

MW Encap (Holdings) Limited
Annual Report and Financial Statements
31 December 2018

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MW Encap (Holdings) Limited

Contents

	Page
Directors and other information	2
Strategic report	3 - 4
Directors' report	5 - 7
Independent auditor's report to the shareholders of MW Encap (Holdings) Limited	8 - 10
Consolidated profit and loss account and other comprehensive income	11
Statement of financial position	12
Consolidated statement of changes in equity	13
Notes to the financial statements	14 - 27

MW Encap (Holdings) Limited

Directors and other information

Directors

Director	Amit M Patel	(Resigned 31 October 2017)
	Jane Fraser	(Appointed 29 January 2018)
	Christian S Dowdeswell	(Appointed 29 January 2018)
	Olivier van Hoorebeke	(Appointed 15 November 2018)

Secretary

Richard P Coop

Corporate Secretary

Vistra Company Secretaries Limited

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 2018

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). Alongside this the group works in collaboration with customers to retain the development business through all stages of clinical supply with a view to being the commercialisation partner. The site has a number of clients for whom commercial products are manufactured, and retention of this business combined with new product being commercialised offers growth opportunities.

Business Model/Strategy

The core strategy is to continue to build a strong pipeline of clinical development projects which can be expected to become commercial manufacturing opportunities if and when these projects successfully complete clinical trials. Market trends towards High Potency Actives, the need to enhance solubility of poorly soluble products in development (> 80% of pipeline show poor solubility) and the trend towards specialised dosage forms play well to the core capabilities of the Edinburgh site. The acquisition by Lonza enables the site to leverage synergies with the larger Lonza organisation and gives access to a larger, more geographical present sales team, which further supports this strategy. Whilst our business model will remain primarily fee for service, as we see new products being commercialised in the coming period, we will explore how we reduce our mid-term risk through adjustment to this business model.

Financial Risk Management and Policies

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

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 ~ 40% of total Development revenues. Loss of these customers would impact on the group's profitability.

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 - The group actively manages working capital requirements. Debt finance is designed to ensure the group has sufficient available funds for operations and planned expansions. Where debt finance is utilised, this is limited to borrowing from legacy Capsugel as defined in a written resolution approved by the directors.

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 Consolidated profit and loss account and other comprehensive income, the turnover for the year under review amounted to £12,814,512 (2017: £11,858,470). The increase in turnover versus 2017 is due to increased clinical demand from key customers. We anticipate that 2019 turnover will remain above 2017 levels, increasing in 2020 due to delays in regulatory approvals. The loss before taxation amounted to £1,235,355 (2017: £5,568,356), on account of the increase in turnover and the one-off management equity plan buy out in 2017, detailed in the notes to the accounts.

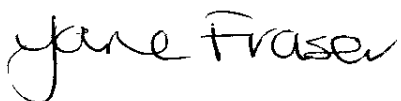
Environmental, Health and Safety (EHS)

Compliance with laws, regulations and other applicable EHS requirements is a top priority for the group and its parent company Lonza. 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 Lonza EHS Management System

This report was approved by the board of directors on 16 December 2019 and signed on behalf of the board by:



Jane Fraser
Director

MW Encap (Holdings) Limited

Directors' report Year ended 31 December 2018

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

Directors

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

John de Grandpre	(Resigned 29 January 2018)
Guido Driesen	(Resigned 31 August 2018)
Jane Fraser	(Appointed 29 January 2018)
Christian S Dowdeswell	(Appointed 29 January 2018)
Olivier van Hoorebeke	(Appointed 15 November 2018)

Dividends

The directors do not recommend the payment of a dividend.

Future developments

There is a pipeline of current products that we should expect to see commercialised, as our customers proceed through clinical trials and regulatory approval. Whilst there is of course attrition, there is sufficient breadth in the pipeline to make this a reasonable expectation. We will partner with our customers to ensure that they are able to meet their long term needs commercially, but in most cases would expect to be able to launch these products without further investment in capability. During 2019 the group became fully operational in Serialisation, which is a key requirement of the industry and we should expect to see additional revenue generated to reflect investment in this area.

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 2018

Statement of directors' responsibilities in respect of the strategic report, the directors' 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 they have elected to prepare the group and parent company 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 parent company and of their profit or loss for that period. In preparing each of the group and parent company financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the group and parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and 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.

