on a straight-line basis over the term of the relevant lease. Contingent rentals arising under operating leases were recognised as an expense in the period in which they were incurred.

In the event that lease incentives were received to enter into operating leases, such incentives were recognised as a liability. The aggregate benefit of incentives was recognised as a reduction of rental expense on a straight-line basis over the lease term, except where another systematic basis was more representative of the time pattern in which economic benefits from the leased asset were consumed.

Share-based payment transactions

Options

hVIVO Limited (formerly hVIVO plc) operates an equity-settled share-based compensation plan, under which the Group receives services from employees (including Directors) as consideration for equity instruments (options) of

hVIVO Services Limited

Notes to the Financial Statements

hVIVO Limited (formerly hVIVO plc). The fair value of the employee services received in exchange for the grant of the options is recognised as an expense over the vesting period.

The total amount to be expensed is determined by reference to the fair value of the options granted at the grant date. The fair value excludes the effect of non-market-based vesting conditions. Details regarding the determination of the fair value of equity-settled share-based transactions are set out in note 21.

The fair value determined at the date of grant is expensed on a straight-line basis over the vesting period, based upon the hVIVO Limited (formerly hVIVO plc) estimate of the number of equity instruments that will eventually vest. At each reporting date, hVIVO Limited (formerly hVIVO plc) revises its estimate of the number of equity instruments expected to vest as a result of the effect of non-market-based vesting conditions. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to equity reserves.

Warrants

The Group enters into equity-settled share-based payment transactions, involving the issuance of warrants, with parties other than employees. Pursuant to these transactions, the Group receives services from such parties as consideration for equity instruments (warrants) issued. The fair value of such services received in exchange for the grant of warrants is recognised as an expense over the service period.

Pension costs

The Company operates a defined contribution pension scheme for all employees. The assets of the scheme are held separately from those of the Company. Payments into the scheme are charged as an expense as they fall due.

Provisions

Provisions for dilapidations and onerous lease commitments are recognised when:

- the Company has a present legal or constructive obligation as a result of past events;
- it is probable that the Company will be required to settle that obligation; and
- a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material). When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received, and the amount of the receivable can be measured reliably.

3. Critical accounting estimates and judgements

In the application of the Company's accounting policies, which are described in note 2, the Company makes estimates and assumptions concerning the future based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. The estimates and assumptions that have a significant effect on the amounts recognised in the financial statements are addressed below.

Revenue from contracts with customers, contract assets and contract liabilities

Revenue from contracts with customers for the performance of services is recognised over time based on the level of work completed. The recognition of revenue (and hence the related contract asset and contract liability balances) requires management to make estimates in relation to the level of work done and assumptions of the costs to complete each project.

At each period end, management reviews each individual contract to assess whether any anticipated losses should be recognised immediately.

Revenue in relation to the licensing of data is recognised when data is delivered to the customer.

hVIVO Services Limited

Notes to the Financial Statements

Revenue from transactions with related parties

The recognition and presentation of revenue generating transactions as at an arm's-length requires management to make judgements on the fair value of consideration received and whether the transactions have standalone commercial substance. hVIVO recognised revenue from transactions with related parties of £nil during the year (2018: £nil).

Impairment of intangible assets

Impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of fair value less costs of disposal and its value in use. Determining whether an asset is impaired requires estimation of the fair value of the asset or cash generating unit or the estimation of the value in use of the cash generating unit to which the asset has been allocated.

Virus inventory

In valuing virus inventory, management is required to make assumptions in relation to the future commercial use, being both external client revenue engagements, engagements with our equity investments and internal research and development engagements, for each virus. This includes consideration of both the current business pipeline and management's estimates of the future virus requirements, based on its significant knowledge and experience in the field of virology.

Leasehold provision

Provisions for dilapidations and onerous lease commitments are recognised when the Company has a present or constructive obligation as a result of past events. The recognition of provision requires management to make best estimates of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. There is reasonable uncertainty around the likelihood and timing of the exit of the lease as negotiations will involve third parties. The provision is discounted for the time value of money.

Research and development tax credit

The Company's research and development tax claim is complex and requires management to make significant assumptions in building the methodology for the claim, interpreting research and development tax legislation to the Company's specific circumstances, and agreeing the basis of the Company's tax computations with HM Revenue & Customs.

