

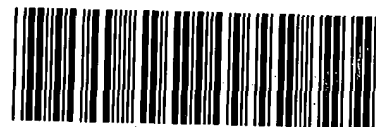
Company registration number: 03166262

MW Encap (Holdings) Limited
Annual Report and Financial Statements

31 December 2016



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MW Encap (Holdings) Limited

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MW Encap (Holdings) Limited

Directors and other information

Directors

Stephen Brown
John de Grandpre
John L Shroyer
Guido Driesen
Amit M Patel

Secretary

John de Grandpre

Corporate Secretary

Jordan Company Secretaries Limited (Appointed 8/2/17)

Company number

03166262

Registered office

Suite 1
3rd Floor
11-12 St. James's Square
London
SW1Y 4LB

Auditor

KPMG LLP
Saltire Court
20 Castle Terrace
Edinburgh
EH1 2EG

MW Encap (Holdings) Limited

Strategic report Year ended 31 December 2016

Main Business Objectives

The group focuses on its core technology of liquid filled hard capsules. The group is a world leader in the technology and has the expertise, equipment and facilities to develop liquid filled hard capsule products and manufacture under GMP conditions for clinical and commercial (licensed) pharmaceutical products. The main business objective is to grow the Development business (number and value of client projects) and to retain manufacturing contracts for products on commercialisation.

Business Model/Strategy

The business has been in operation since 1989 as a manufacturing operation. Since 2005 the strategy has been to build the Development services (values and number of client projects) and thus increase the opportunity to establish new commercial product manufacturing contracts for the group as these products progress through the development and registration process. A number of products are in the pipeline and scheduled to become commercial products over the next 2-3 years. As noted in note 29, the ultimate parent undertaking has changed to Lonza Group, a company registered in Switzerland. During the year the group acquired Xcellence Clinical Services Ltd to expand its development service markets, including capsule microdosing using the Xcelodose technology.

Financial Risk Management and Policies

The group's operations expose it to a variety of financial risks.

The group has a long history with its commercial clients and there is no history of bad debts. No single commercial client is greater than 10% of total revenues. Nevertheless, the group maintains contact with all commercial clients and monitors for any signs of change of control or instability.

The group's Development services business is split across a relatively large number of clients (>30). There are two development customers in the late stage of the development process which currently provide ~ 13% of total revenues.

Credit Risk/Cashflow Risk - Trade debtors are managed in respect of credit and cashflow risk by policies concerning the credit offered to clients and regular monitoring of amounts outstanding for both time and credit limits.

Liquidity Risk - Trade creditors' liquidity risk is managed ensuring sufficient funds are available to meet amounts due.

Financial Risk - The group has established a risk and financial management framework whose primary objectives are to protect the group from events that hinder the achievement of the group's performance objectives.

Review of the Business

As included in the Statement of Income and retained earnings, the turnover for the year under review amounted to £13,488,817 (2015: £11,099,858). This figure consists of the value of development and manufacturing services to clients. The profit before taxation amounted to £264,425 (2015: loss of £537,155).

MW Encap (Holdings) Limited

Strategic report (continued)
Year ended 31 December 2016

Environmental, Health and Safety (EHS)

Compliance with laws, regulations and other applicable EHS requirements is a top priority for the group and its parent company Capsugel SA. While compliance is a critical starting point, the group is also focused on continually enhancing all aspects of our business, including EHS. To that end the group seeks to achieve the highest standards of EHS performance, which includes three key elements:

1. Fully compliant operations
2. Zero EHS incidents
3. Environmentally sustainable operations, products and services.

The group has a written policy covering each of the above three elements and it is the group's Site Management responsibility to implement this policy and Capsugel SA EHS Management System

This report was approved by the board of directors on 26 Sept 2017 and signed on behalf of the board by:



John de Grandpre
Secretary

MW Encap (Holdings) Limited

**Directors' report
Year ended 31 December 2016**

The directors present their report and the financial statements of the company for the year ended 31 December 2016.

Directors

The directors who served the company during the year were as follows:

Stephen Brown
John de Grandpre
John L Shroyer
Guido Driesen
Amit M Patel

Dividends

The directors do not recommend the payment of a dividend.

Future developments

The group will add facilities and equipment in 2017 to expand its development service offerings to include capsule microdosing using the Xcelodose technology. The group has a pipeline of late stage client projects which are expected to progress to product submissions and approvals over the next 5 years.

Events after the end of the reporting period

Particulars of events after the reporting period are detailed in note 29 to the financial statements.

Disclosure of information in the Strategic report

The information relating to main business objectives, business model/strategy, financial risk management and policies, review of the business, environmental and health and safety policies have been included in the Strategic Report in accordance with section 414C(11) of the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013.

