



**Charles River Discovery Research Services UK Limited
(formerly known as Biofocus DPI Ltd)**

**Annual Report and Financial Statements
For the year ended 31 December 2016**

Company Registration No. 04622227

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**Charles River Discovery Research Services UK Limited
(formerly known as Biofocus DPI Ltd)**

**Annual Report and Financial Statements
For the year ended 31 December 2016**

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**Charles River Discovery Research Services UK Limited
(formerly known as Biofocus DPI Ltd)**

Directors and Advisers for the year ended 31 December 2016

Directors

D P Johst
D R Smith
K L Hilyard
B Girshick

Company Secretary

S M Price

Company number

04622227

Registered office

Manston Road
Margate
Kent
CT9 4LT

Independent Auditors

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Atria One
144 Morrison Street
Edinburgh
EH3 8EX

Charles River Discovery Research Services UK Limited (formerly known as Biofocus DPI Ltd)

Strategic Report for the year ended 31 December 2016

The directors present their Strategic Report for the year ended 31 December 2016.

Principal Activities

The Company's principal activity is conducting pharmaceutical research and early stage drug development.

Business performance and future outlook

The Company's turnover for the financial year was £38,954,000 (2015: £34,956,000). The result for year was a profit of £8,855,000 (2015: profit £1,178,000). An interim dividend of £16,590,000 (2015: £nil) was paid during the year. The directors do not recommend the payment of a final dividend in respect of the year (2015: £nil).

Key performance indicators ("KPIs")

Given the straightforward nature of the business, the Company's directors are of the opinion that analyses using KPIs are not necessary for an understanding of the development, performance or position of the business.

Principal risks and uncertainties

The Company's activities expose it to a number of financial risks including cash flow risk, credit risk, liquidity risk and price risk. The Company does not currently use derivative financial instruments.

Cash flow risk

The Company's activities expose it primarily to the financial risks of changes in foreign currency exchange rates, as the Company make sales in US Dollars and Euros. To manage this risk, the Company makes purchases in US Dollars and Euros, where possible.

Credit risk

The Company's principal financial assets are bank balances and cash and trade and other debtors and amounts owed from group undertakings.

The Company's credit risk is primarily attributable to its trade debtors. The amounts presented in the balance sheet are net of provisions for doubtful debts. A provision for impairment is made where there is an identified loss event which, based on previous experience, is evidence of a reduction in the recoverability of the cash flows.

The credit risk on liquid funds and financial instruments is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

The Company has no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers

Liquidity risk

There is an increased level of uncertainty in the market as a result of the recent economic downturn and the increased difficulty in accessing liquidity from third parties.

In order to maintain liquidity to ensure that sufficient funds are available for ongoing operations and future developments, the Company uses a mixture of long-term and short-term inter-company finance.

Price risk

The Company is not exposed to any significant price risk.

Approved by the Board on 29 September 2017 and signed on its behalf by:



K L Hilyard
Director

Charles River Discovery Research Services UK Limited (formerly known as Biofocus DPI Ltd)

Directors' report for the year ended 31 December 2016

The directors present their annual report and the audited financial statements of the Company for the year ended 31 December 2016. The registered number of the company is 04622227.

Directors

The directors who served throughout the year and up to the date of this report were as follows:

D R Smith

D P Johst

K L Hilyard

E Hickey (Resigned 23 September 2016)

B Girshick (Appointed 28 September 2016)

Share Capital

On 14 September 2016 the Company undertook a capital reduction in accordance with s641 of the Companies Act 2006 by which it cancelled £15,000,000 of its share premium account and 10,000,000 of its ordinary shares. The distributable reserve created by the capital reduction, were used to pay an interim dividend of £11,590,000.

Dividends

During the year the directors approved the payment of a dividends totalling £16,590,000 to the immediate parent company Biofocus DPI (Holdings) Ltd (2015 - £nil).

Post balance sheet events

On 1 March 2017 the Company changed its name from Biofocus DPI Ltd to Charles River Discovery Research Services UK Limited. On 17 February 2017 the group announced its intentions to transfer all the trade, employees, and assets of Argenta Discovery 2009 Limited to Charles River Discovery Research Services UK Limited on 1 July 2017. All activities and customer relationships are expected to continue unchanged following the transfer.

Going concern

The directors have prepared a cash flow forecast which shows that they expect the Company to be able to meet its cash obligations as they fall due.

The forecast necessarily includes a number of assumptions; however, based on the directors' knowledge of the business and the Company's track record of successfully achieving its targets, they consider that the assumptions which underpin the forecast are realistic and achievable.

As at 31 December 2016, the Company had net current assets of £15,923,000 (2015 - £22,438,000).

Further, the Company had a net cash balance of £4,095,000 at 31 December 2016 (2015 - £8,010,000).

Based on the year end balance sheet position and cash flow forecast prepared, the directors believe that the Company will have sufficient means to repay this loan and any outstanding accrued interest when it becomes due.

