
XENETIC BIOSCIENCES (UK) LIMITED

ANNUAL REPORT
FOR THE YEAR ENDED
31 DECEMBER 2017



XENETIC BIOSCIENCES (UK) LIMITED

CONTENTS

	Page
Company Information	1
Directors' Report	2
Independent Auditors' Report to the Member	8
Statement of Comprehensive Income	11
Balance Sheet	12
Statement of Cash Flows	13
Statement of Changes in Equity	14
Notes to the Financial Statements	15

XENETIC BIOSCIENCES (UK) LIMITED

COMPANY INFORMATION

Directors	M. S. Maguire 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 2017

The directors present their report and the financial statements for the year ended 31 December 2017.

Status of the Company

At the date of this Annual Report, the Company is a wholly-owned subsidiary of Xenetic Biosciences, Inc. ("XBIO"), a US corporation listed on the NASDAQ Capital Market (ticker: NASDAQ:XBIO).

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). The Group Organisational Chart is set out later in this Report.

The Company's principal activity is that of an intermediate holding company. For further details please refer to the Group's website: www.xeneticbio.com.

The Financial Statements included in this Annual Report relate only to the business of the Company.

Reports included herein by reference

As all of the Company ("XENUK"), Lipoxen Technologies Limited ("LTL"), SymbioTec GmbH ("SYM") and Xenetic Bioscience Inc ("XTI") contribute to the performance and results of the entire Group, it is recommended that, with a view to obtaining a full understanding of the overall Group's activities, readers should familiarise themselves with all regulatory filings for the entire Group, as filed with the United States Securities and Exchange Commission ("SEC").

While the SEC's filing requirements are extensive, particular attention should be directed towards the XBIO Group's quarterly 10-Q filings through 30 June 2018, and its annual 10-K filings for the financial years ended 31 December 2014 to 2017, the last having been filed with the SEC on 30 March 2018.

