
XENETIC BIOSCIENCES (UK) LIMITED

**ANNUAL REPORT
FOR THE YEAR ENDED
31 DECEMBER 2018**



XENETIC BIOSCIENCES (UK) LIMITED

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XENETIC BIOSCIENCES (UK) LIMITED

COMPANY INFORMATION

Directors	C. W. Hill J. Parslow
Company secretary	C. W. Hill
Registered number	03213174
Registered office	5 th Floor 15 Whitehall London SW1A 2DD
Independent auditors	F. W. Smith, Riches & Co. Chartered Accountants & Statutory Auditors 15 Whitehall London SW1A 2DD
Bankers	Bank of Scotland 33 Old Broad Street London EC2N 1HW
Solicitors	Pinsent Masons LLP 30 Crown Place London EC2A 4ES

XENETIC BIOSCIENCES (UK) LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2018

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

Principal activities

The Company is part of the larger, US quoted, Xenetic Biosciences Group of Companies ("the Group"). The Company's Ultimate Holding Company is Xenetic Biosciences, Inc. (NASDAQ:XBIO). For further details please refer to the Group's website: www.xeneticbio.com.

The Company's principal activity is that of an intermediate holding company.

Results

The loss for the year, after taxation, amounted to \$4,666,185 (2017: \$28,649).

Directors

The directors who served during the year were:

M. S. Maguire (resigned 31 October 2018)

C. W. Hill

J. Parslow (appointed 16 February 2018)

Third party indemnity provisions

The Company has provided qualifying third party indemnity provisions for the benefit of directors during the year and which remain in force to the date of this report.

Going concern

The Company depends for funding upon its US-listed parent company, Xenetic Biosciences Inc (XBIO). The directors have received a letter of comfort from XBIO confirming XBIO's intention to provide such level of financial support to the Company for a period of at least 12 months from the date of this Report such that the Company will be able to meet its obligations as they fall due.

Since its inception, the business of the Group has incurred, and continues to incur, significant losses from operations. The business has historically relied upon the proceeds of public and non-public financing activities by its parent company to support the working capital requirements necessary to pursue the on-going research, development and commercialisation of its intellectual property and know-how performed by its subsidiaries, including the Company.

On 7 March 2019, XBIO closed on a \$3.1 million registered direct common stock offering resulting in approximately \$2.7 million of net proceeds to the Group. On 19 July 2019, XBIO completed an offering resulting in approximately \$13.4 million of net proceeds to the Group.

Until the Group achieves commercialisation of its technology or receives significant revenue and cash flows from its current collaborations or from planned out-licensing of its technology, the Group anticipates it may need additional capital in the long-term to pursue its business initiatives and continue as a going concern.

The XBIO Group (the "Group") has produced a forecast for the period of 12 months from the date of this Report which indicates that the Group – and therefore the Company – is expected to have adequate working capital for the 12 months from the date of this Report to support its currently planned activities.

XENETIC BIOSCIENCES (UK) LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2018

Going concern (continued)

Accordingly, the financial statements have been prepared on a going concern basis and do not include any adjustments related to the recoverability or classification of asset-carrying amounts or the amounts and classification of liabilities that may result should the Company be unable to continue as a going concern.

Directors' responsibilities statement

The directors are responsible for preparing the 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 International Financial Reporting Standards ("IFRSs") as adopted by the European Union. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies in accordance with IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors' and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements;
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable the users to understand the impact of particular transactions, other events and conditions on the financial position and performance;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

XENETIC BIOSCIENCES (UK) LIMITED

**DIRECTORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2018**

Disclosure of information to auditors

Each of the persons who are directors at the time when this Directors' Report is approved has confirmed that:

- so far as that director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- that director has taken all the steps that ought to have been taken as a director in order to be aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

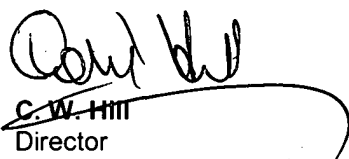
Small company provisions

This Report has been prepared in accordance with the special provisions for small companies under Part 15 of the Companies Act 2006.

Auditors

In accordance with section 487(2) of the Companies Act 2006, Messrs. F. W. Smith, Riches & Co. will be deemed to have been reappointed as auditors for the forthcoming financial year.

