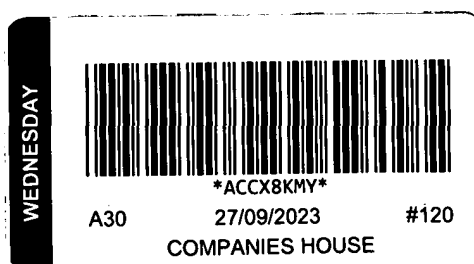

XENETIC BIOSCIENCES (UK) LIMITED

**ANNUAL REPORT
FOR THE YEAR ENDED
31 DECEMBER 2022**



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

XENETIC BIOSCIENCES (UK) LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2022

The directors present their report and the financial statements for the year ended 31 December 2022.

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. ("XBIO") (ticker: 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 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:

C. W. Hill
J. Parslow

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.

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 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.

XENETIC BIOSCIENCES (UK) LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2022

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 United Kingdom. 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 United Kingdom 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 2022**

Financial instruments

The Company's financial risk management objectives and policies are discussed in Note 12 to the financial statements.

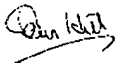
Small company provisions

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 25 September 2023 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 2022, 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 UK adopted international accounting standards.

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2022 and of its profit for the year then ended;
- have been properly prepared in accordance with UK adopted international accounting standards; 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 related to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the entity's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

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 contained within the annual report. 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. 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 course of 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 this gives rise to a material misstatement in the financial statements themselves. 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.

XENETIC BIOSCIENCES (UK) LIMITED

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

Auditors' responsibilities for the audit of the financial statements (continued)

The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

Discussions with and enquiries of management and those charged with governance were held with a view to identifying those laws and regulations that could be expected to have a material impact on the financial statements. During the engagement team briefing, the outcomes of these discussions and enquiries were shared with the team, as well as consideration as to where and how fraud may occur in the entity.

Those laws and regulations, which were identified as being of significance to the entity, considered to have a direct effect on the financial statements include UK financial reporting standards, company law, tax legislation, and distributable profits legislation.

Audit procedures undertaken in response to the potential risks relating to irregularities (which include fraud and non-compliance with laws and regulations) comprised of: enquiries of management and those charged with governance as to whether the entity complies with such laws and regulations; enquiries with the same concerning any actual or potential litigation or claims; review of legal costs; testing the appropriateness of journal entries; and the performance of analytical review to identify unexpected movements in account balances which may be indicative of fraud.

No instances of material non-compliance were identified. However, the likelihood of detecting irregularities, including fraud, is limited by the inherent difficulty in detecting irregularities, the effectiveness of the entity's controls, and the nature, timing and extent of the audit procedures performed. Irregularities that result from fraud may be inherently more difficult to detect than irregularities that result from error. As explained above, there is an unavoidable risk that material misstatements may not be detected, even though the audit has been planned and performed in accordance with ISAs (UK).

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.

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
25 September 2023

XENETIC BIOSCIENCES (UK) LIMITED

**STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2022**

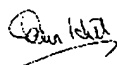
	Note	2022 \$	2021 \$
Administrative expenses		71,234	9,575
Operating profit	3	71,234	9,575
Income tax expense	6	-	-
Profit for the year		71,234	9,575
Other comprehensive income		-	-
Total comprehensive income for the year attributable to equity holder of the Company		71,234	9,575

XENETIC BIOSCIENCES (UK) LIMITED
REGISTERED NUMBER: 03213174

BALANCE SHEET
AS AT 31 DECEMBER 2022

	Note	2022 \$	2021 \$
Non-current assets			
Investments	7	13,442,263	13,442,263
		<u>13,442,263</u>	<u>13,442,263</u>
Current assets			
Trade and other receivables	8	5,392	-
		<u>5,392</u>	<u>-</u>
Current liabilities			
Trade and other payables	9	(51,990)	(117,832)
		<u>(46,598)</u>	<u>(117,832)</u>
Net current liabilities			
		<u>13,395,665</u>	<u>13,324,431</u>
Net assets			
Equity attributable to the Company's equity holder			
Share capital	10	-	-
Share premium account	11	69,761,933	69,761,933
Capital redemption reserve	11	5,505,802	5,505,802
Accumulated deficit	11	(61,872,070)	(61,943,304)
		<u>13,395,665</u>	<u>13,324,431</u>
Total equity attributable to the Company's equity holder			