Consequently, based on all of the available evidence, the directors have a reasonable expectation that the Company has adequate financial resources to continue in existence for the foreseeable future, and they continue to adopt the going concern basis in preparing these financial statements.

Directors' Indemnities

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

Charles River Discovery Research Services UK Limited **(formerly known as Biofocus DPI Ltd)**

Directors' report for the year ended 31 December 2016 (continued)

Statement of directors' responsibilities

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including Financial Reporting Standard 102, "The Financial Reporting Standard Applicable in the UK and Republic of Ireland (FRS 102)". 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 and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether applicable UK accounting standards, including FRS 102, have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the 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.

The directors are responsible for the maintenance and integrity of the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Directors' statement on disclosure of information to auditors

In the case of each of the persons who are directors of the Company at the date when this report is approved:

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

Approved by the Board on ²⁹ September 2017 and signed on its behalf by

K L Hilyard
Director



Independent auditors' report to the members of Charles River Discovery Research Services UK Limited

Report on the financial statements

Our opinion

In our opinion, Charles River Discovery Research Services UK Limited's financial statements (the "financial statements"):

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

What we have audited

The financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), comprise:

- the Balance Sheet as at 31 December 2016;
- the Income Statement and Statement of Comprehensive Income for the year then ended;
- the Statement of Changes in Equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law (United Kingdom Generally Accepted Accounting Practice).

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

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

In addition, in light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we are required to report if we have identified any material misstatements in the Strategic Report and the Directors' Report. We have nothing to report in this respect.

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

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

- we have not received all the information and explanations we require for our audit; or
- 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.

We have no exceptions to report arising from this responsibility.

Independent auditors' report to the members of Charles River Discovery Research Services UK Limited (Continued)

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Statement of directors' responsibilities set out on page 4, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What an audit of financial statements involves

We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:


- whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report. With respect to the Strategic Report and Directors' Report, we consider whether those reports include the disclosures required by applicable legal requirements.

The company has passed a resolution in accordance with section 506 of the Companies Act 2006 that the auditor's name should not be stated.



PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Edinburgh
29 July 2017

Charles River Discovery Research Services UK Limited
(formerly known as Biofocus DPI Limited)

Income Statement for the year ended 31 December 2016

	Notes	2016 £'000	2015 £'000
Turnover	4	38,954	34,956
Cost of sales		(25,916)	(25,855)
Gross profit		13,038	9,101
Administrative expenses		(4,431)	(7,590)
Operating profit	5	8,607	1,511
Interest receivable and similar income	7	195	103
Profit on ordinary activities before taxation		8,802	1,614
Tax credit/(charge) on profit on ordinary activities	8	53	(436)
Profit for the financial year		8,855	1,178

Statement of Comprehensive Income
Year ended 31 December 2016

	2016 £'000	2015 £'000
Profit for the financial year	8,855	1,178
Other comprehensive income	-	-
Total Comprehensive Income for the year	8,855	1,178

The above results relate entirely to continuing activities.


Charles River Discovery Research Services UK Limited
(formerly known as Biofocus DPI Limited)

Balance Sheet as at 31 December 2016

	Notes	2016 £'000	2015 £'000
Fixed assets			
Goodwill	10	5,028	6,078
Tangible assets	11	3,763	3,963
		8,791	10,041
Current assets			
Debtors	13	20,345	17,191
Non-current debtors	13	-	4,500
Inventory	14	119	1,243
Cash at bank and in hand		4,095	8,010
		24,559	30,944
Creditors: amounts falling due within one year	15	(8,636)	(8,506)
Net current assets		15,923	22,438
Total assets less current liabilities		24,714	32,479
Net assets		24,714	32,479
Capital and reserves			
Called up share capital	16	10,000	20,000
Share premium account		222	15,222
Share based payment reserve		4,384	4,414
Retained earnings		10,108	(7,157)
Total shareholders' funds		24,714	32,479

The financial statements of Charles River Discovery Research Services UK Limited, registered number 04622227, on pages 7 to 24 were approved by the Board of Directors and authorised for issue on 29 September 2017

They were signed on its behalf by:



K L Hilyard
Director

Charles River Discovery Research Services UK Limited
(formerly known as Biofocus DPI Ltd)

Statement of Changes in Equity
31 December 2016

	Share capital £'000	Share premium account £'000	Share-based payment reserve £'000	Retained earnings £'000	Total £'000
Balance as at 1 January 2015	20,000	15,222	4,223	(8,335)	31,110
Profit for the year	-	-	-	1,178	1,178
Total comprehensive income for the year	-	-	-	1,178	1,178
Credit to equity for share-based payments	-	-	191	-	191
Total transactions with owners, recognised directly in equity	-	-	191	-	191
Balance as at 31 December 2015	20,000	15,222	4,414	(7,157)	32,479
Profit for the year	-	-	-	8,855	8,855
Total comprehensive income for the year	-	-	-	8,855	8,855
Debit to equity for share-based payments	-	-	(30)	-	(30)
Dividends	-	-	-	(16,590)	(16,590)
Capital reduction	(10,000)	(15,000)	-	25,000	-
Total transactions with owners, recognised directly in equity	(10,000)	(15,000)	(30)	8,410	(16,620)
Balance as at 31 December 2016	10,000	222	4,384	10,108	24,714

On 14 September 2016 the Company undertook a capital reduction in accordance with s641 of the Companies Act 2006 by which it cancelled £15,000,000 of its share premium account and 10,000,000 of its ordinary shares. The distributable reserve created by the capital reduction, were used to pay an interim dividend of £11,590,000.