MW Encap (Holdings) Limited

**Directors' report (continued)
Year ended 31 December 2016**

Statement of directors' responsibilities in respect of the annual report and the financial statements

The directors are responsible for preparing the Strategic report, Directors' report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland.

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 the profit or loss of the group for that period. In preparing these financial statements, the directors are required to:

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

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the group's transactions and disclose with reasonable accuracy at any time the financial position of the group and enable them to ensure that the financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.

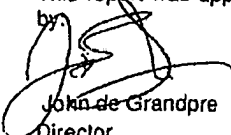
Disclosure of information to auditor

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the group's auditor is unaware; and each 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 group's auditor is aware of that information.

Auditor

Pursuant to Section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and KPMG LLP will therefore continue in office.

This report was approved by the board of directors on 26 Sept 2017 and signed on behalf of the board by


John de Grandpre

Director

Registered office

Suite 1

3rd Floor

11-12 St. James's Square

London

SW1Y 4LB

**Independent auditor's report to the members of
MW Encap (Holdings) Limited**

We have audited the financial statements of MW Encap (Holdings) Limited for the year ended 31 December 2016 set out on pages 9 to 29. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standard (UK Generally Accepted Accounting Practice), including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland.

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

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 6, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2016 and of the group's profit for the year then ended;
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and the Directors' Report for the financial year is consistent with the financial statements.

Based solely on the work required to be undertaken in the course of the audit of the financial statements and from reading the Strategic Report and the Directors' Report;

- we have not identified material misstatements in those reports; and
- In our opinion, those reports have been prepared in accordance with the Companies Act 2006.

**Independent auditor's report to the members of
MW Encap (Holdings) Limited (continued)**

Matters on which we are required to report by exception

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

- adequate accounting records have not been kept 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 the 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.



Andrew Shaw (Senior Statutory Auditor)

For and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
Saltire Court
20 Castle Terrace
Edinburgh
EH1 2EG

Date: 28 September 2017

MW Encap (Holdings) Limited

**Statement of income and retained earnings
Year ended 31 December 2016**

	Note	2016 £	2015 £
Turnover	4	13,488,817	11,099,858
Cost of sales		(4,640,028)	(4,207,467)
Gross profit		8,848,789	6,892,391
Distribution costs		(205,366)	(244,128)
Administrative expenses		(8,724,397)	(7,539,113)
Other operating income	5	346,469	357,433
Operating profit/(loss)	6	265,495	(533,417)
Other Interest receivable and similar income	9	2,994	1,565
Interest payable and similar expenses	10	(4,064)	(5,303)
Profit/(loss) on ordinary activities before taxation		264,425	(537,155)
Tax on profit/(loss) on ordinary activities	11	(107,824)	266,860
Profit/(loss) for the financial year and total comprehensive income		<u>156,601</u>	<u>(270,295)</u>
Retained earnings at the start of the year		5,324,865	5,595,160
Retained earnings at the end of the year		<u>5,481,466</u>	<u>5,324,865</u>

All the activities of the company are from continuing operations.

The notes on pages 13 to 29 form part of these financial statements.

MW Encap (Holdings) Limited

**Statement of financial position
31 December 2016**

	Note	2016		2015	
		£	£	£	£
		Group	Company	Group	Company
Fixed assets					
Intangible assets	12	1,460,454	-	739,213	-
Tangible assets	13	4,771,808	-	2,750,991	-
Fixed asset investments	14	-	1,836,047	-	814,875
		<u>6,232,262</u>	<u>1,836,047</u>	<u>3,490,204</u>	<u>814,875</u>
Current assets					
Stocks	16	733,574	-	864,315	-
Debtors	17	5,978,690	-	5,501,354	-
Cash at bank and in hand		<u>1,376,884</u>	-	<u>1,466,104</u>	-
		8,089,148	-	7,831,773	-
Creditors: amounts falling due within one year	18	(7,927,129)	(1,021,172)	(5,090,995)	-
Net current assets / (liabilities)		<u>162,019</u>	<u>(1,021,172)</u>	<u>2,740,778</u>	-
Total assets less current liabilities		<u>6,394,281</u>	<u>814,875</u>	<u>6,230,982</u>	<u>814,875</u>
Creditors: amounts falling due after more than one year	19	-	-	(22,254)	-
Provisions for liabilities	21	(97,940)	-	(68,988)	-
Net assets		<u><u>6,296,341</u></u>	<u><u>814,875</u></u>	<u><u>6,139,740</u></u>	<u><u>814,875</u></u>
Capital and reserves					
Called up share capital	25	146,615	146,615	146,615	146,615
Share premium account	26	668,260	668,260	668,260	668,260
Profit and loss account	26	5,481,466	-	5,324,865	-
Shareholders' funds		<u><u>6,296,341</u></u>	<u><u>814,875</u></u>	<u><u>6,139,740</u></u>	<u><u>814,875</u></u>

These financial statements were approved by the board of directors and authorised for issue on, and are signed on behalf of the board by:

Stephen Brown

Stephen Brown
Director

26 Sept 2017

Company registration number: 03166262

The notes on pages 13 to 29 form part of these financial statements.

