

Sinclair Pharma Limited

Annual Report and Financial Statements

Year ended 31 December 2022

Company Registration no. 03816616



Sinclair Pharma Limited

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Company information

Sinclair Pharma Limited is registered as a private limited company, incorporated and domiciled in England and Wales and its registered number is 03816616.

Registered office

Sinclair Pharma Limited
1st Floor
Whitfield Court
30–32 Whitfield Street
London
W1T 2RQ
United Kingdom

Tel +44 20 7467 6920

Independent Auditors

Saffery Champness LLP
71 Queen Victoria Street
London
EC4V 4BE

Sinclair Pharma Limited

Strategic report

For the year ended 31 December 2022

Principal activities

The Group's principal activities are the development and commercialisation of medical aesthetic products through the Group's direct sales operations and through marketing partners on an international basis.

Sinclair's product portfolio includes the global rights to the injectable brands Ellansé®, Silhouette Soft®/InstaLift®, Perfectha®, Maili® and Lanluma® and a range of energy-based devices ("EBDs") Primelase, Cooltech, Define and V Series for use in aesthetic treatments. The Group markets these products through its own direct operations in Western Europe, Brazil, Mexico, South Korea, US and the UAE, and through a network of marketing partners in the Middle East, Asia, Central and Eastern Europe and Latin America. During 2022, the Group expanded its EBD portfolio with the acquisition of Viora and obtaining the worldwide distribution rights of Preime DermaFacial ("Preime").

Business review

There have been a number of significant events and transactions that have shaped the results for the year, and which will also have an impact on the Group for future years. These were as follows:

Acquisition of Viora

On 3 February 2022, the Group signed an agreement to acquire the business of Viora, a manufacturer of energy-based devices for the aesthetics industry, with its commercial base in New York. Viora has created an innovative portfolio of non-invasive products, treating today's most commonly requested applications used in anti-aging, body and facial contouring, cellulite reduction, hair removal and more. Viora has direct commercial operations in the United States and has a presence in over 65 countries.

Sinclair agreed to pay cash consideration of \$27.5 million. The acquisition was funded by new debt facilities, which were put in place with the support of Sinclair's parent company.

Preime DermaFacial

On 11 May 2022, the Group entered into a product rights agreement with EMA Aesthetics Limited under which Sinclair acquired the worldwide distribution rights for all territories outside UK and Germany for Preime DermaFacial. Sinclair paid €4,250,000 to secure the rights and further milestones of €2,750,000 are payable in agreed tranches following the first sale of Preime in China. The Group commenced launch of the product in multiple territories from November 2022 with additional launches to follow across all the Group's strategic markets in the next couple of years.

Structure changes

On 31 May 2022, Chris Spooner stepped down from his position as CEO of Sinclair and was replaced by Miguel Pardos, the CEO of the Cocoon business acquired by Sinclair during 2021.

In the second half of 2022, the Group commenced the integration of both the injectables and EBD commercial operations to leverage the existing infrastructure to accelerate revenue and margin growth. This will be achieved by establishing a direct sales presence for EBD products in the markets where Sinclair Injectables is currently present (for example in Europe, South Korea, Mexico and Brazil), strengthening training and marketing activity including through the Sinclair College platform, and expanding into new markets including China with the support of Sinclair's parent organisation.

COVID-19

The COVID-19 pandemic continued to provide headwinds to the Group's operations in many markets, particularly during Q1 2022. However, as restrictions gradually lifted across the globe, the Group has experienced a strong bounce back in demand for its products and aesthetic treatments generally.

Revenue Performance

Revenue from continuing operations for 2022 was £134.6m, a 76.9% increase from the £76.1 million achieved in 2021, resulting from a strong global recovery post pandemic, first full year of the EBD businesses, as well as new launches including Preime. Individual brand performance is discussed below.

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Ellansé®

Ellansé® revenues grew by 66% in 2022 to £47.0 million compared to £28.3 million in 2021 with underlying growth in all major markets. The product was approved for sales in China in Q3 of 2021. Since then Huadong Medicine Co. Ltd, the Group's parent company and rights holder for China, has grown revenues to £13.2m in 2022 (2021: £3.9m).

Sales in the existing key markets of UK, Korea, Poland have more than doubled in the year, with significant growth seen in most markets. The Board expects a further period of very strong growth for the Group's leading brand in the coming years.

Perfectha®

Revenues declined by 9% to £11.7 million in 2022 (2021: £12.9 million). In Brazil, the product's largest market, regulatory issues with ANVISA prevented the product from being imported and sold in the market, this has impacted the product revenue resulting in a decline of £1.2m. Regulatory issues have now been resolved, with sales anticipated to re-commence in Q2 2023.

The Board ceased sales to Russia during the year due to the Russian invasion of Ukraine, the effects of the invasion also impacted the CIS region declining revenues year-on-year by £800k.

Since obtaining the CE Mark in 2021, Perfectha® Lidocaine sales in Europe now account for 43% of total Perfectha® sales in the region. Perfectha® Lidocaine will be rolled out in to other markets once local approval has been obtained.

Overall Perfectha sales have seen a decline as local sales team have focused their efforts on the new additions to the portfolio. The Board is committed to growing the product and is reviewing new revenue streams to improve market share.

Silhouette Soft® and InstaLift®

Sales of Silhouette grew by 23% to £13.3 million in 2022 (2021: £10.8 million).

Silhouette saw a sales decline in Europe to £2.3 million. In the US sales grew by 20%, IMEA 42% and APAC Sales recovered following the COVID-19 induced declines, rising by 45% year-on-year to £4.2m with strong growth noted in Korea, Australia and Singapore, where direct operations commenced in 2021.

MaiLi®

MaiLi sales increased by 202% to £9.3m. Europe sales continued to grow in 2022, with sales increasing by 86% year-on-year.

Following regulatory approval, MaiLi has been launched in Mexico, Colombia, Chile, Saudi Arabia, UAE and Singapore generating revenue in excess of £2.3m, further launches are anticipated in 2023 as local approvals are obtained.

Lanluma®

Lanluma revenue increased to £3.5m (2021 £2.5m). Body contouring is a growing market and the Board are reviewing opportunities to drive additional growth in this area.

Primelase

Primelase revenue grew by 86% to £10.9m, 55% on a full year constant currency basis.

Strong growth was achieved in the US market, following the new distribution agreement signed in 2021, with sales commencing in Q3 2021. Significant growth seen in both APAC and EMEA distributor regions.

Elysion

Elysion revenue increased to £5.6million from £3.8 million in 2021.

Sales of this product are predominately to the EMA region, which grew in 2022, however the Group leveraged Viora's existing infrastructure to accelerate sales increasing revenue by £895k.

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For the year ended 31 December 2022

Cooltech

Cooltech revenue grew by 24% to £2.4m, -3% on a full year constant currency basis.

Technical challenges with the product and the Russian invasion of Ukraine hampered growth, with sales in key markets of EMEA and LATAM declining by -3% on a full year basis. The technical issues have now been resolved and the Board are confident of growth in future years.

Preime DermaFacial

Sinclair successfully launched Preime in Q4 2022, generating initial revenues of £1.3m, contributing to the growth reported in the year.

Consumables & Services

Consumables and service revenue accounted for 26% of total EBD revenue (24% 2021), the increase in EBD's in-market sales, increases the requirement for ancillary consumables and servicing. This revenue stream is expected to grow in future years as additional devices are sold in to the market.

Viora

Revenues for Viora were £16.9 million for the period from acquisition on 3 Feb 2022. This represents a very strong initial contribution to the group.

Finance review

Gross margin after exceptional items was 66.3% (2021: 65.2%). Following from the 76.9% growth in revenues to £134.6 million, gross profit pre-exceptional items improved by 73.3% to £90.2 million from £52.1 million in 2021. This represents a gross margin of 67.1% in 2022 compared with 68.5% in the prior year.

Selling, marketing and distribution costs increased by 63.9% to £42.3 million in 2022 due to the acquisition of Viora, launch of the new injectable products Maili® and Lanluma® in key markets and the launch of Preime.

Administrative expenses, pre-exceptional items, were £36.6 million for the year, a 27.5% increase over 2021. This is a result of the acquisition of Viora, an increase in non-cash charges for depreciation and amortisation and increased salary and reward charges resulting from the growth achieved in the year.

There are a number of exceptional cost of sales and administrative expenses affecting the result in the year, see note 5 for further details. Overall, these amount to £6.9m in 2022 (2021: £4.5 million) and largely relate to management structure changes (£3.8m) and the acquisitions of Viora and Cocoon (£3.1m).

Operating profit for 2022 significantly increased to £4.5 million (2021: loss £6.9 million). Operating profit for the year pre-exceptional items improved significantly to £11.4 million compared with a loss of £2.4 million in 2021, as a result of the recovery in sales and contribution from the newly acquired Cocoon and Viora businesses.

Net finance expense

Net finance expenses increased significantly to £8.0 million in 2022 (2021: £5.7 million) as net debt increased to £123 million at 31 December 2022 compared to £84.2 million at 31 December 2021. As a result, interest payable on loans increased to £7.4 million in 2022 from £3.9 million in 2021. Additional borrowings were utilised to fund the acquisition of Viora.

Loss from continuing operations

The Group reported a net loss for the year on continuing operations of £2.5 million a 82% improvement on the loss of £13.9 million reported in 2021. This was driven by the significant improvement in operating performance and contribution from the EBD business, offset by one-off costs associated with the acquisition of Viora, management restructure and increased financing costs.

Post Balance Sheet Events

There have been no significant post balance sheet events.

Future review

Following the acquisitions of the EBD business' in the last two years, the Group is now in a very strong position in the aesthetics market and we expect to utilise this position to deliver further revenue and EBITDA growth in future years.

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For the year ended 31 December 2022

Future review (continued)

In FY2023 we will continue to integrate the new acquisitions, taking advantage of synergies and economies of scale and utilising the larger network to access new markets.

The Group will continue to explore further opportunities to expand its current portfolio and create additional benefit to all shareholders.

Section 172 statement

The Directors have acted in a way that they considered, in good faith, to be most likely to promote the success of the Group for the benefit of its members as a whole and in doing so have had regard, amongst other matters, to:

- the likely consequences of any decision in the long-term;
- the interest of the Group's employees;
- the need to foster the Group's business relationships with suppliers, distribution partners, Sinclair partner physicians, end users and others;
- the impact of the Group's operations on the community and the environment;
- the desirability of the Group maintaining a reputation for high standards of business conduct; and
- the need to act fairly as between members of the company.

The Directors give careful consideration to the factors set out above in discharging their duties under section 172 of the Companies Act 2006. The stakeholders we consider in this regard are the people who work for us, our distribution partners, partner physicians, end-users, and those in the supply chain with whom we engage, our owners, regulatory bodies and those that live in the societies within which we operate. The Directors recognise that building strong relationships with our stakeholders will help us to deliver our strategy in line with our long-term values and operate the business in a sustainable way.

We are committed to doing business responsibly and thinking for the long term. When making investment decisions the board considers not only the short term success but also the long term strategic plan, such as through the disposal of rights to Sculptra® and reinvestment into global rights for MaiLi®, as well as the acquisition of Cocoon and Viora establishing a presence in the fast growth EBD segment of the aesthetics market.

Employee Development and Employee Engagement

Our most important asset is our employees. We are committed to developing policies that encourage all employees to achieve their potential and to continue to contribute to the success of the Group.

Development

A formal human resources policy framework is followed throughout the Group. The framework includes a process of appraisal and development to ensure group companies get the best from their people; emphasis has been placed on career pathways with individual training and development programmes. The Group has run bespoke management training programmes for individuals it recognises as key to the future development of the business.

Our employees are encouraged to attend seminars, training courses, and are provided help in seeking necessary professional qualifications to further their careers. All new and existing employees have access to "Sinclair College", our online platform which provides details of our full product range, as well as a series of videos, that introduce each department and affiliate from the group, including their function, details of individuals within that department and how they interact with the wider group.

Engagement

We operate a global, cross-functional employee engagement committee. Their focus is to identify and run engagement activities, share ideas on local issues, and where necessary roll out solutions globally across Sinclair affiliates. This is supported by an annual employee survey, which gives an opportunity to provide anonymous feedback on different aspects of working at Sinclair, and management are then able to implement an action plan based on the findings of the survey.

The CEO hosts quarterly "town-hall" webinars across the group providing all employees with updates on the short and long-term business strategy, key developments across the business, and employees are invited to ask questions on any topic directly to the CEO either in the meeting or at any time.

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For the year ended 31 December 2022

Suppliers

We have consistent standards and procedures for the onboarding and use of external suppliers. We require suppliers to meet our compliance and financial stability requirements, as well as to meet our requirements around health and safety.

Partner physicians

We have developed "Sinclair College", an online educational resource which supports hands-on aesthetic training and provides additional practice development services to our partner physicians. Through individual registration, they have access to extensive training modules, expert webinars and general product information. This platform supports our partner physicians to deliver unparalleled clinical results, with industry leading safety standards.

Distribution partners

We view our distributors as trusted business partners and aim to work collaboratively with them to maximise market opportunities. We hold regular meetings to understand the local market place and sales performance, provide product training, and ensure we address any regulatory or supply issues in a timely manner.

Impact on community and environment

We continue to promote volunteering and charitable activities amongst our employees as part of our Corporate Social Responsibility. The Group recognises the importance of its environmental responsibilities and aims to control its impact on the environment. There is an ongoing project to address sustainability and reduce the Group's carbon footprint, which includes reducing the amount of global travel undertaken by employees as well as ways of reducing carbon emissions throughout the Group's supply chain.

Principal risks and uncertainties

The Group as a business depends on revenues generated through its own operations and marketing partners to build future revenues. The Group's performance and future prospects may be affected by risks and uncertainties relating to our business environment. Sinclair's internal controls include a risk management process to identify key risks and, where possible, manage those risks through systems and processes and by implementing specific mitigation strategies.

The most significant identified risks that could materially affect the Group's ability to achieve its financial and operating objectives are summarised below.

