

Company Registration No. 02832020

**MICROGEN BIOPRODUCTS LIMITED**

**Annual Report and Financial Statements**

**31 December 2019**

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# **MICROGEN BIOPRODUCTS LIMITED**

## **ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019**

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# **MICROGEN BIOPRODUCTS LIMITED**

## **FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019**

### **OFFICERS AND PROFESSIONAL ADVISERS**

#### **DIRECTORS**

A W Dyer  
G D Mullis  
P B Sefton (resigned 24 October 2019)

#### **REGISTERED OFFICE**

Unit 1 Watchmoor Point  
Watchmoor Road  
Camberley  
GU15 3AD  
United Kingdom

#### **BANKERS**

Barclays Business Banking  
Guildford Team, PO Box 673  
Town Gate House  
Church Street East  
Woking  
BX3 2BB

#### **AUDITOR**

Constantin  
Statutory Auditor  
25 Hosier Lane  
London  
EC1A 9LQ  
United Kingdom

# **MICROGEN BIOPRODUCTS LIMITED**

## **DIRECTORS' REPORT**

The directors present their annual report and the audited financial statements for the year ended 31 December 2019.

The directors have taken the small companies exemption contained in s414B of the Companies Act 2006 from the requirement to prepare a strategic report.

The directors' report has been prepared in accordance with the provisions applicable to companies entitled to the small companies exemption. All applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements.

### **PRINCIPAL ACTIVITY**

The principal activity of the company is that of the development, manufacture and sale of clinical diagnostic kits and products for the detection of food and environmental pathogens and contaminants.

### **RESULTS AND DIVIDENDS**

The company was acquired by Novacyt UK Holdings Limited on 18 July 2019.

As shown in the company's Statement of Comprehensive Income on page 8, the company's revenue amounted to £2,620k (2018 - £2,633k), whilst the company incurred a loss before tax of £467k (2018 - £225k) for the year.

As shown in the company's Statement of Financial Position on page 8, net liabilities amounted to £23k (2018 - £444k net assets).

The directors do not recommend payment of a dividend (2018 - £nil).

### **FUTURE DEVELOPMENTS**

The company will continue to manufacture diagnostic reagents which are sold to other diagnostic companies, to be included in their own range of related products as bulk reagents or in kit format.

### **RESEARCH AND DEVELOPMENT**

The company undertook research and development in a number of product areas, including continued improvements to existing products and new research, within its principal activity.

### **FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES**

The Company's activities expose it to a number of financial risks including cash flow risk, credit risk and liquidity risk. The use of financial derivatives is governed by the Company's policies approved by the board of directors, which provide written principles on the use of financial derivatives to manage these risks. The Company does not use derivative financial instruments for speculative purposes.

#### ***Cash flow risk***

The Company's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates. The Company does not hedge against this exposure.

#### ***Credit risk***

The Company's principal financial assets are bank balances and cash and trade and other receivables.

The Company's credit risk is primarily attributable to its trade and intercompany receivables. The amounts presented in the statement of financial position are net of allowances for doubtful receivables. An allowance for impairment is made where there is an identified loss event which, based on previous experience, is evidence of a reduction in the recoverability of the cash flows.

The credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

The Company has no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers.

#### ***Liquidity risk***

In order to maintain liquidity to ensure that sufficient funds are available for ongoing operations and future developments, the Company uses intercompany finance.

# **MICROGEN BIOPRODUCTS LIMITED**

## **DIRECTORS' REPORT**

### **GOING CONCERN**

The company is financed by Novacyt SA, its parent company (together with its subsidiaries "the Group").

The directors have, at the time of approving the financial statements, a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Thus, they adopt the going concern basis of accounting in preparing the financial statements.

The going concern model covers the period up to and including May 2021. In making this assessment the Directors have considered the following elements:

- the working capital requirements of the business;
- a positive cash balance at 31 December 2019 of €1,805,000;
- the repayment of the current bond borrowings according to the agreed repayment schedules;
- the financing cash inflow relating to the exercise of warrants in Q1 2020;
- a payment of the first tranche of the LTIP that commenced in November 2017;
- increased operating cash inflow generated by the Covid-19 pandemic;

The forecast prepared by the Group shows that it is able to cover its cash needs during the financial year 2020 and until May 2021 without the raising of any further bank or other financing facility.