MW Encap (Holdings) Limited

**Statement of changes in equity
Year ended 31 December 2016**

	Called up share capital	Share premium account	Profit and loss account	Total
	£	£	£	£
At 1 January 2015	146,615	668,260	5,595,160	6,410,035
Loss for the financial year	-	-	(270,295)	(270,295)
Total comprehensive income for the year	-	-	(270,295)	(270,295)
At 31 December 2015 and 1 January 2016	146,615	668,260	5,324,865	6,139,740
Profit for the financial year	-	-	156,601	156,601
Total comprehensive income for the year	-	-	156,601	156,601
At 31 December 2016	146,615	668,260	5,481,466	6,296,341

MW Encap (Holdings) Limited

**Statement of cash flows
Year ended 31 December 2016**

	2016 £	2015 £
Cash flows from operating activities		
Profit/(loss) for the financial year	156,601	(270,295)
<i>Adjustments for:</i>		
Depreciation of tangible assets	709,497	759,487
Amortisation of intangible assets	126,844	42,037
Other interest receivable and similar income	(2,994)	(1,565)
Interest payable and similar expenses	4,064	5,303
Tax on profit/(loss) on ordinary activities	107,824	(266,860)
<i>Changes in:</i>		
Stocks	130,741	(197,774)
Trade and other debtors	(863,191)	(3,131,776)
Trade and other creditors	(1,266,548)	1,342,717
Cash generated from operations	(897,162)	(1,718,726)
Interest paid	(4,064)	(5,303)
Interest received	2,994	1,565
Tax received/(paid)	397,347	(277,085)
Net cash used in operating activities	<u>(500,885)</u>	<u>(1,999,549)</u>
Cash flows from investing activities		
Purchase of tangible assets	(2,730,314)	(502,180)
Proceeds from sale of tangible assets	-	380,398
Purchase of intangible assets	(848,085)	-
Cash acquired on subsidiary acquisition	(30,246)	-
Net cash used in investing activities	<u>(3,608,645)</u>	<u>(121,782)</u>
Cash flows from financing activities		
Proceeds from loans from group undertakings	4,029,055	1,637,129
Payment of finance lease liabilities	(38,991)	(51,470)
Net cash from financing activities	<u>3,990,064</u>	<u>1,585,659</u>
Net decrease in cash and cash equivalents	<u>(119,466)</u>	<u>(535,672)</u>
Cash inflow on acquisition	30,246	-
Cash and cash equivalents at beginning of year	1,466,104	2,001,776
Cash and cash equivalents at end of year	<u>1,376,884</u>	<u>1,466,104</u>

MW Encap (Holdings) Limited

Notes to the financial statements Year ended 31 December 2016

1. General information

The company is a private company limited by shares, registered in England. The address of the registered office is Suite 1, 3rd Floor, 11-12 St. James's Square, London, SW1Y 4LB.

2. Statement of compliance

These financial statements have been prepared in compliance with FRS 102, 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'.

3. Accounting policies

Basis of preparation

The financial statements have been prepared on the historical cost basis.

The financial statements are prepared in sterling, which is the functional currency of the entity.

The parent company is included in the consolidated financial statements, and is considered to be a qualifying entity under FRS 102 paragraphs 1.8 to 1.12. The following exemptions available under FRS 102 in respect of certain disclosures for the parent company financial statements have been applied:

- The reconciliation of the number of shares outstanding from the beginning to the end of the period has not been included a second time;
- No separate parent company cash flow statement with related notes is included;
- Key management personnel compensation has not been included a second time; and
- The disclosures required by FRS 102.11 Basic Financial Instruments and FRS 102.12 Other Financial Instrument Issues in respect of financial instruments not falling within the fair value accounting rules of Paragraph 36 (4) of Schedule 1.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

Judgements made by the directors, in the application of these accounting policies that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 32.

Basis of consolidation

The consolidated financial statements include the financial statements of the company and its subsidiary undertakings made up to 31 December 2016. A subsidiary is an entity that is controlled by the parent. The results of subsidiary undertakings are included in the consolidated statement of income and retained earnings from the date that control commences until the date that control ceases. Control is established when the company has the power to govern the operating and financial policies of an entity so as to obtain benefits from its activities. In assessing control, the group takes into consideration potential voting rights that are currently exercisable.