MW Encap (Holdings) Limited

Directors' report (continued)
Year ended 31 December 2018

This report was approved by the board of directors on 16 December 2019 and signed on behalf of the board by:

A handwritten signature in black ink that reads "Jane Fraser". The signature is written in a cursive, flowing style.

Jane Fraser
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**

Opinion

We have audited the financial statements of MW Encap (Holdings) Limited ("the company") for the year ended 31 December 2018 which comprise the Group profit and loss and other comprehensive income, Group statement of financial position, Company statement of financial position, Group statement of changes in equity, and related notes, including the accounting policies in note 3.

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 2018 and of the group's loss for the year then ended;*
- have been properly prepared in accordance with UK accounting standards, including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the group in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

The impact of uncertainties due to the UK exiting the European Union on our audit

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

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

Going concern

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

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the financial statements. In our evaluation of the directors' conclusions, we considered the inherent risks to the group's business model, including the impact of Brexit, and analysed how those risks might affect the group and company's financial resources or ability to continue operations over the going concern period. We have nothing to report in these respects.

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

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

Strategic report and directors' report

The directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Matters on which we are required to report by exception

Under the Companies Act 2006, we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit

We have nothing to report in these respects.

Directors' responsibilities

As explained more fully in their statement set out on page 6, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the group and parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities


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

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

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

The purpose of our audit work and to whom we owe our responsibilities

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



Andrew Shaw (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants

KPMG LLP
Saltire Court
20 Castle Terrace
Edinburgh
EH1 2EG

18 December 2019

MW Encap (Holdings) Limited

Consolidated profit and loss account and other comprehensive income
Year ended 31 December 2018

	Note	2018 £	2017 £
Turnover	4	12,814,512	11,858,470
Cost of sales		(4,650,711)	(4,534,119)
Gross profit		8,163,801	7,324,351
Distribution costs		(237,250)	(241,032)
Administrative expenses		(9,233,512)	(13,011,997)
Other operating income	5	483,800	365,948
Operating loss	6	(823,161)	(5,562,730)
Other interest receivable and similar income	9	1,739	1,097
Interest payable and similar expenses	10	(413,933)	(6,723)
Loss on ordinary activities before taxation		(1,235,355)	(5,568,356)
Tax on loss on ordinary activities	11	780,135	(96,488)
Loss for the financial year and total comprehensive income		(455,220)	(5,664,844)
Retained earnings at the start of the year		(183,379)	5,481,465
Retained earnings at the end of the year		(638,599)	(183,379)

All the activities of the group are from continuing operations.

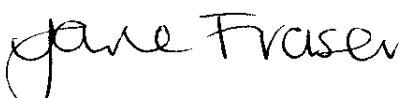
The notes on pages 14 to 27 form part of these financial statements.

MW Encap (Holdings) Limited

**Statement of financial position
31 December 2018**

	Note	2018		2017	
		£	£	£	£
		Group	Company	Group	Company
Fixed assets					
Intangible assets	12	1,206,766	-	1,333,610	-
Tangible assets	13	6,994,090	-	6,554,642	-
Fixed asset investments	14	-	1,836,047	-	1,836,047
		<u>8,200,856</u>	<u>1,836,047</u>	<u>7,888,252</u>	<u>1,836,047</u>
Current assets					
Stocks	16	244,188	-	857,637	-
Debtors	17	4,919,530	23,500	3,689,426	-
Cash at bank and in hand		1,134,761	-	1,281,386	-
		<u>6,298,479</u>	<u>23,500</u>	<u>5,828,449</u>	<u>-</u>
Creditors: amounts falling due within one year	18	(14,318,078)	(147,942)	(13,083,408)	(571,172)
Net current liabilities		<u>(8,019,599)</u>	<u>(124,442)</u>	<u>(7,254,959)</u>	<u>(571,172)</u>
Total assets less current liabilities		<u>181,257</u>	<u>1,711,605</u>	<u>633,293</u>	<u>1,264,875</u>
Provisions for liabilities	19	(4,981)	-	(1,797)	-
Net assets		<u>176,276</u>	<u>1,711,605</u>	<u>631,496</u>	<u>1,264,875</u>
Capital and reserves					
Called up share capital	23	146,615	146,615	146,615	146,615
Share premium account	24	668,260	668,260	668,260	668,260
Profit and loss account	24	(638,599)	896,730	(183,379)	450,000
Shareholders' funds		<u>176,276</u>	<u>1,711,605</u>	<u>631,496</u>	<u>1,264,875</u>

These financial statements were approved by the board of directors and authorised for issue on 16 December 2019, and are signed on behalf of the board by:



Jane Fraser
Director

Company registration number: 03166262

The notes on pages 14 to 27 form part of these financial statements.