Charles River Discovery Research Services UK Limited (formerly known as Biofocus DPI Ltd)

Notes to the financial statements Year ended 31 December 2016

1. General information

Charles River Discovery Research Services UK Limited (the "Company") is a private Company limited by shares and is incorporated in the United Kingdom. The address of its registered office is Manston Road, Margate, Kent CT9 4LT.

The Company's principal activity is conducting pharmaceutical research and early stage drug development.

2. Statement of compliance

The individual financial statements of Charles River Discovery Research Services UK Limited have been prepared in compliance with United Kingdom Accounting Standards, including Financial Reporting Standard 102, "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" ("FRS 102") and the Companies Act 2006.

3. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Basis of preparing the financial statements

These financial statements are prepared on the going concern basis, under the historical cost convention, and in accordance with the Companies Act 2006 and applicable accounting standards in the United Kingdom including FRS 102 on a basis consistent with the prior year. This is the first year in which the financial statements have been prepared under FRS 102. The date of transition to FRS 102 was 28 December 2014. Details of the transition to FRS 102 are disclosed in note 20.

The preparation of financial statements in conformity with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in 'Critical accounting judgements and key source of estimation uncertainty' note.

Going concern

The directors have prepared a cash flow forecast which shows that they expect the Company to be able to meet its cash obligations as they fall due.

The forecast necessarily includes a number of assumptions; however, based on the directors' knowledge of the business and the Company's track record of successfully achieving its targets, they consider that the assumptions which underpin the forecast are realistic and achievable.

Consequently, based on all of the available evidence, the directors have a reasonable expectation that the Company has adequate financial resources to continue in existence for the foreseeable future, and they continue to adopt the going concern basis in preparing these financial statements.

Exemptions for qualifying entities under FRS 102

FRS 102 allows a qualifying entity certain disclosure exemptions, if certain conditions, have been complied with, including notification of and no objection to, the use of exemptions by the Company's shareholders. A qualifying entity is defined as a member of a Group that prepares publicly available financial statements, which give a true and fair view, in which that member is consolidated. The Company is a qualifying entity as its results are consolidated into the financial statements of Charles River Laboratories International Inc. which are publicly available.

As a qualifying entity, the Company has taken advantage of the following exemptions in its separate financial statements:

- i) from the requirement to prepare a statement of cash flows as required by paragraph 3.17(d) of FRS 102;
- ii) from the requirement to present certain financial instrument disclosures, as required by sections 11 and 12 of FRS 102;

Charles River Discovery Research Services UK Limited (formerly known as Biofocus DPI Ltd)

Notes to the financial statements Year ended 31 December 2016

3. Summary of significant accounting policies (continued)

Exemptions for qualifying entities under FRS 102 (continued)

- iii) from disclosing share based payment arrangements, required by paragraphs 26.18(b), 26.19 to 26.21 and 26.23 of FRS 102, concerning its own equity instruments;
- iv) from the requirement to present a reconciliation of the number of shares outstanding at the beginning and end of the period as required by paragraph 4.12(a)(iv) of FRS 102; and
- v) from the requirement to disclose the key management personnel compensation in total as required by paragraph 33.7 of FRS 102.

Consolidated financial statements

The Company is a wholly owned (indirect) subsidiary of Charles River Laboratories International Inc. It is included in the consolidated financial statements of Charles River Laboratories International Inc which are publicly available. Therefore the Company is exempt by virtue of section 401 of the Companies Act 2006 from the requirement to prepare consolidated financial statements.

These financial statements are the Company's separate financial statements.

Foreign currency

i) Functional and presentation currency

The Company's functional and presentation currency is the pound sterling.

ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the spot exchange rates at the dates of the transactions.

At each period end foreign currency monetary items are translated using the closing rate. Non-monetary items measured at historical cost are translated using the exchange rate at the date of the transaction and non-monetary items measured at fair value are measured using the exchange rate when fair value was determined.

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 income statement.

Turnover

Turnover, which excludes value added tax, represents the invoiced value of services supplied and the value of contract work performed as described below.