Under section 408 of the Companies Act 2006 the company is exempt from the requirement to present its own statement of income and retained earnings.

In the parent financial statements, investments in subsidiaries, jointly controlled entities and associates are carried at cost less impairment.

MW Encap (Holdings) Limited

Notes to the financial statements (continued) Year ended 31 December 2016

Turnover

Turnover comprises the value of production goods and development contracts supplied by the company, net of value added tax and trade discounts. Revenue from production sales is recognised at sales invoice date when the company has delivered products to customers. Revenue from development sales is predominately based on milestone stage payments which reflect the value of work done for customers, spread over the period of the projects. The amount of profit attributable to the stage of completion of the development sales is recognised when the outcome of the milestone can be foreseen with reasonable certainty. Provision is made for any losses as soon as they are foreseen.

Taxation

The taxation expense represents the aggregate amount of current and deferred tax recognised in the reporting period. Tax is recognised in the statement of comprehensive income, except to the extent that it relates to items recognised in other comprehensive income or directly in capital and reserves. In this case, tax is recognised in other comprehensive income or directly in capital and reserves, respectively. Current tax is recognised on taxable profit for the current and past periods. Current tax is measured at the amounts of tax expected to pay or recover using the tax rates and laws that have been enacted or substantively enacted at the reporting date.

Deferred tax is recognised in respect of all timing differences at the reporting date. Unrelieved tax losses and other deferred tax assets are recognised to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits. Deferred tax is measured using the tax rates and laws that have been enacted or substantively enacted by the reporting date that are expected to apply to the reversal of the timing difference.

Foreign currencies

Foreign currency transactions are initially recorded in the functional currency, by applying the spot exchange rate as at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rate ruling at the reporting date, with any gains or losses being taken to profit or loss.

Operating leases

Lease payments are recognised as an expense over the lease term on a straight-line basis. The aggregate benefit of lease incentives is recognised as a reduction to expense over the lease term, on a straight-line basis.

Goodwill

Goodwill arises on business acquisitions and represents the excess of the cost of the acquisition over the company's interest in the net amount of the identifiable assets, liabilities and contingent liabilities of the acquired business.

Goodwill is measured at cost less accumulated amortisation and accumulated impairment losses. It is amortised on a straight line basis over its useful life. Where a reliable estimate of the useful life of goodwill or intangible assets cannot be made, the life is presumed not to exceed ten years.

Intangible assets

Intangible fixed assets are held at cost and amortised over the estimated useful life of the intangible. If there is an indication that there has been a significant change in amortisation rate, useful life or residual value of intangible assets, the amortisation is revised prospectively to reflect the new estimates.

MW Encap (Holdings) Limited

Notes to the financial statements (continued)
Year ended 31 December 2016

Amortisation

Amortisation is calculated so as to write off the cost of an asset, less its estimated residual value, over the estimated time to generate revenues as follows:

Patents, trademarks and licences - Straight line over 223 months

Research and development

Research expenditure is written off in the year in which it is incurred.

Development expenditure is also written off in the year in which it is incurred.

Tangible assets

Tangible assets are initially recorded at cost, and are subsequently stated at cost less any accumulated depreciation and impairment losses.

Depreciation

Depreciation is calculated so as to write off the cost or valuation of an asset, less its residual value, over the useful economic life of that asset as follows:

Short leasehold property	- Straight line over the length of the lease
Plant and machinery	- 10%-50% Straight line
Fittings fixtures and equipment	- 15%-30% Straight line

If there is an indication that there has been a significant change in depreciation rate, useful life or residual value of tangible assets, the depreciation is revised prospectively to reflect the new estimates.

Impairment

A review for indicators of impairment is carried out at each reporting date, with the recoverable amount being estimated where such indicators exist. Where the carrying value exceeds the recoverable amount, the asset is impaired accordingly. Prior impairments are also reviewed for possible reversal at each reporting date.

Stocks

Stocks are measured at the lower of cost and estimated selling price less costs to complete and sell. Cost includes all costs of purchase, costs of conversion and other costs incurred in bringing the stocks to their present location and condition.

Hire purchase and finance leases

Assets obtained under hire purchase contracts are capitalised as tangible assets and depreciated as above. Obligations under such agreements are included in creditors net of finance charge allocated to future periods.

Assets held under finance leases are recognised in the statement of financial position as assets and liabilities at the lower of the fair value of the assets and the present value of the minimum lease payments, which is determined at the inception of the lease term. Any initial direct costs of the lease are added to the amount recognised as an asset.