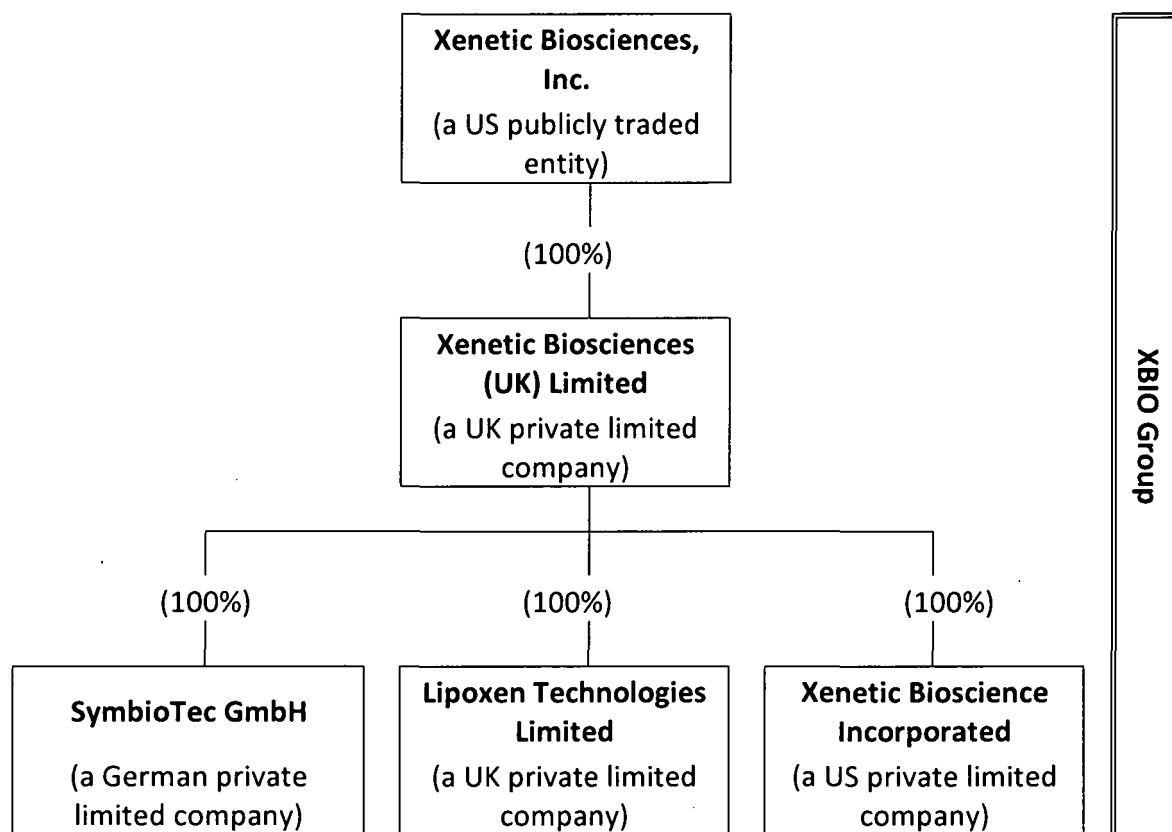
Group organisation

For a better understanding of the corporate relationships that exist across the Group, please see below the Structure Diagram of the entire Xenetic Group of companies.

XENETIC BIOSCIENCES (UK) LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2017

Group organisation (continued)



The nature of the activities carried out by individual entities across the Group can be summarised as follows:

Xenetic Biosciences, Inc.

The parent company of the Group responsible for group strategy, investment, executive management and finance. It was the entity with which the former UK parent company (see below) merged in January 2014 (the US merger). This entity serves as the public face of the Group and is the primary source of funding for the Group through its access to the capital markets of the United States and elsewhere.

Xenetic Biosciences (UK) Limited

Formerly Xenetic Biosciences plc, this was the UK publicly-traded company until January 2014 when it became a wholly-owned subsidiary of the new US parent company. It serves now only as an intermediate holding company for the three operating subsidiaries shown above.

XENETIC BIOSCIENCES (UK) LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2017

Group organisation (continued)

Lipoxen Technologies Limited

LTL was the original company in the creation (or acquisition) of all of the Group's core technologies – save for OncoHist™, which is held by SYM (*post*). It remains the principal holder of the Group's Intellectual Property and Patent Portfolio assets. Prior to the US merger, and for some 9 months thereafter, LTL carried out scientific and preclinical operations from the UK group's laboratory facilities in London, activities that were ultimately moved in to the Group's current laboratory and Head Office facility in Lexington, MA, USA.

LTL remains the principal entity in all respects for the ongoing development of the Group's core technologies and product candidate initiation and development based on those technologies held by it. In that regard, the US operating subsidiary XTI acts as LTL's agent and/or service provider as regards all such activities as the relevant IP shall remain vested entirely in LTL.

Xenetic Bioscience Incorporated

XTI is a private US corporation whose activities are focussed on technology and product development on behalf of the entities in whom the relevant IP is vested, those being LTL and SYM. While product development strategy is set by the parent company's board it is executed as regards all clinical matters through XTI acting on the instructions of the corporate holders of the relevant IP, being, LTL and SYM.

SymbioTec GmbH

SYM is a private German company, formerly with operations in Saarbrücken prior to its acquisition by XENUK in January 2012, consequent to which all scientific operations were transferred to London and, later, to Lexington.

SYM is the owner and holder of the IP relating to the Group's important OncoHist™ technology, the development of which is treated in exactly the same manner as for those technologies and product candidates vested in LTL.

Going concern

The Company depends for funding upon its US-listed ultimate parent company, 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 to the extent XBIO can successfully raise additional working capital 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.

The Group has produced a cash flow projection for the period of 12 months from the date of this Report which, subject to a further external fundraising in the very near term, indicates that the Group – and therefore the Company – would 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 2017

Going concern (continued)

While the financial statements herein have been prepared on a going concern basis, if the Group does not successfully raise additional working capital via an external fundraising (or otherwise) in that timeframe, there can be no assurance that it will be able to continue its operations as currently planned. The raising of additional working capital represents a material uncertainty which casts significant doubt about the Group's ability to continue as a going concern.

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 expects the trend of accessing capital markets to finance its working capital needs to continue beyond the next 12 months.