The financial statements on pages 8 to 22 were approved and authorised for issue by the Board on 25 September 2023 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 2022**

	2022 \$	2021 \$
Cash flows from operating activities		
Profit before income tax for the year	71,234	9,575
Adjustments for:		
Reversal of provision for impairment of receivables from related parties	(71,598)	(48,807)
Increase in trade and other receivables	(5,392)	-
Decrease in trade and other payables	(65,842)	(9,575)
Decrease in trading balances with related parties	71,598	48,807
Net cash used in operating activities	<u>-</u>	<u>-</u>
Net decrease in cash and cash equivalents	-	-
Cash and cash equivalents at beginning of year	<u>-</u>	<u>-</u>
Cash and cash equivalents at the end of year	<u><u>-</u></u>	<u><u>-</u></u>

XENETIC BIOSCIENCES (UK) LIMITED

**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2022**

	Share capital \$	Share premium \$	Capital redemption reserve \$	Accumulated deficit \$	Total equity \$
At 1 January 2021	-	69,761,933	5,505,802	(61,952,879)	13,314,856
Comprehensive income for the year	-	-	-	9,575	9,575
Total comprehensive income for the year	-	-	-	9,575	9,575
At 31 December 2021	-	69,761,933	5,505,802	(61,943,304)	13,324,431
Comprehensive income for the year	-	-	-	71,234	71,234
Total comprehensive income for the year	-	69,761,933	5,505,802	(61,872,070)	13,395,665
At 31 December 2022	-	69,761,933	5,505,802	(61,872,070)	13,395,665

XENETIC BIOSCIENCES (UK) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

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 United Kingdom, 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 UK.

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.

XENETIC BIOSCIENCES (UK) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

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:

- Annual Improvements to IFRS 2018-2020 Cycle
- Reference to the Conceptual Framework – amendments to IFRS 3
- Property, Plant and Equipment – Proceeds before Intended Use – amendments to IAS 16
- Onerous Contracts – Cost of Fulfilling a Contract – amendments to IAS 37

The amendments above did not have any impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

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.

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 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.

XENETIC BIOSCIENCES (UK) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

2. Accounting policies (continued)

2.2 Investments

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

2.3 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 profit or loss in 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).

2.4 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.

XENETIC BIOSCIENCES (UK) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

2. Accounting policies (continued)

2.4 Financial instruments (continued)

The accounting policy for each category is as follows:

Financial assets

Financial assets comprise 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.

Derecognition 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'. Therefore it is not necessary for a credit event to have occurred before credit losses are recognised. The impairment model applies to the Company's financial assets.

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.

XENETIC BIOSCIENCES (UK) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

2. Accounting policies (continued)

2.5 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 reporting 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'.

2.6 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.

2.7 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 reporting 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 reporting 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.

XENETIC BIOSCIENCES (UK) LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

3. Operating profit

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

	2022	2021
	\$	\$
Movement on provision for expected credit losses	(71,598)	(48,807)
Net (gain)/loss on foreign currency translation	(15,815)	136
	<u> </u>	<u> </u>

4. Auditors' remuneration

	2022	2021
	\$	\$
Fees payable to the Company's auditors for the audit of the Company's annual accounts	12,050	10,700
	<u> </u>	<u> </u>

5. Particulars of employees

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

	2022	2021
	\$	\$
Salaries and short-term employment benefits	55,158	54,695
	<u> </u>	<u> </u>

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

Emoluments of highest paid director:

	2022	2021
	\$	\$
Salaries and short-term employment benefits	55,158	54,695
	<u> </u>	<u> </u>

None of the directors accrued benefits under a Company pension scheme in the current or the prior year.