4. Interpretations of accounting standards

Amendments to published standards effective for the year ended 31 December 2019

The Company has not early adopted any standards, interpretations or amendments.

The Company applies, for the first time, IFRS 16 Leases that does not require restatement of previous financial statements.

Several other amendments and interpretations apply for the first time in 2019, but do not have an impact on the Financial Statements of the Company.

IFRS 16 Leases

IFRS 16 was issued in January 2016 and it replaces IAS 17 Leases, IFRIC 4 Determining whether an arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g. personal computers) and short-term leases (i.e. leases with a lease term of twelve months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e. the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e. the right of use asset).

Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right of use asset.

hVIVO Services Limited

Notes to the Financial Statements

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right of use asset.

IFRS 16, which is effective for annual periods beginning on or after 1 January 2019, requires lessees and lessors to make more extensive disclosures than under IAS 17.

Transition to IFRS 16

The Company adopted IFRS 16 using the simplified retrospective method of adoption with the date of initial application of 1 January 2019. The Company elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application. The Company also elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option ('short-term leases'), and lease contracts for which the underlying asset is of low value ('low-value assets').

The effect of adoption of IFRS 16 is as follows:

Impact on the statement of financial position as at 31 December 2018:

	31 December 2018 £'000
Assets	
Property, plant and equipment (right-of-use assets)	200
Prepayments	(18)
Liabilities	
Lease liabilities	(239)
Net impact on equity	(57)

Impact on the statement of comprehensive income (increase/(decrease)) for the year ended 31 December 2018:

	Year ended 31 December 2018 £'000
Depreciation expense (included in Cost of sales)	52
Rent expense (included in Cost of sales)	(74)
Loss from operations	(22)
Finance costs	15
Loss for the period	(7)

Impact on the statement of cash flows (increase/(decrease)) for the year ended 31 December 2018:

	Year ended 31 December 2018 £'000
Net cash flows from operating activities	55
Net cash flows from financing activities	(55)

hVIVO Services Limited

Notes to the Financial Statements

Summary of new accounting policies

Right of use assets

The Company recognises right of use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right of use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right of use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Company is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment.

Lease liabilities

At the commencement date of the lease, the Company recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Company and payments of penalties for terminating a lease, if the lease term reflects the Company exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as expense in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Company uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 6.0%. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

Short-term leases and leases of low-value assets

The Company applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered of low value (i.e., below \$5,000). Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

Amounts recognised in the statement of financial position

	Right of use assets £'000	Lease liabilities £'000
As at 1 January 2019	200	239
Additions	3,684	3,684
Depreciation expense (included in Cost of sales)	(790)	-
Interest expense (included in Finance costs)	-	168
Payments	-	(886)
As at 31 December 2019	3,094	3,205
Current	-	992
Non-current	3,094	2,213

Maturity of lease liabilities

	31 December 2019 £'000
Within one year	992
Between one and two years	1,056
Between two and five years	1,157
	3,205

hVIVO Services Limited

Notes to the Financial Statements

Standards adopted early by the Company

The Company has not adopted any standards or interpretations early in either the current or preceding financial year.

New and revised IFRS in issue but not yet effective

Interpretations to existing standards and new standards that are not yet effective and have not been early adopted by the Company:

- IFRS 17 Insurance Contracts (effective date 1 January 2021)

The Director is of the opinion that the application of these standards is unlikely to have a significant impact on the financial statements of the Company.

5. Segmental information and revenue from contracts with customers

The Executive Chairman is responsible for resource allocation and the assessment of performance. In the performance of this role, the Executive Chairman reviews the Company's activities, in the aggregate. The Company has therefore determined that it has only one reportable segment under IFRS 8 Operating Segments, which is 'medical and scientific research services'.

The Company carries out its main activities from the United Kingdom. The Company conducts sales activity in the US and in Europe which is carried out through hVIVO Inc and hVIVO Services Limited respectively. All revenue from contracts with customers is derived from activities undertaken in the UK.

During the year ended 31 December 2019, the Company had three customers who each generated revenue greater than 10% of total revenue (2018: four customers). These customers generated 35%, 22% and 17% of revenue (2018: 36%, 25%, 17% and 16% of revenue).