This report was approved by the board on 30 September 2019 and signed on its behalf by:


C. W. Hill
Director

XENETIC BIOSCIENCES (UK) LIMITED

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF XENETIC BIOSCIENCES (UK) LIMITED

Opinion

We have audited the financial statements of Xenetic Biosciences (UK) Limited (the 'Company') for the year ended 31 December 2018, which comprise the Statement of Comprehensive Income, the Balance Sheet, the Statement of Cash Flows, the Statement of Changes in Equity and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards ("IFRSs") as adopted by the European Union.

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2018 and of its loss for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

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

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

Other information

The other information comprises the information included in the Annual Report other than the financial statements and our Auditors' Report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

XENETIC BIOSCIENCES (UK) LIMITED

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF XENETIC BIOSCIENCES (UK) LIMITED

Opinion on other matters prescribed by the Companies Act 2006

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

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

Matters on which we are required to report by exception

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

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

Responsibilities of directors

As explained more fully in the Directors' Responsibilities Statement set out on page 3, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditors' responsibilities for the audit of the financial statements

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

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

XENETIC BIOSCIENCES (UK) LIMITED

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF XENETIC BIOSCIENCES (UK) LIMITED

Use of our report

This report is made solely to the Company's members 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 Auditors' 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 for our audit work, for this report, or for the opinions we have formed.



Martin J. Rooney (Senior Statutory Auditor)
for and on behalf of **F. W. Smith, Riches & Co.**
Chartered Accountants & Statutory Auditors
London

30th September, 2019.

XENETIC BIOSCIENCES (UK) LIMITED

**STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2018**

	Note	2018 \$	2017 \$
Administrative expenses		(4,666,185)	(28,649)
Operating loss	3	(4,666,185)	(28,649)
Income tax expense	6	-	-
Loss for the year		(4,666,185)	(28,649)
Other comprehensive income		-	-
Total comprehensive loss for the year attributable to equity holder of the Company		(4,666,185)	(28,649)

XENETIC BIOSCIENCES (UK) LIMITED
REGISTERED NUMBER: 03213174

BALANCE SHEET
AS AT 31 DECEMBER 2018

	Note	2018 \$	2017 \$
Non-current assets			
Intangible assets	7	-	1,019,836
Investments	8	18,865,509	22,507,772
		<u>18,865,509</u>	<u>23,527,608</u>
Current assets			
Trade and other receivables	9	1,095	8,874
Cash and cash equivalents	10	1,773	12,431
		<u>2,868</u>	<u>21,305</u>
Current liabilities			
Trade and other payables	11	(107,878)	(122,229)
Net current liabilities		<u>(105,010)</u>	<u>(100,924)</u>
Net assets		<u>18,760,499</u>	<u>23,426,684</u>
Equity attributable to the Company's equity holder			
Share capital	12	-	-
Share premium account	13	69,761,933	69,761,933
Capital redemption reserve	13	5,505,802	5,505,802
Accumulated deficit	13	(56,507,236)	(51,841,051)
Total equity attributable to the Company's equity holder		<u>18,760,499</u>	<u>23,426,684</u>

The financial statements on pages 8 to 25 were approved and authorised for issue by the Board on 30 September 2019 and were signed on its behalf by:



C. W. Hill
Director

XENETIC BIOSCIENCES (UK) LIMITED

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2018**

	2018 \$	2017 \$
Cash flows from operating activities		
Loss before income tax for the year	(4,666,185)	(28,649)
Adjustments for:		
Reversal of provision for impairment of receivables from related parties	(39,118)	(67,857)
Impairment of intangible assets	1,019,836	-
Impairment of investments	3,642,263	-
Decrease in trade and other receivables	7,779	23,757
(Decrease)/increase in trade and other payables	(14,351)	22,561
Net cash used in operating activities	<u>(49,776)</u>	<u>(50,188)</u>
Cash flows from investing activities		
Repayment of loan to subsidiaries	39,118	55,213
Net cash generated from investing activities	<u>39,118</u>	<u>55,213</u>
Net (decrease)/increase in cash and cash equivalents	(10,658)	5,025
Cash and cash equivalents at beginning of year	12,431	7,406
Cash and cash equivalents at the end of year	<u>1,773</u>	<u>12,431</u>

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XENETIC BIOSCIENCES (UK) LIMITED