Lease payments are apportioned between the finance charges and reduction of the outstanding lease liability using the effective interest method. Finance charges are allocated to each period so as to produce a constant rate of interest on the remaining balance of the liability.

MW Encap (Holdings) Limited

Notes to the financial statements (continued) Year ended 31 December 2016

Government grants

Capital based government grants are included within accruals and deferred income in the Statement of financial position and credited to the Statement of income and retained earnings over the estimated useful economic lives of the assets to which they relate.

Provisions

Provisions are recognised when the entity has an obligation at the reporting date as a result of a past event; it is probable that the entity will be required to transfer economic benefits in settlement and the amount of the obligation can be estimated reliably. Provisions are recognised as a liability in the statement of financial position and the amount of the provision as an expense.

Provisions are initially measured at the best estimate of the amount required to settle the obligation at the reporting date and subsequently reviewed at each reporting date and adjusted to reflect the current best estimate of the amount that would be required to settle the obligation. Any adjustments to the amounts previously recognised are recognised in profit or loss unless the provision was originally recognised as part of the cost of an asset. When a provision is measured at the present value of the amount expected to be required to settle the obligation, the unwinding of the discount is recognised in finance costs in profit or loss in the period it arises.

Basic financial instruments

Trade and other debtors/creditors:

Trade and other debtors are recognised initially at transaction price less attributable transaction costs. Trade and other creditors are recognised initially at transaction price plus attributable transaction costs. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses in case of trade debtors. If the arrangement constitutes a financing transaction, for example if payment is deferred beyond normal business terms, then it is measured at the present value of future payments discounted at a market rate of instrument for a similar debt instrument.

Cash and cash equivalents:

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the company's cash management are included as a component of cash and cash equivalents for the purpose only of the cash flow statement.

Going concern

The directors have prepared cash flow forecasts for the group which cover a period of at least twelve months from the date of approval of these financial statements. The cash flow forecasts indicate that the group will generate enough cash to be able to meet its liabilities as they fall due and accordingly the directors have prepared the financial statements on the going concern basis.

Expenses

Interest receivable and interest payable:

Interest payable and similar charges include interest payable and unwinding of the discount of provisions. Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that takes a substantial time to be prepared for use, are expensed as incurred.

Other interest receivable and similar income include interest receivable on funds invested.

Interest income and interest payable are recognised in the Statement of income and retained earnings as they accrue, using the effective interest method. Dividend income is recognised in the Statement of income and retained earnings on the date the group's right to receive payments is established. Foreign currency gains and losses are reported on a net basis.

MW Encap (Holdings) Limited

Notes to the financial statements (continued)
Year ended 31 December 2016

Defined contribution plans

Contributions to defined contribution plans are recognised as an expense in the period in which the related service is provided. Prepaid contributions are recognised as an asset to the extent that the prepayment will lead to a reduction in future payments or a cash refund.

Business combinations

Business combinations relating to acquiring control of trade and assets to form one or more businesses are accounted for using the purchase method.

The cost of a business combination is measured at the aggregate of the fair values, at the acquisition date, of assets given, liabilities incurred or assumed, and equity instruments issued plus any costs directly attributable to the business combination.

4. Turnover

Turnover arises from:

	2016	2015
	£	£
Production	3,596,955	3,719,103
Development	9,891,862	7,380,755
	<u>13,488,817</u>	<u>11,099,858</u>

The turnover is attributable to the one principal activity of the company. An analysis of turnover by the geographical markets that substantially differ from each other is given below:

	2016	2015
	£	£
UK	1,000,993	2,226,512
Europe	3,932,664	3,376,634
Rest of World	8,555,160	5,496,712
	<u>13,488,817</u>	<u>11,099,858</u>

5. Other operating income

	2016	2015
	£	£
Government grant income	14,470	14,470
Other operating income	331,999	342,963
	<u>346,469</u>	<u>357,433</u>

MW Encap (Holdings) Limited

Notes to the financial statements (continued)
Year ended 31 December 2016

6. Expenses and auditor's remuneration

Operating profit/(loss) is stated after charging:

	2016	2015
	£	£
Amortisation of intangible assets	126,844	42,037
Depreciation of tangible assets	709,497	759,487
Impairment of tangible assets recognised in:		
Administrative costs	-	380,399
Cost of stocks recognised as an expense	1,395,680	1,299,837
Impairment of trade debtors	43,751	64,721
Operating lease rentals	293,945	203,539
Foreign exchange differences	76,050	48,671
Fees payable for the audit of the financial statements	22,900	18,474
	<u> </u>	<u> </u>

7. Staff costs

The average number of persons employed by the company during the year, including the directors, amounted to:

	2016	2015
Direct staff, supervisory and administration	135	108
	<u> </u>	<u> </u>