£6.2 million of revenue from contracts with customers (2018: £5.6 million) recognised during the year was included in the opening balance of contract liabilities. The value of contract liabilities has decreased from £6.5 million at 31 December 2018 to £1.9 million at 31 December 2019. Contract assets have increased from £0.06 million as 31 December 2018 to £0.20 million at 31 December 2019.

The majority of the contract liabilities balance is expected to be recognised within six months, as follows:

Analysis of expected realisation of revenue within contract liabilities

	31 December 2019 £'000	31 December 2018 £'000
Within six months	1,567	6,262
Between six months and one year	25	26
After one year	258	258
	1,850	6,546

Generally, contract milestones are timed so as to result in invoicing occurring in advance, prior to the satisfaction of performance obligations. Therefore, projects that are in progress are typically in a contract liability position. Performance obligations of contracts with customers are satisfied on the delivery of study data to the customer along with a final study report. Due to the nature of the business there are no warranties or refunds expected or provided for. Contractual payment terms are typically 30 to 45 days from date of invoice.

The Company considers whether there are other promises in the contract that are separate performance obligations to which a portion of the transaction price needs to be allocated. The Company's data and intellectual property may be made available to the client but solely to the extent that this is necessary to the satisfaction of the client contract. This is not considered a distinct performance obligation but an obligation in conjunction with the client study. Therefore, the full transaction price is allocated to performing the client study.

hVIVO Services Limited

Notes to the Financial Statements

The Company is using the practical expedient not to adjust the amount of consideration for the effects of a significant financing component due to the fact that the period between when the promised services are transferred and when the customer pays for the service is less than twelve months. The entity does not, in the normal course of business, incur incremental costs to obtain a contract and has therefore not recognised any assets in this regard.

6. Other income

Other income includes £0.1 million (2018: £2.3 million) of public health cost-share grants awarded by DARPA for a flu contagiousness R&D project and £0.6 million (2018: £0.3 million) accrued in respect of a Research and Development Expenditure Credit ("RDEC") claim for 2019. The Company classifies such RDEC claims as a government grant where amounts receivable as compensation for expenses or losses already incurred are recognised in the statement of comprehensive income in the period in which they become receivable.

7. Loss from operations

Loss before tax is stated after charging:

	Year ended 31 December 2019 £'000	Year ended 31 December 2018 £'000
Employee benefit expense (note 8)	8,256	8,886
Recruitment and other human resources	158	155
Agency and interim consultants	1,601	2,837
Premises and equipment	1,681	2,491
Volunteer costs	2,149	1,901
Inventories used	630	863
Virus inventory provision (note 14)	825	1,223
Insurance	181	186
Professional fees	521	1,023
Information technology, including telecommunications	634	693
Gain on foreign exchange	(12)	(208)
Depreciation of property, plant and equipment (note 13)	172	329
Depreciation of right of use assets (note 4)	790	—
Amortisation and impairment of intangible assets (note 12)	98	3,013
Dilapidations and onerous lease expense (note 18)	57	13

Amounts payable to the Company's external auditor and its associates were as follows:

	Year ended 31 December 2019 £'000	Year ended 31 December 2018 £'000
Auditor fee:		
Fees payable to the Company's auditor for the audit of the Company's annual financial statements	24	70

8. Employees

	Year ended 31 December 2019 Number	Year ended 31 December 2018 Number
The average number of FTE employees was:		
Management, administration and business development	30	33
hVIVO platform operation	91	86
Discovery and innovation	5	12
	126	131

hVIVO Services Limited

Notes to the Financial Statements

In addition to the above, the Company employed two FTE employees (2018: one) absent for maternity leave and paternity leave.

	Year ended 31 December 2019 £'000	Year ended 31 December 2018 £'000
The aggregate employee benefit expense comprised (including Directors):		
Wages and salaries	6,821	7,260
Social security costs	751	815
Pension cost – defined contribution plans	384	357
Share option expense	300	454
	8,256	8,886

The remuneration of the Executive Director, who is the key management personnel of the Company, is shown within note 23.