While there can be no absolute assurance on the matter, the directors have reasonable expectations that, in the very near term, they could successfully obtain such new capital as may be necessary to meet the Group's obligations as they fall due and to fund its operations and clinical pipeline developments as currently planned for the next 12 months from the date of this report.

Accordingly, the accompanying financial statements 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.

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.

Results

The trading results for the year and the Company's financial position at the end of the year are shown in the attached financial statements.

Directors

The directors who served during the year were:

M. S. Maguire
C. W. Hill

Subsequent to the year end, J. Parslow was appointed on 16 February 2018.

XENETIC BIOSCIENCES (UK) LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2017

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.

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.

XENETIC BIOSCIENCES (UK) LIMITED

**DIRECTORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2017**

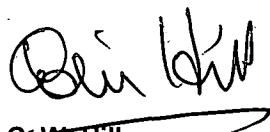
Small company provisions

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 28 September 2018 and signed on its behalf by:


C. W. Hill
Director

XENETIC BIOSCIENCES (UK) LIMITED

INDEPENDENT AUDITORS' REPORT TO THE MEMBER 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 2017, 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 2017 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.

Material uncertainty related to going concern

We draw attention to Note 2.1 "Going concern" in the financial statements. This adequately discloses conditions that indicate the existence of a material uncertainty which may cast significant doubt about the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

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 MEMBER 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 6, 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.

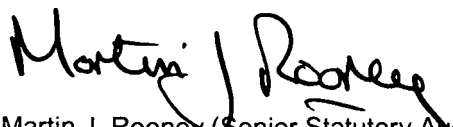
A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our Auditors' Report.

XENETIC BIOSCIENCES (UK) LIMITED

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

Use of our report

This report is made solely to the Company's member 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 member 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 member 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

28 September 2018

XENETIC BIOSCIENCES (UK) LIMITED

**STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2017**

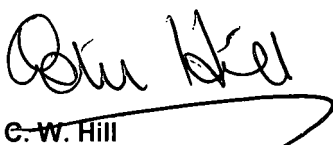
	Note	2017 \$	2016 \$
Administrative expenses		(28,649)	549,250
Operating (loss)/profit	4	(28,649)	549,250
Finance income		-	66,810
Finance costs		-	(32,722)
(Loss)/profit before taxation		(28,649)	583,338
Income tax expense	7	-	-
(Loss)/profit for the year		(28,649)	583,338
Other comprehensive income		-	-
Total comprehensive (loss)/income for the year attributable to equity holder of the Company		(28,649)	583,338

XENETIC BIOSCIENCES (UK) LIMITED
REGISTERED NUMBER: 03213174

BALANCE SHEET
AS AT 31 DECEMBER 2017

	Note	2017 \$	2016 \$
Non-current assets			
Intangible assets	8	1,019,836	1,019,836
Investments	9	22,507,772	22,507,772
		<u>23,527,608</u>	<u>23,527,608</u>
Current assets			
Trade and other receivables	10	8,874	19,987
Cash and cash equivalents		12,431	7,406
		<u>21,305</u>	<u>27,393</u>
Current liabilities			
Trade and other payables	11	(122,229)	(99,668)
Net current liabilities		<u>(100,924)</u>	<u>(72,275)</u>
Net assets		<u>23,426,684</u>	<u>23,455,333</u>
Equity attributable to the Company's equity holder			
Share capital	12	-	-
Share premium account		69,761,933	69,761,933
Capital redemption reserve		5,505,802	5,505,802
Retained earnings		(51,841,051)	(51,812,402)
		<u>23,426,684</u>	<u>23,455,333</u>

The financial statements on pages 11 to 27 were approved and authorised for issue by the Board on 28 September 2018 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 2017**

	2017 \$	2016 \$
Cash flows from operating activities		
(Loss)/profit before income tax for the year	(28,649)	549,250
Adjustments for:		
Equity-settled share based payments	-	1,181
Reversal of provision for impairment of receivables from related parties	(67,857)	(668,445)
Decrease in trade and other receivables	23,757	677,545
Increase/(decrease) in trade and other payables	22,561	(585,614)
Net cash used in operating activities	<u>(50,188)</u>	<u>(26,083)</u>
Cash flows from investing activities		
Repayment of loan to subsidiaries	55,213	13,280
Net cash generated from investing activities	<u>55,213</u>	<u>13,280</u>
Net increase/(decrease) in cash and cash equivalents	5,025	(12,803)
Cash and cash equivalents at beginning of year	7,406	20,209
Cash and cash equivalents at the end of year	<u>12,431</u>	<u>7,406</u>