**STATEMENT OF CHANGES IN EQUITY
FOR THE PERIOD ENDED 31 DECEMBER 2018**

	Share capital \$	Share premium \$	Capital redemption reserve \$	Accumulated deficit \$	Total equity \$
At 1 January 2017	-	69,761,933	5,505,802	(51,812,402)	23,455,333
Comprehensive loss for the year	-	-	-	(28,649)	(28,649)
Total comprehensive loss for the year	-	-	-	(28,649)	(28,649)
At 31 December 2017	-	69,761,933	5,505,802	(51,841,051)	23,426,684
Comprehensive loss for the year	-	-	-	(4,666,185)	(4,666,185)
Total comprehensive loss for the year	-	-	-	(4,666,185)	(4,666,185)
At 31 December 2018	-	69,761,933	5,505,802	(56,507,236)	18,760,499

XENETIC BIOSCIENCES (UK) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

1. International Financial Reporting Standards

1.1 Corporate information

Xenetic Biosciences (UK) Limited is a private limited liability company incorporated and domiciled in England and Wales. The registered office is located at 5th Floor, 15 Whitehall, London, SW1A 2DD.

The Company's principal activity is that of an intermediate holding company.

The Company is exempt from the requirement to prepare group accounts by virtue of section 401 of the Companies Act 2006 and the exemption provided in IFRS 10, paragraph 4. These financial statements therefore present information about the Company as an individual undertaking and not about its group.

1.2 Basis of preparation

The Company's financial statements have been prepared and approved by the directors in accordance with International Financial Reporting Standards, International Accounting Standards and IFRIC interpretations (collectively "IFRS") as adopted and endorsed by the European Union, and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS. These comprise standards and interpretations approved by the International Accounting Standards Board (IASB) that remain in effect and to the extent that they have been adopted by the EU.

The principal accounting policies adopted in preparation of the financial statements are set out below. The policies have been consistently applied to all the years presented, unless otherwise stated. The financial statements have been prepared on the historical cost basis, unless accounting standards require an alternative measurement basis. Where there are assets and liabilities calculated on a different basis, this fact is disclosed in either the relevant accounting policy or in the notes to the financial statements.

Under section 454 of the Companies Act 2006 the directors can amend these financial statements on a voluntary basis if they subsequently prove to be defective.

1.3 Critical accounting judgements and key sources of estimation uncertainty

In the process of applying the Company's accounting policies, management makes estimates and assumptions that have an effect on the amounts recognised in the financial statements. Although these estimates are based on management's best knowledge of current events and actions, actual results may ultimately differ from those estimates.

The key assumptions concerning the future, and other key sources of estimation uncertainty at the Balance Sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are those relating to the carrying value/recoverability of investments in subsidiaries and related intercompany amounts receivable, and intangible assets representing intellectual property.

XENETIC BIOSCIENCES (UK) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

1. International Financial Reporting Standards (continued)

1.4 Standards, interpretations and amendments to existing standards

In the current year, the following new and revised Standards and Interpretations have been adopted:

IFRS 9 - Financial Instruments: Classification and Measurement (effective 1 January 2018)

IFRS 9 addresses the classification and measurement of financial assets and financial liabilities. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through other comprehensive income (OCI) and fair value through profit or loss.

There was no impact on the Company's accounting for financial assets or financial liabilities.

There is a new expected credit loss model that replaces the incurred loss impairment model used in IAS 39. The Company adopted the general expected credit loss model for debt instruments carried at amortised cost. The Company's principal debt instruments are trade and other receivables. See Note 9 for the Company's assessment of expected credit losses on these financial assets. See Note 14 for further details on the Company's consideration of credit risk.

There are no other new or amended standards adopted by the Company during the year that have had a material impact on these financial statements.

1.5 Interpretations and revised standards that are not yet effective and have not been early adopted by the Company

At the date of authorisation of these financial statements, certain standards and interpretations were in issue but not yet effective and have not been applied in these financial statements. The Directors do not expect that the adoption of these standards and interpretations will have a material impact on the financial statements of the Company in future periods.

2. Accounting policies

2.1 Going concern

The Company depends for funding upon its US-listed parent company, Xenetic Biosciences Inc (XBIO). The directors have received a letter of comfort from XBIO confirming XBIO's intention to provide such level of financial support to the Company for a period of at least 12 months from the date of this Report such that the Company will be able to meet its obligations as they fall due.

Since its inception, the business of the Group has incurred, and continues to incur, significant losses from operations. The business has historically relied upon the proceeds of public and non-public financing activities by its parent company to support the working capital requirements necessary to pursue the on-going research, development and commercialisation of its intellectual property and know-how performed by its subsidiaries, including the Company.