Area	Principal Risk	Mitigation
Risk associated with commercial success of products	The Group's revenues are from sales of its products. There can be no assurance that current product revenues can be maintained or increased in the future. Product sales may be affected by adverse market conditions or other factors including: price competition from other products, the withdrawal of a product because of a regulatory or other reason, or the financial or commercial failure of a marketing partner. Lack of commercial success could result in low profits and the potential impairment of goodwill and intangible assets.	The Group manages these risks through regular reviews of the performance of its direct affiliates and partners. In-market sales data is closely monitored in order to assess products and collaborate performance, and guide any corrective actions that may be required.
Interruption to product supply	The Group relies on third-party manufacturers for the supply of Silhouette, Maili® and Lanluma®. Ellansé®, Perfectha® and Cocoon products are manufactured by the Group at sites in the Netherlands, France and Bulgaria respectively. Problems at manufacturing facilities may lead to delays and disruptions in the supply chain, which could have significant negative impact on the Group.	The Group maintains a close dialogue with its manufacturing partners and regularly monitors inventory levels and customer demand to ensure that the effect of any interruption to product supply can be managed. The Group also purchases business interruption insurance and maintains a business continuity plan, which is regularly reviewed.

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Strategic report

For the year ended 31 December 2022

Principal risks and uncertainties (continued)

Area	Principal Risk	Mitigation
Product liability risk	The Group's products may produce unanticipated adverse side effects that may hinder their marketability.	Sinclair maintains product liability insurance and maintains a robust quality system covering the manufacture of its products, and also maintains pharmacovigilance procedures to monitor safety of its marketed products.
Competition and intellectual property risk	The position of Sinclair's products in the market is dependent on its ability to obtain and maintain patent and/or trademark protection for its products, preserve its trade secrets, defend and enforce its rights against infringement and operate without infringing the proprietary or intellectual property rights of third parties. The validity and enforceability of patents and/or trademarks may involve complex legal and factual issues resulting in uncertainty as to the extent of the protection provided. The Group's intellectual property may become invalid or expire before or during commercialisation of the product.	The Group continuously seeks to develop its products to ensure they are competitive and monitors its intellectual property rights to identify and protect against any infringements.
Regulatory risk	The Group must comply with the requirements of many different regulatory authorities in order to maintain product marketing licenses in all territories where its products are sold. These regulatory requirements are regularly changing and becoming more onerous in order to improve product quality and patient safety. If the Group does not continue to comply with the regulatory requirements in each market, including the significant switch to the new MDR (medical devices) requirements in Europe, products may be required to be withdrawn from certain markets, adversely affecting revenues.	The Group has an in-house regulatory and quality department, which maintains a close dialogue with regulatory authorities with key risks being reported to the Board on a regular basis.
Foreign exchange risk	The Group has transactional currency exposures as the majority of Group revenues and expenses are in currencies other than Sterling. Fluctuations in exchange rates between Sterling and these currencies could adversely affect financial results.	Sinclair seeks to match currency receipts and expenditure as far as possible. From time to time the Group also engages in short-term hedging transactions in order to hedge against changes in exchange rates during the financial year.

On behalf of the Board



Miguel Pardos
Director
28 March 2023

Sinclair Pharma Limited

Directors' Report

For the year ended 31 December 2022

The Directors present their Annual Report on the affairs of the Company and the Group, together with the audited consolidated financial statements for the year ended 31 December 2022. The strategic review of the business of the Company and its subsidiaries is given on pages 3 to 8. Certain information required for disclosure in this report is provided in other sections of this Annual Report. These include the Strategic Report and disclosures on financial risks included in note 24 of the Notes to the Financial Statements, and these are, accordingly, incorporated into this report by reference. An indication of the likely future developments of the business, and post balance sheet events are included in the Strategic Report.

Key performance indicators

The Board measures the Group's performance according to a wide range of key performance indicators ('KPIs'). The main KPIs at a Group level for the year ended 31 December 2022 and the prior year are as follows:

KPI	2022	2021	Definition, method of calculation and analysis
Revenue	£134.6 million	£76.1 million	Revenue increased by 76% in 2022, driven by continuing growth in the Group's leading product, Ellansé® aided by the products launch in China, launch of two MaiLi® and Lanluma® in to new countries and the acquisition of the EBD business.
Pre-exceptional Gross margin	67.0%	68.5%	Pre-exceptional gross margin reduced in 2022. This was primarily driven by the impact of sales of EBD products, which are typically at a lower margin than injectables products.
(Loss) for the year	£(2.5 million)	£(13.9 million)	The Group has reported a net loss of £2.5 million in 2022 following the net loss of £13.9 million in 2021, the improvement has been driven through additional revenue and improvements in operating performance.

Results, earnings and dividends

The loss for the financial year ended 31 December 2022 was £2,462,000 (2021: £13,938,000). The Directors do not recommend a dividend (2021: £Nil).

Risk management

The Group's operations expose it to a variety of financial risks, including the effects of changes in currency exchange rates, credit exposure and liquidity. More details can be found in note 24 to the financial statements and on page 8.

Going concern

The Group is in a net current liability position and is reliant on borrowing facilities from external lenders as well as existing loans from its parent company, Huadong Medicine Co Limited ('HMC') in order to finance its ongoing operations and to meet its liabilities as they fall due. Some of the Group's external borrowing facilities contain certain financial covenants relating to the Company and HMC.

The support of HMC for the Group's current bank facilities, (including the continuing ability of HMC to meet the ongoing financial covenants), the acquisitions of Cocoon and Viora and the support for the financing from HMC for these transactions, together with a letter of continuing support for the Group from HMC received by the Board, provide the Directors with sufficient certainty that the Group will be provided with the necessary facilities and funds to continue its operations for the foreseeable future.

As a result, the Directors consider it appropriate to continue to adopt the going concern basis in the preparation of these financial statements and are satisfied that there is no material uncertainty in the intention or ability of HMC to provide ongoing support to the Group. The financial statements do not reflect any adjustments that would be required if they were prepared on a basis other than the going concern basis.

Sinclair Pharma Limited

Directors' Report

For the year ended 31 December 2022

Directors

The Directors of the Company who served during the year and up to the date of this report were:

Chris Spooner	Chief Executive Officer (resigned 31 May 2022)
Alan Olby	Chief Financial Officer (resigned 2 April 2022)
Chengwei Liu	Chairman
Shizheng Duan	Non-executive director
Bo Chen	Non-executive director
Miguel Angel Pardos Blanco	Chief Executive Officer (appointed 28 April 2022)

Directors' and officers' liability insurance

The Company has in place third party indemnity insurance for all Directors.

Structure of the Company's capital

The Company's share capital comprises a single class of 1p Ordinary shares, each carrying one vote and all ranking equally with each other. At 31 December 2022, the issued share capital was £5,801,571 comprising 580,157,084 1p Ordinary shares (2021: 580,157,084) allotted and fully paid. There are no restrictions on the transfer of shares in the Company or on voting rights.

Change of control

There are no agreements between the Company and its Directors or employees that provide for compensation for loss of office or employment following a takeover of the Company.

Future developments

The Directors' plans for the future are to continue developing the existing brands and add new brands to the portfolio where appropriate. See the Strategic Report for specific discussion on the individual brands and post balance sheet events.

Research and development

The Group actively reviews technical development in its markets with a view of taking advantage of the available opportunities to maintain and improve its competitive position. The Group has continued to invest in the development of new products and line extensions during the year, with R&D costs, excluding salaries, of £490,000 in 2022 (2021: £362,000).

Employees

Our most important asset is our employees. We are committed to developing policies that encourage all employees to achieve their potential and to continue to contribute to the success of the Group. We seek to develop employees' potential by encouraging them to attend seminars, training courses, and providing help in seeking necessary professional qualifications to further their careers. We operate equal opportunities in recruitment, training and promotion regardless of gender, ethnic origin, nationality or disability. The Group is responsive to the needs of its employees. As such, should any employee of the Group become disabled during their time with us, we will actively re-train that employee and make reasonable adjustments to their working environment, in order to keep the employee within the Group. The Group operates internationally and therefore its employment practices are varied to meet local conditions and requirements. These are established on the basis of best practice for each individual country.

Employee engagement

See information set out under the section 172 statement of the strategic report.

Supplier and customer engagement

See information set out under the section 172 statement of the strategic report.

Political donations

The Group made political donations totalling £Nil (2021: £Nil).

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Directors' Report

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UK Streamlined Energy and Carbon Reporting

Under the Energy and Carbon Report Regulations 2018, the Company is required to report on the environmental impacts of the Group in respect of the energy usage in the UK and the seas around it. The key environmental impact is the electricity consumption in office locations, and the business travel or employee-owned vehicles for which the Group is responsible for purchasing the fuel. This is broken down as follows:

	2022
Aggregate of energy consumption in the period (kWh)	223,230
Scope 1: Direct emissions: from gas combustion and fuel consumed by owned vehicles	–
Scope 2 Indirect emissions: electricity purchased (metric tonnes)	43.17
Scope 2 Indirect emissions: fuel consumed by transport not owned by the business (metric tonnes)	38.52
Total gross emissions	81.69
Intensity metric: tonnes of emissions per £000'000 sales	0.61

We have followed the 2021 HM Government Environmental Reporting Guidelines. We have also used the GHG Report Protocol - Corporate Standard and have used 2022 UK Government's Conversion Factors for Company reporting.

Intensity measurement

The chosen intensity measurement ratio is total gross emissions in metric tonnes CO₂e per £million revenue which the Directors consider as appropriate for the sector.

Measures taken to improve efficiency

We have an ongoing sustainability project looking at improving the carbon footprint of the Group and have engaged a third party consultant to support with this. Where possible we have significantly reduced employee travel and are increasingly using online conferencing facilities in lieu of fact-to-face meetings.

Independent Auditors

Saffery Champness LLP, who were appointed on 28 January 2021, have expressed their willingness to continue in office as auditors and will be proposed for reappointment in accordance with section 485 of the Companies Act 2006.

Statement as to disclosure of information to auditors

The Directors, in office at the date of this report, have confirmed that:

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

This information is given and should be interpreted in accordance with the provisions of Section 418 of the Companies Act 2006.

Sinclair Pharma Limited

Directors' Report

For the year ended 31 December 2022

Statement of Directors' Responsibilities

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law, the directors have prepared the group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted in the UK and parent company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted in the UK. 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 group and parent company and of the profit or loss of the group and parent company for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable UK adopted international accounting standards have been followed for the Group financial statements and UK adopted international accounting standards have been followed for the Company financial statements, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the *Group and parent Company's transactions and disclose with reasonable accuracy at any time the financial position* of the Group and Parent Company and enable them to ensure that the financial statements comply with the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

The directors are also responsible for safeguarding the assets of the Group and Parent 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 Parent Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The directors consider that the annual report and financial statements, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the group and company's performance, business model and strategy.

Each of the directors, whose names and functions are listed in the Directors' report for the year ended 31 December 2022 confirm that, to the best of their knowledge:

- the parent company financial statements, which have been prepared in accordance with UK adopted international accounting standards, give a true and fair view of the assets, liabilities, financial position and loss of the company;
- the group financial statements, which have been prepared in accordance with UK adopted international accounting standards, give a true and fair view of the assets, liabilities, financial position and loss of the group; and
- the Directors' Report includes a fair review of the development and performance of the business and the position of the group and company, together with a description of the principal risks and uncertainties that it faces.

By order of the Board


Miguel Pardos

Director

28 March 2023

Sinclair Pharma Limited

Independent auditors' report to the members of Sinclair Pharma Limited For the year ended 31 December 2022

Opinion

We have audited the financial statements of Sinclair Pharma Limited (the 'parent company') and its subsidiaries (the 'group') for the year ended 31 December 2022 which comprise the Consolidated Income Statement and Consolidated Statement of Comprehensive Income, Consolidated Balance Sheet, Company Balance Sheet, Consolidated and Company Statement of Changes in Equity, consolidated and company Cash Flow Statements and notes to the financial statements, including significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and UK-adopted international accounting standards.

In our opinion the financial statements:

- give a true and fair view of the state of affairs of the group and of the parent company as at 31 December 2022 and of the group's loss for the year then ended;
- have been properly prepared in accordance with UK-adopted international accounting standards; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities 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 group and the parent 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.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the group or the parent company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. 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.

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 course of 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 this gives rise to a material misstatement in the financial statements themselves. 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.

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.

Sinclair Pharma Limited

Independent auditors' report to the members of Sinclair Pharma Limited

For the year ended 31 December 2022

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the group and the parent company and their 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 parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company 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 Statement of Directors' Responsibilities set out on page 12, 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 group and the parent 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 group or the parent 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 group and parent company 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.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The specific procedures for this engagement and the extent to which these are capable of detecting irregularities, including fraud are detailed below.

Identifying and assessing risks related to irregularities:

We assessed the susceptibility of the group and parent company's financial statements to material misstatement and how fraud might occur, including through discussions with the directors, discussions within our audit team planning meeting, updating our record of internal controls and ensuring these controls operated as intended. We evaluated possible incentives and opportunities for fraudulent manipulation of the financial statements. We identified laws and regulations that are of significance in the context of the group and parent company by discussions with directors, communication with component auditors and by updating our understanding of the sector in which the group and parent company operate.

Laws and regulations of direct significance in the context of the group and parent company include The Companies Act 2006, and UK Tax legislation as well as similar laws and regulations prevailing in each country in which we identified a significant component.

Sinclair Pharma Limited

Independent auditors' report to the members of Sinclair Pharma Limited For the year ended 31 December 2022

Further, the group is subject to other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements; through a significant fine, litigation or restrictions on the company's operations. We identified the most significant matters here to be compliance with the regulatory approval regime in major markets, and the health and safety legislation associated with end consumers use of the products.

Audit response to risks identified:

We considered the extent of compliance with these laws and regulations as part of our audit procedures on the related financial statement items including a review of group and parent company financial statement disclosures. We reviewed the parent company's records of breaches of laws and regulations, minutes of meetings and correspondence with relevant authorities to identify potential material misstatements arising. We discussed the parent company's policies and procedures for compliance with laws and regulations with members of management responsible for compliance.

During the planning meeting with the audit team, the engagement partner drew attention to the key areas which might involve non-compliance with laws and regulations or fraud. We enquired of management whether they were aware of any instances of non-compliance with laws and regulations or knowledge of any actual, suspected or alleged fraud. We addressed the risk of fraud through management override of controls by testing the appropriateness of journal entries and identifying any significant transactions that were unusual or outside the normal course of business. We assessed whether judgements made in making accounting estimates gave rise to a possible indication of management bias. At the completion stage of the audit, the engagement partner's review included ensuring that the team had approached their work with appropriate professional scepticism and thus the capacity to identify non-compliance with laws and regulations and fraud.