MW Encap (Holdings) Limited

**Consolidated statement of changes in equity
Year ended 31 December 2018**

	Called up share capital	Share premium account	Profit and loss account	Total
	£	£	£	£
At 1 January 2017	146,615	668,260	5,481,465	6,296,340
Loss for the financial year	-	-	(5,664,844)	(5,664,844)
Total comprehensive income for the year	-	-	(5,664,844)	(5,664,844)
At 31 December 2017 and 1 January 2018	146,615	668,260	(183,379)	631,496
Loss for the financial year	-	-	(455,220)	(455,220)
Total comprehensive income for the year	-	-	(455,220)	(455,220)
At 31 December 2018	146,615	668,260	(638,599)	176,276

MW Encap (Holdings) Limited

Notes to the financial statements Year ended 31 December 2018

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 have been prepared on the historical cost basis.

The financial statements have been 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 1.8-1.12. 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 28.

Basis of consolidation

The consolidated financial statements include the financial statements of the company and its subsidiary undertakings made up to 31 December 2018. 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 2018

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 five 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 2018

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 2018

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.

Going concern

Notwithstanding net current liabilities of £8,019,599 as at 31 December 2018 and a loss for the year then ended of £455,220, the financial statements have been prepared on a going concern basis which the directors consider to be appropriate for the following reasons.

The directors have prepared cash flow forecasts for a period of 13 months from the date of approval of these financial statements which indicate that, taking account of reasonably possible downsides, the group will have sufficient funds, to meet its liabilities as they fall due for that period.

Those forecasts are dependent on the group's immediate parent company, Capsugel Belgium NV not seeking repayment of the amounts currently due to the group, which at 31 December 2018 amounted to £11,842,951. Capsugel Belgium NV has indicated that it does not intend to seek repayment of these amounts for the period covered by the forecasts. As with any company placing reliance on other group entities for financial support, the directors acknowledge that there can be no certainty that this support will continue although, at the date of approval of these financial statements, they have no reason to believe that it will not do so.

MW Encap (Holdings) Limited

Notes to the financial statements (continued) Year ended 31 December 2018

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.

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.

4. Turnover

Turnover arises from:

	2018	2017
	£	£
Production	2,883,232	2,671,197
Development	9,931,280	9,187,273
	<u>12,814,512</u>	<u>11,858,470</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:

	2018	2017
	£	£
UK	1,733,619	1,550,811
Europe	2,433,776	2,415,717
Rest of World	8,647,117	7,891,942
	<u>12,814,512</u>	<u>11,858,470</u>

5. Other operating income

	2018	2017
	£	£
Government grant income	14,533	14,470
Other operating income	469,267	351,478
	<u>483,800</u>	<u>365,948</u>

MW Encap (Holdings) Limited

Notes to the financial statements (continued)
Year ended 31 December 2018

6. Operating loss

Operating loss is stated after charging/(crediting):

	2018	2017
	£	£
Amortisation of intangible assets	126,844	126,844
Depreciation of tangible assets	1,148,063	920,207
Loss on disposal of tangible assets	7,990	4,411
Cost of stocks recognised as an expense	1,732,031	1,552,319
Impairment of trade debtors	(56,596)	98,538
Operating lease rentals	356,724	354,265
Foreign exchange differences	174,204	72,641
Fees payable for the audit of the financial statements	18,000	7,000
Group Management Equity Plan buy out	-	2,292,294
	<u> </u>	<u> </u>

7. Staff costs

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

	2018	2017
Direct staff, supervisory and administration	<u>136</u>	<u>135</u>

The aggregate payroll costs incurred during the year were:

