Arix Capital Management Limited

Annual Report and Financial Statements

Year Ended 31 December 2018

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Corporate Information

The directors of the Company who were in office during the year and up to the date of signing the financial statements were:

Robert William Henry Lyne
James Hedley Rawlingson
Edward John Rayner
Marcus Karia (Appointed 6 February 2019)

Independent Auditors

PricewaterhouseCoopers LLP
7 More London Riverside
London
SE1 2RT
United Kingdom

Registered Office

Life Sciences Hub Wales
3 Assembly Square
Britannia Quay
Cardiff
CF10 4PL

Directors' Report

Registered Number 08111748

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

Directors of the Company

The directors are shown on page 3.

Principal Activity

The principal activity of Arix Capital Management Limited (the "Company") is to provide fund management and advisory services. The Company is authorised to provide investment advice and investment management services by the Financial Conduct Authority.

Review of Business

The Company currently manages one fund, The Wales Life Sciences Investment Fund LP ("WLSIF"), a £55m Welsh government-backed fund committed to boosting the life sciences industry in Wales.

Future Developments

The Company intends to continue to provide fund management services as part of the Arix Bioscience plc group.

Going Concern

The Company has net positive assets and furthermore, as a subsidiary of Arix Bioscience plc, the Company is supported by a parent with considerable financial resources. As a consequence, the directors believe that the Company is well placed to manage its business risks successfully.

After making enquiries, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

Independent Auditors

The Company's independent auditors, PricewaterhouseCoopers LLP, will be proposed for reappointment in accordance with Section 485 of the Companies Act 2006.

Exemptions

The Company qualifies as a small company under Section 382 of the Companies Act 2006. Therefore, the Directors have taken advantage of the Small Companies' exemption (Companies Act 2006, section 414b) in not preparing a Strategic Report. In preparing the Directors' Report, the directors have taken advantage of the Small Companies' exemptions provided by Section 415a of the Companies Act 2006.

Directors' Report (continued)

Statement of directors' responsibilities in respect of the financial statements

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

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, comprising FRS 101 "Reduced Disclosure Framework", and applicable law). 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 the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 101, have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; 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 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 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.

Directors' confirmations

In the case of each director in office at the date the Directors' Report is approved:

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

Signed on behalf of the Board

James Rawlingson
Director
23 April 2019

Independent auditors' report to the members of Arix Capital Management Limited

Report on the audit of the financial statements

Opinion

In our opinion, Arix Capital Management Limited's financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2018 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the Balance Sheet as at 31 December 2018; the Statement of Comprehensive Income, the Statement of Changes in Equity for the year ended 31 December 2018; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

ISAs (UK) require us to report to you when:

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

We have nothing to report in respect of the above matters.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Company's ability to continue as a going concern. For example, the terms on which the United Kingdom may withdraw from the European Union are not clear, and it is difficult to evaluate all of the potential implications on the Company's trade, customers, suppliers and the wider economy.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Directors' Report
In our opinion, based on the work undertaken in the course of the audit, the information given in the Directors' Report for the year ended 31 December 2018 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

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

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements
As explained more fully in the Statement of directors' responsibilities set out on page 5, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report
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.

Other required reporting

Companies Act 2006 exception reporting

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 by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Entitlement to exemptions

Under the Companies Act 2006 we are required to report to you if, in our opinion, the directors were not entitled to: take advantage of the small companies exemption in preparing the Directors' Report; and take advantage of the small companies exemption from preparing a strategic report. We have no exceptions to report arising from this responsibility.

Richard McGuire

Richard McGuire (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
23 April 2019

Arix Capital Management Limited

Statement of Comprehensive Income

For the year ended 31 December 2018

	Note	Year Ended Dec 2018 £'000	Restated Year Ended Dec 2017 £'000
Revenue	4	905	1,651
Administrative Expenses	5	(789)	(361)
Operating Profit		**116**	**1,290**
Change in fair value of investments	9	(4,340)	40
Provision for impairment of receivables	10	174	(174)
(Loss) / Profit before taxation		**(4,050)**	**1,156**
Tax on (loss) / profit	8	-	(33)
(Loss) / Profit for the financial year		**(4,050)**	**1,123**

All amounts relate to continuing operations.

The Company has no items of Other Comprehensive Income.

The notes on pages 11 to 25 form part of these financial statements.