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

XENETIC BIOSCIENCES (UK) LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

6. Income tax expense

Analysis of expense in the year

	2022	2021
	\$	\$
Current tax:		
UK corporation tax based on the results for the year at 19% (2021: 19%)	-	-
Current tax for the year	<u>-</u>	<u>-</u>

Factors affecting tax charge for the year

The tax charge for the year differs from the standard rate of 19% (2021: 19%) as follows:

	2022	2021
	\$	\$
Profit on ordinary activities before tax	<u>71,234</u>	<u>9,575</u>
Profit on ordinary activities multiplied by standard rate of corporation tax	13,534	1,819
Effects of:		
Tax effect of non-deductible items	(43)	(80)
Unrelieved tax losses arising in the year	113	7,534
Movement on non-deductible provision	<u>(13,604)</u>	<u>(9,273)</u>
Current tax for the year	<u>-</u>	<u>-</u>

The Company has corporation tax losses available for offset against future profits of the same trade of \$10,800,000 (2021: \$10,800,000). 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 \$2,700,000 (2021: \$2,700,000). This figure is 25% of the tax losses available at the year end, because 25% is the corporation tax rate applying to future taxable profits that was substantively enacted at the year end.

XENETIC BIOSCIENCES (UK) LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

7. Investments

	Investments in subsidiaries \$
Cost	
At 31 December 2021 and 31 December 2022	<u>22,507,772</u>
Accumulated impairment	
At 31 December 2021 and 31 December 2022	<u>9,065,509</u>
Net book value	
At 31 December 2022	<u>13,442,263</u>
At 31 December 2021	<u>13,442,263</u>

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. 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 2022 and 31 December 2021. An impairment of \$nil was recognised within 'administrative expenses' in the year ended 31 December 2022 (2021: \$nil).

8. Trade and other receivables

	2022 \$	2021 \$
Current:		
Social security and other taxes	<u>5,392</u>	<u>-</u>

Trade and other receivables include loans from related parties with a carrying value of \$nil (2021: \$nil) after recognition of a provision for lifetime expected credit losses of \$27,086,391 (2021: \$27,157,989).

XENETIC BIOSCIENCES (UK) LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

9. Trade and other payables

	2022 \$	2021 \$
Current:		
Trade payables	32,413	1,192
Social security and other taxes	-	61,015
Accrued expenses	19,577	55,625
	<u>51,990</u>	<u>117,832</u>

10. Share capital

	2022 No.	2021 No.
Authorised share capital:		
Ordinary shares of 0.5p each	<u>100,000,000</u>	<u>100,000,000</u>
	2022 No.	2021 No.
Allotted, called up and fully paid:		
Ordinary shares of 0.5p each	<u>1</u>	<u>1</u>

11. 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 through profit or loss in the Statement of Comprehensive Income.

XENETIC BIOSCIENCES (UK) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

12. Financial instruments

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

	2022 \$	2021 \$
Financial liabilities measured at amortised cost		
Accrued expenses	19,577	55,625
Trade payables	32,413	1,192
	<u>51,990</u>	<u>56,817</u>

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

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 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.

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 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.

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.

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.

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.

XENETIC BIOSCIENCES (UK) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

13. Related party transactions

Xenetic Biosciences, Inc.

In previous years, the Company advanced funds 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 2022 was \$520,590 (2021: \$520,590). At 31 December 2022 and 31 December 2021 this balance was fully provided against.

Lipoxen Technologies Limited

In previous years, the Company advanced funds, on an interest free basis, to its subsidiary, Lipoxen Technologies Limited (LTL), to fund the ongoing development of the Group's technology. In the current year, LTL settled costs on behalf of the Company of \$28,428 (2021: \$48,807) and charged \$43,170 (2021: \$nil) in relation to VAT owed by the Company included on returns filed by LTL.

The balance owed by LTL at 31 December 2022 was \$22,932,003 (2021: \$23,003,601). At 31 December 2022 and 31 December 2021 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 2022 or 2021. The balance owed by SymbioTec GmbH at 31 December 2022 was \$689,636 (2021: \$689,636). The balance owed by SymbioTec to the Company at 31 December 2022, excluding the loan referred to above, was \$1,129,955 (2021: \$1,129,955). At 31 December 2022 and 31 December 2021 both the loan and the balance were fully provided against.

Xenetic Bioscience Incorporated

In previous years, the Company advanced monies to its subsidiary, Xenetic Bioscience Incorporated, to fund its operations. The balance owed at 31 December 2022 was \$1,802,188 (2021: \$1,802,188). At 31 December 2022 and 31 December 2021 this balance was fully provided against.

14. 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 945 Concord Street, Framingham, MA 01701, United States of America or www.xeneticbio.com.

There is no ultimate controlling party at the reporting date.