### **SUBSEQUENT EVENTS**

During January and February 2020 Novacyt SA's share price increased to over €2 per share, a key contributing factor being the launch of a Covid-19 diagnostic test kit by Primerdesign. This share price increase resulted in all remaining warrant holders exercising their warrants which gave rise to a net cash inflow of €2,400,000 into the business and the warrant overhang has now been removed completely.

### **DIRECTORS**

The directors who served during the year and to the date of approval of this report were as follows:

G D Mullis

A W Dyer

P B Sefton (resigned 24 October 2019)

### **DIRECTORS' QUALIFYING THIRD PARTY INDEMNITY PROVISIONS**

The company has granted an indemnity to one or more of its directors against liability in respect of proceedings brought by third parties, subject to the conditions set out in the Companies Act 2006. Such qualifying third party indemnity provision remains in force as at the date of approving the directors' report.

# **MICROGEN BIOPRODUCTS LIMITED**

## **DIRECTORS' REPORT**

### **DIRECTORS' RESPONSIBILITIES STATEMENT**

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS 101 "Reduced Disclosure Framework". Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments 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 company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

### **AUDITOR**


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

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

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

Constantin were appointed as auditor in the period and have expressed their willingness to continue in office as auditor. A resolution to reappoint them as auditor will be proposed at the forthcoming Annual General Meeting.

Approved by the Board of Directors and signed on its behalf



A W Dyer

Director

Date: 26<sup>th</sup> May 2020

# **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MICROGEN BIOPRODUCTS LIMITED**

## **Report on the audit of the financial statements**

### **Opinion**

In our opinion the financial statements of Microgen Bioproducts Limited (the 'company'):

- give a true and fair view of the state of the company's affairs as at 31 December 2019 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including FRS 101 "Reduced Disclosure Framework"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the Statement of Comprehensive Income;
- the Statement of Financial Position;
- the Statement of Changes in Equity; and
- the Related Notes 1 to 21.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

### **Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (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**

We are required by ISAs (UK) to report in respect of the following matters where:

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

## **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MICROGEN BIOPRODUCTS LIMITED (continued)**

### **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.

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

We have nothing to report in respect of these matters.

### **Responsibilities of directors**

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

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

### **Auditor's responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit for the financial statements is located on the FRC's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

### **Report on other legal and regulatory requirements**

#### **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 directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the directors' report has been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the directors' report.



## **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MICROGEN BIOPRODUCTS LIMITED (continued)**

### **Matters on which we are required to report by exception**

Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit; or
- the directors were not entitled to take advantage of the small companies exemption in preparing the Directors' Report and from the requirement to prepare a Strategic Report.

We have nothing to report in respect of these matters.

### **Use of our report**

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.



**Peter Smith (Senior Statutory Auditor)**

**For and on behalf of Constantin**

**Statutory Auditor**

25 Hosier Lane, London, EC1A 9LQ, United Kingdom

Date: 26 May 2020

# MICROGEN BIOPRODUCTS LIMITED

## STATEMENT OF COMPREHENSIVE INCOME Year ended 31 December 2019

	Note	2019 £'000	2018 £'000
<b>Continuing Operations</b>			
<b>REVENUE</b>	3	2,620	2,633
Cost of sales		(1,150)	(1,123)
<b>GROSS PROFIT</b>		1,470	1,510
Administrative expenses		(1,765)	(1,720)
Exceptional costs	5	(60)	(37)
Other operating income		-	43
<b>OPERATING LOSS</b>		(355)	(204)
Finance cost	8	(130)	(31)
Finance income	8	18	10
<b>LOSS BEFORE TAX</b>	4	(467)	(225)
Tax on loss	9	-	-
<b>TOTAL COMPREHENSIVE EXPENSE FOR THE FINANCIAL YEAR ATTRIBUTABLE TO THE COMPANY</b>		<u>(467)</u>	<u>(225)</u>

There were no other items of comprehensive income in either the current year or preceding year.