As group auditors, our assessment of matters relating to non-compliance with laws or regulations and fraud differed at group and component level according to their particular circumstances. Our communications with component auditors included a request to identify instances of non-compliance with laws and regulations and fraud that could give rise to a material misstatement of the group financial statements in addition to our risk assessment. There are inherent limitations in the audit procedures described above and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

A further description of our responsibilities is available on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

This report is made solely to the parent 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 parent 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 parent company and the parent company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Saffery Champness LLP

Richard Collis (Senior Statutory Auditor)
for and on behalf of Saffery Champness LLP
Chartered Accountants, Statutory Auditors
71 Queen Victoria Street
London, EC4V 4BE
29 March 2023

Sinclair Pharma Limited

Consolidated Income Statement and Consolidated Statement of Comprehensive Income For the year ended 31 December 2022

	Note	2022			2021		
		Pre-exceptional items £'000	Exceptional items (note 5) £'000	Total £'000	Pre-exceptional items £'000	Exceptional items (note 5) £'000	Total £'000
Revenue	4	134,567	—	134,567	76,073	—	76,073
Cost of sales		(44,324)	(1,078)	(45,402)	(23,995)	(2,460)	(26,455)
Gross profit		90,243	(1,078)	89,165	52,078	(2,460)	49,618
Selling, marketing and distribution costs		(42,263)	—	(42,263)	(25,790)	—	(25,790)
Administrative expenses		(36,605)	(5,793)	(42,398)	(28,700)	(2,033)	(30,733)
Operating profit/(loss)	6	11,375	(6,871)	4,504	(2,412)	(4,493)	(6,905)
Finance income	8	3,212	—	3,212	3	—	3
Finance expense	8	(11,162)	—	(11,162)	(5,707)	—	(5,707)
Share of loss from associate	14	(15)	—	(15)	(146)	—	(146)
Profit/(loss) before taxation		3,410	(6,871)	(3,461)	(8,262)	(4,493)	(12,755)
Taxation	9	999	—	999	(1,183)	—	(1,183)
Profit/(loss) for the year from continuing operations		4,409	(6,871)	(2,462)	(9,445)	(4,493)	(13,938)

	2022 £'000	2021 £'000
Loss for the year	(2,462)	(13,938)
Other comprehensive income/(expense) (Items that may subsequently be reclassified to the income statement)		
Currency translation differences	9,444	(2,981)
Total other comprehensive income/(expense)	9,444	(2,981)
Total comprehensive income/(expense) for the year attributable to the owners of the parent	6,982	(16,919)

Total comprehensive income all arises from continuing operations

The notes on pages 21 to 49 form an integral part of these consolidated financial statements.

Sinclair Pharma Limited

Consolidated Balance Sheet

For the year ended 31 December 2022

	Note	2022 £'000	2021 £'000
NON-CURRENT ASSETS			
Goodwill	11	105,622	88,765
Intangible assets	12	110,019	95,019
Property, plant and equipment	13	14,978	12,821
Investment in associate	14	5,186	5,207
Assets at fair value through profit or loss	24	3,563	–
Other financial assets		372	200
		239,740	202,012
CURRENT ASSETS			
Inventories	16	26,839	19,110
Trade and other receivables	17	40,807	19,122
Current tax asset		–	879
Cash at bank		7,337	10,893
		74,983	50,004
TOTAL ASSETS		314,723	252,016
CURRENT LIABILITIES			
Borrowings	19	(64,373)	(78,043)
Trade and other payables	18	(35,053)	(20,028)
Lease liabilities	21	(1,530)	(1,400)
Other financial liabilities	20	(507)	(374)
Current tax liabilities		(1,533)	(1,227)
Provisions	22	(4,518)	(4,542)
TOTAL CURRENT LIABILITIES		(107,514)	(105,614)
NON-CURRENT LIABILITIES			
Borrowings	19	(62,262)	(12,681)
Lease liabilities	21	(2,285)	(3,005)
Trade and other payables	18	(2,574)	(2,574)
Other financial liabilities	20	(34,250)	(30,431)
Deferred tax liabilities	23	(21,922)	(20,777)
		(123,293)	(69,468)
TOTAL LIABILITIES		(230,807)	(175,082)
NET ASSETS		83,916	76,934
EQUITY			
Share capital	25	5,802	5,802
Share premium		109,648	109,648
Capital reserve		2,819	2,819
Merger reserve		97,141	97,141
Other reserves		16,866	7,422
Accumulated losses		(148,360)	(145,898)
TOTAL EQUITY		83,916	76,934

The notes on pages 21 to 49 are an integral part of these consolidated financial statements.

The financial statements on pages 16 to 49 were approved by the Board of Directors on 28 March 2023 and signed on its behalf by:



Miguel Pardos

Director

Sinclair Pharma Limited registered number 03816616

Sinclair Pharma Limited

Company Balance Sheet

For the year ended 31 December 2022

	Note	2022 £'000	2021 £'000
NON-CURRENT ASSETS			
Investments	28	151,813	150,470
Assets at fair value through profit or loss	24	3,563	–
Trade and other receivables	17	11,957	12,640
		167,333	163,110
CURRENT ASSETS			
Trade and other receivables	17	94,971	68,636
Cash at bank		–	67
		94,971	68,703
TOTAL ASSETS		262,304	231,813
CURRENT LIABILITIES			
Bank overdraft		(211)	–
Borrowings	19	(63,960)	(77,727)
Trade and other payables	18	(5,373)	(3,781)
TOTAL CURRENT LIABILITIES		(69,544)	(81,508)
NON-CURRENT LIABILITIES			
Borrowings	19	(56,497)	(11,616)
		(56,497)	(11,616)
TOTAL LIABILITIES		(126,041)	(93,124)
NET ASSETS		136,263	138,689
EQUITY			
Share capital	25	5,802	5,802
Share premium		109,648	109,648
Capital reserve		2,819	2,819
Merger reserve		102,241	102,241
Accumulated losses			
At start of year		(81,821)	(79,507)
Loss for the year attributable to the owners		(2,426)	(2,314)
		(84,247)	(81,821)
TOTAL EQUITY		136,263	138,689

The notes on pages 21 to 49 are an integral part of these consolidated financial statements.

The financial statements on pages 16 to 49 were approved by the Board of Directors on 28 March 2023 and signed on its behalf by:



Miguel Pardos

Director

Sinclair Pharma Limited registered number 03816616

Sinclair Pharma Limited

Consolidated and Company Statement of Changes in Equity

For the year ended 31 December 2022

Group	Share capital £'000	Share premium £'000	Capital reserve £'000	Merger reserve £'000	Other reserves £'000	Accumulated losses £'000	Total equity £'000
Balance at 1 January 2021	5,802	109,648	2,819	97,141	10,403	(131,960)	93,853
Exchange differences arising on translation of overseas subsidiaries	—	—	—	—	(2,981)	—	(2,981)
Profit for the year	—	—	—	—	—	(13,938)	(13,938)
Total comprehensive income for the year	—	—	—	—	(2,981)	(13,938)	(16,919)
Balance at 31 December 2021	5,802	109,648	2,819	97,141	7,422	(145,898)	76,934
Exchange differences arising on translation of overseas subsidiaries	—	—	—	—	9,444	—	9,444
Loss for the year	—	—	—	—	—	(2,462)	(2,462)
Total comprehensive income for the year	—	—	—	—	9,444	(2,462)	6,982
Balance at 31 December 2022	5,802	109,648	2,819	97,141	16,866	(148,360)	83,916

Company	Share capital £'000	Share premium £'000	Capital reserve £'000	Merger reserve £'000	Accumulated losses £'000	Total equity £'000
Balance at 1 January 2021	5,802	109,648	2,819	102,241	(79,507)	141,003
Loss for the year	—	—	—	—	(2,314)	(2,314)
Total comprehensive expense for the year	—	—	—	—	(2,314)	(2,314)
Balance at 31 December 2021	5,802	109,648	2,819	102,241	(81,821)	138,689
Loss for the year	—	—	—	—	(2,426)	(2,426)
Total comprehensive income for the year	—	—	—	—	(2,426)	(2,426)
Balance at 31 December 2022	5,802	109,648	2,819	102,241	(84,247)	136,263

The notes on pages 21 to 49 are an integral part of these consolidated financial statements.

Sinclair Pharma Limited

Consolidated and Company Cash Flow Statements

For the year ended 31 December 2022

		Group		Company	
		2022 £'000	2021 £'000	2022 £'000	2021 £'000
Continuing operations					
Loss before tax		(3,461)	(12,755)	(2,426)	(2,314)
Exceptional Items	5	6,871	4,493	258	567
Profit/(loss) before tax and exceptional items		3,410	(8,262)	(2,168)	(1,747)
Adjustments for:					
Finance income	8	(3,212)	(3)	(3,212)	(5,105)
Finance costs	8	11,162	5,707	4,923	3,912
Depreciation	13	2,699	2,206	—	—
Amortisation of intangible assets	12	9,824	7,183	—	—
Exchange (gains)/losses		—	—	(1,503)	1,246
Loss from associates	14	15	146	—	—
Loss on disposal of assets		—	17	—	—
Changes in working capital					
Increase in inventory		(3,742)	(6,161)	—	—
(Increase)/decrease in receivables		(17,430)	(3,464)	1,281	(35)
Increase/(decrease) in payables		5,897	(852)	(1,904)	(120)
Net cash inflow/(outflow) from continuing operations before exceptional items		8,623	(3,483)	(2,583)	(1,849)
Exceptional costs paid		(3,945)	(1,793)	—	—
Net cash inflow/(outflow) from continuing operations		4,678	(5,276)	(2,583)	(1,849)
Interest paid		(2,906)	(1,113)	(2,856)	(979)
Taxation paid		(1,359)	(1,677)	—	—
Net cash generated from/(used in) operating activities		413	(8,066)	(5,439)	(2,828)
Investing activities					
Purchases of property, plant and equipment		(2,960)	(3,145)	—	—
Purchase of intangible assets		(9,819)	(7,190)	—	—
Payment of deferred and contingent consideration		(374)	(3,171)	—	—
Acquisition of subsidiary net of cash acquired	15	(19,090)	(36,863)	—	—
Adjustment to consideration on prior period acquisition	15	691	—	—	—
Purchase of shares in subsidiary		—	—	—	(22,571)
Repayment of loan from subsidiary companies		—	—	3,384	—
Loan to subsidiary companies		—	—	(22,899)	(40,386)
Net cash used in from investing activities		(31,552)	(50,369)	(19,515)	(62,957)
Financing activities					
Proceeds from borrowings	19	53,565	66,101	49,066	65,838
Repayment of borrowings	19	(24,390)	—	(24,390)	—
Principal elements of lease payments	19	(1,592)	(1,118)	—	—
Net cash generated from financing activities		27,583	64,983	29,676	65,838
Net (decrease)/increase in cash and cash equivalents		(3,556)	6,548	(278)	53
Cash and cash equivalents at start of year		10,893	4,345	67	14
Cash and cash equivalents at end of year		7,337	10,893	(211)	67

The notes on pages 21 to 49 are an integral part of these consolidated financial statements

Sinclair Pharma Limited

Notes to the Financial Statements For the year ended 31 December 2022

1. General information

Sinclair Pharma Limited (the 'Company') is an international speciality pharmaceutical company focused on aesthetics. The Group has a direct sales and marketing presence in the UK, Spain, France, Germany, Brazil, South Korea, Mexico, Italy, Poland, Chile and Colombia and a growing international division concentrated on key emerging markets through long-term multi-product and multi-country sales, marketing and distribution deals with key strategic partners.

The Group's principal activities are the development and commercialisation of medical aesthetic products through the Group's direct sales operations and through marketing partners on an international basis.

The Company is a private company limited by shares and is incorporated and domiciled in England and Wales. The address of its registered office is Whitfield Court, 30–32 Whitfield Street, London W1T 2RQ, England.

The consolidated and Company financial information is presented in Sterling, which is also the functional currency of the parent company, and has been rounded to the nearest thousand (£'000).

2. Accounting policies

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

Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRSs') and IFRS Interpretations Committee ('IFRS IC') as adopted in the UK and with those parts of the Companies Act 2006 applicable to companies reporting under IFRSs. The consolidated and company financial statements have been prepared under the historical cost convention as modified to fair value for certain financial assets and liabilities.

The preparation of financial statements in conformity with IFRSs requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from these estimates.

Under Section 479A of the Companies Act 2006, exemptions from an audit of the financial statements for the financial year ending 31 December 2022 have been taken by Sinclair Pharma Holdings Limited (08871117); Sinclair Pharma Management Limited (09142486); Sinclair Pharmaceuticals Limited (01007146); IS Pharmaceuticals Limited (02685820); IS Pharma Limited (03337415) and Acorus Therapeutics Limited (03976183). As required, the Company guarantees all outstanding liabilities to which the subsidiary companies listed above are subject at the end of the financial year, until they are satisfied in full and the guarantee is enforceable against the parent undertaking by any person to whom the subsidiary companies listed above is liable in respect of those liabilities.

Going concern

The Group is in a net current liability position and is reliant on borrowing facilities from external lenders as well as existing loans from its parent company, Huadong Medicine Co Limited ('HMC') in order to finance its ongoing operations and to meet its liabilities as they fall due. Some of the Group's external borrowing facilities contain certain financial covenants relating to the Company and HMC.

The support of HMC for the Group's current bank facilities, (including the continuing ability of HMC to meet the ongoing financial covenants), the acquisitions of Cocoon and Viora and the support for the financing from HMC for these transactions, together with a letter of continuing support for the Group from HMC received by the Board, provide the Directors with sufficient certainty that the Group will be provided with the necessary facilities and funds to continue its operations for the foreseeable future.

As a result, the Directors consider it appropriate to continue to adopt the going concern basis in the preparation of these financial statements and are satisfied that there is no material uncertainty in the intention or ability of HMC to provide ongoing support to the Group. The financial statements do not reflect any adjustments that would be required if they were prepared on a basis other than the going concern basis.