9. Finance income

	Year ended 31 December 2019 £'000	Year ended 31 December 2018 £'000
Interest received	6	11

10. Finance costs

	Year ended 31 December 2019 £'000	Year ended 31 December 2018 £'000
Other bank charges	4	7
Other finance costs	208	41
	212	48

11. Taxation

	Year ended 31 December 2019 £'000	Year ended 31 December 2018 £'000
Current tax:		
Current year research and development tax credit	(870)	(2,043)
Adjustments in respect of previous periods	—	5
	(870)	(2,038)

Corporation tax is calculated at 19% of the estimated taxable loss for the year.

hVIVO Services Limited

Notes to the Financial Statements

The charge for the year can be reconciled to the loss in the statement of comprehensive income as follows:

Loss before taxation	(5,489)	(12,593)
Tax at the UK corporation tax rate of 19%	(1,043)	(2,393)
Expenses not deductible in determining taxable profit	17	3
Fixed asset temporary differences not recognised	35	6
Additional allowances applied in calculating taxable profit	(25)	—
Current year research and development tax credit	(374)	(783)
Other temporary timing differences not recognised	520	1,124
Adjustments in respect of prior periods	—	5
Tax for the year	(870)	(2,038)

Factors affecting current and future taxation

The Company claims UK R&D tax incentives under both the SME and RDEC schemes. During 2019, a payment of £2.37 million was received from HMRC in respect of the RDEC and SME tax claim for the year ended 31 December 2018. The year end research and development tax credit receivable of £1.63 million includes current year SME claim of £0.87 million and current year RDEC claim of £0.63 million (recorded in other income). A prior period balance of £0.13 million is also noted, being the final uncontested amount due in respect of tax claims for the 2016, 2017 and 2018 years. This balance was received post year end. An additional credit of £0.48 million in respect of the 3 years ended 31 December 2018 had been under enquiry with HMRC. Post year end this enquiry was closed with no further balance due. The balance of this disputed credit had already been provided for in prior period accounts.

As at 31 December 2019, the Company had tax losses available for carry forward of approximately £32.5 million (2018: £29.2 million). The Company has not recognised deferred tax assets of £6.7 million (2018: £5.0 million) relating to carried forward losses and other temporary differences. These deferred tax assets have not been recognised as the Company's management considers that there is insufficient future taxable income, taxable temporary differences and feasible tax-planning strategies to utilise all of the cumulative losses and therefore it is probable that the deferred tax assets will not be realised in full. If future income differs from current projections, this could significantly impact the tax charge or benefit in future periods.

hVIVO Services Limited

Notes to the Financial Statements

12. Intangible assets

	Acquired intellectual property £'000	Capitalised software development £'000	Licences £'000	Total £'000
Cost:				
At 31 December 2017	2,118	2,174	—	4,292
Additions at cost	—	25	64	89
Disposals	—	—	—	—
At 31 December 2018	2,118	2,199	64	4,381
Additions at cost	—	—	—	—
Disposals	—	—	—	—
At 31 December 2019	2,118	2,199	64	4,381
Accumulated depreciation:				
At 31 December 2017	847	213	—	1,060
Charge for the year	283	98	—	381
Impairment	988	1,644	—	2,632
Disposals	—	—	—	—
At 31 December 2018	2,118	1,955	—	4,073
Charge for the year	—	98	—	98
Impairment	—	—	—	—
Disposals	—	—	—	—
At 31 December 2019	2,118	2,053	—	4,171
Carrying amount:				
At 31 December 2017	1,271	1,961	—	3,232
At 31 December 2018	—	244	64	308
At 31 December 2019	—	146	64	210

13. Property, plant and equipment

	Leasehold improvements £'000	Plant and machinery £'000	Computer equipment £'000	Total £'000
Cost:				
At 31 December 2017	2,521	2,812	1,121	6,454
Additions	—	20	166	186
Disposals	(261)	(147)	(47)	(455)
At 31 December 2018	2,260	2,685	1,240	6,185
Additions	34	1	17	52
Disposals	(672)	(24)	—	(696)
At 31 December 2019	1,622	2,662	1,257	5,541
Accumulated depreciation:				
At 31 December 2017	2,453	2,410	1,056	5,919
Charge for the year	35	239	55	329
Disposals	(261)	(147)	(47)	(455)
At 31 December 2018	2,227	2,502	1,064	5,793
Charge for the year	26	115	31	172
Disposals	(672)	(24)	—	(696)
At 31 December 2019	1,581	2,593	1,095	5,269
Carrying amount:				
At 31 December 2017	68	401	66	535
At 31 December 2018	33	183	176	392
At 31 December 2019	41	69	162	272

hVIVO Services Limited

Notes to the Financial Statements

14. Inventories

	31 December 2019 £'000	31 December 2018 £'000
Laboratory and clinical consumables	18	40
Virus – work in progress	—	633
Virus – finished goods	907	214
	925	887