# MICROGEN BIOPRODUCTS LIMITED

## STATEMENT OF FINANCIAL POSITION As at 31 December 2019

	Note	2019 £'000	2018 £'000
<b>NON-CURRENT ASSETS</b>			
Other intangible assets	10	86	124
Property, plant and equipment	11	1,747	582
Other receivables	14	95	95
		<u>1,928</u>	<u>801</u>
<b>CURRENT ASSETS</b>			
Inventory	13	523	486
Trade and other receivables	14	1,331	858
Cash at bank and in hand		270	142
		<u>2,124</u>	<u>1,486</u>
<b>TOTAL ASSETS</b>		<u>4,052</u>	<u>2,287</u>
<b>CURRENT LIABILITIES</b>			
Trade and other payables	15	(2,648)	(1,776)
Obligations under operating leases	16	(72)	-
		<u>(2,720)</u>	<u>(1,776)</u>
<b>NON-CURRENT LIABILITIES</b>			
Obligations under operating leases	16	(1,229)	-
Provisions	17	(126)	(67)
		<u>(4,075)</u>	<u>(1,843)</u>
<b>TOTAL LIABILITIES</b>		<u>(4,075)</u>	<u>(1,843)</u>
<b>NET (LIABILITIES)/ASSETS</b>		<u>(23)</u>	<u>444</u>
<b>EQUITY</b>			
Called up share capital	18	211	211
Share premium account		77	77
Other reserves		110	110
Retained earnings		(421)	46
		<u>(23)</u>	<u>444</u>
<b>EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY</b>		<u>(23)</u>	<u>444</u>

The financial statements of Microgen Bioproducts Limited, registered number 02832020, were approved by the Board of Directors and authorised for issue on 26<sup>th</sup> May 2020.

Signed on behalf of the Board of Directors



A W Dyer

Director

# MICROGEN BIOPRODUCTS LIMITED

## STATEMENT OF CHANGES IN EQUITY As at 31 December 2019

	Called up share capital £'000	Share premium account £'000	Other reserves £'000	Retained earnings £'000	Total £'000
Balance at 1 January 2018	211	77	110	271	669
Loss for the year	-	-	-	(225)	(225)
Total comprehensive expense for the year	-	-	-	(225)	(225)
Balance at 31 December 2018	211	77	110	46	444
Loss for the year	-	-	-	(467)	(467)
Total comprehensive expense for the year	-	-	-	(467)	(467)
Balance at 31 December 2019	211	77	110	(421)	(23)

# MICROGEN BIOPRODUCTS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2019

### 1. ACCOUNTING POLICIES

The principal accounting policies are summarised below. They have all been applied consistently throughout the year and the preceding year.

#### General information and basis of accounting

Microgen Bioproducts Limited is a private company limited by shares, incorporated in the United Kingdom under the Companies Act 2006 and is registered in England and Wales. The address of the registered office is given on page 1.

The principal activity of the company and the nature of its operations are set out in the Directors' Report on page 2.

The company meets the definition of a qualifying entity under FRS 100 (Financial Reporting Standard 100) issued by the Financial Reporting Council. These financial statements were prepared in accordance with FRS 101 (Financial Reporting Standard 101) 'Reduced Disclosure Framework' as issued by the Financial Reporting Council.

The financial statements have been prepared on the historical cost basis. Historical cost is generally based on the fair value of the consideration given in exchange for the goods and services. The principal accounting policies adopted are set out below.

As permitted by FRS 101, the company has taken advantage of the disclosure exemptions available under that standard in relation to business combinations, share-based payment, non-current assets held for sale, financial instruments, capital management, presentation of comparative information in respect of certain assets, presentation of a cash-flow statement, standards not yet effective, impairment of assets and related party transactions. Where required, equivalent disclosures are given in the group accounts of Novacyt SA. The group accounts of Novacyt SA are available to the public and can be obtained as set out in note 21.

**Amendments to IFRS Standards and the new Interpretation that are mandatorily effective for the current year**

#### Impact of application of IFRS 16 Leases

IFRS 16 Leases was issued in January 2016 and is effective for an entity's financial statements for annual reporting periods beginning on or after January 1, 2019. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases. IFRS 16 introduces significant changes to lessee accounting: it removes the distinction between operating and finance leases under IAS 17 and requires a lessee to recognise a right-of-use asset and a lease liability at lease commencement for all leases, except for short-term leases and leases of low value assets.