XENETIC BIOSCIENCES (UK) LIMITED

**STATEMENT OF CHANGES IN EQUITY
FOR THE PERIOD ENDED 31 DECEMBER 2017**

	Share capital \$	Share premium \$	Capital redemption reserve \$	Retained earnings \$	Total equity \$
At 1 January 2016	-	69,760,752	5,505,802	(52,395,740)	22,870,814
Profit for the year	-	-	-	583,338	583,338
Capital contribution	-	1,181	-	-	1,181
At 31 December 2016	-	69,761,933	5,505,802	(51,812,402)	23,455,333
Loss for the year	-	-	-	(28,649)	(28,649)
At 31 December 2017	-	69,761,933	5,505,802	(51,841,051)	23,426,684

XENETIC BIOSCIENCES (UK) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

1. International Financial Reporting Standards

1.1 Basis of preparation

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 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 by the European Union, and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

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.

1.2 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 (see Notes 8, 9 and 14).

1.3 Standards, interpretations and amendments to existing standards

The following new and amended IFRSs were effective as of 1 January 2017:

- Amendments to IAS 7 – Disclosure initiative
- Amendments to IAS 12 – Recognition of deferred tax assets for unrealised losses
- Amendments to IFRS 12 – Annual improvements to IFRSs 2014-2016 cycle

The directors concluded that there are no areas within these standards which have a material impact on the Company.

XENETIC BIOSCIENCES (UK) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

1. International Financial Reporting Standards (continued)

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

The following interpretations to existing standards have been published that are mandatory for the Company's future accounting but which the Company has not adopted early. Management has not yet fully assessed the impact of these new standards but does not believe they will have any material impact on the financial statements:

- IFRS 9 – Financial Instruments ¹
- IFRS 15 – Revenue from Contracts with Customers ¹
- IFRS 16 – Leases ²

¹ Effective for annual periods beginning on or after 1 January 2018, with earlier application permitted.

² Effective for annual periods beginning on or after 1 January 2019, with earlier application permitted.

2. Accounting policies

2.1 Going concern

The Company depends for funding upon its US-listed parent company, 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.

The Group has produced a cash flow projection for the period of 12 months from the date of this Report which, subject to a further external fundraising in the very near term, indicates that the Group – and therefore the Company – would have adequate working capital for the 12 months from the date of this Report to support its currently planned activities.

XENETIC BIOSCIENCES (UK) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

2. Accounting policies (continued)

2.1 Going concern (continued)

While the financial statements herein have been prepared on a going concern basis, if the Group does not successfully raise additional working capital via an external fundraising (or otherwise) in that timeframe, there can be no assurance that it will be able to continue its operations as currently planned. The raising of additional working capital represents a material uncertainty which casts significant doubt about the Group's ability to continue as a going concern.

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 expects the trend of accessing capital markets to finance its working capital needs to continue beyond the next 12 months.

While there can be no absolute assurance on the matter, the directors have reasonable expectations that, in the very near term, they could successfully obtain such new capital as may be necessary to meet the Group's obligations as they fall due and to fund its operations and clinical pipeline developments as currently planned for the next 12 months from the date of this report.

Accordingly, the accompanying financial statements 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 Intangible assets

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

2.3 Investments

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

2.4 Revenue

Revenue is stated net of sales taxes, rebates and discounts. Revenue is recognised as follows:

Management fees

Management fees represent amounts charged to subsidiaries and other entities for management time and expenses. Revenue is recognised in the period in which it is earned.

2.5 Interest income

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

XENETIC BIOSCIENCES (UK) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

2. Accounting policies (continued)

2.6 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).

2.7 Financial instruments

Financial assets and financial liabilities are recognised on the Company's Balance Sheet when the Company becomes a contractual party to the instrument.