XENETIC BIOSCIENCES (UK) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

2. Accounting policies (continued)

2.1 Going concern (continued)

On 7 March 2019, XBIO closed on a \$3.1 million registered direct common stock offering resulting in approximately \$2.7 million of net proceeds to the Group. On 19 July 2019, XBIO completed an offering resulting in approximately \$13.4 million of net proceeds to the Group.

Until the Group achieves commercialisation of its technology or receives significant revenue and cash flows from its current collaborations or from planned out-licensing of its technology, the Group anticipates it may need additional capital in the long-term to pursue its business initiatives and continue as a going concern.

The XBIO Group (the "Group") has produced a forecast for the period of 12 months from the date of this Report which indicates that the Group – and therefore the Company – is expected to have adequate working capital for the 12 months from the date of this Report to support its currently planned activities.

Accordingly, the financial statements have been prepared on a going concern basis and do not include any adjustments related to the recoverability or classification of asset-carrying amounts or the amounts and classification of liabilities that may result should the Company be unable to continue as a going concern.

2.2 Finance income

Interest income is accounted for on a cash received basis and not on an accruals basis.

2.3 Intangible assets

Intellectual property comprises in-process research and development which has been purchased. Purchased intellectual property is recognised at cost less accumulated impairment losses.

An intangible asset is derecognised on disposal or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

2.4 Investments

Investments in subsidiaries are measured at cost less provision for impairment.

XENETIC BIOSCIENCES (UK) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

2. Accounting policies (continued)

2.5 Impairment

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation or depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the asset's carrying value exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

The expected cash flows generated by the assets are discounted using asset specific discount rates which reflect the risks associated with the groups of assets. These risks vary with the nature and the location of the cash generating units. Any impairment loss is charged to the Statement of Comprehensive Income in the year concerned. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows (cash-generating units).

2.6 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Financial instruments are classified into one of the categories discussed below in accordance with IFRS 9, with reference to the business model for that instrument and the contractual cash flow characteristics. The Company has not classified any of its financial assets as fair value through other comprehensive income or fair value through profit or loss.

Financial assets and liabilities are offset and the net amount reported in the financial statements if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

The accounting policy for each category is as follows:

Financial assets

Financial assets comprise cash and cash equivalents and trade and other receivables.

Cash and cash equivalents comprise cash in hand and bank balances.

Receivables primarily consist of trade and other receivables. These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These assets are initially recognised at transaction price plus transaction costs that are directly attributable to their acquisition or issue, and are subsequently carried at amortised cost using the effective interest rate method, adjusted for changes in expected credit losses.

XENETIC BIOSCIENCES (UK) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

2. Accounting policies (continued)

2.6 Financial instruments (continued)

De-recognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or a part of a group of similar financial assets) is primarily derecognised when either: the rights to receive cash flows from the asset have expired; or the Company has transferred the financial asset and substantially the risks and rewards of ownership of the asset to another party.

Impairment of financial assets

The Company assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. The IFRS 9 impairment model requires the recognition of 'expected credit losses' rather than 'incurred credit losses under previously extant IAS 39. Therefore it is not necessary for a credit event to have occurred before credit losses are recognised. The new impairment model applies to the Company's financial assets. No changes to the impairment provisions were made on transition to IFRS 9. Further information on expected credit losses recognised in the current and prior year can be found in Note 9. Further information on the Company's credit risk is found in Note 14.

Financial liabilities

Financial liabilities include trade and other payables.

Trade and other payables

Trade and other payables are initially recognised at fair value and subsequently carried at amortised cost using the effective interest method.

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms or the terms of an existing liability are substantially modified, such an exchange is treated as the de-recognition of the original liability and the recognition of a new liability. When the modification is not substantial the difference between the carrying amount of the liability before the modification and the present value of the cash flows after modification is recognised in profit or loss.

2.7 Foreign currencies

The Company's functional and presentation currency is the US dollar.

Monetary assets and liabilities in currencies other than the functional currency are translated into US dollars at the rate ruling at the Balance Sheet date. Transactions in currencies other than the functional currency are translated into US dollars at the rate of exchange ruling at the date of the transaction. Foreign exchange gains and losses resulting from the settlement of transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Statement of Comprehensive Income within 'administrative expenses'.