- The right-of-use asset is initially measured at cost and subsequently measured at cost less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability.
- The lease liability is initially measured at the present value of the future lease payments discounted using the discount rate implicit in the lease (or if that rate cannot be readily determined, the lessee's incremental borrowing rate). Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others.

IFRS 16's transition provisions permit lessees to use either a full retrospective or a modified retrospective approach for leases existing at the date of initial application of the standard, with options to use certain transition reliefs.

The company has elected to apply the standard using the modified retrospective approach from 1 January 2019, utilising certain of the practical expedients provided within the Standard, and the cumulative effect of initial application will be recognised in retained earnings at 1 January 2019. Comparative figures for the year ended December 31, 2018 are not restated to reflect the adoption of IFRS 16 but instead continue to reflect the lessee's accounting policies under IAS 17 Leases.

# MICROGEN BIOPRODUCTS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS Year ended 31 December 2019

### 1. ACCOUNTING POLICIES (continued)

#### Impact of application of IFRS 16 *Leases* (continued)

The company has elected to apply for the following practical expedients allowed for entities adopting IFRS 16 using the modified retrospective approach:

- Discount rate - instead of requiring a lessee to determine the incremental borrowing rate for every single lease, IFRS 16 allows a lessee to apply a single discount rate to a portfolio of leases with reasonably similar characteristics (such as leases with a similar remaining lease term for a similar class of underlying asset in a similar economic environment).
- Initial direct costs - as a practical expedient, IFRS 16 allows a lessee to exclude initial direct costs from the measurement of the ROU asset on transition.
- Use of hindsight for lease term - a lessee is required to determine the lease term at the date of initial application, which includes purchase and renewal options reasonably expected to be exercised and excludes termination options reasonably expected to be exercised. To alleviate the burden of reconstructing a lessee's initial assessment of the lease term and subsequent changes thereafter, IFRS 16 allows a lessee to use hindsight to determine which renewal and termination options to include or exclude.
- Onerous lease determination - similar to other non-financial assets, ROU assets are subject to impairment testing under IAS 36 Impairment of Assets and a lessee is required to perform an impairment review for each of its ROU assets at date of initial application. IFRS 16 allows a lessee to use its onerous contract assessment under IAS 37 Provisions, Contingent Liabilities and Contingent Assets immediately before transition instead of performing an impairment review under IAS 36. The ROU asset is then reduced by any existing provision for related onerous leases – there were no onerous contracts within the company at 1 January 2019.
- Short-term leases - for leases with a remaining term of less than one year at the date of initial application, the lessee may choose to apply the short-term lease exemption in IFRS 16 and expense lease payments rather than recognize an ROU asset and a lease liability. When using the short-term lease exemption, a lessee is required to disclose the amount of lease payments expensed as a result of using this expedient.

On application of IFRS 16, the company recognised £239k right-of-use assets and £239k lease liabilities.

When measuring lease liabilities, the company discounted the lease payments using the group's borrowing rate at 1 January 2019. The rate applied is 7.5%.

#### Going concern

The company is financed by Novacyt SA, its parent company (together with its subsidiaries "the Group").

The directors have, at the time of approving the financial statements, a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Thus, they adopt the going concern basis of accounting in preparing the financial statements.

The going concern model covers the period up to and including May 2021. In making this assessment the Directors have considered the following elements:

- the working capital requirements of the business;
- a positive cash balance at 31 December 2019 of €1,805,000;
- the repayment of the current bond borrowings according to the agreed repayment schedules;
- the financing cash inflow relating to the exercise of warrants in Q1 2020;
- a payment of the first tranche of the LTIP that commenced in November 2017;
- increased operating cash inflow generated by the Covid-19 pandemic;

The forecast prepared by the Group shows that it is able to cover its cash needs during the financial year 2020 and until May 2021 without the raising of any further bank or other financing facility.

# MICROGEN BIOPRODUCTS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2019

### 1. ACCOUNTING POLICIES (continued)

#### *Foreign currency*

The financial statements are presented in pounds sterling, which is the currency of the primary economic environment in which the Company operates (its functional currency).

Transactions in currencies other than the functional currency are recorded at the rate of exchange at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the statement of financial position date are reported at the rates of exchange prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences are recognised in profit or loss in the period in which they arise.