Balance Sheet

As at 31 December 2018

	Note	31 Dec 2018 £'000	Restated 31 Dec 2017 £'000
ASSETS			
Non-Current Assets			
Investments held at fair value	9	-	9,651
		-	**9,651**
Current Assets			
Cash and cash equivalents	11	12	2,126
Trade and other receivables	10	6,247	80
		6,259	**2,206**
TOTAL ASSETS		**6,259**	**11,857**
LIABILITIES			
Current liabilities			
Trade and other payables	12	(4,982)	(6,499)
Current income tax liabilities		-	(31)
		(4,982)	**(6,530)**
TOTAL LIABILITIES		**(4,982)**	**(6,530)**
NET ASSETS		**1,277**	**5,327**
EQUITY			
Share capital and share premium	14	250	250
(Accumulated losses) / Retained earnings		(1,882)	2,168
Capital reserve		2,909	2,909
		1,277	**5,327**
TOTAL EQUITY		**1,277**	**5,327**

Registered number 08111748

The financial statements on pages 8 to 25 were approved by the Board of Directors on 23 April 2019 and signed on its behalf by:

James Rawlingson
Director
23 April 2019

The notes on pages 11 to 25 form part of these financial statements.

Statement of Changes in Equity

For the year ended 31 December 2018

	Share Capital £'000	Share Premium £'000	Capital Reserve £'000	Retained Earnings / (Accumulated Losses) £'000	Total £'000
As at 1 January 2018	-	250	2,909	2,168	**5,327**
Loss for the year	-	-	-	(4,050)	**(4,050)**
As at 31 December 2018	**-**	**250**	**2,909**	**(1,882)**	**1,277**

For the year ended 31 December 2017 (restated)

	Share Capital £'000	Share Premium £'000	Capital Reserve £'000	Retained Earnings £'000	Total £'000
As at 1 January 2017	-	250	2,909	1,045	**4,204**
Profit for the year	-	-	-	1,123	**1,123**
As at 31 December 2017	-	250	2,909	2,168	**5,327**

The notes on pages 11 to 25 form part of these financial statements.

Notes to the Financial Statements

1. Authorisation of Financial Statements and statement of compliance with FRS 101

The financial statements of Arix Capital Management Limited (the "Company") for the year ended 31 December 2018 were authorised for issue by the board of directors on 23 April 2019 and the balance sheet was signed on the board's behalf by James Rawlingson. The Company is incorporated and domiciled in England and Wales.

These financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101) and in accordance with the Companies Act 2006. The Company's financial statements are presented in Sterling and all values are rounded to the nearest thousand pounds (£'000) except when otherwise indicated.

The Company has taken advantage of the exemption under s400 of the Companies Act 2006 not to prepare consolidated financial statements as it is a wholly owned subsidiary of Arix Bioscience plc.

The results of Arix Bioscience plc are available from 20 Berkeley Square, London, W1J 6EQ.

The principal accounting policies adopted by the Company are set out in note 2.

2. Accounting Policies

a. Basis of Preparation

These financial statements have been prepared on a going concern basis, in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework' ("FRS 101"). The amendments to FRS 101 (2016/17 Cycle) issued in July 2017 have been applied. The financial statements have been prepared under the historical cost convention except for certain financial assets which have been measured at fair value. In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs"), but makes amendments where necessary in order to comply with Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

In these financial statements, the Company has applied the exemptions available under FRS 101 in respect of the following disclosures: a Statement of Cash Flows and related notes; disclosures in respect of transactions with wholly owned subsidiaries; disclosures in respect of capital management; and disclosures of transactions with a management entity that provides key management personnel services to the Company.

As the Arix Bioscience plc financial statements include the equivalent disclosures, the Company has also taken the exemptions under FRS 101 available in respect of certain disclosures required by IFRS 13 Fair Value Measurement and the disclosures required by IFRS 7 Financial Instrument Disclosures.

The Company proposes to continue to adopt the reduced disclosure framework of FRS 101 in its next financial statements. The accounting policies set out below have been applied consistently.

Adjustment to prior year financial statements

Certain adjustments have been made to the prior year financial statements, impacting the Statement of Comprehensive Income, Balance Sheet and Statement of Changes in Equity. Further details can be found in Note 17.

Critical accounting estimates

The preparation of these financial statements in conformity with FRS 101 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 these financial statements are disclosed in note 3.

Going concern

The accounts have been prepared on a going concern basis as the Company is in a net asset position and an agreement is in place between the Company and Arix Bioscience plc (the "Parent") whereby the Parent has agreed that it will not demand repayment of any intercompany loan, in whole or in part, for at least 12 months after signing of the 2018 financial statements for Parent and the Company.