The Company provides pharmaceutical research services to its customers in exchange for a fee which is generally dependent on the resource dedicated to the project and charged at a certain rate per full time equivalent (FTE) employee per year. Turnover on such contracts is recognised as the services are rendered. The Company also receives milestone payments, these are recognised as revenue when achieved. In other cases, the Company performs research services on a fixed price basis. In this case, turnover is recognised as work is performed using the percentage of completion method, as measured by costs incurred to date compared to estimated total costs at completion.

The Company also derives turnover from the granting of licences to its intellectual property rights. Such licence income is typically part of a collaboration/partnering agreement which comprises some or all of the following components: an upfront technology access fee payable on the licence grant; fees payable on an FTE basis for research performed by the Company during some or all of the duration of the agreement; fees contingent on the successful discovery of candidate drugs, development of potential drugs or registration of drugs deriving from the licensed intellectual property rights triggered by the attainment of pre-clinical, clinical or regulatory goals ("milestones"); and, where a product based on the licensed intellectual property rights is marketed by the collaboration partner or its sub licensees, royalties based on product sales.

Charles River Discovery Research Services UK Limited **(formerly known as Biofocus DPI Ltd)**

Notes to the financial statements **Year ended 31 December 2016**

3. Summary of significant accounting policies (continued)

Finance costs

Finance costs of financial liabilities are recognised in the income statement over the term of such instruments at a constant rate on the carrying amount.

Employee benefits

The Company provides a range of benefits to employees, including paid holiday arrangement and defined contribution pension plans.

i) Short term benefits

Short term benefits, including holiday pay and other similar non-monetary benefits, are recognised as an expense in the period in which the service is received.

ii) Defined contribution pension plan

The Company pays defined pension contributions to its employees' personal pension plans which are set up under a group personal pension plan arranged with an approved pension provider. These pension costs are charged to the income statement in the year in which the payment is made. The group personal pension plan meets the current requirements of stakeholder pensions.

iii) Share-based payments

Galapagos NV, the Company's previous parent company, issued equity-settled share-based payments to certain employees, directors and consultants. Equity-settled share-based payments are measured at fair value at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Company's estimate of shares that will eventually vest. Fair value is measured by use of the Black Scholes model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

Following the acquisition of the immediate parent company by Charles River Holdings Limited the Company also participates in a number of equity-settled, share-based compensation plans operated by Charles River Laboratories International Inc (see note 9). The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. At each balance sheet date, the entity revises its estimates of the number of options that are expected to vest. It recognises the impact of the revision to original estimates, if any, in the income statement.

National Insurance Contributions (NIC) payable by the Company or its subsidiary undertaking on the exercise of share options, are provided for based on the intrinsic value of these options and the prevailing rate of NIC at the balance sheet date.

Taxation

Taxation expense for the period comprises current and deferred tax recognised in the reporting period. Tax is recognised in the income statement, except to the extent that it relates to items recognised directly in equity. In this case tax is also recognised directly in equity respectively.

The Government has enacted the R&D expenditure credit ("RDEC") tax relief from 1 April 2013 and the Company entered the scheme on this date. The Company has treated the RDEC as grant income within the financial statements.

Current or deferred taxation assets and liabilities are not discounted.

Charles River Discovery Research Services UK Limited **(formerly known as Biofocus DPI Ltd)**

Notes to the financial statements **Year ended 31 December 2016**

3. Summary of significant accounting policies (continued)

Taxation (continued)

i) Current tax

Current tax is the amount of income tax payable in respect of the taxable profit for the year or prior years. Tax is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the period end.

ii) Deferred tax

Deferred tax arises from timing differences that are differences between taxable profits and total income as stated in the financial statements. These timing differences arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in financial statements.

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

Research and development expenditure

Research and development expenditure is charged to the income statement as incurred.

Grants

Government grants are recognised based on the accrual model and are measured at the fair value of the asset received or receivable. Grants are classified as relating either to revenue or to assets. Grants relating to revenue are recognised in income over the period in which the related costs are recognised. Grants relating to assets are recognised over the expected useful life of the asset. Where part of a grant relating to an asset is deferred, it is recognised as deferred income.

Intangible assets

Goodwill

Purchased goodwill, being the difference between the fair value of the consideration and the fair value of the net assets acquired, is capitalised and amortised on a straight line basis over a prudent estimate of the period that the Company is expected to benefit from it. Goodwill amortisation periods are determined on a case by case basis up to a maximum of 20 years.

Tangible fixed assets

Tangible assets are stated at cost less accumulated depreciation and accumulated impairment losses. The cost of tangible fixed assets is their purchase cost together with any incidental costs of acquisition.

Depreciation is calculated so as to write off the cost of tangible fixed assets less their estimated residual values on a straight line basis over the expected useful economic lives of the assets concerned. The economic useful lives of assets are estimated to be as follows:

Leasehold improvements	Lease period
Fixtures and fittings	5 years
Laboratory equipment	5 years
IT equipment	3 years

The carrying values of tangible fixed assets are reviewed for impairment in periods if events or changes in circumstances indicate that their carrying values may not be recoverable.