#### *Revenue*

The Company recognises revenue from the sale of clinical diagnostic kits and products for the detection of food and environmental pathogens and contaminants.

Revenue is measured based on the consideration to which the Company expects to be entitled in a contract with a customer and excludes amounts collected on behalf of third parties. The Company recognises revenue when it transfers control of a product or service to a customer.

#### *Contracted research and testing services*

The company provides research and testing services to its customers in exchange for a fee which is generally dependent on the resource dedicated to the project. Revenue on such contracts is recognised when the services are rendered.

#### *Product sales*

The company recognises the revenue attributable to product sales upon shipment of the product, when there are no specific vendor obligations remaining.

The amount, if any, by which the amount invoiced exceeds recorded revenue is shown within liabilities as deferred income. The amount, if any, by which recorded revenue is in excess of amounts invoiced is shown within receivables as accrued income.

#### *Pension costs*

For defined contribution schemes the amount charged to the statement of comprehensive income in respect of pension costs and other post-retirement benefits is the contributions payable in the year. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the statement of financial position.

#### *Exceptional items*

Exceptional items are those costs or incomes that, in the view of the Board of Directors, require separate disclosure by virtue of their size or incidence, and are charged/credited in arriving at the operating profit in the historical financial information.

#### *Other operating income*

Other operating income includes any research and development tax credit where an actual cash income has been or is expected to be received.

# MICROGEN BIOPRODUCTS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS Year ended 31 December 2019

### 1. ACCOUNTING POLICIES (continued)

#### Taxation

Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the statement of financial position date. The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible.

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 statement of financial position 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 the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each statement of financial position 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 calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised based on tax laws and rates that have been enacted or substantively enacted at the statement of financial position date.

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

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

#### Current tax and deferred tax for the year

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively.

#### **Internally-generated intangible assets – research and development expenditure**

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from the company's development (or from the development phase of an internal project) is recognised if, and only if, all of the following conditions have been demonstrated:

- the technical feasibility of completing the intangible assets so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible assets; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.



# MICROGEN BIOPRODUCTS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS Year ended 31 December 2019

### 1. ACCOUNTING POLICIES (continued)

#### Internally-generated intangible assets – research and development expenditure (continued)

The amount initially recognised for internally-generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is recognised in the profit and loss in the period in which it is incurred. Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

#### Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. The amortisation period for each class of intangible asset is as follows:

Computer software	33% straight line
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#### Intellectual property

Intellectual property is measured initially at purchase cost and is amortised on a straight-line basis over its estimated useful life.

#### Property, plant and equipment

Fixtures and equipment are stated at cost less accumulated depreciation and any recognised impairment loss.

Depreciation is provided on all property, plant and equipment, other than freehold land, at rates calculated to write off the cost, less estimated residual value, of each asset on a straight-line basis over its expected useful life, as follows:

Leasehold improvements and ROU assets	Period of lease
Plant and machinery	Straight line over 3 to 6 years
Fixtures, fittings and furniture	Straight line over 3 to 6 years
Computer equipment	Straight line over 3 years
Office equipment	Straight line over 2 years

Useful lives and residual values are reviewed at the end of every reporting period.

#### Impairment of property, plant and equipment

At each statement of financial position date, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the company estimates the recoverable amount of the cash-generating unit to which the asset belongs. An intangible asset with an indefinite useful life is tested for impairment at least annually and whenever there is an indication that the asset may be impaired.

#### Inventory

Inventories are stated at the lower of cost and net realisable value. Cost is determined on a first in, first out basis. Net realisable value is based on estimated selling price. No provision is made for obsolete, slow-moving or defective inventory as every item that is not in a condition to sell or to use is written off.

# **MICROGEN BIOPRODUCTS LIMITED**

## **NOTES TO THE FINANCIAL STATEMENTS**

**Year ended 31 December 2019**

### **1. ACCOUNTING POLICIES (continued)**

#### **Financial assets**

Trade and other receivables are classified as loans and receivables, these are initially recognised at fair value. Loans and receivables are subsequently measured at amortised cost using the effective interest method, less provision for impairment. Any change in their value through impairment or reversal of impairment is recognised in profit and loss.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an expected credit loss allowance account. When a trade receivable is considered uncollectable, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account.