Notes to the Financial Statements (continued)

2. Accounting Policies (continued)

b. Revenue Recognition

Revenue comprises of amounts receivable in respect of investment advisory services in the normal course of business and is shown exclusive of VAT. Investment advisory services comprises three key elements, which are recognised as follows:

(i) Fund management fees

Fund management fees are invoiced quarterly in advance, resulting in the recognition of deferred revenue, which is released to the income statement over the period to which it relates. The actual value of fees receivable from the WLSIF is not determined until after the end of the accounting period and can be reduced if impairments to investment values are recognised in the WLSIF. As such, an estimate is made (if required) of the potential reduction in fee and an adjustment to revenue is made accordingly. Further information in respect of this estimate is given in note 3.

(ii) Transaction fees

On the completion of an investment, the Company may charge the investee company fees in connection with the transaction. These are only recognised on completion of the transaction.

(iii) Ongoing monitoring fees

Following an investment, the Company may charge the investee company fees in respect of ongoing monitoring requirements including, potentially, the provision of non-executive director services. These fees are accrued and recognised over the period to which they relate.

c. Financial Assets

Classification

The Company classifies its financial assets as either at fair value through profit or loss or amortised cost. The classification depends on the purpose for which the financial assets have been acquired and is determined on initial recognition.

Amortised cost assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. The Company's amortised cost assets comprise trade and other receivables and cash and cash equivalents in the Statement of Financial Position.

Regular purchases and sales of financial assets are recognised on the trade date – the date on which the Company commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership.

Equity investments

Those investments in the Company that are held with a view to the ultimate realisation of capital gains are recognised as equity investments within the scope of IFRS 9 and are classified as financial assets at fair value through profit or loss. This includes investments in associated undertakings, as per Note 11. When financial assets are recognised initially they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. They are subsequently remeasured at their fair value if a valuation event occurs. A valuation event may include technical measures, such as product development phases, financial events, such as further injection of capital, and sales events, such as product launches.

Fair value hierarchy

The Company classifies financial assets using a fair value hierarchy that reflects the significance of the inputs used in making the related fair value measurements. The level in the fair value hierarchy, within which a financial asset is classified, is determined on the basis of the lowest level input that is significant to that asset's fair value measurement. The fair value hierarchy has the following levels:

Level 1 The fair value of financial instruments traded in active markets is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the Group is the current bid price.

Level 2 The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques which maximise the use of observable market data and rely as little as possible on entity-specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

Level 3 If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3. This is the case for unlisted equity securities.

Valuation of investments

The fair value of quoted investments is based on bid prices at the period end date.

The fair value of unlisted securities is established initially at cost. Subsequently, the fair value is determined using the International Private Equity and Venture Capital Valuation Guidelines December 2015 ('IPEV Guidelines'). The valuation methodology primarily used by the Company is the 'price of recent investment', a 'milestone analysis' approach or the net asset value of a direct investment in a fund.

Investments made in seed, start-up and early stage companies often have no current and no short-term future earnings or positive cash flows; in such circumstances, it can be difficult to gauge the probability and financial impact of the success or failure of development or research activities and to make reliable cash flow forecasts. Consequently, the most appropriate approach to determine fair value is a methodology primarily based on the price of a recent investment.

Notes to the Financial Statements (continued)

2. Accounting Policies (continued)

Where the Company considers that the unadjusted price of investment may no longer be relevant, the Group carries out an enhanced assessment based on milestone analysis. In applying the milestone analysis approach to investments in companies in early or development stages, the Group seeks to determine whether there is an indication of change in fair value.

The following factors are considered when calculating the fair value:

- Where the investment being valued was itself made recently, its cost will generally provide a good indication of fair value, unless there is objective observable evidence that the investment has since been impaired;
- Where there has been a recent investment by a third party, the price of that investment will provide a basis of the valuation;
- If there is no readily ascertainable value or recent transaction, the Company considers alternative IPEV Guidelines methodologies, principally being discounted cash flows and price-earnings multiples. In these instances, a price to earnings multiple is derived from an equivalent business that is considered a suitable proxy. An appropriate discount is applied to the price-earnings multiple for risks inherent to early stage businesses;
- Where a fair value cannot be estimated reliably, perhaps because of a lack of either revenue or earnings, the investment is reported at carrying value, unless there is evidence that the investment has been impaired or there has been a 'milestone' event. A milestone event may include technical measures, such as product development phases and patent approvals, financial measures, such as cash burn rate and profitability expectations, and market and sales measures, such as testing phases, product launches and market introductions; indicators of impairment might include delayed progress, technical complications or financial difficulties; and
- Where the equity structure in an investment involves different class rights in a sale or liquidity event, the Company takes these different rights into account when forming a view of the fair value of its investment.