Sinclair Pharma Limited

Notes to the Financial Statements

For the year ended 31 December 2022

2. Accounting policies (continued)

Basis of consolidation

The consolidated financial statements of the Company incorporate the financial statements of the Company and its subsidiaries. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the subsidiary and has the ability to affect those returns through its power over the subsidiary. Subsidiaries are deconsolidated from the date on which control ceases. Amounts reported in the financial statements of subsidiaries have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Group.

All transactions, balances and unrealised gains between Group companies are eliminated on consolidation. Unrealised losses are also eliminated except to the extent they provide evidence of impairment of the asset transferred.

Associates are all entities over which the group has significant influence but not control or joint control. This is generally the case where the group holds between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting, after initially being recognised at cost.

Business combinations

The acquisition method of accounting is applied to all business combinations made by the Group. The cost of an acquisition is measured as the aggregate of the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, at the rate of exchange (where applicable) on the date of acquisition. Acquisition costs are expensed as incurred and recognised within exceptional items.

Identifiable assets acquired and liabilities and contingent liabilities assumed, in a business combination are measured initially at their fair values on the date of acquisition, based on the rate of exchange (where applicable) on the date of acquisition. The excess of the consideration over the fair value of the Group's share of identifiable net assets, including intangible assets acquired, is recorded as goodwill.

Foreign currency translation

Items included in the financial statements of each of the Group's entities are measured using the functional currency of the primary economic environment in which the entity operates (the functional currency). Transactions in foreign currencies are translated into the functional currency at the rate of exchange ruling at the date of transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the rates of exchange prevailing at that date. Gains and losses arising on translation are included in the income statement. The results of operations that have a functional currency different from the presentation currency are translated at the average rate of exchange during the period and their balance sheets at the rates ruling at the date of the balance sheet. Exchange differences arising on translation from 1 July 2005 are taken directly to a separate component of equity, the cumulative translation reserve included within 'Other Reserves'. There is no tax impact on these transactions. Exchange differences on intra-group loan balances are taken to the income statement, unless they are considered long-term equity investments.

Revenue recognition

Substantially all revenue is generated from sale of goods with revenue recognised at a point in time when control of goods has transferred to the customer. The transaction price is allocated to the appropriate performance obligation, which is considered to be complete upon shipment of goods to customers. Provisions for rebates, product returns and discounts to customers are provided for as reductions to revenue in the same period as the related sales occurred. The recognition of other payments received and receivable, such as licence fees, upfront payments and milestones, is dependent on the terms of the related arrangement, having regard to the ongoing risks and rewards of the arrangement, and the existence of any performance or repayment obligations, if any, with the third party. These payments are recognised as revenue in the period in which they are earned. Amounts received and receivable are recognised immediately as revenue where there are no substantial remaining risks, no ongoing performance obligations and amounts received are not refundable. Amounts are deferred over an appropriate period where these conditions are not met.

Goodwill

Goodwill represents the excess of the consideration over the fair value of the Group's share of the identifiable net assets of the acquired subsidiary at the date of acquisition. Goodwill is tested annually for impairment, or more frequently if events or changes in circumstances indicate that the carrying value may be impaired, and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold. Goodwill arising on the acquisition of a foreign entity is treated as an asset of the foreign entity denominated in foreign currency and translated at the balance sheet date according to the rate of exchange prevailing at that date.

Sinclair Pharma Limited

Notes to the Financial Statements For the year ended 31 December 2022

2. Accounting policies (continued)

Intangible assets

i) Licences and product rights

Licences and trademarks including product distribution rights, brands and technical dossiers are recognised at their fair values at acquisition date (where acquired as part of a business combination) or cost (if acquired separately) and are amortised on a straight-line basis over their estimated useful economic lives (5 to 20 years) from the time they are available for use. Amortisation is included within Administrative expenses.

ii) Research and development

Research expenditure is recognised as an expense as incurred. Costs incurred on development activities are recognised as intangible assets when it is probable that the project will be a success, considering its commercial and technological feasibility, status of regulatory approval, and costs can be measured reliably. Other development expenditure is recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Development costs that have a finite useful life and that have been capitalised are amortised from the date of regulatory approval of the product on a straight-line basis over the period of its expected benefit, not exceeding 10 years.

iii) Other intangible assets

Other intangible assets includes software, which is recognised at cost and amortised on a straight line basis over its estimated useful economic life (5 to 7 years).

Any contingent payments due on intangible assets are valued using the cost accumulation model, whereby contingent consideration is not considered on initial recognition of the asset, but is added to the cost of the asset initially recorded, when incurred, or when a related liability is remeasured for changes in cash flows.

Assets held for sale

Assets classified as held for sale are measured at the lower of their carrying value and fair value less cost to sell.

Property, plant and equipment

All property, plant and equipment are shown at cost less accumulated depreciation and impairment. Cost includes expenditure that is directly attributable to the acquisition of the assets.

Subsequent costs are included in the assets' 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 Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial year in which they are incurred. Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to write off the cost of each asset to its residual value over its estimated useful life as follows:

- Right of use assets are depreciated over the term of the relevant lease
- Leasehold improvements expensed over the lease period;
- Right of use assets are depreciated on a straight line basis over the period of the lease; and
- Office and laboratory equipment depreciated at 15% to 50% per year.

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

Investments in subsidiary undertakings

Investments in subsidiary undertakings are carried at cost less impairment provision. Such investments are subject to review and any impairment is charged to the income statement.

Investments in associates

Under the equity method of accounting, investments in associates are initially recognised at cost and adjusted thereafter to recognise the group's share of the post-acquisition profits or losses of the investee in profit or loss, and the group's share of movements in other comprehensive income of the investee in other comprehensive income.

Where the group's share of losses in an equity-accounted investment equals or exceeds its interest in the entity, including any other unsecured long-term receivables, the group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the other entity.

Unrealised gains on transactions between the group and its associates are eliminated to the extent of the group's interest in these entities. Unrealised losses are eliminated unless the transaction evidences an impairment of the asset transferred.

Sinclair Pharma Limited

Notes to the Financial Statements

For the year ended 31 December 2022

2. Accounting policies (continued)

Impairment

Goodwill is tested annually for impairment and other intangible assets are tested where there is an indication of impairment. 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 Group estimates the recoverable amount of the cash-generating unit ('CGU') to which the asset belongs.

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

Where an impairment loss subsequently reverses, the carrying value of the asset (CGU) is increased to the revised estimate of its recoverable amount, provided that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (CGU) in prior periods. A reversal of an impairment loss is recognised as income immediately.

Inventories

Inventories are valued at the lower of cost and net realisable value. Cost comprises materials, direct labour and a share of production overheads if appropriate at the relevant stage of production. Provision is made for obsolete, slow-moving or defective items where appropriate. Net realisable value is determined at the balance sheet date on commercially saleable products based on estimated selling price less all further costs to completion and all relevant marketing, selling and distribution costs.

Taxation

The tax expense represents the sum of the tax currently payable and deferred tax. The tax currently payable is based on taxable profit for the period. Taxable profit differs from net profit as reported in the income statement because it excludes items of income and expenses that are taxable and deductible in other periods and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

The Group is subject to income taxes in numerous jurisdictions. Judgement is required in determining the worldwide provision for income taxes. There are certain transactions and calculations for which the ultimate tax determination is uncertain. The group recognises liabilities for anticipated tax issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determinations is made.

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 balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable 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 the initial recognition (other than a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising from investments in subsidiaries except where the Group 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. The carrying amount of deferred tax assets are reviewed at each balance sheet 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.

Deferred tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Sinclair Pharma Limited

Notes to the Financial Statements

For the year ended 31 December 2022

2. Accounting policies (continued)

Leases

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payment that are based on an index or a rate;
- amounts expected to be payable under residual value guarantees;
- the exercise price of a purchase option if it is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the exercising of that option.

The lease payments are discounted using the interest rate implicit in the lease, if that rate can be determined, or the group's incremental borrowing rate.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs; and
- restoration costs.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise IT equipment and small items of office furniture.

Extension and termination options are included in a number of property and equipment leases across the group. These terms are used to maximise operational flexibility in terms of managing contracts. The majority of extension and termination options held are exercisable only by the group and not by the respective lessor. In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated). No potential future cashflows have been excluded from the lease liability on this basis.

The assessment is reviewed if a significant event or a significant change in circumstances occurs which affects this assessment and that is within the control of the lessee. During the current financial year, the financial effect of revising lease terms to reflect the effect of exercising extension and termination options was an increase in recognised lease liabilities and right-of-use assets of £Nil.

Pensions

The Group operates a defined contribution pension scheme for its employees. The assets of the scheme are held in independently administered funds. Contributions are charged to the income statement as they become payable in accordance with the rules of the schemes.

Other employee benefits

The expected cost of compensated short-term absence (i.e. holidays) is recognised when employees provide services that increase their entitlement. An accrual is made for holidays earned but not taken.

Financial instruments

Non-derivative financial instruments comprise trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

Trade and other receivables

Trade and other receivables are recognised initially at fair value. Subsequent to initial recognition, they are measured at amortised cost using the effective interest method, less any impairment losses. The Group assesses, on a forward-looking basis the expected credit losses associated with classes of similar trade receivables, and provides for impairment accordingly.

Trade and other payables

Trade and other payables are recognised initially at fair value. Subsequent to initial recognition, they are measured at amortised cost using the effective interest method.

Sinclair Pharma Limited

Notes to the Financial Statements

For the year ended 31 December 2022

2. Accounting policies (continued)

Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. These items are subject to insignificant risk of changes in value. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the cash flow statement only.

Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Exceptional items

Exceptional items represent significant items of income and expense which due to their nature, size, or the expected infrequency of the events giving rise to them, are presented separately on the face of the income statements to give a better understanding to shareholders of the elements of the financial performance in the year, so as to facilitate comparison with prior periods and to better assess trends in financial performance.

Interest paid

Interest paid is included as an operating cashflow in the cash flow statement.

Other financial assets

Other financial assets include non-current rent deposits paid on leasehold properties.

Equity

Equity comprises the following:

"share capital" represents the nominal value of equity shares;

"share premium" represents the excess over nominal value of the fair value of consideration received for equity shares, net of expenses of the share issue;

"capital reserve" represents the capital contribution received from the parent company in 2018

"merger reserve" represents the share premium in connection with historic acquisitions;

"other reserves" comprises all foreign exchange differences arising from the translation of foreign operations; and

"accumulated losses" represents cumulative retained losses.

New IFRSs standards and interpretations

There are no standards that are not yet effective and that would be expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

Derivative financial instruments

Derivative financial instruments are recognised at fair value. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss.

Hedging

The Group uses hedge accounting to hedge against foreign exchange movements on its net investment in certain overseas acquisitions against borrowings denominated in the same currency. To the extent that the hedge is effective, gains and losses arising are recognised in other reserves within other comprehensive income. Any ineffective portion of the hedge is recognised immediately in the income statement.

To qualify for hedge accounting, the hedging relationship must meet all of the following requirements:

- there is an economic relationship between the hedged item and the hedging instrument
- the effect of credit risk does not dominate the value changes that result from that economic relationship
- the hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the entity actually hedges; and
- the quantity of the hedging instrument that the entity actually uses to hedge that quantity of hedged item

Sinclair Pharma Limited

Notes to the Financial Statements For the year ended 31 December 2022

3. Critical accounting estimates and judgements

Preparation of the Group's financial statements requires the use of estimates and judgements that affect the reported amounts of assets, liabilities, revenues and expenses and related disclosures. The Board bases its estimates and judgements on historic experience and on various other assumptions that it considers reasonable. Actual results may differ from these estimates under different assumptions and conditions. The estimates and assumptions that have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Estimates and judgements

Impairment of cash generating units

Determining whether goodwill and other intangibles are impaired requires an estimation of the value in use of the CGUs to which goodwill or other intangible assets have been allocated. The value in use calculation requires estimation of future cash flows expected to arise from the CGU and a suitable discount rate in order to calculate present value. There is a risk of a material adverse impact on the income statement should an impairment adjustment be required. The carrying value of goodwill at 31 December 2022 is £105,622,000 (2021: £88,765,000) (note 11), and an impairment of £Nil (2021: £Nil) was recognised in the year.

There is inherent estimation uncertainty associated with management's assumptions in estimating the future cash flows and discount rate. In the current economic climate, uncertainty over calculation of an appropriate discount rate is enhanced. The recoverable amount of the Perfectha CGU exceeds its carrying amount by £3,552,000. We highlight that an increase of 1.1% to the discount rate (11.62%) would give rise to an impairment adjustment to this CGU. However, it is the view of management that the cashflow assumptions are sufficiently prudent that impairment will not be required over the next year. Any reasonably possible change in assumptions is not expected to have a material impact on the carrying value of any other individual CGU.

Valuation of contingent consideration

Determining the fair value of contingent consideration requires estimation of the probability and timing of future events such as regulatory approvals and sales milestones being achieved resulting in deferred consideration becoming payable. A suitable discount rate is then applied to the expected cash flows to calculate the present value. There is a risk of a material impact on the income statement in future periods should any key assumptions change which result in the expected value of the final consideration payable increasing or decreasing. The value of contingent consideration at 31 December 2022 is £34,757,000 (2021: £30,805,000). An increase/(decrease) of 10% to forecast sales of Silhouette would lead to an increase/(decrease) in contingent consideration of £381,000 / (£381,000). A reasonably possible change in timing and amounts of revenue in Cocoon in 2023 and 2024 would result in a change in contingent consideration of £1,287,000.

Recoverable amounts of accounts receivable

Judgements have been made taking into account the age of overdue debt, order patterns, forecast trade, and the credit-worthiness of specific customers in order to assess the recoverable amount of accounts receivable balances. The carrying value of trade receivables at 31 December 2022 is £28,104,000 (2021: £15,297,000). The value of provision calculated on an expected credit loss basis is £805,000 (2021: £1,132,000).

Legal provisions

The Group has a number of ongoing legal disputes, the outcome of which are uncertain, both in regards timing and the value of any potential settlements the Group may be required to make. The Group has therefore applied judgement to determine the most likely outcome of these disputes, and any financial impact to the business. The carrying value of provisions at 31 December 2022 is £4,518,000 (2021: £4,542,000).

Investments in associate

A judgement has been made, with reference to current year results, expected future trading, and the wider aesthetics market, that there have been no indications of impairment, since the acquisition of the investment in associate in the prior year, which would trigger an impairment review to be completed on this value.