Inventories expensed in the consolidated statement of comprehensive income are shown within cost of sales or research and development expense. All inventories are carried at the lower of cost or net realisable value in the consolidated statement of financial position. During 2019 a provision of £0.8 million was recognised against the carrying value of “virus – finished goods” due to a revised forecast of the future commercial usage of one strain of virus (2018: £1.2 million against “virus – work in progress”).

15. Trade and other receivables and contract assets

	31 December 2019 £'000	31 December 2018 £'000
Trade receivables	515	677
VAT recoverable	104	211
Other receivables	397	346
Prepayments	598	487
Contract assets	161	57
	1,775	1,778

Contractual payment terms with the Company’s clients are typically 30 to 45 days.

The Company recognises expected credit loss provision against trade receivables based on estimated irrecoverable amounts determined by reference to past default experience of the counterparty and an analysis of the counterparty’s current financial position. An allowance of £20,400 (2018: £nil) was recognised during 2019.

The Director believes that the carrying value of trade and other receivables represents its fair value. In determining the recoverability of trade receivables, the Company considers any change in the credit quality of the receivable from the date credit was granted up to the reporting date.

For details on the Company’s credit risk management policies, refer to note 19.

The Company does not hold any collateral as security for its trade and other receivables.

16. Cash and cash equivalents

	31 December 2019 £'000	31 December 2018 £'000
Cash at bank and in hand	1,363	5,851

All the Company’s cash and cash equivalents at 31 December 2019 and 31 December 2018 are at floating interest rates. Included in the cash and cash equivalents of the Company at 31 December 2019 was the equivalent of £4,000 (31 December 2018: £178,000) denominated in US Dollars and £9,000 denominated in Euros (31 December 2018: £13,000). The remaining cash and cash equivalents balance was denominated in Pounds Sterling (£).

The Director considers that the carrying value of cash and cash equivalents approximates fair value. For details on the Company’s credit risk management, refer to note 19.

hVIVO Services Limited

Notes to the Financial Statements

17. Trade and other payables, contract liabilities and lease liabilities

	31 December 2019 £'000	31 December 2018 £'000
Trade payables	731	1,087
Other taxes and social security	159	265
Amounts due to parent company	68,041	62,148
Amounts due to group company	231	105
Other payables	45	80
Accruals	473	1,397
Contract liabilities	1,850	6,546
	71,530	71,628
Lease liabilities – non-current	2,213	—
Lease liabilities – current	992	—
	3,205	—

Trade payables principally comprise amounts outstanding for trade purchases and ongoing costs. Trade payables are non-interest bearing and are typically settled on 30 to 45 day terms.

The Director considers that the carrying value of trade and other payables approximates fair value. Included within trade payables of the Company as at 31 December 2019 was the equivalent of £72,000 (31 December 2018: £10,000) denominated in US Dollars and £nil (31 December 2018: £19,000) denominated in Euros. The remaining trade and other payables are denominated in Pounds Sterling (£).

The Company has financial risk management policies in place to ensure that trade payables are settled within the credit timeframe and no interest has been charged by any suppliers as a result of late payment of invoices during the reporting periods presented herein (see note 19).

18. Provisions

	Onerous lease provision £'000	Dilapidations provision £'000	Total £'000
At 1 January 2019	851	347	1,198
Adjustment of provision in the year	57	—	57
Used during the year	(949)	(327)	(1,276)
Unwinding of discount	41	—	41
At 31 December 2019	—	20	20
Current	—	—	—
Non-current	—	20	20

The adjustment of the onerous lease provision was recognised due to the vacation of the Chesterford site during 2019.