	2018	2017
	£	£
Wages and salaries	4,990,587	8,967,453
Social security costs	508,519	537,239
Other pension costs	324,585	324,009
	<u>5,823,691</u>	<u>9,828,701</u>

MW Encap (Holdings) Limited

Notes to the financial statements (continued)
Year ended 31 December 2018

8. Directors' remuneration

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

	2018	2017
	£	£
Remuneration	143,349	175,320
Group Management Equity Plan buy out	-	1,557,044
Company contributions to pension schemes in respect of qualifying services	11,600	21,713
Termination settlement	-	152,500
	<u>154,949</u>	<u>1,906,577</u>

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

	2018	2017
Defined contribution plans	<u>1</u>	<u>1</u>

All amounts above are attributable to the highest paid director.

9. Other interest receivable and similar income

	2018	2017
	£	£
Bank deposits	1,739	149
Other interest receivable and similar income	-	948
	<u>1,739</u>	<u>1,097</u>

10. Interest payable and similar expenses

	2018	2017
	£	£
Finance leases and hire purchase contracts	-	5,728
Other interest on other loans made to the company	413,933	-
Other interest payable and similar expenses	-	995
	<u>413,933</u>	<u>6,723</u>

MW Encap (Holdings) Limited

Notes to the financial statements (continued)
Year ended 31 December 2018

11. Tax on loss

Major components of tax income/expense

	2018	2017
	£	£
Current tax:		
UK current tax income/expense	(37,959)	217,183
Adjustments in respect of previous periods	(745,360)	(24,552)
	<u> </u>	<u> </u>
Deferred tax:		
Origination and reversal of timing differences	3,184	(96,143)
	<u> </u>	<u> </u>
Tax on loss	<u>(780,135)</u>	<u>96,488</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.

Reconciliation of tax income/expense

The tax assessed on the loss for the year is lower than (2017: higher than) the standard rate of corporation tax in the UK of 19.00% (2017: 19.25%).

	2018	2017
	£	£
Loss before taxation	(1,235,355)	(5,568,356)
	<u> </u>	<u> </u>
Loss multiplied by rate of tax	(234,717)	(1,071,948)
Adjustments in respect of prior periods	(745,360)	(24,552)
Effect of expenses not deductible for tax purposes	84,042	280,193
Effect of capital allowances and depreciation	28,626	(203,126)
Utilisation of tax losses	-	1,115,921
Income not taxable	(10,755)	-
Effects of other tax rates	77,090	-
Deferred tax not recognised	20,939	-
	<u> </u>	<u> </u>
Tax on loss	<u>(780,135)</u>	<u>96,488</u>

A deferred tax asset of £347,519 (2017: £251,694) is not recognised as its recoverability is not certain.

MW Encap (Holdings) Limited

Notes to the financial statements (continued)
Year ended 31 December 2018

12. Intangible assets

	Goodwill	Patents, trademarks & licences	Total
	£	£	£
Group			
Cost			
At 1 January 2018 and 31 December 2018	848,085	781,250	1,629,335
Amortisation			
At 1 January 2018	169,616	126,109	295,725
Charge for the year	84,808	42,036	126,844
At 31 December 2018	254,424	168,145	422,569
Carrying amount			
At 31 December 2018	593,661	613,105	1,206,766
At 31 December 2017	678,469	655,141	1,333,610

13. Tangible assets

	Short leasehold property £	Plant and machinery £	Fixtures, fittings and equipment £	Total £
Group				
Cost				
At 1 January 2018	3,676,413	7,687,391	248,832	11,612,636
Additions	395,080	856,032	344,389	1,595,501
Disposals	-	(45,259)	(23,212)	(68,471)
At 31 December 2018	4,071,493	8,498,164	570,009	13,139,666
Depreciation				
At 1 January 2018	1,245,589	3,659,082	153,323	5,057,994
Charge for the year	478,099	604,650	65,314	1,148,063
Disposals	-	(37,269)	(23,212)	(60,481)
At 31 December 2018	1,723,688	4,226,463	195,425	6,145,576
Carrying amount				
At 31 December 2018	2,347,805	4,271,701	374,584	6,994,090
At 31 December 2017	2,430,824	4,028,309	95,509	6,554,642