The assets' residual values and useful lives are reviewed, and adjusted, if appropriate, at the end of each reporting period. The effect of any change is accounted for prospectively.

Repairs, maintenance and minor inspection costs are expensed as incurred.

Charles River Discovery Research Services UK Limited **(formerly known as Biofocus DPI Ltd)**

Notes to the financial statements **Year ended 31 December 2016**

3. Summary of significant accounting policies (continued)

Tangible fixed assets (continued)

Tangible assets are derecognised on disposal or when no future economic benefits are expected. On disposal, the difference between the net disposal proceeds and the carrying amount is recognised in the income statement.

Leased assets

At inception the Company assesses agreements that transfer the right to use assets. The assessment considers whether the arrangement is, or contains, a lease based on the substance of the arrangement.

i) Operating leased assets

Leases that do not transfer all the risks and rewards of ownership are classified as operating leases. Operating lease rentals are charged to the income statement on a straight line basis over the period of the lease.

ii) Finance leased assets

Leases of assets that transfer substantially all the risks and rewards incidental to ownership are classified as finance leases.

Finance leases are capitalised at commencement of the lease as assets at the fair value of the leased asset or, if lower, the present value of the minimum lease payments calculated using the interest rate implicit in the lease. Where the implicit rate cannot be determined the company's incremental borrowing rate is used. Incremental direct costs, incurred in negotiating and arranging the lease, are included in the cost of the asset.

Assets are depreciated over the shorter of the lease term and the estimated useful life of the asset. Assets are assessed for impairment at each reporting date.

The capital element of lease obligations is recorded as a liability on inception of the arrangement. Lease payments are apportioned between capital repayment and finance charge, using the effective interest rate method, to produce a constant rate of charge on the balance of the capital repayments outstanding.

iii) Lease incentives

The Company has taken advantage of the exemption in respect of lease incentives on leases in existence on the date of transition to FRS 102 (1 January 2015) and continues to credit such lease incentives to the income statement over the period to the first review date on which the rent is adjusted to market rates.

Impairment of non-financial assets

At each balance sheet non-financial assets not carried at fair value are assessed to determine whether there is an indication that the asset may be impaired. If there is such an indication the recoverable amount of the asset is compared to the carrying amount of the asset.

The recoverable amount of the asset is the higher of the fair value less costs to sell and value in use. Value in use is defined as the present value of the future pre-tax and interest cash flows obtainable as a result of the asset's continued use. The pre-tax and interest cash flows are discounted using a pre-tax discount rate that represents the current market risk-free rate and the risks inherent in the asset.

If the recoverable amount of the asset is estimated to be lower than the carrying amount, the carrying amount is reduced to its recoverable amount. An impairment loss is recognised in the income statement, unless the asset has been revalued when the amount is recognised in the other comprehensive income to the extent of any previously recognised revaluation. Thereafter any excess is recognised in the income statement.

Charles River Discovery Research Services UK Limited **(formerly known as Biofocus DPI Ltd)**

Notes to the financial statements

Year ended 31 December 2016

3. Summary of significant accounting policies (continued)

Impairment of non-financial assets (continued)

If an impairment loss is subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but only to the extent that the revised carrying amount does not exceed the carrying amount that would have been determined (net of depreciation) had no impairment loss been recognised in prior periods. A reversal of an impairment loss is recognised in the income statement.

Inventory

Finished products for sale are capitalised as inventory. Cost is determined on a weighted average basis and includes all applicable direct costs. Estimated selling price less cost to complete and sell is determined with reference to market prices after deducting direct selling expenses. Slow moving inventory lines are written down based on future forecast sales.

Financial instruments

The Company has chosen to adopt the Sections 11 and 12 of FRS 102 in respect of financial instruments.

i) Financial assets

Basic financial assets, including trade and other debtors and cash and bank balances, are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the transaction is measured at the present value of the future receipts discounted at a market rate of interest.

Such assets are subsequently carried at amortised cost using the effective interest method.

At the end of each reporting period financial assets measured at amortised cost are assessed for objective evidence of impairment. If an asset is impaired the impairment loss is the difference between the carrying amount and the present value of the estimated cash flows discounted at the asset's original effective interest rate. The impairment loss is recognised in income statement.

If there is decrease in the impairment loss arising from an event occurring after the impairment was recognised, the impairment is reversed. The reversal is such that the current carrying amount does not exceed what the carrying amount would have been had the impairment not previously been recognised. The impairment reversal is recognised in income statement.

Financial assets are derecognised when (a) the contractual rights to the cash flows from the asset expire or are settled, or (b) substantially all the risks and rewards of the ownership of the asset are transferred to another party or (c) control of the asset has been transferred to another party who has the practical ability to unilaterally sell the asset to an unrelated third party without imposing additional restrictions.

ii) Financial liabilities

Basic financial liabilities, including trade and other creditors, bank loans and loans from fellow group undertakings, are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the debt instrument is measured at the present value of the future receipts discounted at a market rate of interest.