Buildings dilapidations of £20,000 (31 December 2018: £347,000) represent the present value of costs to be incurred for the restoration of premises occupied by the Company. The provision is expected to be used during 2022.

19. Financial risk management

The Company is exposed to the risks that arise from its use of financial instruments. This note describes the objectives, policies and processes of the Company for managing those risks and the methods used to measure them. Risk management is carried out by management under the supervision of the Board of Directors. Management identifies and evaluates financial risks in close co-operation with the business' department heads.

hVIVO Services Limited

Notes to the Financial Statements

Capital management

The Company manages its capital to ensure that it will be able to continue as a going concern while maximising the return to stakeholders. The Company is funded principally by inter-company loan from its parent company hVIVO Limited (formerly hVIVO plc), which is funded by equity.

Financing decisions are made by the Board of Directors based on forecasts of the expected timing and level of capital and operating expenditure required to meet the Company's commitments and development plans.

Financial assets

At the reporting date, the Company held the following financial assets:

	31 December 2019 £'000	31 December 2018 £'000
Cash and cash equivalents	1,363	5,851
Trade receivables	515	677
Other receivables	397	289
Contract assets	161	57
	2,436	6,874

Financial liabilities

At the reporting dates, the Company held the following financial liabilities, all of which were classified as other financial liabilities at amortised cost:

	31 December 2019 £'000	31 December 2018 £'000
Trade payables	731	1,087
Accruals	473	1,397
Amounts due to parent company	68,041	62,148
Amounts due to group company	231	105
Other payables	45	81
Lease liabilities – current	992	—
Lease liabilities – non-current	2,213	—
	72,726	64,817

Market risk

The Company's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates. In the year ended 31 December 2019, both these risks are considered to have been minimal.

Credit risk

Credit risk arises principally from the Company's cash and cash equivalents and trade and other receivables.

The Company gives careful consideration to which organisations it uses for its banking services in order to minimise credit risk. The Company seeks to limit the level of credit risk on cash and cash equivalents by only depositing surplus liquid funds with counterparty banks that have high credit ratings.

The nature of the Company's business and the current stage of its development are such that individual customers can comprise a significant proportion of the Company's trade and other receivables at any point in time. The Company mitigates the associated risk by ensuring that its contracting terms provide for invoicing milestones in advance of the work being carried out and through the close monitoring of the debtor ledger. In addition, many of the Company's clients are either large, global, publicly listed companies or are owned by such entities.

There were no other significant concentrations of credit risk at the reporting date. At 31 December 2019, the Company's trade receivables balance was £515,000 (31 December 2018: £677,000).

hVIVO Services Limited

Notes to the Financial Statements

For contract assets and trade and other receivables, the Company has applied the IFRS 9 simplified approach and has calculated expected credit losses based on lifetime expected credit losses. The Company has established a provision matrix that is based on the Company's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

The Company considers a financial asset in default when contractual payment are 90 days past due. However, in certain cases, the Company may also consider a financial asset to be in default when internal or external information indicates that the Company is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Company. The loss allowance as at 31 December 2019 was determined to be £20,400 (2018: £nil). Management considers the above measures to be sufficient to control the credit risk exposure.

No collateral is held by the Company as security in relation to its financial assets.

Liquidity risk management

Liquidity risk is the risk that the Company will encounter difficulty in meeting its financial obligations as they fall due. Ultimate responsibility for liquidity risk management rests with the Board of Directors. The Board of Directors manages liquidity risk by regularly reviewing the Company's cash requirements by reference to short-term cash flow forecasts and medium-term working capital projections.

At 31 December 2019, the Company had cash and cash equivalents of £1.4 million (31 December 2018: £5.9 million).

Foreign currency risk management

Historically, the Company's exposure to foreign currency risk has been limited, as the majority of its invoicing and payments are in Pounds Sterling (£).

Maturity of financial assets and liabilities

All of the Company's non-derivative financial liabilities and its financial assets at 31 December 2019 are either payable or receivable within one year with exception of non-current lease liabilities.

20. Share capital

	Number	£'000
Ordinary shares of £0.001 each	1,101,971	1,101

All ordinary shares have equal rights and preferences and there are no restrictions attaching to any share, including no restrictions on the redistribution of dividends and the repayment of capital.