XENETIC BIOSCIENCES (UK) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

2. Accounting policies (continued)

2.8 Share-based payments

In accordance with IFRS 2 'Share-based payments', the Company measures the fair value of equity settled transactions at the grant date of the equity instruments. The fair value is calculated using an appropriate valuation model and requires assumptions regarding dividend yields, risk-free interest rates, share price volatility and expected life of an option, plus the likelihood of meeting other performance-related vesting objectives where applicable. The arising expense is charged to the Statement of Comprehensive Income on a straight-line basis over the expected vesting period.

2.9 Taxation

The tax expense recognised in the Statement of Comprehensive Income represents the sum of the current and deferred tax.

Current tax

The current tax expense is based on the taxable profit for the year. Taxable profit differs from the profit as reported in the Statement of Comprehensive Income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the Balance Sheet date.

Deferred tax

Deferred tax is recognised on temporary differences arising between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the Balance Sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

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

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised.

3. Operating loss

The operating loss is stated after charging/(crediting):

	2018	2017
	\$	\$
Movement on provision for expected credit losses	39,118	(67,857)
Net loss/(gain) on foreign currency translation	15,082	(1,663)
Impairment of intangible assets	1,019,836	-
Impairment of investments	3,642,263	-

XENETIC BIOSCIENCES (UK) LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

4. Auditors' remuneration

	2018	2017
	\$	\$
Fees payable to the Company's auditors for the audit of the Company's annual accounts	12,000	12,000
Fees payable to the Company's auditors in respect of:		
All other non-audit services	10,000	10,000

5. Particulars of employees

The directors' aggregate emoluments in respect of qualifying services were:

	2018	2017
	\$	\$
Salaries and short-term employment benefits	106,555	654,277

Key management personnel are considered to be the same as the directors.

Emoluments of highest paid director:

	2018	2017
	\$	\$
Salaries and short-term employment benefits	53,441	607,837

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

	2018	2017
	No.	No.
Number of directors	-	-

Directors' emoluments are borne by the Company's subsidiary, Lipoxen Technologies Limited.

On 2 November 2017, the Group entered into a Settlement Agreement with Mr M. Scott Maguire, a former Chief Executive Officer of the Group and a director of the Company, which terminated the Employment Agreement dated 3 November 2009 between the Group and Mr Maguire. Pursuant to the terms of the Settlement Agreement, Mr Maguire will continue to receive his current base salary and benefits for a period of 12 months, received a lump sum payment of £30,000 (\$39,384) and will be reimbursed for certain tax liabilities as described in the Settlement Agreement. As of 31 December 2018, the Company's subsidiary, Lipoxen Technologies Limited, expensed \$nil (2017: approximately \$400,000) of accrued payroll and benefits related to future payments required to be made to Mr Maguire in accordance with the Settlement Agreement. This sum is in addition to the amounts disclosed above.

XENETIC BIOSCIENCES (UK) LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

6. Income tax expense

Analysis of expense in the period

	2018	2017
	\$	\$
Current tax:		
UK corporation tax based on the results for the year at 19% (2017: 19.25%)	-	-
Current tax for the period	-	-

Factors affecting tax credit for the year

The tax credit for the year differs from the standard rate of 19% (2017: 19.25%) as follows:

	2018	2017
	\$	\$
Loss on ordinary activities before tax	(4,666,185)	(28,649)
Loss on ordinary activities multiplied by standard rate of corporation tax	(886,575)	(5,515)
Effects of:		
Tax effect of non-deductible items	1,173	30
Unrelieved tax losses arising in the year	206,265	18,547
Movement on provision	(12,893)	(13,062)
Impairment of investment	692,030	
Current tax for the period	-	-

The Company has corporation tax losses available for offset against future profits of the same trade of \$10,600,000 (2017: \$9,500,000). The deferred taxation asset not provided for in the accounts due to the uncertainty that future taxable profits will be available to allow recovery of the asset is approximately \$1,800,000 (2017: \$1,620,000).

Factors that may affect future tax charges

A reduction in the UK corporation tax rate from 19% to 17% from 1 April 2020 was substantively enacted on 6 September 2016.

XENETIC BIOSCIENCES (UK) LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

7. Intangible assets

	Intellectual property \$
Cost	
At 31 December 2017 and 31 December 2018	1,019,836
Accumulated impairment	
At 1 January 2017	-
Charge for the year	-
At 31 December 2017	-
Charge for the year	1,019,836
At 31 December 2018	1,019,836
Net book value	
At 31 December 2018	-
At 31 December 2017	1,019,836

The assets acquired are assets relating to intellectual property and development rights acquired by the Company which are not used in launched products as the related products are in early stage development. These assets have not yet begun to be amortised but have been tested for impairment by assessing their value-in-use.