Debt instruments are subsequently carried at amortised cost, using the effective interest rate method.

Trade creditors are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities. Trade payables are recognised initially at transaction price and subsequently measured at amortised cost using the effective interest method.

Financial liabilities are derecognised when the liability is extinguished, that is when the contractual obligation is discharged, cancelled or expires.

The Company does not hold or issue any derivative financial instruments.

Charles River Discovery Research Services UK Limited (formerly known as Biofocus DPI Ltd)

Notes to the financial statements Year ended 31 December 2016

3. Summary of significant accounting policies (continued)

Financial instruments (continued)

iii) Offsetting

Financial assets and liabilities are offset and the net amounts presented in the financial statements when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

Financial liabilities and equity

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

Critical accounting judgements and key source of estimation uncertainty

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the application of the accounting policies and the reported amounts of assets and liabilities, revenue and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are reasonable under the circumstances. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

i) Useful economic lives of intangible fixed assets and tangible fixed assets

The annual amortisation and depreciation charge for intangible and tangible assets is sensitive to changes in the estimated useful economic lives and residual values of the assets. The useful economic lives and residual values are re-assessed annually. They are amended when necessary to reflect current estimates, based on technological advancement, future investments, economic utilisation and the physical condition of the assets. See notes 10 and 11 for the carrying amount of the intangible and tangible fixed assets, and accounting policy for the useful economic lives for each class of assets.

4. Turnover

The directors consider more detailed revenue disclosure to be seriously prejudicial to the commercial success of the Company. Consequently detail of revenue components is not disclosed in these financial statements.

5. Operating profit

	2016 £'000	2015 £'000
Operating profit is after charging/(crediting):		
Depreciation and amortisation for the year:		
Tangible fixed assets - owned	1,160	1,176
Goodwill	1,050	1,050
Operating lease rentals		
Other operating leases	2,655	2,006
Plant and machinery	103	174
Research and development tax credit	(1,142)	(1,223)
Foreign exchange gains	(844)	(79)

Charles River Discovery Research Services UK Limited (formerly known as Biofocus DPI Ltd)

Notes to the financial statements Year ended 31 December 2016

5. Operating profit (continued)

The analysis of auditors' remuneration is as follows:

Fees payable to the Company's auditor for the audit of the
Company's financial statements

87	84
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Total audit fees

87	84
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6. Staff costs

The average monthly number of employees was:

Technical, research and development
Sales and administration

2016 No	2015 No
179	163
22	28
201	191

Staff costs during the year

Wages and salaries

Social security costs

Other pension costs

2016 £'000	2015 £'000
8,501	7,997
837	859
1,361	1,325
10,699	10,181

Directors' remuneration

Aggregate emoluments

Pension scheme contributions

2016 £'000	2015 £'000
181	334
21	36
202	370

Remuneration of highest paid director

Aggregate remuneration

Pension scheme contributions

2016 £'000	2015 £'000
181	301
21	26
202	327

At the balance sheet date, two directors (2015 - two) were members of a money purchase pension scheme.

No director remunerated by the Company exercised share warrants in the year (2015 - none).

The Company has made arrangements for its staff to join a group personal pension plan should they wish. The Company's contribution to the scheme is fixed and the assets of the scheme are held separately in independently administered funds. There were no outstanding or prepaid contributions at the balance sheet date.

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Notes to the financial statements
Year ended 31 December 2016

7. Interest receivable and similar income

	2016	2015
	£'000	£'000
Interest receivable and similar income		
Bank interest receivable and similar income	11	7
Amounts due from group undertakings	184	96
	<u>195</u>	<u>103</u>

8. Tax on profit on ordinary activities

(a) Analysis of (credits)/charge for the year:

	2016	2015
	£'000	£'000
Current tax:		
UK corporation tax	39	498
	<u>39</u>	<u>498</u>
Deferred tax:		
Origination and reversal of timing differences	(275)	(440)
Adjustment in respect of prior periods	(50)	(3)
Effect of rate changes	233	381
	<u>(92)</u>	<u>(62)</u>
Total tax (credit)/charge for the year	<u>(53)</u>	<u>436</u>

(b) Factors affecting tax credit for the year

The tax assessed for the year is different to the standard rate of corporation tax in the UK of 20.00% (2015 - 20.25%). The differences are explained below:

	2016	2015
	£'000	£'000
Profit on ordinary activities before tax	<u>8,802</u>	<u>1,614</u>
Profit on ordinary activities before tax at the standard rate of UK corporation tax of 20.00% (2015 - 20.25%)	1,760	327
Expenses not deductible for tax purposes	237	309
Income not taxable for tax purposes	-	(36)
Effects of group relief/other relief	-	1,122
Losses	-	(427)
Adjustment from previous periods	(50)	(3)
Tax rate changes	233	380
Share options - permanent deduction	(130)	(1,236)
Deferred tax not provided	(2,103)	-
Total tax (credit)/charge for the year	<u>(53)</u>	<u>436</u>

Charles River Discovery Research Services UK Limited (formerly known as Biofocus DPI Ltd)

Notes to the financial statements Year ended 31 December 2016

8. Tax on profit on ordinary activities (Continued)

c) Factors affecting tax charge for future years

The standard rate of Corporation Tax in the UK reduced from 21% to 20% with effect from 1 April 2015. Finance Act 2015 reduced the standard rate to 19% with effect from 1 April 2017 and Finance Act 2016 (enacted on 15 September 2016) reduced the rate further to 17% with effect from 1 April 2020. Any deferred tax balances have been stated at a rate of 17% or 19% depending upon when they are expected to be realised.