Although the Directors use their best judgement, and cross-reference results of primary valuation models against secondary models in estimating the fair value of investments, there are inherent limitations in any estimation techniques. Whilst fair value estimates presented herein attempt to present the amount the Company could realise in a current transaction, the final realisation may be different, as future events will also affect the current estimates of fair value. The effects of such events on the estimates of fair value, including the ultimate liquidation of investments, could be material to the financial statements.

This is particularly significant for the Company's interest in the carried interest vehicle of The Wales Life Sciences Investment Fund. Carried interest is the fund manager's share of the fund's profits, once investors have received a return over a specified hurdle. Underlying companies within the fund are at an early stage of their lives and are generally held at a value equal to cost until a milestone is reached. This makes the valuation of the carried interest sensitive to the assumptions used regarding the size and timing of realisations. This information is then used to determine the carried interest valuation, using a discounted cash flow model; further assumptions are made in this calculation, with the final balance being particularly sensitive to the choice of discount rate; a liquidity discount is also applied. Any ultimate gain for the Company from this holding may be materially different from the current fair value.

From 1 January 2019, the Company will adopt the International Private Equity and Venture Capital Guidelines 2018.

Treatment of gains and losses arising on fair value

Realised and unrealised gains and losses on financial assets at fair value through profit and loss are included in the Statement of Comprehensive Income in the period in which they arise.

Recognition of financial assets

Purchases and sales of financial assets are recognised on trade-date, the date on which the Company commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Company has transferred substantially all the risks and rewards of ownership.

Loans and receivables are subsequently carried at amortised cost using the effective interest method.

Impairment of Financial Assets

At the end of each reporting period the Company assesses whether there is objective evidence that its loans and other receivables are impaired. The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The asset's carrying amount is reduced through the use of an allowance account and the amount of the loss is recognised in the Statement of Comprehensive Income within administrative expenses. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the reversal of the previously recognised impairment loss is recognised in the Statement of Comprehensive Income within administrative expenses. The Company's financial assets that are subject to IFRS 9's new expected credit loss model are its loans and receivables and cash and cash equivalents. The identified impairment loss is considered immaterial.

Notes to the Financial Statements (continued)

2. Accounting Policies (continued)

Financial assets and liabilities are offset when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Company or the counterparty. Where these conditions are met, the net amount is reported in the Balance Sheet.

d. Trade Receivables

Trade receivables are amounts due from customers for sales performed in the ordinary course of business. If collection is expected in one year or less they are classified as current assets. If not, they are presented as non-current assets. Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less any provision for impairment.

e. Cash and Cash Equivalents

Cash and cash equivalents comprise cash in hand, short term bank deposits and bank overdrafts to the extent that there is a right to offset against other cash balances.

f. Share Capital

Ordinary shares are classified as equity. Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

g. Trade Payables

Trade payables 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 (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade payables are initially recognised at fair value, generally being the invoiced amount, and are subsequently measured at amortised cost, using the effective interest method.

h. Current and Deferred Taxation

The tax expense for the period comprises current tax only. Tax is recognised in the Income Statement, except to the extent that it relates to items recognised directly in equity.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the Balance Sheet date. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the Balance Sheet. However, deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects either accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the Balance Sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities.

i. Employee Benefits

During the period, the Company operated defined contribution retirement plans for its employees. The costs of defined contribution plans are recognised as an employee benefit expense as and when employees have rendered service entitling them to the contributions. The Company has no further payment obligations once the contributions have been paid.

j. Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the Income Statement on a straight-line basis over the lease period.

Notes to the Financial Statements (continued)

2. Accounting Policies (continued)

k. Adoption of new and revised standards

Certain new accounting standards and interpretations have been applied by the Company from 1 January 2018. The Company's assessment of the impact of these new standards and interpretations is set out below.

- IFRS 9 – 'Financial Instruments' addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets. The Company have determined that its investments are held for long periods of time, and are not held for the benefit of any contractual cash flows. On this basis, such investments are classified as financial assets at Fair Value in Profit and Loss under IFRS 9. This is consistent with the Company's previous treatment under IAS39, so there is no change in treatment and no impact on the financial statements. The Company's cash and receivable balances are held with the expectation that these will be realised by collecting the contractual cash flows associated with them. Under IFRS 9, such financial assets are held at Amortised Cost. This is consistent with the Company's previous treatment under IAS 39, so there is no change in treatment and no material impact on the financial statements.