These assets were tested for impairment at 31 December 2018 and 31 December 2017. An impairment of \$1,019,836 (2017: \$nil) was recognised in the year ended 31 December 2018.

XENETIC BIOSCIENCES (UK) LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

8. Investments

	Investments in subsidiaries \$
Cost	
At 31 December 2017 and 31 December 2018	22,507,772
Accumulated impairment	
At 1 January 2017	-
Charge for the year	-
At 31 December 2017	-
Charge for the year	3,642,263
At 31 December 2018	3,642,263
Net book value	
At 31 December 2018	18,865,509
At 31 December 2017	22,507,772

The Company owns the whole of the issued share capital of Lipoxen Technologies Limited, a company incorporated in England and Wales engaged in research into drug delivery systems. This investment is held at cost less accumulated impairment.

The Company also owns the entire issued share capital of SymbioTec GmbH, a company registered in Germany which is principally involved with early stage clinical trials for its patent-protected drug candidate, OncoHist. This investment is held at cost less accumulated impairment.

The Company also owns the entire issued share capital of Xenetic Bioscience Incorporated, a company registered in the United States of America. This investment is held at cost less accumulated impairment.

These assets were tested for impairment at 31 December 2018 and 31 December 2017. An impairment of \$3,642,263 (2017: \$nil) was recognised in the year ended 31 December 2018.

XENETIC BIOSCIENCES (UK) LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
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9. Trade and other receivables

	2018	2017
	\$	\$
Current:		
Other receivables	1,095	996
Prepayments and accrued income	-	7,878
	<u>1,095</u>	<u>8,874</u>

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable above. The Company does not hold any collateral as security.

Trade and other receivables include loans from related parties with a carrying value of \$nil (2017: \$nil) after recognition of a provision for lifetime expected credit losses of \$27,263,758 (2017: \$27,302,876).

10. Cash and cash equivalents

	2018	2017
	\$	\$
Cash at bank and in hand	<u>1,773</u>	<u>12,431</u>

Cash at bank earns interest at floating rates based on daily bank deposit rates.

11. Trade and other payables

	2018	2017
	\$	\$
Current:		
Trade payables	479	395
Social security and other taxes	65,036	30,839
Accrued expenses	42,363	90,995
	<u>107,878</u>	<u>122,229</u>

12. Share capital

	2018	2017
	No.	No.
Authorised share capital:		
Ordinary shares of 0.5p each	<u>100,000,000</u>	<u>100,000,000</u>
	2018	2017
	No.	No.
Allotted, called up and fully paid:		
Ordinary shares of 0.5p each	<u>1</u>	<u>1</u>

XENETIC BIOSCIENCES (UK) LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

13. Reserves

Share capital

The balance on the share capital account represents the aggregate nominal value of all ordinary shares in issue.

Share premium account

The share premium account includes any premiums received on the initial issuing of the share capital. Any transaction costs associated with the issue of shares are deducted from the share premium account, net of any related income tax benefits.

Capital redemption reserve

The balance on the capital redemption reserve represents the aggregate nominal value of all the ordinary shares repurchased and cancelled.

Accumulated deficit

The accumulated deficit represents losses recognised in the Consolidated Statement of Comprehensive Income.

14. Financial instruments

A summary of the financial instruments held by category is provided below:

	2018	2017
	\$	\$
Financial assets held at amortised cost		
Trade and other receivables	1,095	8,874
Cash and cash equivalents	1,773	12,431
	2,868	21,305
Financial liabilities measured at amortised cost		
Trade payables	479	395
Accrued expenses	42,363	90,995
	42,842	91,390

The directors consider that the carrying value of the financial assets and financial liabilities approximates their fair value.

XENETIC BIOSCIENCES (UK) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

14. Financial instruments (continued)

Credit risk

Credit risk is the risk that a customer or counterparty to a financial instrument will fail to perform or fail to pay amounts due causing financial loss to the Company. Credit risk within the Company arises from cash and cash equivalents, and trade and other receivables. The Company is a holding company. Whilst it is therefore exposed to some financial risk this is significantly less than a trading company as the Company does not have significant receivables, payables or inventories. Cash balances are held with a reputable financial institution and the maximum exposure to credit risk is the carrying value of the balances as disclosed above.