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

MW Encap (Holdings) Limited

Notes to the financial statements (continued)
Year ended 31 December 2018

14. Fixed asset investments

	Shares in group undertakings	Loans to group undertakings	Total
	£	£	£
Cost			
At 1 January 2018 and 31 December 2018	1,322,172	513,875	1,836,047
Impairment			
At 1 January 2018 and 31 December 2018	-	-	-
Carrying amount			
At 31 December 2018	1,322,172	513,875	1,836,047
At 31 December 2017	1,322,172	513,875	1,836,047

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 Suite 1, 3rd Floor, 11-12 St. James's Square, London, SW1Y 4LB	Ordinary	100%
Xcelience Clinical Services Ltd	Company number: 08648713 Suite 1, 3rd Floor, 11-12 St. James's Square, London, SW1Y 4LB	Ordinary	100%

16. Stocks

	2018	2017
Group	£	£
Raw materials	244,188	857,637

MW Encap (Holdings) Limited

Notes to the financial statements (continued)
Year ended 31 December 2018

17. Debtors

	2018	2017
Group	£	£
Trade debtors	2,502,762	1,786,083
Amounts owed by group undertakings	927,085	115,431
Prepayments and accrued income	87,271	276,868
Other debtors	1,402,412	1,511,044
	<u>4,919,530</u>	<u>3,689,426</u>
Company		
Other debtors	<u>23,500</u>	<u>-</u>

18. Creditors: amounts falling due within one year

	2018	2017
Group	£	£
Trade creditors	1,170,097	927,756
Amounts owed to group undertakings	12,330,019	11,151,445
Accruals and deferred income	535,797	578,449
Corporation tax	101,604	217,183
Social security and other taxes	130,799	137,793
Other creditors	49,762	70,782
	<u>14,318,078</u>	<u>13,083,408</u>
Company		
Amounts due to group undertakings	<u>147,942</u>	<u>571,172</u>

19. Provisions

	Deferred tax (note 20)	Total
Group	£	£
At 1 January 2018	1,797	1,797
Additions	3,184	3,184
At 31 December 2018	<u>4,981</u>	<u>4,981</u>

MW Encap (Holdings) Limited

Notes to the financial statements (continued) Year ended 31 December 2018

20. Deferred tax

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

	2018	2017
	£	£
Included in provisions (note 19)	4,981	1,797

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

	2018	2017
	£	£
Accelerated capital allowances	4,981	1,797

21. Employee benefits

Defined contribution plans

The amount recognised in profit or loss in relation to defined contribution plans was £324,585 (2017: £324,009).

22. Government grants

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

	2018	2017
	£	£
Recognised in other operating income:		
Government grants recognised directly in income	14,533	14,470

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

	2018 No	2018 £	2017 No	2017 £
Ordinary shares of £ 1.00 each	146,615	146,615	146,615	146,615

24. 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 2018

25. Operating leases

The group as lessee

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

	2018 £	2017 £
Not later than 1 year	377,773	377,273
Later than 1 year and not later than 5 years	1,400,224	1,419,294
Later than 5 years	762,175	1,066,519
	<u>2,540,172</u>	<u>2,863,086</u>

26. 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)	
	2018 £	2017 £	2018 £	2017 £
Capsugel Belgium NV	1,373,331	5,784,230	(11,842,951)	(9,994,373)
Capsugel Holdings US Inc	643,163	105,684	(342,375)	(995,624)
Capsugel US LLC	-	-	(3,410)	-
Capsugel Australia PYT Ltd	197,148	423,597	(90,739)	(46,017)
Lonza Biologics plc	-	-	876,541	-
	<u>-</u>	<u>-</u>	<u>876,541</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 2018

27. Controlling party

At 31 December 2018 the company is a subsidiary undertaking of Lonza Group, which is the ultimate parent company incorporated in Switzerland and registered at Muenchensteinerstrasse 38, CH-4002, Basel, Switzerland. The group headed by Lonza Group is also the largest group in which the results of the company are consolidated.

The consolidated financial statements of the group are available to the public and may be obtained from the group's website at www.lonza.com.

28. 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.

29. Subsidiary audit exemption

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 2018 under section 479A of the Companies Act 2006 relating to subsidiary companies.