#### **Cash and cash equivalents**

Cash and cash equivalents comprise cash on hand and demand deposits, together with other short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

#### **Financial liabilities**

Financial liabilities are obligations to pay cash or other financial assets and are recognised when the Company becomes a party to the contractual provisions of the instrument.

Financial liabilities are recorded initially at fair value and subsequently at amortised cost using the effective interest method, with interest-related charges recognised as an expense in finance costs in the profit and loss.

A financial liability is derecognised only when the obligation is extinguished.

#### **Provisions**

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Company will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the statement of financial position date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

#### **Equity**

Equity comprises the following:

- "Share capital" represents the nominal value of equity shares
- "Share premium" represents the consideration over the nominal value received on issue of shares, net of expenses
- "Other reserves" represent a capital redemption reserve being the nominal value of shares cancelled by the company
- "Retained earnings" represents retained profits or losses.

# MICROGEN BIOPRODUCTS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2019

### 2. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Company's accounting policies, which are described in note 1, the directors are required to make judgements (other than those involving estimations) that have a significant impact on the amounts recognised and to make estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

#### Critical judgements in applying the Company's accounting policies

Other than those involving estimations (which are dealt with separately below), the directors have not made any critical judgements in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

#### Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the statement of financial position date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

#### Capitalised development costs – recoverability

During the year, management reconsidered the recoverability of its internally-generated intangible asset which is included in the statement of financial position at £82k (2018 - £120k). The directors do not consider that there are any indicators of impairment because they see future economic value in the asset and expect to see revenue streams over the coming years that cover the development costs. See note 10 for the carrying value of the development costs at the statement of financial position date.

### 3. REVENUE

All of the company's revenue, in both the current year and the prior year, was derived from the Company's principal activity.

Furthermore, all revenue was derived from the provision of services and goods and was recognised at a point in time.

An analysis of the Company's turnover by geographical market is set out below.

	2019 £'000	2018 £'000
<b>Revenue:</b>		
Geographical market Africa	18	11
Geographical market Europe	1,737	1,668
Geographical market Asia-Pacific	484	458
Geographical market America	252	343
Geographical market Middle East	129	153
	<u>2,620</u>	<u>2,633</u>

# MICROGEN BIOPRODUCTS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2019

### 4. LOSS BEFORE TAX

	2019 £'000	2018 £'000
Loss before tax is after charging (crediting):		
Depreciation of property, plant and equipment	238	113
Amortisation of other intangible fixed assets	45	38
Cost of inventories recognised as an expense	715	648
Net loss/(gain) on foreign currency translation	4	(6)
Research and development costs	1	82

The analysis of auditor's remuneration is as follows:

	2019 £'000	2018 £'000
Fees payable to the Company's auditor for the audit of the Company's annual accounts	19	19

No amounts were payable in respect of non-audit fees.

### 5. EXCEPTIONAL COSTS

	2019 £'000	2018 £'000
Restructuring	25	-
Other	35	37
	60	37

The exceptional costs in 'other' include fees incurred in refinancing the business.

# MICROGEN BIOPRODUCTS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2019

### 6. EMPLOYEE REMUNERATION

	2019 £'000	2018 £'000
The aggregate staff costs were as follows:		
Wages and salaries	870	874
Social security costs	90	86
Other pension costs	35	32
Other benefits	21	23
	<u>1,016</u>	<u>1,015</u>
	No.	No.
The average monthly number of employees during the year was as follows:		
Production	14	13
Administration	3	4
Sales and marketing	9	7
Research and development	0	2
	<u>26</u>	<u>26</u>

### 7. DIRECTORS' REMUNERATION

	2019 £'000	2018 £'000
Emoluments	70	69
Company contributions to money purchase schemes	3	4
	<u>73</u>	<u>73</u>
	No	No
Number of directors accruing retirement benefits under the money purchase pension scheme	1	1

During the year only one of the directors or key management personnel received any emoluments from the company. The other directors and key management personnel are remunerated through the parent company and details of their emoluments as directors of the group are shown in the accounts of that company.

No director received shares for qualifying services or exercised any share options in either the current or prior year.