The Company has mitigated the credit risk on balances due to related parties by recognition of lifetime expected credit losses equal to the entire receivable balance.

Foreign currency risk

Foreign currency risk refers to the risk that a financial commitment or recognised asset or liability will fluctuate due to changes in foreign currency exchange rates. The Company monitors its foreign currency risk through cash flow forecasting and currency is held in foreign currency bank accounts only to the extent that it is required for clinical development activities.

The Company is exposed to transactional foreign exchange risk and takes profits and losses as they arise, as, in the opinion of the Directors, the cost of hedging against fluctuations would be greater than the related benefit from doing so. Cash and cash equivalent balances of \$1,773 (2017: \$12,431) are denominated in pounds sterling.

Interest rate risk

Interest rate risk is the risk that the value of a financial instrument or cash flows associated with it will fluctuate due to changes in market interest rates.

The Company has financial assets in the form of cash and cash equivalents. These are considered to be short term liquid assets and as a result the exposure to interest rate risk is not considered to be significant. Trade payables are considered to have a maturity date of 3 months or less and do not bear interest.

On this basis no sensitivity analysis has been prepared on the grounds that there would not be a material impact on either the carrying values of the respective assets, the net loss for the year or the equity at the end of the year.

Liquidity risk

The Company maintains sufficient cash and cash equivalents. Management reviews cash flow forecasts to determine whether the Company has sufficient cash reserves to continue with its principal activities. The Company has no significant external financial liabilities and no external borrowings outside the Xenetic Biosciences, Inc. group.

Capital management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern. The Company has no external debt and does not therefore have a strategy in terms of maintaining a certain debt to equity ratio. Rather capital is managed with a view to generating further cash and cash equivalents which can be used in the furtherance of the Company's aims and objectives.

XENETIC BIOSCIENCES (UK) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

15. Related party transactions

Synbio LLC

During 2011 the Company negotiated a short term unsecured loan facility of up to \$1.70 million from Synbio LLC, a company which is a substantial shareholder in the Company. This loan bears interest (rolled up) at 0.67% per month and is repayable by agreement between the parties. The balance owed to Synbio LLC at 31 December 2015 was \$395,000. This loan was settled in December 2017.

Xenetic Biosciences, Inc.

During the year, the Company has advanced monies to its immediate and ultimate parent company, Xenetic Biosciences, Inc. on an interest free basis. The balance owed by Xenetic Biosciences, Inc. at 31 December 2018 was \$517,340 (2017: \$537,974). At 31 December 2018 and 31 December 2017 this balance was fully provided against.

Lipoxen Technologies Limited

The Company advanced monies to its subsidiary, Lipoxen Technologies Limited, to fund the ongoing development of the Group's technology. The balance receivable from the subsidiary at 31 December 2018 was \$23,113,549 (2017: \$23,132,033). At 31 December 2018 and 31 December 2017 this balance was fully provided against.

SymbioTec GmbH

The Company has advanced monies on loan to its subsidiary, SymbioTec GmbH, to fund the ongoing development of SymbioTec's technology. This loan bears interest (rolled up) at 0.85% per month and is repayable upon demand at any time. No interest was recognised in 2018. The balance owed by SymbioTec GmbH at 31 December 2018 was \$689,636 (2017: \$689,636). The balance owed by SymbioTec to the Company at 31 December 2018, excluding the loan referred to above, was \$1,129,955 (2017: \$1,129,955). At 31 December 2018 and 31 December 2017 this balance was fully provided against.

Xenetic Bioscience Incorporated

The Company has advanced monies to its subsidiary, Xenetic Bioscience Inc., to fund its operations. The balance owed at 31 December 2018 was \$1,802,188 (2017: \$1,802,188). At 31 December 2018 and 31 December 2017 this balance was fully provided against.

16. Ultimate parent company and controlling party

Xenetic Biosciences, Inc., a company incorporated in the United States of America, is the Company's immediate and ultimate parent company and is the parent company of the largest group of undertakings for which group accounts have been drawn up and of which the Company is a member. Accounts for the Xenetic Biosciences, Inc. group can be obtained from 40 Speen Street, Suite 102, Framlingham, MA 01701, United States of America or www.xeneticbio.com.

PJSC Pharmsynthez is the ultimate controlling party at the reporting date.