Sinclair Pharma Limited

Notes to the Financial Statements

For the year ended 31 December 2022

4. Revenue

Revenue relates solely to the principal activity of the Group. Revenues on a geographic basis were as follows:

	2022 £'000	2021 £'000
Western Europe	39,021	33,376
Asia Pacific	36,117	14,475
LATAM	17,809	14,533
United States of America	19,950	4,537
Rest of World	21,670	9,152
Total Revenue	134,567	76,073

In previous years, the geographic revenue split has included Brazil as a separate region, with the rest of LATAM included in Rest of World. Following the integration of the EBD business, and change in internal structure, it is now considered more appropriate to disclose the whole of LATAM as a separate region.

A receivable is recognised when the goods are delivered as this is the point in time that the consideration is unconditional as only the passage of time is required before the payment is due.

Revenues on a product basis were as follows:

	2022 £'000	2021 £'000
Energy based devices	48,526	17,935
Injectables	86,041	58,138
Total	134,567	76,073

5. Exceptional items

Exceptional items represent significant items of income and expense which due to their nature, size, or the expected infrequency of the events giving rise to them, are presented separately on the face of the income statement to give a better understanding to shareholders of the elements of financial performance in the period, so as to facilitate comparison with prior periods and to better assess trends in underlying financial performance.

	2022 £'000	2021 £'000
Acquisition costs	(841)	(1,901)
Release of legal provision	–	47
Inventory uplift	(1,078)	(2,460)
Compensation to Directors on loss of office	(3,753)	–
Adjustments to the value of contingent consideration	(1,199)	(179)
Total exceptional income	(6,871)	(4,493)

Acquisition costs of £841,000 (2021: £1,901,000) include legal and professional fees (2021: and insurance premiums) incurred in relation to the acquisitions of Viora Limited and of the Cocoon business in 2021 (note 15).

On acquisition of Viora, in accordance with IFRS the acquired inventory was adjusted to fair value. This creates a non-cash accounting uplift of £1,078,000 to inventory value which artificially suppresses gross margin in the period post acquisition as acquired inventory is sold into the market (2021: £2,460,000 on the acquisition of Cocoon). As this inventory has been sold this uplift has been recognised as an exceptional expense through cost of sales.

In April 2022, two Directors resigned from the group resulting in compensation payments of £3,753,000 (2021: £Nil).

Adjustments to contingent consideration include a debit of £1,199,000 (2021: £179,000), as a result of changes to the forecast contingent consideration payments for the acquisition of Cocoon and Silhouette Lift SL, following reassessment of the sales profile for both the Cocoon global business and for Silhouette InstaLift® in the USA.

In 2021, certain legal disputes were settled for less than the original provision recognised, resulting in a credit of £Nil (2021: credit of £47,000) being recognised.

Sinclair Pharma Limited

Notes to the Financial Statements

For the year ended 31 December 2022

6. Operating loss

The operating loss is stated after charging:

	2022 £'000	2021 £'000
Cost of inventory recognised as an expense	38,815	13,715
Depreciation on leased assets	1,242	1,120
Depreciation of owned property, plant and equipment	1,457	1,086
Amortisation of intangible assets ¹	9,824	7,183
Employee benefit expense (note 7)	42,017	29,922
Foreign exchange (gains)/losses	(1,763)	278
Loss on disposal of Intangible assets	–	17
Research and development (excluding salary costs)	490	362

¹ In line with the Group's accounting policy amortisation of intangible assets is included in the income statement under administrative expenses.

Services provided by the Group's auditors

During the period the Group obtained services from the Group's auditors as described below:

	2022 £'000	2021 £'000
Fees payable to Company's auditors for the audit of Parent Company and consolidated financial statements	343	298
	343	298

7. Employees and Directors

The average monthly number of employees (including Executive Directors) employed by the Group during the period was:

	Group		Company	
	2022 Number	2021 Number	2022 Number	2021 Number
Sales and marketing	207	164	–	–
Production	180	111	–	–
Regulatory and quality	62	51	–	–
Administration	142	123	2	4
Continuing operations	591	449	2	4

	Group		Company	
	2022 £'000	2021 £'000	2022 £'000	2021 £'000
Wages and salaries	36,006	24,854	1,083	1,059
Social security costs	5,165	4,365	194	140
Other pension costs	846	703	28	48
	42,017	29,922	1,305	1,247

At 31 December 2022, the Group had unpaid pension contributions of £85,000 (2021: £73,000).

In the year ended 31 December 2022, the above staff costs include £3,753,000 (2021: £196,000) in respect of termination payments.

Key management compensation

Key management includes Executive Directors and members of the executive management team. Compensation paid or payable to key management for employee services is shown below:

	Group		Company	
	2022 £'000	2021 £'000	2022 £'000	2021 £'000
Salaries and short-term employee benefits	3,038	3,188	1,305	1,247
Termination payments	3,343	–	–	–
Post-employment benefits	102	149	–	–
	6,483	3,337	1,305	1,247

Sinclair Pharma Limited

Notes to the Financial Statements

For the year ended 31 December 2022

7. Employees and Directors (continued)

Directors

The directors' emoluments were as follows

	2022 £'000	2021 £'000
Aggregate emoluments	1,394	1,602
Termination payments (note 5)	3,343	–
Contributions to money purchase pension scheme	36	80
	4,773	1,682

Highest paid Director

The amounts of the highest paid director are as follows:

	2022 £'000	2021 £'000
Total emoluments and amounts receivable under long-term incentive schemes	2,324	1,101

8 Finance income and finance expense

	2022 £'000	2021 £'000
Finance income		
Net change in fair value of financial assets through profit or loss	3,212	–
Other finance income	–	3
Total finance income	3,212	3
Finance expense		
Discount unwind on deferred consideration	(1,226)	(1,376)
Other finance charges	(60)	(2)
Net foreign exchange losses on financing activities	(2,139)	(113)
Interest on bank loans and overdrafts	(7,422)	(3,895)
Interest on lease liabilities	(315)	(321)
Total finance expense	(11,162)	(5,707)
Net Finance expense	(7,950)	(5,704)

Discount unwind costs represent non-cash charges for the reversal of discounting on the Group's deferred consideration liabilities which are carried at their net present value, see note 20 for further details.

Net foreign exchange losses of £2,139,000 (2021: £113,000) arise from the difference in the Sterling: Dollar and Sterling: Euro exchange rates on borrowings from the date of drawdown and the period end or date of repayment.

9 Taxation

	2022 Total £'000	2021 Total £'000
Current tax		
UK corporation tax	114	1,268
Overseas tax	(1,221)	(628)
	(1,107)	640
Deferred tax (note 23)		
Origination and reversal of temporary differences	2,106	(1,823)
	2,106	(1,823)
Tax credit/(expense) on loss before taxation	999	(1,183)

Sinclair Pharma Limited

Notes to the Financial Statements

For the year ended 31 December 2022

9 Taxation (continued)

Factors affecting the total tax (credit)/charge for the period

The tax assessed on the profit on ordinary activities for the period differs from the standard rate of corporation tax in the UK of 19% (2021: 19%). The differences are reconciled below:

	2022 £'000	2021 £'000
Loss on ordinary activities before tax	(3,461)	(12,755)
Loss on ordinary activities before tax multiplied by the standard rate of corporation tax in the UK of 19% (2021: 19%)	(658)	(2,423)
Amortisation not allowed for tax purposes	649	517
Expenses not deductible for tax purposes	753	537
Tax losses utilised in the period not previously recognised	–	172
Reinvestment relief	(246)	1,377
Utilisation of tax losses	(131)	–
Tax rate difference	160	315
Unrelieved overseas tax losses	83	781
Change in overseas tax rates	142	381
Under provided in previous periods	(413)	(683)
Research and development tax credits	(1,338)	209
Total tax (income)/expense	(999)	1,183

10. Loss for the financial year

As permitted by Section 408 of the Companies Act 2006, the Company's income statement has not been included in these financial statements. The Company's loss for the year ended 31 December 2022 was £2,426,000 (2021: £2,314,000).

11. Goodwill

	£'000
Cost and net book value	
At 1 January 2021	63,013
Additions due to business combinations (note 15)	36,355
Exchange adjustments	(2,276)
At 31 December 2021	97,092
Additions due to business combinations (note 15)	10,058
Adjustment to business combination completed in prior year (note 15)	(691)
Exchange adjustments	8,468
At 31 December 2022	114,927
Impairment	
At 1 January 2021	8,231
Exchange adjustments	96
At 31 December 2021	8,327
Exchange adjustments	978
At 31 December 2022	9,305

Net book value

At 31 December 2022	105,622
At 31 December 2021	88,765

Exchange adjustments arise as a result of the impact of the difference in the Sterling: Euro exchange rate and the Sterling: US Dollar exchange rate, at the beginning and end of the period.

Sinclair Pharma Limited

Notes to the Financial Statements

For the year ended 31 December 2022

11. Goodwill (continued)

Goodwill has been allocated to cash generating units ("CGUs") on a product basis as these form an easily identifiable group of assets with independent cash flows. Goodwill has been allocated to the following CGUs:

	2022 £'000	2021 £'000
Silhouette	31,280	28,059
Ellansé®	14,326	13,603
Perfectha®	12,533	11,901
Cocoon	36,355	35,202
Viora	11,128	–
	105,622	88,765

Goodwill is not amortised but tested annually for impairment or more frequently if there are indications that it may be impaired.

Viora was acquired during the year, and goodwill assessed for impairment at that time. As such, the annual test for impairment was not required at December 2022 and there have been no indicators of impairment arising since acquisition.

Value In Use

For all CGUs, value in use calculations have been utilised to calculate recoverable amount. Value in use is calculated as the net present value of the projected pre-tax cash flows of each CGU.

The cash flow forecasts are based on a five year forecast extrapolated to perpetuity. Forecasts for 2023 are based on the approved annual budget, and forecasts for 2024-27 are based on management's five year plan.

For all CGUs growth rate assumptions have been applied at an individual product and market level. Long term growth-rate assumptions beyond year five are consistent with forecasts used in industry reports for aesthetic products for the markets where the Group is operating. The key assumptions for each CGU are as follows:

	2022			2021		
	Discount rate %	Five-year compound growth rate %	Long-term growth rate %	Discount rate %	Five-year compound growth rate %	Long-term growth rate %
Silhouette	9.84	10.0	3.14	11.1	11.5	2.5
Ellansé®	8.18	24.5	3.67	9.5	20.1	2.0
Perfectha®	11.62	3.4	2.49	13.2	5.2	2.9
Cocoon	9.72	22.4	3.09	n/a	n/a	n/a

For each CGU management have modelled four possible cashflow scenarios, and applied a weighted average assumption to determine the carrying value of the CGU. These scenarios are

- Upside - 5% weighting
- Base case - 70% weighting
- Severe downside - 20% weighting
- Very severe downside - 5% weighting

Scenarios have been run on all CGUs and no reasonably possible changes were expected at the balance sheet date that would remove the headroom with the exception of the following:

There is inherent estimation uncertainty associated with management's assumptions in estimating the future cash flows and discount rate. In the current economic climate, uncertainty over calculation of an appropriate discount rate is enhanced. The recoverable amount of the Perfectha CGU exceeds its carrying amount by £3,552,000. We highlight that an increase of 1.1% to the discount rate (11.62%) would give rise to an impairment adjustment to this CGU. However, it is the view of management that the cashflow assumptions are sufficiently prudent that impairment will not be required over the next year. Any reasonably possible change in assumptions is not expected to have a material impact on the carrying value of any other individual CGU.

Sinclair Pharma Limited

Notes to the Financial Statements For the year ended 31 December 2022

12. Intangible assets

	Licences and product rights £'000	Other £'000	Total £'000
Cost			
At 1 January 2021	109,535	3,127	112,662
Additions arising on business combinations (note 15)	21,327	243	21,570
Additions	7,286	424	7,710
Disposals	(19)	–	(19)
Exchange adjustments	(2,084)	(7)	(2,091)
At 31 December 2021	136,045	3,787	139,832
Additions arising on business combinations (note 15)	6,831	–	6,831
Additions	10,813	523	11,336
Disposals	(2,949)	–	(2,949)
Exchange adjustments	9,645	31	9,676
At 31 December 2022	160,385	4,341	164,726
Accumulated amortisation and impairment			
At 1 January 2021	37,076	1,068	38,144
Charge for the period	6,832	351	7,183
Impairment	(2)	–	(2)
Exchange adjustments	(496)	(16)	(512)
At 31 December 2021	43,410	1,403	44,813
Charge for the period	9,518	306	9,824
Disposal	(2,949)	–	(2,949)
Exchange adjustments	2,994	25	3,019
At 31 December 2022	52,973	1,734	54,707
Net book value			
At 31 December 2022	107,412	2,607	110,019
At 31 December 2021	92,635	2,384	95,019

Additions to licences and product rights in 2022 includes £2,482,000 (2021: £3,442,000) to Kiomed for intellectual property rights for the development and manufacture of products on Sinclair's behalf. There are additional milestone events which could result in further payment being made of £7,917,000 over the next four years.

On 11 May 2022, the EBD division entered into a products right agreement with EMA Aesthetics Limited to acquire the worldwide distribution rights for all territories outside UK and Germany for Preime DermaFacial. This included upfront payment of £3,620,000 which is included in additions in the year. There are three additional milestones events which could result in further payment being made of £2,436,000 over the next three years.

On 23 March 2020, the Group entered into a product rights agreement to acquire exclusive worldwide rights to Maili®. There are three additional milestones events which could result in further payments being made. The first one of these is for €4,000,000; timing of this is uncertain but must be made within 7 years. The additional two payments, totalling €4,000,000, will be paid upon successful completion of future milestone events.

Exchange adjustments arise as a result of the impact of the difference in the Sterling: Euro exchange rate and the Sterling: US Dollar exchange rate, at the beginning of the period or the date of acquisition and at end of the period on balances recorded in Euros and US Dollars.