# MICROGEN BIOPRODUCTS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2019

### 8. FINANCE COST AND FINANCE INCOME

	2019 £'000	2018 £'000
<i>Interest payable and similar charges</i>		
Intercompany interest	(23)	(31)
Operating lease interest	(107)	-
	<u>(130)</u>	<u>(31)</u>
<i>Investment income</i>		
Intercompany interest	<u>18</u>	<u>10</u>

### 9. TAX ON LOSS

	2019 £'000	2018 £'000
<b>Current taxation</b>		
United Kingdom corporation tax at the blended standard rate of 19% (2019 - 19%)	<u>-</u>	<u>-</u>

#### Factors affecting the tax charge for the year

The tax assessed on the loss for the year differs from the blended standard rate of corporation tax in the UK. The differences are explained below:

	2019 £'000	2018 £'000
Loss before taxation	<u>(467)</u>	<u>(225)</u>
Loss multiplied by the blended standard rate of corporation tax in the UK of 19% (2018 - 19%)	(89)	(43)
Effect of:		
Disallowed expenses and non-taxable income	-	(8)
Group relief	-	30
Capital allowances in excess of depreciation	9	4
R&D enhanced allowances	-	(21)
Other timing differences	(1)	-
Unrelieved tax losses	<u>81</u>	<u>38</u>
Tax charge for the year	<u>-</u>	<u>-</u>

In recent years the UK Government has steadily reduced the rate of UK corporation tax, with the latest rates substantively enacted by the balance sheet date being 20% with effect from 1 April 2015, 19% effective from 1 April 2017 and 17% effective from 1 April 2020 as enacted by the Finance Act 2019, that gained Royal Assent in February 2019. The closing deferred tax assets and liabilities have been calculated at 17%, on the basis that this is the rate at which those assets and liabilities are expected to unwind.

# MICROGEN BIOPRODUCTS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2019

### 10. INTANGIBLE FIXED ASSETS

	Computer software £'000	Development costs £'000	Intellectual Property £'000	Total £'000
<b>Cost</b>				
At 1 January 2019	36	206	4	246
Additions	-	7	-	7
At 31 December 2019	36	213	4	253
<b>Amortisation</b>				
At 1 January 2019	36	86	-	122
Charge for the year	-	45	-	45
At 31 December 2019	36	131	-	167
<b>Net book value</b>				
At 31 December 2019	-	82	4	86
At 31 December 2018	-	120	4	124

### 11. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improve- ments £'000	Plant and machinery £'000	Right-of- Use assets £'000	Computer and office equipment £'000	Total £'000
<b>Cost</b>					
At 1 January 2019	509	333	-	200	1,042
Additions	-	9	1,372	22	1,403
At 31 December 2019	509	342	1,372	222	2,445
<b>Depreciation</b>					
At 1 January 2019	47	288	-	125	460
Charge for the year	45	36	107	50	238
At 31 December 2019	92	324	107	175	698
<b>Net book value</b>					
At 31 December 2019	417	18	1,265	47	1,747
At 31 December 2018	463	45	-	74	582

# MICROGEN BIOPRODUCTS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2019

### 12. DEFERRED TAX ASSET

The amounts of deferred tax assets not provided are as follows:

	2019 £'000	Not provided 2018 £'000
Accelerated/(Decelerated) capital allowances	27	34
Other short term timing differences	-	(1)
Tax losses	(122)	(83)
	<u>(95)</u>	<u>(50)</u>

The tax losses are recoverable against future trading profits from the same trades.

No deferred tax asset has been recognised in respect of these losses as there is insufficient reliable evidence that they will be utilised.

### 13. INVENTORY

	2019 £'000	2018 £'000
Raw materials	182	164
Work in progress	83	93
Finished goods	258	229
	<u>523</u>	<u>486</u>

There is no provision against inventory. The cost of inventories recognised as an expense and included in "cost of sales" amounted to £715k (2018 - £646k).

### 14. TRADE AND OTHER RECEIVABLES

	2019 £'000	2018 £'000
<b>Current</b>		
Trade receivables: Gross & Net	326	393
Amounts due from group undertakings	904	370
VAT recoverable	18	25
Prepayments	83	70
	<u>1,331</u>	<u>858</u>
<b>Non-current</b>		
Other receivables – rent deposit	<u>95</u>	<u>95</u>



# MICROGEN BIOPRODUCTS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2019

### 14. TRADE AND OTHER RECEIVABLES (continued)

All trade and other receivables have been reviewed for impairment.