The aggregate payroll costs incurred during the year were:

	2016	2015
	£	£
Wages and salaries	5,159,519	3,979,680
Social security costs	473,567	395,751
Other pension costs	303,970	255,209
	<u>5,937,056</u>	<u>4,630,640</u>

8. Directors' remuneration

The directors' aggregate remuneration in respect of qualifying services was:

	2016	2015
	£	£
Remuneration	197,970	210,334
Company contributions to pension schemes in respect of qualifying services	22,144	20,518
	<u>220,114</u>	<u>230,852</u>

The number of directors who accrued benefits under company pension plans was as follows:

	2016	2015
Defined contribution plans	1	1
	<u> </u>	<u> </u>

MW Encap (Holdings) Limited
Notes to the financial statements (continued)
Year ended 31 December 2016

9. Other interest receivable and similar income

	2016	2015
	£	£
Bank deposits	<u>2,994</u>	<u>1,565</u>

10. Interest payable and similar expenses

	2016	2015
	£	£
Finance leases and hire purchase contracts	4,009	5,303
Other interest payable and similar expenses	55	-
	<u>4,064</u>	<u>5,303</u>

MW Encap (Holdings) Limited
Notes to the financial statements (continued)
Year ended 31 December 2016

11. Tax on profit/(loss) on ordinary activities

Major components of tax expense/(income)

	2016	2015
	£	£
Current tax:		
UK current tax expense	78,872	80,222
Adjustments in respect of previous periods	-	(267,205)
Total current tax	78,872	(186,983)
Deferred tax:		
Origination and reversal of timing differences	28,952	(79,877)
Tax on profit/(loss) on ordinary activities	<u>107,824</u>	<u>(266,860)</u>

The current tax charge/(credit) for the year is higher (2015: higher) than the standard rate of corporation tax in the UK, 20% (2015: 20.25%). The differences are explained below:

Reconciliation of tax expense/(income)

A reconciliation is given below:

	2016	2015
	£	£
Profit/(loss) on ordinary activities before taxation	<u>264,425</u>	<u>(537,155)</u>
Current tax at 20% (2015: 20.25%)	52,885	(108,752)
Adjustments in respect of prior periods	-	(267,205)
Effect of expenses not deductible for tax purposes	84,934	164,960
Effect of capital allowances and depreciation	(29,995)	(55,863)
Tax on profit/(loss) on ordinary activities	<u>107,824</u>	<u>(266,860)</u>

A reduction in the UK corporation tax rate from 21% to 20% (effective from 1 April 2015) was substantively enacted on 2 July 2013. A further reduction to 19% (effective from 1 April 2017) was substantively enacted on 26 October 2015. An additional reduction to 17% (effective from 1 April 2020) was substantively enacted on 6 September 2016. This will reduce the group's future current tax charge accordingly.

MW Encap (Holdings) Limited

Notes to the financial statements (continued)
Year ended 31 December 2016

12. Intangible assets

	Goodwill	Patents, trademarks & licences	Total
	£	£	£
Group			
Cost			
At 1 January 2016	-	781,250	781,250
Additions (see note 27)	848,085	-	848,085
At 31 December 2016	<u>848,085</u>	<u>781,250</u>	<u>1,629,335</u>
Amortisation			
At 1 January 2016	-	42,037	42,037
Charge for the year	84,808	42,036	126,844
At 31 December 2016	<u>84,808</u>	<u>84,073</u>	<u>168,881</u>
Carrying amount			
At 31 December 2016	<u>763,277</u>	<u>697,177</u>	<u>1,460,454</u>
At 31 December 2015	-	739,213	739,213

13. Tangible assets

	Short leasehold property	Plant and machinery	Fixtures, fittings and equipment	Total
	£	£	£	£
Group				
Cost				
At 1 January 2016	1,445,863	4,833,605	152,898	6,432,366
Additions	1,512,631	1,194,059	23,624	2,730,314
Disposals	-	(233,552)	-	(233,552)
At 31 December 2016	<u>2,958,494</u>	<u>5,794,112</u>	<u>176,522</u>	<u>8,929,128</u>
Depreciation				
At 1 January 2016	663,260	2,946,098	72,017	3,681,375
Charge for the year	203,730	457,263	48,504	709,497
Disposals	-	(233,552)	-	(233,552)
At 31 December 2016	<u>866,990</u>	<u>3,169,809</u>	<u>120,521</u>	<u>4,157,320</u>
Carrying amount				
At 31 December 2016	<u>2,091,504</u>	<u>2,624,303</u>	<u>56,001</u>	<u>4,771,808</u>
At 31 December 2015	782,603	1,887,507	80,881	2,750,991

All tangible fixed assets relate to the subsidiaries, MW Encap Limited and Xcellence Clinical Services Limited.