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13. Property, plant and equipment

	Right of use assets			Owned assets		Total £'000
	Leasehold property £'000	Car leases £'000	Office equipment £'000	Leasehold improvements £'000	Office and laboratory equipment £'000	
Cost						
At 1 January 2021	3,721	257	38	364	8,618	12,998
Additions arising on business combinations	1,566	72	–	1,668	108	3,414
Additions	1,090	112	–	135	2,990	4,327
Disposals	(863)	(61)	–	–	(77)	(1,001)
Exchange adjustments	(37)	(2)	–	(53)	(460)	(552)
At 31 December 2021	5,477	378	38	2,114	11,179	19,186
Additions arising on business combinations	180	–	–	293	160	633
Additions	508	61	–	612	2,421	3,602
Exchange adjustments	57	–	–	147	702	906
At 31 December 2022	6,222	439	38	3,166	14,462	24,327
Accumulated depreciation						
At 1 January 2021	1,463	146	34	219	3,267	5,129
Charge for the period	1,033	83	4	105	981	2,206
Disposals	(721)	(61)	–	–	(53)	(835)
Exchange adjustments	(1)	–	–	(1)	(133)	(135)
At 31 December 2021	1,774	168	38	323	4,062	6,365
Charge for the period	1,145	97	–	779	678	2,699
Exchange adjustments	20	–	–	77	188	285
At 31 December 2022	2,939	265	38	1,179	4,928	9,349
Net book value						
At 31 December 2022	3,283	174	–	1,987	9,534	14,978
At 31 December 2021	3,703	210	–	1,791	7,117	12,821

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14. Investment in associate

On 17 September 2020, the Group entered into a share acquisition agreement with Kylane Laboratoires SA (Kylane) under which Sinclair agreed to acquire 20% of the issued share capital of Kylane for €6.0 million.

Kylane has share capital consisting of ordinary shares and preference shares. As at 31 December 2022, the Group held 20% of the share capital of the company, made up of ordinary share capital only. The country of incorporation is also their principal place of business, and the proportion of ownership interest is the same as the proportion of voting rights held.

Name of entity	Country of incorporation	Principal activity	% of ownership interest 2020	Nature of relationship	Measurement method	Carrying amount 31 Dec 2022 £'000
Kylane Laboratoires SA	Switzerland	Development of medical aesthetic products	20	Associate	Equity method	5,186

The tables below provide summarised financial information for Kylane. The information disclosed reflects the amounts presented in the financial statements of Kylane, and not Sinclair Pharma Limited's share of those amounts. They have been amended to reflect adjustments made by the entity when using the equity method, including fair value adjustments and modifications for differences in accounting policy.

	2022 £'000	2021 £'000
Intangibles	717	730
PPE	167	204
Other non-current assets	18	16
	902	950
Cash and cash equivalents	3,232	6,108
Inventory	734	—
Receivables	1,689	2,050
	5,655	8,158
Total assets	6,557	9,108
Trade and other payables	(383)	(967)
Corporation tax	(182)	(24)
	(565)	(991)
Net assets	5,992	8,117
Reconciliation to carrying amount:		2022 £'000
At 1 January 2021		5,353
Group's share of loss		(146)
At 31 December 2021		5,207
Dividend received		(6)
Group's share of loss		(15)
At 31 December 2022		5,186

	2022 £'000	2021 £'000
Summarised statement of comprehensive income		
Loss from continuing operations and total comprehensive expense	(73)	(730)
Group's share of loss	(15)	(146)

15. Business combinations

On 3 February 2022, the Group acquired 100% of the shares of Viora Ltd. a company registered in Israel, and, indirectly of its subsidiary entities Viora Inc. and Viora Canada Ltd.

All of these entities are non-listed companies, together forming the "Viora Group" of entities. The group is a manufacturer of energy-based devices ("EBDs") for the aesthetics industry, headquartered in Israel with its commercial base in New York. The existing strategic management function and associated processes were acquired with the property and, as such, the Directors consider this transaction as an acquisition of a business, rather than an asset purchase.

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15. Business combinations (continued)

The fair value of the identifiable assets and liabilities of the Viora Group at the date of acquisition were:

	Fair value recognised on acquisition £'000
Assets	
Non-current assets	
Intangible assets	6,831
Property, plant and equipment	633
	7,464
Current assets	
Inventories	3,836
Trade and other receivables	4,047
Cash and cash equivalents	1,330
	9,213
Liabilities	
Current liabilities	
Trade and other payables	(4,418)
Income tax liabilities	(9)
	(4,427)
Non-current liabilities	
Financial liabilities	(180)
Deferred tax liabilities	(1,708)
	(1,888)
Total identifiable net assets at fair value	10,362
Goodwill arising on acquisition	10,058
Purchase consideration transferred	20,420

The purchase consideration is made up of:

	£'000
Cash	20,420

Transaction costs of £841,000 incurred in connection with the acquisition have been expensed and included in exceptional costs.

The fair value at the date of acquisition of the trade receivables amounts to £3,056,000. The gross amount of trade receivables is £3,314,000. The Directors do not expect to be able to collect £258,000 of these receivables.

The Group measured the acquired lease liabilities using the present value of the remaining lease payments at the date of acquisition. The right-of-use assets were measured at an amount equal to the present value of the remaining lease liabilities and adjusted to reflect the favourable terms of the lease relative to market terms.

From the date of acquisition, Viora Group has contributed a loss of £450,000 to the loss after tax and £16,913,000 to revenues of the Group. If the acquisition had taken place at the beginning of the year, the loss after tax for the Group would have been £2,994,000 and revenue would have been £135,328,000.

The goodwill of £10,058,000 arising on the acquisition of Viora is attributable to the increased presence that this gives Sinclair in the energy based device segment of the global aesthetics market, the benefit to be obtained by selling Viora products directly through Sinclair's infrastructure and the assembled workforce. The goodwill is allocated entirely to the Viora Group CGU. None of the goodwill is expected to be deductible for tax purposes.

On 12 April 2021, the Group acquired the Cocoon Group of legal entities. On 15 March 2022, a judgement was reached by an independent expert to reduce the consideration payable on acquisition of Cocoon by £691,000 (£815,000), and payment was subsequently received from the vendor on 30 March 2022. Due to uncertainty in the outcome of this ruling it was not provided for at 31 December 2021 and has been adjusted against the goodwill balance in the year ended 31 December 2022.

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For the year ended 31 December 2022

16. Inventories

	Group	
	2022	2021
	£'000	£'000
Raw materials	10,109	5,798
Work in progress	2,301	3,831
Finished goods	14,429	9,481
	26,839	19,110

The cost of inventories as an expense includes £843,000 (2021: £735,000) in respect of write-downs of inventory to net realisable value.

17. Trade and other receivables

	Group		Company	
	2022	2021	2022	2021
	£'000	£'000	£'000	£'000
Current assets				
Trade receivables	30,402	17,479	–	–
Less loss allowance of trade receivables	(2,298)	(2,182)	–	–
Trade receivables – net of provision	28,104	15,297	–	–
Amounts due from Group undertakings	–	–	94,967	64,511
Loans due from Group undertakings	–	–	–	4,087
Amounts due from parent undertaking	4,224	1,057	–	–
Other receivables	3,451	572	4	38
Prepayments	5,028	2,196	–	–
	40,807	19,122	94,971	68,636
Non current assets				
Loans due from Group undertakings	–	–	11,957	12,640
Total	40,807	19,122	106,928	81,276

Amounts due from group undertakings are unsecured trade balances which do not accrue interest.

Loans due from group undertakings are unsecured non trade balances, which accrue interest at EURIBOR +6.5%.

The fair value of trade receivables, other receivables and accrued income is considered to be equal to their carrying value.

Expected credit loss rate

The loss allowance for the company is calculated based on historic debts, factors specific to the region, and forward looking information such as the potential impact of global economic uncertainty and rising interest rates. Specific provisions are then in place for debtors not considered recoverable and so those amounts and the provision are not included in the table below. The ageing is split based on the due date of the debtor.

		2022	
		Receivables	Loss Allowance
		£'000	£'000
0-180 days	2.5%	28,404	696
181-300 days	15.8%	365	58
301-360 days	100%	1	1
>360 days	100%	50	50
		28,820	805

		2021	
		Receivables	Loss Allowance
		£'000	£'000
0-180 days	2.2%	14,012	307
181-300 days	8.5%	440	38
301-360 days	7.6%	482	37
>360 days	49.1%	1,526	750
		16,460	1,132

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17. Trade and other receivables (continued)

Movements on the Group's loss allowance for trade receivables as at 31 December 2022 reconcile to the opening loss allowance as follows:

	Group	
	2022 £'000	2021 £'000
At 1 January	2,182	1,955
Additions acquired on business combinations	258	368
Release for receivables impairment	–	(48)
Reduction in provision for receivables	(317)	(127)
Exchange adjustments	175	34
At 31 December	2,298	2,182

The carrying amounts of trade and other receivables are denominated in the following currencies:

	Group		Company	
	2022 £'000	2021 £'000	2022 £'000	2021 £'000
GBP	2,395	1,817	91,709	64,549
EUR	21,587	11,224	15,219	16,727
USD	8,309	355	–	–
SGD	815	829	–	–
BRL	2,756	3,867	–	–
MXN	2,415	194	–	–
KRW	555	836	–	–
ILS	523	–	–	–
COP	415	–	–	–
HKD	591	–	–	–
Other	446	–	–	–
	40,807	19,122	106,928	81,276

18. Trade and other payables

	Group		Company	
	2022 £'000	2021 £'000	2022 £'000	2021 £'000
Current liabilities				
Trade payables	14,818	7,760	–	–
Other taxes and social security costs	1,973	1,964	–	–
Other payables	1,151	1,046	–	–
Accruals and deferred income	12,303	7,489	565	763
Amounts due to parent undertaking	4,808	1,769	4,808	1,769
Amounts due to Group undertakings	–	–	–	1,249
	35,053	20,028	5,373	3,781
Non-current liabilities				
Accruals and deferred income	2,574	2,574	–	–
Total	37,627	22,602	5,373	3,781

Amounts due to group undertakings are unsecured trade balances which do not accrue interest.

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19. Borrowings

	Group		Company	
	2022 £'000	2021 £'000	2022 £'000	2021 £'000
Bank loans	40,109	59,786	39,696	59,470
Deferred arrangement costs	(301)	(55)	(301)	(55)
Amounts due to Parent undertaking	24,565	18,312	24,565	18,312
Current borrowings	64,373	78,043	63,960	77,727
Bank loans	46,708	1,065	40,943	–
Deferred arrangement costs	(311)	–	(311)	–
Amounts due to Parent undertaking	15,865	11,616	15,865	11,616
Non-current borrowings	62,262	12,681	56,497	11,616
Total net borrowings	126,635	90,724	120,457	89,343

Borrowings are repayable as follows:

On demand or within one year	64,373	78,043	63,961	77,727
Over one and under two years	26,079	11,652	26,080	11,616
Over two years and under five years	34,590	185	30,416	–
Over five years	1,593	844	–	–
Total gross borrowings	126,635	90,724	120,457	89,343

On 1 April 2022, the Group renewed a three year £20.0 million revolving credit facility with HSBC UK Bank Plc. On 4 January 2021, the Group agreed an additional three year £15.0 million revolving credit facility with HSBC UK Bank Plc. Proceeds of the facility were utilised to fund working capital. This facility is due for renewal on 4 January 2024.

As these are both revolving credit facilities, the Group has flexibility over timing and amounts of drawdowns. At 31 December 2022, the Group had drawn down £35.0 million. (2021: £35.0 million), leaving £Nil still available (2021: £Nil). Interest is charged at LIBOR+1.75%. Both HSBC facilities are subject to financial covenants over the parent company Huadong Medicine Co. Ltd.

On 8 April 2021, the Group had agreed a one year €25.0 million loan with Standard Chartered Bank Plc. Proceeds of the facility were utilised to fund the acquisition of Cocoon. Interest is charged at EURIBOR+1.7%. On 25 October 2021, the Group agreed a further six month €20.0 million loan with Standard Chartered Bank Plc. Proceeds of the facility were utilised to fund working capital. Interest was charged at EURIBOR+1.8%. At 31 December, €4.0 million from this facility was drawn down.

On 13 January 2022, both existing Standard Chartered loans were re-financed with a \$55.0 million three year syndicated loan with Standard Chartered Bank Plc. The additional borrowings were used to fund the acquisition of Viora. Interest is charged at 3 month LIBOR + 1.15%.

All these bank facilities are guaranteed by Huadong Medicine Co. Ltd (note 27).

On 12 May 2022, the Cocoon group entered into a three year €5.0 million loan agreement with Banco Sabadell. Interest is charged at EURIBOR + 0.7% and subject to annual revisions. The proceeds were used to fund the new Preime license agreement.

The amounts due to parent undertaking relate to multiple loans, all of which are unsecured and bear interest of 5%. Two of these loans, totalling £24,565,000 are payable in 2023. The remaining loans of £15,865,000 are due in 2024.

Movement in net debt for the Group is analysed as follows

	At 1 January 2022 £'000	Acquired in business combination £'000	Cash flows £'000	Interest expense £'000	New leases undertaken £'000	Arrangement fees £'000	Effective interest £'000	Exchange adjustments £'000	At 31 December 2022 £'000
Cash and cash equivalents	10,893	1,330	(4,886)	–	–	–	–	–	7,337
Bank borrowings	(59,397)	–	(19,902)	–	–	893	(334)	(5,460)	(84,200)
Amounts owed to parent undertaking	(29,929)	–	(8,740)	(1,761)	–	–	–	–	(40,430)
Government loans	(1,066)	–	(471)	–	–	–	–	(56)	(1,593)
Facility export line	(332)	–	(62)	–	–	–	–	(18)	(412)
Lease liability	(1,105)	(180)	1,592	(315)	(569)	–	–	62	(3,815)
Total net debt	(84,236)	1,150	(32,469)	(2,076)	(569)	893	(334)	(5,472)	(123,113)

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19. Borrowings (continued)

Movement in net debt for the Company is analysed as follows

	At 1 January 2022 £'000	Cash flows £'000	Interest expense £'000	Arrangement fees £'000	Effective interest £'000	Exchange adjustments £'000	At 31 December 2022 £'000
Cash and cash equivalents	67	(278)	–	–	–	–	(211)
Bank borrowings	(59,414)	(15,936)	–	893	(334)	(5,236)	(80,027)
	(29,929)	(8,740)	(1,761)	–	–	–	(40,430)
Amounts owed to parent undertaking							
Total net debt	(89,276)	(24,954)	(1,761)	893	(334)	(5,236)	(120,668)

20. Other financial liabilities

Other financial liabilities consist of deferred and contingent considerations payable in respect of the acquisition of the following group undertakings:

	2022 £'000	2021 £'000
Silhouette Lift SL	507	374
Total current	507	374
Silhouette Lift SL	6,289	6,917
High Technology Products S.L.U.	32,507	29,394
Total non-current	38,796	36,311
Discount	(4,546)	(5,880)
Total other financial liabilities	34,757	30,805

Items of deferred and contingent consideration represents the Directors' estimate of the fair value of the assumed contractual minimum liabilities discounted to their net present value.