Details of share options are disclosed in note 21 to the financial statements.

Components of equity

The components of equity are as follows:

- share capital and the share premium account, both of which arise on the issue of shares;
- share-based payment reserve, which results from the Company's grant of equity-settled share options to selected employees and Directors;
- other reserve results from the cancellation of deferred shares in 2011; and
- retained deficit, which reflects losses incurred to date.

hVIVO Services Limited

Notes to the Financial Statements

21. Share-based payments

hVIVO Limited (formerly hVIVO plc) share option plans

The parent company hVIVO Limited (formerly hVIVO plc) has share option plans under which it grants options and shares to certain Directors and employees of hVIVO Services Limited.

On 10 May 2017, the Board adopted the hVIVO Limited (formerly hVIVO plc) Long Term Incentive Plan 2017 as a new share scheme available to the Executive Directors and key employees, enabling the grant of options over ordinary shares of 5.0 pence each in the Company. In 2019 the following new grants were made:

- on 1 January 2019, hVIVO granted a further 250,000 options with a fair value of 27 pence per option, over ordinary shares of 5.0 pence each in the Company to an employee with an exercise price of £0.05 per share. The options will normally vest on the third anniversary of date of grant, subject to continued employment but no other performance conditions. The exercise price payable per share is the nominal price of a share (currently 5.0 pence).

The options are settled in equity once exercised. If the options remain unexercised for a period after ten years from the date of grant, the options expire. Options are forfeited if the employee leaves the Company before the options vest.

As at 31 December 2019, share options outstanding to the Company's Director and key employees have the following expiry dates and exercise prices:

Grant date	Number ('000)	Option price (pence)	Date from which exercisable	Expiry date
21 April 2015	105	337.3	21 April 2018	20 April 2025
17 May 2017 – deferred bonus	19	5.0	17 May 2019	16 May 2027
20 December 2017	1,301	5.0	20 December 2020	19 December 2027
30 July 2018	475	5.0	30 July 2021	29 July 2028
1 January 2019	90	5.0	29 July 2019	31 January 2020
	1,990			

Details of the number of share options and the weighted average exercise price ("WAEP") outstanding during the period are as follows:

	31 December 2019		31 December 2018	
	Number ('000)	WAEP £	Number ('000)	WAEP £
Outstanding at the beginning of the year	3,472	0.33	5,812	0.32
Forfeited during the year	(668)	1.05	(687)	0.85
Exercised during the year	(1,064)	0.07	(2,364)	0.07
Granted during the year	250	0.05	711	0.05
Outstanding at the end of the year	1,990	0.19	3,472	0.33
Exercisable at year end	215	1.39	972	0.97

The options outstanding at 31 December 2019 had a weighted average exercise price of £0.19 and a weighted average remaining contractual life of 7.25 years.

The weighted average share price at the date of exercise of the share options exercised during the year ended 31 December 2019 was £0.21.

No expense is recognised for awards that do not ultimately vest because service conditions have not been met. The Company's service conditions consist of continuous employment and satisfaction of individual performance conditions.

The fair values of options granted were calculated using the Black Scholes pricing model. The Company used historical data to estimate expected period to exercise, within the valuation model. Expected volatilities of options outstanding

hVIVO Services Limited

Notes to the Financial Statements

granted prior to the Company's admission to AIM were based on implied volatilities of a sample of listed companies based in similar sectors. The risk-free rate for the expected period to exercise of the option was based on the UK gilt yield curve at the time of the grant.

The Company recognised a charge of £300,000 (31 December 2018: £454,000) related to equity-settled share-based payment transactions during the year.

The assumptions used in the valuation of the options at the grant date are as follows:

	31 December 2019
Expected option life (years)	6.5
Risk free interest rate	1.09% to 1.45%
Expected volatility	35.6% to 135.7%
Expected dividend yield	0%

22. Pensions

The Company operates a defined contribution pension scheme whose assets are held separately from those of the Company in an independently administered fund. The pension charge represents contributions payable by the Company and amounted to £384,000 for the year (31 December 2018: £357,000). Contributions totalling £42,000 were payable to the fund at the year end and are included within trade and other payables (31 December 2018: £82,000).