Financial assets other than hedging instruments can be divided into the following categories: loans and receivables, financial assets at fair value through profit or loss, available-for-sale financial assets and held-to-maturity investments. Financial assets are assigned to different categories by management on initial recognition, depending on the purpose for which the investments were acquired.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the Balance Sheet date which are classified as non-current assets. The Company's loans and receivables comprise 'trade and other receivables' and 'cash and cash equivalents' in the Balance Sheet. The Company has no other financial assets.

Financial liabilities and equity instruments issued by the Company are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities. Equity instruments issued by the Company other than equity-settled share-based payments which are described below, are recorded at the proceeds received net of direct issue costs.

XENETIC BIOSCIENCES (UK) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

2. Accounting policies (continued)

2.8 Trade receivables

Trade receivables are initially measured at fair value and are subsequently measured at amortised cost less impairment losses. Appropriate provisions for estimated irrecoverable amounts are recognised in the Statement of Comprehensive Income when there is objective evidence that the asset is impaired.

2.9 Cash and cash equivalents

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

2.10 Trade payables

Trade and other payables are initially measured at fair value and are subsequently measured at amortised cost.

2.11 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. Exchange differences are taken into account in arriving at the operating profit.

2.12 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.

2.13 Equity

Share capital is determined using the nominal value of shares that have been issued.

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.

The capital redemption reserve arises upon the cancellation of issued share capital and is measured at the nominal value of the shares that have been cancelled. It is a non-distributable reserve.

XENETIC BIOSCIENCES (UK) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

2. Accounting policies (continued)

2.14 Taxation

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

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

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. Segmental analysis

The operating loss before tax is attributable to the one principal activity of the Company.

The net assets of the Company at 31 December 2017 and 31 December 2016 are wholly attributable to the principal activity. The Company comprises one operating segment for reporting purposes. Management measures performance and allocates resources based on the results of this one segment only.

4. Operating (loss)/profit

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

	2017	2016
	\$	\$
Reversal of impairment of receivables from related parties	(67,857)	(668,445)
Net gain on foreign currency translation	(1,663)	(1,753)
Share option expense – equity settled	-	1,181

The Company bears the expense of share options granted by its ultimate parent company in exchange for services provided to the Company.

XENETIC BIOSCIENCES (UK) LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

5. Auditors' remuneration

	2017 \$	2016 \$
Fees payable to the Company's auditors for the audit of the Company's annual accounts	12,000	9,842
Fees payable to the Company's auditors in respect of:		
All other non-audit services	10,000	8,612

6. Particulars of employees

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

	2017 \$	2016 \$
Salaries and short-term employment benefits	654,277	688,855
Company pension contributions to money purchase schemes	-	47,611
	<u>654,277</u>	<u>736,466</u>

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

Emoluments of highest paid director:

	2017 \$	2016 \$
Salaries and short-term employment benefits	607,837	662,696
Company pension contributions to money purchase schemes	-	40,455
	<u>607,837</u>	<u>703,151</u>

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

	2017 No.	2016 No.
Number of directors	-	2

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 2017, the Company's subsidiary, Lipoxen Technologies Limited, expensed 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 2017

7. Income tax expense

Analysis of expense in the period

	2017 \$	2016 \$
Current tax:		
UK corporation tax based on the results for the year at 19.25% (2016 – 20%)	-	-
Current tax for the period	-	-

Factors affecting tax credit for the year

On 26 October 2015, the UK corporation tax rate was changed from 20% to 19%, effective 1 April 2017.

The tax credit for the year differs from the standard rate of 19.25% (2016 – 20%) as follows:

	2017 \$	2016 \$
(Loss)/profit on ordinary activities before tax	(28,649)	583,338
(Loss)/profit on ordinary activities multiplied by standard rate of corporation tax	(5,515)	116,668
Effects of:		
Tax effect of non-deductible items	30	2,179
Unrelieved tax losses arising in the year	18,547	14,842
Impairment charge	(13,062)	(133,689)
Current tax for the period	-	-

The Company has corporation tax losses available for offset against future profits of the same trade of \$9,500,000 (2016 – \$9,400,000). 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 \$1,620,000 (2016 – \$1,600,000).