Deferred and contingent consideration is payable as follows

	2022 £'000	2021 £'000
On demand or within one year	507	374
Over one and under two years	25,520	491
Over two and under five years	9,057	31,002
Over five years	4,219	4,818
Discount	(4,546)	(5,880)
Total other financial liabilities	34,757	30,805

21. Lease liabilities

The following lease liabilities have been recognised by the group:

	2022 £'000	2021 £'000
On demand or within one year	1,530	1,400
Over one and under two years	1,145	1,086
Over two and under five years	1,620	2,072
Over five years	374	679
Discount	(854)	(832)
Total lease liabilities	3,815	4,405

The Group leases a number of properties in the jurisdictions from which it operates. The Group also has a small number of leases for vehicles and office equipment. Other items in respect of leases are disclosed in notes 2, 8, 13, and 19.

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22. Provisions

	Legal £'000
At 1 January 2022	4,542
Utilised in the period	(233)
Exchange adjustments	209
At 31 December 2022	4,518

All provisions relate to ongoing legal disputes and are expected to be utilised within the next year.

23. Deferred tax liabilities

Analysis of the Group's deferred tax assets and liabilities is as follows:

	Group	
	2022	2021
	£'000	£'000
Deferred tax liabilities:		
– Deferred tax liability to be released after more than 12 months	(19,557)	(18,866)
– Deferred tax liability to be released within 12 months	(2,365)	(1,911)
Total deferred tax liabilities	(21,922)	(20,777)

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

	Business combinations £'000	Reinvestment relief £'000	Total £'000
At 1 January 2022	17,470	3,307	20,777
Exchange differences	1,543	–	1,543
Additions arising on business combinations (note 15)	1,708	–	1,708
Change in tax rates	142	–	142
Amortisation of deferred tax liabilities	(2,002)	(246)	(2,248)
At 31 December 2022	18,861	3,061	21,922

The deferred tax liability arising on business combinations relates to the fair value adjustment to the carrying value of intangible assets recognised on historic acquisitions and the subsequent disposal, amortisation, exchange movement or impairment of balances within this category of intangible assets. On 3 February 2022, the Group acquired the Viora Group (note 15), resulting in recognition of deferred tax liability of £1,708,000.

The deferred tax liability arising on reinvestment reflects the taxable value of timing differences following the tax relief obtained through the reinvestment of the proceeds from the disposal of assets in earlier years.

Foreign exchange differences of £1,543,000 (2021: £384,000) arising on deferred tax liabilities from overseas business combinations are recognised as part of the movement in other reserves. All other movements are recognised in the income statement.

Unrecognised deferred tax assets

The Group and Company have potential deferred tax assets which have not been recognised in the financial statements due to uncertainties surrounding suitable future taxable profits. In the event that these assets are recognised in the future, changes in the rate of corporation tax in the UK would affect the potential value of these assets. The UK corporation tax rate will increase from 19% to 25% from April 2023. This potential deferred tax asset is analysed as follows:

	Group	
	2022	2021
	£'000	£'000
Tax losses	16,197	14,382
Decelerated capital allowances	352	352
Unrecognised deferred tax asset	16,549	14,734

The above asset relates to losses of £64,778,000 (2021: £59,382,000) in various jurisdictions which have been valued at the tax rate at which they are expected to unwind. The tax losses have no expiration date.

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24. Financial instruments

The Group's activities expose it to a variety of financial risks. The main financial risks faced by the Group relate to market risk, foreign exchange movements, interest rate movements, the risk of default by counterparties to financial transactions and the availability of funds to meet business needs. These risks are managed as described below. Monitoring of financial risk is part of the Board's ongoing risk assessment process.

Market risk

Market risk is the risk that changes in market prices such as foreign exchange rates or interest rates will affect the Group's net income or value of assets and liabilities.

Foreign exchange risk

The Group has transactional currency exposures as the majority of the Group's revenues, and certain expenditures, are in currencies other than the functional currency of the Group, mainly Euros and US Dollars.

The Group finances the majority of activities in the local currency, out of revenue receipts, excess currency receipts are then translated into Sterling either at the spot rate or through forward contracts. Where subsidiaries are funded centrally, this is achieved by the use of long-term loans, on which exchange translation differences are recognised in reserves where an effective hedge relationship can be established.

The Group's other financial liabilities include deferred and contingent consideration which is denominated in US Dollars and Euros. Cash reserves are held on deposit in both US Dollars and Euros to hedge against the foreign exchange risk on items of deferred and contingent consideration payable in these currencies which are expected to be settled over the next 12 months.

At 31 December 2022, if the Euro had strengthened/weakened by 5% against Sterling, with all other variables held constant, loss after tax would have been £432,000/£(362,000) lower/(higher) (2021: £309,000/£(279,000) lower/(higher)). The impact on total equity would have been £5,476,000/£(4,925,000) higher/(lower) (2021: £2,631,000/£(2,381,000) higher/(lower)).

At 31 December 2022, if the US Dollar had strengthened/weakened by 5% against Sterling, with all other variables held constant, loss after tax would have been £194,000/£(176,000) lower/(higher) (2021: £(889,000)/£804,000) (higher/(lower)). The impact on total equity would have been £2,915,000/£(2,638,000) higher/(lower) (2021: £2,335,000/£(2,113,000) higher/(lower)).

In January 2022, the Group entered into a bank loan for \$55m. Part of this was used to re-pay the existing euro loan, and the remainder was used to fund the acquisition of Viora in February 2022 (note 15). At each reporting date the loan is revalued from US Dollars into GBP. The movement arising from foreign currency differences on \$21.75m of the loan has been designated as a hedge of the net investment in Viora, which is a USD denominated acquisition. The foreign currency movement in the loan is directly matched to the net investment therefore the hedge ratio is 1. Due to the nature of the hedge relationship, the main possible source of potential ineffectiveness is future decrease in the net investment value through impairment, however, this is not currently anticipated to be a likely outcome and there is currently no hedge ineffectiveness.

The effect of this hedge on the financial statements has been to decrease net loss in the year by £1,768,000 (2021: £Nil), with a corresponding decrease in other reserves as follows:

	Group	
	2022	2021
	£'000	£'000
Carrying amount (borrowings)	17,978	–
Viora net investment	18,425	–
Change in value of hedged item recognised in statement of other comprehensive income (other reserves)	(1,768)	–

Foreign currency exposure

At 31 December 2022, the Group's operating companies have financial instrument assets of £11,419,000 (2021: £2,731,000) and financial instruments liabilities of £12,971,000 (2021: £4,411,000) denominated in US Dollars, financial instrument assets of £25,022,000 (2021: £17,991,000) and financial instrument liabilities of £44,072,000 (2021: £36,345,000) denominated in Euros.

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24. Financial instruments (continued)

Interest rate risk

The Group does not have significant interest-bearing assets and therefore the Group's income and operating cash flows are substantially independent of changes in market interest rates.

The Group's interest rate risk arises from short and long-term borrowings. At 31 December 2022, if interest rates on floating borrowing rates had been 0.5% higher/lower with all other variables held constant, loss after tax would have been £382,000 (2021: £226,000) higher/(lower).

Interest-bearing financial liabilities are made up as follows:

Financial liabilities	2022		2021	
	Fixed £'000	Floating £'000	Fixed £'000	Floating £'000
Borrowings – bank loan	–	84,200	–	59,414
Borrowings - amounts due to Parent undertaking	40,430	–	29,929	–

The effective interest rates on financial liabilities as at the balance sheet date are as follows:

	2022		2021	
	Fixed	Floating	Fixed	Floating
		LIBOR +		LIBOR +
Bank loan - HSBC	–	1.75%	–	1.75%
		3MLIBOR +		EURIBOR +
Bank loan - Standard Chartered \$55m	–	1.15%	–	1.70%
				EURIBOR +
Bank loan - Standard Chartered €20m	–	–	–	1.70%
		EURIBOR +		EURIBOR +
Bank loan - Standard Chartered €4m	–	1.80%	–	1.80%
		EURIBOR +		EURIBOR +
Bank loan - Banco Sabadel €5m	–	0.7%	–	1.80%
Amounts due to Parent undertaking	5.0%	–	5.0%	–

Loans due from group undertakings are unsecured non trade balances, which accrue interest at EURIBOR +6.5%. Trade and other receivables, trade and other payables and other non-current assets, liabilities, provisions are not interest bearing.

Credit risk

Credit risk is managed on a Group basis. The Group is exposed to credit risk through pre-wholesalers and marketing partners, such that if one or more of them is affected by financial difficulty, it could materially and adversely affect the Group's financial results. Concentration of credit risk in relation to trade receivables is analysed in note 17.

The creditworthiness of customers is assessed by reference to publicly available information, or information supplied by those customers. The Group continually assess the recovery of receivables against payment terms, and impose purchase limits where necessary.

Surplus cash deposits are invested with institutions which have a higher credit rating than A.

The Directors do not believe that the Group is exposed to significant concentrations of credit risk on other classes of financial instruments.

Price risk

The Group is not exposed to significant commodity or other market price risk. However like any trading company, the Group is exposed to the risk of unforeseen increases in the cost of goods purchased from suppliers. To mitigate this risk, the Group manages its relationships with suppliers closely such that pricing mechanism are controlled by contract, forecast demand is scheduled up to 12 months prior to delivery, and actual demand is confirmed in advance through purchase orders in accordance with pre-agreed pricing lists.

Liquidity risk

The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities as they fall due and can generate sufficient cash flows to meet covenant targets, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation. The Board reviews the forecast liquidity at every Board meeting using cash flow forecasts which are updated on a regular basis in line with the business plan. The Group and parent complied with the covenants on its borrowings throughout the period. Disclosures on maturity of the Group's financial liabilities are included in notes 19, 20 and 21.

At 31 December 2022, the net cash balance is £7,337,000 (2021: £10,893,000).

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24. Financial instruments (continued)

Capital management

The Group defines the capital that it manages as the Group's total equity. The Group and Company's objectives when managing capital are to safeguard the Group's ability to continue as a going concern; to provide an adequate return to investors based on the levels of risk undertaken; to have available the necessary financial resources to allow the Group to invest in areas that may deliver future benefits and returns to investors; and to maintain sufficient financial resources to mitigate against risks and unforeseen events together with ensuring compliance with the Group's existing banking covenants on borrowings, which were complied with fully throughout the period.

The Group believes it has sufficient ongoing cash and cash equivalents to meet its stated capital management objectives and the Directors believe that the capital management objectives have been met throughout the financial year.

Fair value estimation

The Group analyses financial instruments carried at fair value by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1).
- Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3).

The Group's financial assets and liabilities measured at fair value at 31 December 2022:

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Assets				
– Financial assets at fair value through the profit or loss	–	3,563	–	3,563
Liabilities				
– Contingent consideration from business combinations	–	–	(17,664)	(17,664)

The Group's financial assets and liabilities measured at fair value at 31 December 2021 :

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Liabilities				
Financial liabilities at fair value through the profit or loss				
– Contingent consideration from business combinations	–	–	(15,145)	(15,145)

There were no transfers between levels in the financial year.

(a) Financial instruments in Level 1

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price. At 31 December 2022 and 31 December 2021 there were no financial instruments at Level 1.

(b) Financial instruments in Level 2

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in Level 2.

Sinclair Pharma Limited

Notes to the Financial Statements

For the year ended 31 December 2022

24. Financial instruments (continued)

The financial asset within Level 2 is a dollar denominated cross currency interest rate swap forward contracts. The contract was taken out in January 2022 against the \$55m Standard Chartered loan (note 19). Payments on capital of \$33.3m of this loan, along with interest payments at LIBOR + 0.02%, have been swapped for equivalent payments on €29 million at a fixed interest rate of -0.0002% and a fixed exchange rate. The Group's contract is not traded in active markets. This contract has been fair valued using observable forward exchange rates and interest rates corresponding to the maturity of the contract. The effects of non-observable inputs are not significant for foreign currency forward contracts. Specific valuation techniques used to value financial instruments include:

- for interest rate swaps – the present value of the estimated future cash flows based on observable yield curves
- for foreign currency forwards – the present value of future cash flows based on the forward exchange rates at the balance sheet date.

	Cross currency interest rate swap £'000
Opening balance	–
On inception of financial instrument	3,212
Foreign exchange movement	351
Closing balance	3,563

(c) Financial instruments in Level 3

If one or more of the significant inputs is not based on observable market data, the instrument is included in Level 3.

The fair value of contingent consideration at 31 December 2021 related to the acquisitions of Silhouette Lift SL and Cocoon Medical. The fair value is calculated with reference to discounted future cash flows, which represent management's best estimate of the amount payable.

The following table presents the changes in Level 3 instruments for the period ended 31 December 2022:

	Contingent consideration in a business combination £'000
Opening balance	15,145
Adjustments to fair value	1,199
Foreign exchange movements	1,044
Payments	(374)
Discount unwind recognised in profit or loss	650
Closing balance	17,664

The group uses a discount rate of 11.5% for contingent consideration on the Silhouette business combination, and a rate of 3.64% on the business combination with Cocoon.

The Group's financial instruments comprise: cash and cash equivalents, leases, borrowings and various trade and other receivables and trade and other payables that arise directly from its operations.

The Group had the following financial instruments held at amortised cost at the period end:

	Assets		Liabilities	
	2022	2021	2022	2021
	£'000	£'000	£'000	£'000
Loans and receivables				
Other non-current financial assets	372	200	–	–
Cash at bank	7,337	10,893	–	–
Trade and other receivables	28,104	15,297	–	–
Financial liabilities measured at amortised cost				
Trade and other payables	–	–	29,688	17,799
Other financial liabilities	–	–	17,092	15,660
Lease liabilities	–	–	3,815	4,405
Borrowings – bank loans	–	–	84,200	59,397
Borrowings – amounts due to Parent undertaking	–	–	40,430	29,929
Government loans	–	–	1,593	1,066
Facility export line	–	–	412	332
	35,813	26,390	177,230	128,588

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For the year ended 31 December 2022

24. Financial instruments (continued)

The following table details the Group's maturity analysis of its financial liabilities.