MW Encap (Holdings) Limited

Notes to the financial statements (continued)

Year ended 31 December 2016

Obligations under finance leases and hire purchase contracts

Included within the carrying value of tangible assets are the following amounts relating to assets held under finance leases or hire purchase agreements:

	Plant and machinery
	£
At 31 December 2016	-
At 31 December 2015	<u>38,366</u>

14. Fixed asset investments

	Shares in group undertakings	Loans to group undertakings	Total
	£	£	£
Company			
Cost			
At 1 January 2016	301,000	513,875	814,875
Additions (see note 27)	<u>1,021,172</u>	<u>-</u>	<u>1,021,172</u>
At 31 December 2016	<u>1,322,172</u>	<u>513,875</u>	<u>1,836,047</u>
Impairment			
At 1 January 2016 and 31 December 2016	<u>-</u>	<u>-</u>	<u>-</u>
Carrying amount			
At 31 December 2016	<u>1,322,172</u>	<u>513,875</u>	<u>1,836,047</u>
At 31 December 2015	<u>301,000</u>	<u>513,875</u>	<u>814,875</u>

On 4th January 2016 the company acquired 100% of the share capital of Xcelience Clinical Services Ltd.

MW Encap (Holdings) Limited

Notes to the financial statements (continued)
Year ended 31 December 2016

15. Investments in group undertakings

	Company number and Registered address	Class of share	Percentage of shares held
Subsidiary undertakings			
MW Encap Limited	Company number: 02886521 20-22 Bedford Row, London, England, WC1R 4JS	Ordinary	100%
Xcellence Clinical Services Ltd	Company number: 08648713 20-22 Bedford Row, London, England, WC1R 4JS	Ordinary	100%

The principal activity of MW Encap Limited is to develop liquid filled hard capsule products. The principal activity of Xcellence Clinical Services Ltd is pharmaceutical preparations.

16. Stocks

	2016	2015
Group	£	£
Raw materials	<u>733,574</u>	<u>864,315</u>

17. Debtors

	2016	2015
Group	£	£
Trade debtors	2,407,898	2,953,617
Amounts owed by group undertakings	189,303	511,077
Prepayments and accrued income	227,598	174,041
Other debtors	<u>3,153,891</u>	<u>1,862,619</u>
	<u>5,978,690</u>	<u>5,501,354</u>

MW Encap (Holdings) Limited

**Notes to the financial statements (continued)
Year ended 31 December 2016**

18. Creditors: amounts falling due within one year

	2016	2015
	£	£
Group		
Trade creditors	1,133,579	880,006
Amounts owed to group undertakings	6,079,471	2,050,416
Accruals and deferred Income	380,013	1,562,492
Corporation tax	90,364	-
Social security and other taxes	132,675	447,684
Obligations under finance leases and hire purchase contracts	18,776	35,513
Other creditors	92,251	114,884
	<u>7,927,129</u>	<u>5,090,995</u>
 Company		
Amounts due to group undertakings	<u>1,021,172</u>	<u>-</u>

19. Creditors: amounts falling due after more than one year

	2016	2015
	£	£
Group		
Obligations under finance leases and hire purchase contracts	<u>-</u>	<u>22,254</u>

20. Obligations under finance leases

Company lessee

The total future minimum lease payments under hire purchase and finance lease agreements are as follows:

	Group	Group
	2016	2015
	£	£
Not later than 1 year	18,776	35,513
Later than 1 year and not later than 5 years	-	22,254
	<u>18,776</u>	<u>57,767</u>
Present value of minimum lease payments	<u>18,776</u>	<u>57,767</u>

MW Encap (Holdings) Limited

**Notes to the financial statements (continued)
Year ended 31 December 2016**

21. Provisions

	Deferred tax (note 22)	Total
Group	£	£
At 1 January 2016	68,988	68,988
Additions	28,952	28,952
At 31 December 2016	<u>97,940</u>	<u>97,940</u>

22. Deferred tax

The deferred tax included in the statement of financial position is as follows:

	2016	2015
	£	£
Included in provisions (note 21)	<u>97,940</u>	<u>68,988</u>

The deferred tax account consists of the tax effect of timing differences in respect of:

	2016	2015
	£	£
Accelerated capital allowances	<u>97,940</u>	<u>68,988</u>

Due to the drop in the corporation tax rates as detailed in note 11 it is expected the deferred taxation liability will reduce in the next reporting period.

23. Employee benefits

Defined contribution plans

The amount recognised in profit or loss in relation to defined contribution plans was £303,970 (2015: £255,209).