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 2017

8. Intangible assets

	Intellectual property \$
Cost	
At 31 December 2016 and 31 December 2017	1,019,836

The assets acquired are assets relating to intellectual property and development rights acquired by the Company on behalf of the Group 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 2017. At this stage, the key sensitivity is the successful completion of clinical trials and, therefore, full impairment is expected should such trials be unsuccessful.

9. Investments

	Investments in subsidiaries \$
Cost	
At 31 December 2016 and 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.

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.

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.

These assets were tested for impairment at 31 December 2017. At this stage, the key sensitivity is the successful completion of clinical trials and, therefore, full impairment is expected should such trials be unsuccessful.

XENETIC BIOSCIENCES (UK) LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

10. Trade and other receivables

	2017 \$	2016 \$
Current:		
Other receivables	996	680
Social security and other taxes	-	11,530
Prepayments and accrued income	7,878	7,777
	<u>8,874</u>	<u>19,987</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.

Receivables from related parties have been stated after provision for impairment of \$27,302,876 (2016 – \$27,370,733).

11. Trade and other payables

	2017 \$	2016 \$
Current:		
Trade payables	395	12,542
Social security and other taxes	30,839	-
Accrued expenses	90,995	87,126
	<u>122,229</u>	<u>99,668</u>

12. Share capital

	2017 No.	2016 No.
Authorised share capital:		
Ordinary shares of 0.5p each	100,000,000	100,000,000
	<u>100,000,000</u>	<u>100,000,000</u>
Allotted, called up and fully paid:		
Ordinary shares of 0.5p each	1	1
	<u>1</u>	<u>1</u>

XENETIC BIOSCIENCES (UK) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

13. Financial instruments

Financial assets and liabilities were held as follows:

	2017 \$	2016 \$
Assets		
Loans and receivables:		
Trade and other receivables	8,874	19,987
Cash and cash equivalents	12,431	7,406
	<u>21,305</u>	<u>27,393</u>
Liabilities		
Financial liabilities measured at amortised cost:		
Trade payables	395	12,542
Accrued expenses	90,995	87,126
	<u>91,390</u>	<u>99,668</u>

The Company is a holding company. Whilst it is therefore exposed to some financial risk this is significantly less than a trading company which has significant receivables, payables and inventories.

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

Cash and cash equivalents is entirely comprised of balances at bank of \$12,431, all of which is denominated in pounds sterling. Whilst the bank balances are held with a reputable financial institution, the maximum exposure to credit risk is the carrying value of the balances as disclosed above.

The Company is not subject to credit risk and foreign currency risk of trade receivables as it had no such balances at either Balance Sheet date. The trade payables are considered to have a maturity date of 3 months or less. The immediate and ultimate parent company has made an undertaking to provide sufficient working capital so that the Company can meet its obligations as they fall due for a period of 12 months from the date of this report.

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 operational activities.

XENETIC BIOSCIENCES (UK) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

13. Financial instruments (continued)

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.

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 cashflow 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.

14. 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 2016.

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 2017 was \$537,974 (2016 – \$550,618). At 31 December 2017 and 31 December 2016 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 2017 was \$23,132,033 (2016 – \$23,187,246). At 31 December 2017 and 31 December 2016 this balance was fully provided against.

XENETIC BIOSCIENCES (UK) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

14. Related party transactions (continued)

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 2017. The balance owed by SymbioTec GmbH at 31 December 2017 was \$689,636 (2016 – \$689,636). The balance owed by SymbioTec to the Company at 31 December 2017, excluding the loan referred to above, was \$1,129,955 (2016 – \$1,129,955). At 31 December 2017 and 31 December 2016 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 2017 was \$1,802,188 (2016 – \$1,802,188). At 31 December 2017 and 31 December 2016 this balance was fully provided against.

15. General information

The Company is a private limited company incorporated and domiciled in England and Wales. The Company is principally engaged as a holding company.

Xenetic Biosciences, Inc., a company incorporated in the United States of America, is the Company's immediate and ultimate parent company and was previous the ultimate controlling party.

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

Accounts for the Xenetic Biosciences, Inc. group can be obtained from 99 Hayden Ave, STE 230, Lexington, MA 02421, United States of America or www.xeneticbio.com.