The net carrying value of trade receivables is considered a reasonable approximation of fair value.

The carrying value of trade receivables is considered a reasonable approximation of fair value. All of the receivables have been reviewed for indicators of impairment.

Under a Management Services Agreement, the companies within the Novacyt group provide services, which are recharged across the group, plus the group operates a cash pooling function across all its companies. Interest on any group undertaking balances is charged at 3% above the Bank of England base rate. Any balance is payable on demand. No security is held.

In addition, some of the unimpaired trade receivables are past due as at the reporting date. The age of financial assets past due but not impaired is as follows:

	2019 £'000	2018 £'000
Not more than 3 months	96	138
More than 3 months but not more than 6 months	-	16
More than 6 months but not more than 1 year	-	25
More than 1 year	2	1
	<u>98</u>	<u>180</u>

### 15. TRADE AND OTHER PAYABLES

	2019 £'000	2018 £'000
<b>Current</b>		
Trade payables	213	407
Amounts due to group undertakings	2,149	1,142
Bank loans and overdrafts	183	-
Social security and other taxes	23	31
Other payables	11	20
Accruals	69	176
	<u>2,648</u>	<u>1,776</u>

The carrying amount of trade and other payables is considered to approximate to fair value.

Under a Management Services Agreement, the companies within the Novacyt group provide services, which are recharged across the group, plus the group operates a cash pooling function across all its companies. Interest on any group undertaking balances is charged at 3% above the Bank of England base rate. Any balance is payable on demand. No security is held.

As at 31 December 2019 the Company's financial liabilities all have contractual maturities due within 6 months.

# **MICROGEN BIOPRODUCTS LIMITED**

## **NOTES TO THE FINANCIAL STATEMENTS**

**Year ended 31 December 2019**

### **16. OBLIGATION UNDER OPERATING LEASES**

	2019 £'000
Non-current	72
Current	1,229
	<u>1,301</u>

Maturity analysis	Buildings £'000	Equipment £'000
Within one year	65	7
Between two and five years	314	15
After five years	900	-
	<u>1,279</u>	<u>22</u>

### **17. PROVISIONS**

	Dilapidations £'000
At 1 January 2019	67
Created	59
	<u>126</u>
At 31 December 2019	<u>126</u>

The dilapidations provision relates to obligations to make good dilapidations existing at 31 December 2019. The related cash outflows for £45k, relating to the old site, are expected to be incurred within one year of the balance sheet date.

### **18. CALLED UP SHARE CAPITAL**

	2019 £'000	2018 £'000
Called up, authorised, allotted and fully paid 210,500 ordinary shares of £1 each	<u>211</u>	<u>211</u>

### **19. RELATED PARTY TRANSACTIONS**

#### **Remuneration of key management personnel**

The directors (apart from one shown under note 7) and key management personnel are remunerated through the parent company and details of their emoluments as directors of the group are shown in the accounts of that company.

## **MICROGEN BIOPRODUCTS LIMITED**

### **NOTES TO THE FINANCIAL STATEMENTS**

**Year ended 31 December 2019**

#### **20. SUBSEQUENT EVENTS**

During January and February 2020 Novacyt SA's share price increased to over €2 per share, a key contributing factor being the launch of a Covid-19 diagnostic test kit by Primerdesign. This share price increase resulted in all remaining warrant holders exercising their warrants which gave rise to a net cash inflow of €2,400,000 into the business and the warrant overhang has now been removed completely.

#### **21. ULTIMATE PARENT COMPANY**

The company is a subsidiary undertaking of Novacyt UK Holdings Limited, whose registered office is Unit 1, Watchmoor Point, Watchmoor Road, Camberley, GU13 3AD, United Kingdom.

The largest and smallest group in which the results of the company are consolidated, for the year ended 31 December 2019, was that headed by Novacyt SA. The consolidated accounts of Novacyt SA are available to the public and may be obtained from Immeuble le Nungesser, 13 Avenue Morane Saulnier, 78140, Velizy-Villacoublay, France.

The ultimate parent company and controlling party at the date of approval of these financial statements was Novacyt SA.