	Less than 1 month £'000	1-3 months £'000	3 months to 1 year £'000	1-5 years £'000	Over 5 years £'000	Total £'000
Trade and other payables	8,799	8,958	9,299	684	1,948	29,688
Other financial liabilities	–	139	368	34,577	4,219	39,303
Lease liabilities	127	255	1,148	2,765	374	4,669
Borrowings – bank loans	–	–	39,696	44,504	–	84,200
Borrowings – amounts due to Parent undertaking	–	–	24,565	15,865	–	40,430
Government loans	–	–	–	–	1,593	1,593
Facility export line	–	–	412	–	–	412
	8,926	9,352	75,488	98,395	8,134	200,295

	Less than 1 month £'000	1-3 months £'000	3 months to 1 year £'000	1-5 years £'000	Over 5 years £'000	Total £'000
31 December 2021						
Trade and other payables	4,625	3,880	6,671	674	1,949	17,799
Other financial liabilities	139	–	235	31,493	4,818	36,685
Lease liabilities	106	211	1,082	3,158	679	5,236
Borrowings – bank loans	–	–	59,414	–	–	59,414
Borrowings – amounts due to Parent undertaking	–	–	18,313	11,616	–	29,929
Government grants	–	–	–	221	845	1,066
Facility export line	–	–	332	–	–	332
	4,870	4,091	86,047	47,162	8,291	150,461

In accordance with IAS the Group has reviewed all contracts for embedded derivatives that are required to be separately accounted for. There were no such derivatives at 31 December 2022 or 31 December 2021. The Directors consider that the fair value of the Group's financial instruments do not differ significantly from their book values.

Company

The Company had the following financial instruments at the period end:

	Assets		Liabilities	
	2022 £'000	2021 £'000	2022 £'000	2021 £'000
Cash at bank	–	67	211	–
Borrowings - amounts due from Group undertakings	94,967	81,276	–	–
Trade and other payables	–	–	565	2,013
Borrowings	–	–	80,027	59,414
Borrowings – amounts due to Parent undertakings	–	–	40,430	29,929
	94,967	81,343	121,233	91,356

Trade and other payables and other non-current liabilities are non-interest bearing. The Directors consider that the fair value of the Company's financial instruments do not differ significantly from their book values.

Foreign currency exposure

At 31 December 2022, the Company has financial instrument assets of £15,219,000 (2021: £11,608,000) denominated in Euros and liabilities of £Nil (2021: £24,454,000). At 31 December 2022, the Company has financial instrument liabilities of £45,013,000 (2021: £Nil) denominated in US Dollars.

25. Share capital

	2022 Number	2021 Number	2022 £'000	2021 £'000
Group and Company				
Issued and fully paid				
Ordinary shares of 1.0p	580,157,084	580,157,084	5,802	5,802
At 1 January and 31 December 2021	580,157,084	580,157,084	5,802	5,802

26. Capital commitments

The Group and Company had no material capital commitments at 31 December 2022 (2021: £Nil).

Sinclair Pharma Limited

Notes to the Financial Statements For the year ended 31 December 2022

27. Related party transactions

Group

The following transactions were carried out with related parties:

Key management compensation

The compensation paid to key management for employee services is set out in note 7.

Transactions with parent undertaking

In 2019 and 2020 the Group received licence fee payments from the parent undertaking (2021: £Nil). These have been recorded as deferred income totalling £2,575,000 at 31 December 2022 (2021: £2,575,000) and included within trade and other payables.

The £15m revolving facility in place for the group, and the Standard Chartered bank facilities have both been guaranteed by the parent undertaking. During the year the Group were charged £3,039,000 (2021: £1,769,000) in respect of this guarantee charge and at 31 December 2022, £4,808,000 (2021: £1,769,000) is included within trade and other payables.

During 2022, the Group made sales to the parent undertaking totalling £13,274,000 (2021: £3,434,000), and a year end debtor in relation to this of £4,224,000 (2021: £1,057,000) is included in trade and other receivables.

Company

The following transactions were carried out with related parties:

Transactions with parent undertaking

At 31 December 2022, the Company had loans outstanding from the parent undertaking totalling £40,430,000 (2021: £28,750,000) on which interest is charged at a fixed rate of 5% per annum.

During 2022, interest charged on these loans and included in the income statement was £1,762,000 (2021: £1,123,000). At 31 December 2022, the value of interest accrued on these loans is £2,941,000 (2021: £1,179,000) and is included within borrowings (note 19).

Transactions with subsidiaries

The Company is responsible for financing the Group, managing Group funds and setting Group strategy. Finance is then provided to operating subsidiary undertakings where necessary.

Trade receivables and trade payables due from or to Group undertakings arise from the recharge of corporate services. Details of inter-company trade receivables and payables are set out in notes 17 and 18.

Amounts owed to and due from Group undertakings are unsecured, interest bearing and have no fixed repayment dates, but are not expected to be repaid within 12 months. Details of guarantees confirmed to subsidiary companies are provided in note 2 of the financial statements.

Transactions with associate

During 2022, the group paid R&D contributions of £851,000 (2021: £857,000) to Kylane Laboratoires SA ("Kylane") which resulted in a year end creditor of £221,000 (2021: £Nil). The group also purchased £2,701,000 (2021: £2,782,000) of stock from Kylane in the period, which resulted in a year-end creditor of £863,000 (2021: £1,377,000).

During 2022 the Group accrued royalties of £772,000 (2021: £163,000) to Kylane. At 31 December 2022 this was recorded in the balance sheet of the group as an accrual of £462,000 (2021: £163,000). The royalties are due on net sales of MaiLi® at 8%.

Sinclair Pharma Limited

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28. Investments

	Shares in subsidiary undertakings £'000	Loans to Group undertakings £'000	Total £'000
Cost			
At 1 January 2021	122,566	14,103	136,339
Interest charged on loans to Group undertakings	–	692	692
Capital contribution	22,571	–	22,571
Exchange adjustments	–	(647)	(647)
At 31 December 2021	145,137	14,148	159,285
Interest charged on loans to Group undertakings	–	689	689
Exchange adjustments	–	654	654
At 31 December 2022	145,137	15,491	160,628
Accumulated impairment			
At 31 December 2022 and 31 December 2021	8,592	223	8,815
Net book value			
At 31 December 2022	136,545	15,268	151,813
At 31 December 2021	136,545	13,925	150,470

The Company's subsidiary undertakings are as set out below:

	Country of incorporation	Holding	Proportion held	Nature of business
Sinclair Pharmaceuticals Limited	England	Ordinary shares	100%	Pharmaceutical products
Sinclair Pharma France Holding SAS	France	Ordinary shares	100%	Holding company
Sinclair Pharmaceutical Espana SL	Spain	Ordinary shares	100%	Pharmaceutical products
Sinclair Pharma GmbH	Germany	Ordinary shares	100%	Pharmaceutical products
IS Pharma Limited	England	Ordinary shares	100%	Dormant
IS Pharmaceuticals Limited	England	Ordinary shares	100%	Dormant
Acorus Therapeutics Limited	England	Ordinary shares	100%	Dormant
Sinclair Life Sciences India Private Limited	India	Ordinary shares	100%	Dormant
Sinclair Pharma Holdings Limited	England	Ordinary shares	100%	Holding company
Sinclair Pharma Management Limited	England	Ordinary shares	100%	Holding company
Sinclair France SAS	France	Ordinary shares	100%	Pharmaceutical products
Sinclair Pharma Australia Pty Ltd	Australia	Ordinary shares	100%	Dormant
Sinclair Holdings BV	Netherlands	Ordinary shares	100%	Holding company
AQTIS Medical BV	Netherlands	Ordinary shares	100%	Pharmaceutical products
Sinclair Netherlands IP BV	Netherlands	Ordinary shares	100%	Pharmaceutical products
Building Health Distribuidora de Productos para a Saude Ltda	Brazil	Ordinary shares	100%	Pharmaceutical products
Sinclair Aesthetics de Mexico	Mexico	Ordinary shares	100%	Pharmaceutical products
Sinclair Korea Limited	Republic of Korea	Ordinary shares	100%	Pharmaceutical products
Silhouette Holding Iberia SL	Spain	Ordinary shares	100%	Holding company
Sinclair Pharma US Inc	USA	Ordinary shares	100%	Pharmaceutical products
Sinclair Chile SPA	Chile	Ordinary shares	100%	Pharmaceutical products
Sinclair Pharmaceuticals (Asia-Pacific) Pte Ltd	Singapore	Ordinary shares	100%	Pharmaceutical products
High Technology Products S.L.U.	Spain	Ordinary shares	100%	Pharmaceutical products
Cocoon Medical International	Bulgaria	Ordinary shares	100%	Pharmaceutical products
Cocoon Medical Hong Kong Limited	Hong Kong	Ordinary shares	100%	Pharmaceutical products
Cocoon Medical Italy S.R.L.	Italy	Ordinary shares	100%	Pharmaceutical products
Cocoon Medical USA LLC	US	Ordinary shares	100%	Pharmaceutical products
Cocoon Medical Colombia SAS	Colombia	Ordinary shares	100%	Pharmaceutical products
Viora Ltd	Israel	Ordinary shares	100%	Pharmaceutical products
Viora Inc	USA	Ordinary shares	100%	Pharmaceutical products
Viora Canada Ltd	Canada	Ordinary shares	100%	Pharmaceutical products

The investment in Sinclair Pharma Management Limited is held directly by the Company. The investments for all other subsidiaries are held indirectly through Sinclair Pharma Management Limited.

Sinclair Pharma Limited

Notes to the Financial Statements For the year ended 31 December 2022

29. Registered addresses

The registered addresses of each of the group's subsidiary companies are as follows:

Sinclair Pharmaceuticals Limited	Eden House, Lakeside, Chester Business Park, Chester, CH4 9QT, UK
Sinclair Pharma France Holding SAS	44 Rue de la Bienfaisance, 75008 Paris, France
Sinclair Pharmaceutical Espana SL	Av De Castilla, Edeficio Dublin Planta 2, San Fernando De Henares, Madrid 28830, Spain
Sinclair Pharma GmbH	Kurfursten Anlage 3, 69115 Heidelberg, Germany
IS Pharma Limited	Eden House, Lakeside, Chester Business Park, Chester, CH4 9QT, UK
IS Pharmaceuticals Limited	Eden House, Lakeside, Chester Business Park, Chester, CH4 9QT, UK
Acorus Therapeutics Limited	Eden House, Lakeside, Chester Business Park, Chester, CH4 9QT, UK
Sinclair Life Sciences India Private Limited	Topiwala Center, CTS no. 746/7, Village-Pahadi, Goregaon (W), Mumbai City, MH 400062, India
Sinclair Pharma Holdings Limited	1 st Floor, Whitfield Court, 30 - 32 Whitfield Street, London, W1T 2RQ, UK
Sinclair Pharma Management Limited	1 st Floor, Whitfield Court, 30 - 32 Whitfield Street, London, W1T 2RQ, UK
Sinclair France SAS	8 Chemin du Jubin, 69570 Dardilly, France
Sinclair Pharma Australia Pty Ltd	Mazars, Level 12, 90 Arthur Street, North Sydney NSW 2060
Sinclair Holdings BV	Prins Bernhardplein 200, 1097 JB, Amsterdam, Netherlands
AQTIS Medical BV	Yalelaan 44, 3584 CM, Utrecht, Netherlands
Sinclair Netherlands IP BV	Yalelaan 44, 3584 CM, Utrecht, Netherlands
Building Health Distribuidora de Productos para a Saude Ltda	Rua Baraldi, 894, 1 ^o Andar - Sala 1, Sao Caetano do Sul - SP, CEP 09510-005, Brazil
Sinclair Aesthetics de Mexico	Av. Insurgentes Sur 859, P2, Napoles, Benito Juarez, Mexico City, 03810
Sinclair Korea Limited	(Suseo-dong)#228, 62, Saemal-ro, Seoul, Republic of Korea
Silhouette Holding Iberia SL	Av De Castilla, Edeficio Dublin Planta 2, San Fernando De Henares, Madrid 28830, Spain
Sinclair Pharma US Inc	1 Technology Drive, STE F211, Irvine, CA 92648-5536, USA
Sinclair Chile SPA	Cerro El Plomo 5680 OF 301 PS 3 Comuna: Las Condes, Santiago De Chile, Chile
Sinclair Pharmaceuticals (Asia-Pacific) Pte Ltd	83 Clemenceau Avenue, #02-01, Singapore 239920
High Technology Products S.L.U.	C/ Gall 22 - 08950 Esplugues de Llobregat (Barcelona) - España
Cocoon Medical International	Parva Balgarska Armiya n° 18 ^a - 1220 Sofia
Cocoon Medical Hong Kong Limited	Unit 401, 29 Austin Road, TsimShaTsui HONG KONG (Hong Kong Island)
Cocoon Medical Italy S.R.L.	VIA ANTONIO GAMBACORTI PASSERINI, 2 2 - 20900 MONZA (Monza e Brianza)
Cocoon Medical USA LLC	2492 Walnut Avenue - Suite 120 - 92780 Tustin (California)
Cocoon Medical Colombia SAS	Calle 110 # 9 - 25 Oficina 612 - 110111 BOGOTA - COLOMBIA
Viora Ltd	Sagi Industrial Park 2000, Migdal HaEmek 1812003, Israel
Viora Inc	1239 Broadway, #1103, New York, NY 10001, USA
Viora Canada Ltd	126 Hampton Road, Suite 305, Rothesay, NB E2E 2N6, Canada

32. Immediate and ultimate parent undertaking

The Immediate parent undertaking is Huadong Medicine Aesthetics Investment (Hong Kong) Limited, a subsidiary of Huadong Medicine Co. Ltd. Both companies are registered in China. There is no ultimate controlling party.

These financial statements are consolidated within the financial statements of Huadong Medicine Co. Ltd which is listed on the Shenzhen Stock Exchange. Information about the company including its annual report and financial statements is available on the company's website: www.eastchinapharm.com