9. Share based payments

Equity-settled share warrant scheme (Galapagos NV)

Certain employees of the company benefit from a share warrant scheme operated by the previous owners, Galapagos NV. There is no cost to the company in the current year (prior year: £nil) in relation to this scheme.

Equity-settled share warrant scheme (Charles River Laboratories International Inc)

The ultimate parent company Charles River Laboratories International Inc has established a share option scheme for certain employees of the Company. Details of the current scheme are set out below:

2007 Incentive Plan - The 2007 Incentive Plan (2007 Plan), effective from 8 May 2007, provides for the grant of share options to employees of the Group. Options granted under the 2007 Plan vest annually in equal instalments over four years as long as the employee continues to be employed by the Group. All options granted under the 2007 Plan expire on or before 28 February 2024.

Under the 2007 Incentive Plan the options are equity settled and the exercise price is the share price at the grant date. The Company accounts for all share option schemes in accordance with FRS 20 ("Share-based payments").

The Company estimates the fair value of share options using the Black-Scholes valuation model. Key inputs and assumptions used to estimate the fair value of share options include the exercise price of the award, the expected option term, the risk-free interest rate over the option's expected term, the expected annual dividend yield and the expected share price volatility.

The fair value of the shares is charged to the income statement over the period from the beginning of the financial year from which qualifying service commences to the date at which the compensation is expected to vest in the employees. Shares are deemed to vest in the employees when all the risks and rewards have substantially transferred.

The fair value of options granted during the year was determined using a Black Scholes valuation model. The significant inputs into the model were share prices at the grant date, exercise prices, and option lives as disclosed above, and volatility and risk free interest rates as follows:

Charles River Discovery Research Services UK Limited
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Notes to the financial statements
Year ended 31 December 2016

9. Share based payments (continued)

The volatility is based on a statistical analysis of daily share prices over a period equal to the vesting period of the schemes ending on the day before the grant date for the schemes.

	2016	2015
Volatility	25%	28%
Risk free interest rates	1.2%	1.1%
Expected dividend yield	Nil	Nil
Weighted average remaining contractual life of options outstanding at 31 December 2016	3.6 years	3.6 years

In the fair value model it has been assumed that the expected dividend yield for the share option plan is nil and the estimated life of the share options is 3.6 years.

The Company recognised total expenses of £215,000 related to Charles River Laboratories International Inc equity-settled share-based payment transactions in the year ended 31 December 2016 (2015 - £191,000).

10. Goodwill

	£'000
Cost	
At 1 January 2016	19,961
At 31 December 2016	19,961
Accumulated Amortisation	
At 1 January 2016	13,883
Charge for the year	1,050
At 31 December 2016	14,933
Net book value	
At 31 December 2016	5,028
At 31 December 2015	6,078

The goodwill arising on the acquisition of the net assets and trading businesses of Biofocus DPI (Holdings) Limited and Cambridge Discovery Limited is being amortised over 19 years from the date of acquisition, being the expected useful life of the goodwill.

Charles River Discovery Research Services UK Limited
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Notes to the financial statements
Year ended 31 December 2016

11. Tangible assets

	Short leasehold improvements £'000	Laboratory equipment £'000	Office equipment, fixtures and fittings £'000	CIP £'000	Total £'000
Cost					
At 1 January 2016	2,277	12,412	1,879	349	16,917
Additions	-	601	182	177	960
Transfers	-	292	57	(349)	-
At 31 December 2016	<u>2,277</u>	<u>13,305</u>	<u>2,118</u>	<u>177</u>	<u>17,877</u>
Accumulated Depreciation					
At 1 January 2016	2,130	9,265	1,559	-	12,954
Charge for the year	7	981	172	-	1,160
At 31 December 2016	<u>2,137</u>	<u>10,246</u>	<u>1,731</u>	<u>-</u>	<u>14,114</u>
Net book value					
At 31 December 2016	<u>140</u>	<u>3,059</u>	<u>387</u>	<u>177</u>	<u>3,763</u>
At 31 December 2015	<u>147</u>	<u>3,147</u>	<u>320</u>	<u>349</u>	<u>3,963</u>