23. Related party transactions

Remuneration of key personnel

The remuneration of the Directors, who are the key management personnel of the Company, is shown below:

	Year ended 31 December 2019 £'000	Year ended 31 December 2018 £'000
Executive Directors – aggregate		
Short-term employee benefits and fees	281	646
Compensation for loss of office	—	265
Employer's National Insurance contributions	37	103
Post-employment benefits	11	17
Share-based compensation charge	139	190
	468	1,221

The remuneration of the Executive Directors has been paid by hVIVO Limited (formerly hVIVO plc). Under an agreement with hVIVO Limited (formerly hVIVO plc) £305,000 of the Executive Directors' remuneration has been charged to hVIVO Services Limited (31 December 2018: £786,000).

Remuneration and benefits paid to the highest paid Director totalled £292,000 (31 December 2018: £366,000).

Amounts outstanding to key personnel

As at 31 December 2018, £nil was due in relation to employer pension contributions (31 December 2018: £nil).

Transactions with the Group related parties

hVIVO Limited (formerly hVIVO plc)

As disclosed in note 17, hVIVO Services Limited has a non-interest bearing inter-company loan balance of £68.5 million (2018: £63.0 million) due to its parent company, hVIVO Limited (formerly hVIVO plc). This balance relates to funding advanced by hVIVO Limited (formerly hVIVO plc) to the Company.

hVIVO Services Limited

Notes to the Financial Statements

PrEP Biopharm Limited

During 2019, hVIVO Services Limited provided accounting services to PrEP Biopharm Limited to the value of £0.01 million (2018: £0.02 million).

As at 31 December 2019, all amounts invoiced and due from PrEP Biopharm Limited to hVIVO Services Limited were fully paid.

24. Operating lease arrangements

At the reporting date, the Company had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	31 December 2019 £'000	31 December 2018 £'000
Within one year	321	1,078
In the second to fifth years inclusive	—	186
After five years	—	—
	321	1,264

25. Capital commitments

At the reporting date, the Company had capital commitments of £nil (31 December 2018: £67,000).

26. Post Balance Sheet Events

On 9th December 2019, it was announced that the Boards of hVIVO Limited (formerly hVIVO plc) and Open Orphan plc ("Open Orphan") had reached agreement on the terms of a recommended all-equity offer to be made by Open Orphan for the entire share capital of hVIVO Limited (formerly hVIVO plc) (the "Offer"). **Post period-end:** The Offer was declared wholly unconditional in all respects on 17th January 2020, with valid acceptances representing 92.5% of hVIVO Limited (formerly hVIVO plc) share capital having been received by the final closing date. On 20th January 2020, hVIVO Limited (formerly hVIVO plc) de-listed from AIM and Open Orphan's existing share capital and new ordinary shares issued as consideration to hVIVO Limited (formerly hVIVO plc) shareholders who had accepted the Offer by the final closing date were re-admitted for trading on AIM. On 31st January 2020, Open Orphan announced the successful completion of an equity fundraise of £5.3 million (before expenses) to fund the growth and synergies programme following completion of the merger with hVIVO Limited (formerly hVIVO plc). On 9th March 2020, Open Orphan announced the completion of the compulsory acquisition process (pursuant to sections 974-991 of the Companies Act) and the issue of new ordinary shares to non-assenting hVIVO shareholders, resulting in Open Orphan owning the entire share capital of hVIVO Limited (formerly hVIVO plc) as at that date.

On 6th March 2020, Open Orphan, announced that hVIVO had signed a contract with a European biotechnology company for the provision of a RSV human challenge study to deliver £3.2 million in revenue in 2020 with the pivotal challenge study expected to commence end Q4 2020, with the potential to deliver significant further revenue from follow-on studies of at least £7 million. This is the first contract that utilises the complementary in-house Clinical Research Organisation ("CRO") services of hVIVO and those of Open Orphan's Venn Life Sciences ("Venn") division, resulting in substantial cost savings through the elimination of subcontractor costs where they can be replaced by new capabilities within the enlarged Open Orphan Group.

We have not yet seen a material disruption to our business as a result of the COVID-19 outbreak, however events are rapidly evolving and the Company is closely monitoring the situation as it develops.