24. Government grants

The amounts recognised in the financial statements for government grants are as follows:

	2016	2015
	£	£
Recognised in other operating income:		
Government grants recognised directly in income	<u>14,470</u>	<u>14,470</u>

MW Encap (Holdings) Limited

Notes to the financial statements (continued)
Year ended 31 December 2016

25. Called up share capital
Issued, called up and fully paid

	2016	2016	2015	2015
	No	£	No	£
Ordinary shares of £ 1.00 each	146,615	146,615	146,615	146,615

26. Reserves

Share premium account:

This reserve records the amount above the nominal value received for shares sold, less transaction costs.

MW Encap (Holdings) Limited

Notes to the financial statements (continued)
Year ended 31 December 2016

27. Business combinations

Acquisition of Xcellence Clinical Services Ltd

On 4th January 2016, the Group acquired all of the shares of Xcellence Clinical Services Ltd for £1,021,172. The company's principal activity was that of pharmaceutical preparations. The business contributed revenue of £1,044,387 and net profit after taxation of £299,836 to the total group revenue and net loss for the year.

The fair value of consideration paid in relation to the acquisition of Xcellence Clinical Services Ltd is as follows:

	£
Cash	1,021,172

The fair value of amounts recognised at the acquisition date in relation to Xcellence Clinical Services Ltd are as follows:

	Recognised values on acquisition £
Tangible assets acquired	41,766
Trade debtors acquired	187,192
Other debtors acquired	28,715
Cash and cash equivalents acquired	30,246
Trade and other payables assumed	(41,517)
Other creditors assumed	(73,315)
	<u>173,087</u>
Goodwill on acquisition	848,085
	<u>1,021,172</u>

The expected useful life stemming from this acquisition is ten years.

MW Encap (Holdings) Limited

Notes to the financial statements (continued)
Year ended 31 December 2016

28. Operating leases

The company as lessee

The total future minimum lease payments under non-cancellable operating leases are as follows:

	2016	2015
	£	£
Not later than 1 year	373,160	299,863
Later than 1 year and not later than 5 years	1,198,476	1,184,543
Later than 5 years	837,902	799,034
	<u>2,409,538</u>	<u>2,283,440</u>

29. Events after the end of the reporting period

Since the year end, Capsugel SA, the ultimate parent undertaking, has been acquired by Lonza Group, a company registered in Switzerland.

30. Related party transactions

Group

Identity of related parties with which the group has transacted:

As a member of the MW Encap (Holdings) Limited group, the company is exempt from the requirements of FRS 102.33 to disclose transactions with other members of the group headed by MW Encap (Holdings) Limited.

During the year the company entered into the following transactions with related parties:

	Transaction value		Balance owed by/(owed to)	
	2016	2015	2016	2015
	£	£	£	£
Capsugel Belgium NV	365,244	(294,771)	27,773	(1,464,844)
Capsugel Holdings US Inc	340,734	(529,499)	(48,598)	(47,448)
Capsugel France SAS	62,615	47,009	62,615	-
Capsugel Australia PYT Ltd	363,536	(44,462)	(43,105)	(44,462)
Bend Research	-	17,415	-	17,415
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

Company

Identity of related parties with which the company has transacted:

As a member of the MW Encap (Holdings) Limited group, the company is exempt from the requirements of FRS 102.33 to disclose transactions with other members of the group headed by MW Encap (Holdings) Limited. There were no transactions with other related parties.

MW Encap (Holdings) Limited

Notes to the financial statements (continued)
Year ended 31 December 2016

31. Controlling party

The ultimate parent undertaking is Lonza Group, a company registered in Switzerland.

The largest group in which the results of the company are consolidated is that headed by Lonza Group.

The consolidated financial statements of this group are not available to the public.

32. Accounting estimates and judgements

Key sources of uncertainty:

The company makes estimates and assumptions concerning the future. The resulting estimate will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are outlined below.

Development contracts:

Revenue and cost of sales in relation to development contracts are estimated based on the stage of completion. This estimate is reflected in the margin recognised on development contracts and in the amounts recoverable on long term contracts. Amounts recoverable on contracts are kept under constant review.

Note to the accounts of MW Encap (Holdings) Limited

MW Encap (Holdings) Limited has a 100% subsidiary, Xcelience Clinical Services Ltd., a company registered in England and Wales under company registration number 08648713. Xcelience Clinical Services Ltd. was entitled to, and has opted to take exemption from the requirement to have an audit of its financial statements for the year ended 31 December 2016 under section 479A of the Companies Act 2006 relating to subsidiary companies.

Signed by

Stephen Brown

Name : Stephen Brown
Director of MW Encap (Holdings) Limited
Date: 26 Sept 17