12. Deferred tax assets

	£'000
Movement in year:	
At 1 January 2016	3,404
Adjustment relating to prior year	50
Provided in the year	41
At 31 December 2016	<u>3,495</u>

At 31 December 2016 the Company had deferred tax assets comprising the following:

	2016 £'000	2015 £'000
Tax losses carried forward	3,800	3,800
Accelerated capital allowances	(379)	(447)
Short term timing differences	74	51
	<u>3,495</u>	<u>3,404</u>

Charles River Discovery Research Services UK Limited
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Notes to the financial statements
Year ended 31 December 2016

12. Deferred tax assets (continued)

Unrecognised deferred tax assets as at 31 December 2016 amounted to £1,388,000 (2015 - £3,016,000) including £280,000 (2015 - £320,000) of unrecognised restricted RDEC deferred tax. In accordance with Section 29 of FRS 102 'Income tax', the unprovided deferred tax asset will be utilised in future accounting periods, once there is sufficient, persuasive, reliable evidence that the Company will generate sufficient future trading profits from the same trading activities.

13. Debtors

	2016 £'000	2015 £'000
Amounts falling due within one year:		
Trade debtors	4,643	5,138
Amounts owed from group undertakings	3,489	953
Deferred tax asset (see note 12)	3,495	3,404
Other debtors	789	669
Prepayments and accrued income	5,954	5,290
R&D expenditure credit	1,975	1,737
	<u>20,345</u>	<u>17,191</u>
Amounts falling due after one year:		
Amounts owed from group undertakings	-	4,500
	<u>20,345</u>	<u>21,691</u>

The amounts owed from group undertakings includes a loan balance of £2,000,000 due for repayment in 2017. Interest is charged at 12 month GBP LIBOR plus 1.25%. The remainder represents trading balances, which do not bear interest and are repayable on demand.

14. Inventory

	2016 £'000	2015 £'000
Finished goods for resale	-	1,243
Raw materials and work in progress	119	-
	<u>119</u>	<u>1,243</u>

The inventory balance represents the capitalisation of compounds libraries under construction or for resale.

The amount of inventories recognised as an expense during the year was £1,243,000 (2015: £nil)

There is no material difference between the carrying amount of inventory and the replacement cost.

Charles River Discovery Research Services UK Limited
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Notes to the financial statements
Year ended 31 December 2016

15. Creditors: Amounts falling due within one year

	2016	2015
	£'000	£'000
Trade creditors	1,057	547
Amounts owed to group undertakings	2,355	1,251
Other taxation and social security	374	318
Other creditors	-	40
Accruals and deferred income	4,850	6,350
	8,636	8,506

The amounts owed to group undertakings represents trading balances, which do not bear interest and are repayable on demand.

16. Called up share capital

	2016	2015
	£'000	£'000
Issued, called up and fully paid		
10,000,002 (2015 - 20,000,002) ordinary shares of £1 each	10,000	20,000

On 14 September 2016 the Company undertook a capital reduction in accordance with s641 of the Companies Act 2006 by which it cancelled £15,000,000 of its share premium account and 10,000,000 of its ordinary shares.

There is a single class of ordinary shares. There are no restrictions on the distribution of dividends and the repayment of capital.

17. Financial commitments

At 31 December 2016, the Company had the following future minimum lease payments under non-cancellable operating leases for each of the following periods:

	Land and buildings	
	2016	2015
	£'000	£'000
Operating lease commitments which expire:		
Less than a year	1,782	1,740
Later than one year and not later than five years	6,960	6,960
Later than five years	22,688	24,470
	31,430	33,170

No capital commitments were contracted and not provided for during both the current and comparative financial years.

18. Related party transactions

The Company has taken advantage of the exemption contained in paragraph 33.1A of FRS 102 "Related party transactions" not to disclose transactions with other group companies (or investees of the group qualifying as related parties) on the basis that it is a wholly-owned subsidiary of Charles River Laboratories International Inc, for which consolidated financial statements are publicly available.

Charles River Discovery Research Services UK Limited
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Notes to the financial statements
Year ended 31 December 2016

19. Ultimate parent company

The Company is a subsidiary undertaking of Charles River Laboratories International Inc, incorporated in United States of America, which is the controlling party and ultimate parent company. The immediate parent company is Biofocus DPI (Holdings) Ltd.

The largest and smallest group in which the results of the Company are consolidated is that headed by Charles River Laboratories International Inc. Copies of the consolidated financial statements of Charles River Laboratories International Inc can be obtained from the Company Secretary at Charles River Laboratories International Inc, 251 Ballardvale Street, Wilmington, MA 01887.

20. Transition to FRS 102

This is the first year that the Company has presented its results under FRS 102. The last financial statements under previous UK GAAP were for the year ended 31 December 2015. The date of transition to FRS 102 was 28 December 2014. The changes in accounting policies between UK GAAP as previously reported and FRS 102 have resulted in no adjustment to the profit for the financial year ended 31 December 2015 and the total equity as at 28 December 2014 and 31 December 2015.