- IFRS 15 – 'Revenue from contracts with customers' applies to the recognition of revenue. This has replaced IAS 18, which covered contracts for goods and services, and IAS 11, which covered construction contracts. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer. The Company has assessed its sources of revenue, namely fund management fees, Non- Executive Director fees receivable, and determined that there was no change in how each revenue source is recognised compared to the previous treatment under IAS18; therefore there has been no impact on the financial statements. Certain new accounting standards and interpretations are effective for the annual period beginning on or after 1 January 2019, and have not been applied in preparing these financial statements.

Certain new accounting standards and interpretations are effective for the annual period beginning on or after 1 January 2019, and have not been applied in preparing these financial statements.

- IFRS 16 – 'Leases' This standard replaces the current guidance in IAS 17 – 'Leases' and is a far-reaching change in accounting by lessees in particular. Under IAS 17, lessees were required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). IFRS 16 requires lessees to recognise a lease liability reflecting future lease payments and a 'right-of-use asset' for virtually all lease contracts. IFRS 16 includes an optional exemption for certain short-term leases and leases of low-value assets; however, this exemption can only be applied by lessees. For lessors, the accounting remains substantially unchanged. IFRS 16 provides updated guidance on the definition of a lease (as well as the guidance on the combination and separation of contracts); under IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The standard is effective for annual periods beginning on or after 1 January 2019. The Company has carried out an assessment of the impact of the standard and concluded that there will be no significant impact on the financial statements as all lease arrangements are expected to be concluded in the next financial period.

Notes to the Financial Statements (continued)

3. Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Critical accounting estimates and assumptions

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. Estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

Fund management fees recognisable

As disclosed in accounting policy b(i), the level of the fund management fee receivable is dependent on the underlying performance of the WLSIF to which is relates. Specifically, the fee is calculated annually as a percentage of the total funds invested and available for investment, less any write downs of costs of investments made.

At the end of each financial period, the amount (if any) of write down in costs of investments made may not have been finalised, resulting in the requirement of an estimate of any potential write down in cost; this will also impact the fee receivable by the Company.

At the end of the financial periods ended 31 December 2017 and 31 December 2018, it was estimated that there had been a write down in investment costs.

Valuation of Carried Interest Investment

The valuation of the Company's investment in Arthurian Life Sciences Carried Interest Partner LP, the carried interest vehicle of The Wales Life Sciences Investment Fund LP ("WLSIF"), is dependent on a number of estimates and assumptions. Underlying companies within the fund are at an early stage of their lives and are generally held at a value equal to cost until a milestone is reached. This makes the valuation of the carried interest sensitive to the assumptions used regarding the size and timing of realisations. This information is then used to determine the carried interest valuation, using a discounted cash flow model; further assumptions are made in this calculation, with the final balance being particularly sensitive to the choice of discount rate; a liquidity discount is also applied. Any ultimate gain for the Company from this holding may be materially different from the current fair value.

Critical judgements in applying the entity's accounting policies

In preparing these financial statements, the directors have considered the relationship that the Company has with WLSIF and specifically as to whether the Company controls WLSIF. The directors note that while the Company, in its role as fund manager to WLSIF, exercises power over the activities of WLSIF and although these have increased due to investment by a subsidiary of the Company, ALS SPV Limited, the Company still does not have sufficient exposure to variability of returns from WLSIF to meet the definition of control and therefore acts as an agent, rather than principal of WLSIF. Accordingly, WLSIF has not been consolidated into these financial statements and the financial statements reflect the performance of the Company only.

4. Revenue

	Year Ended 31 Dec 2018 £'000	Restated Year Ended 31 Dec 2017 £'000
Fund management fee income	888	1,598
Other income	17	53
Total revenue	**905**	**1,651**

Notes to the Financial Statements (continued)

5. Administrative Expenses

The administrative expenses charged by nature are as follows:

	Year Ended 31 Dec 2018 £'000	Year Ended 31 Dec 2017 £'000
Wages and salaries	141	43
Social security costs	8	10
Other pension costs	8	4
Consultancy fees	-	129
Auditors' remuneration	30	24
Other professional fees	189	78
Operating lease payments	-	4
Other expenses	413	69
Total administrative expenses	**789**	**361**

6. Auditors' Remuneration

The Company obtained services from the auditor as detailed below:

	Year Ended 31 Dec 2018 £'000	Year Ended 31 Dec 2017 £'000
Statutory audit services		
Fees payable for the audit of the Company's annual financial statements	25	24
Fees payable to company's auditor for other services		
Tax compliance services	-	-
Other services pursuant to legislation	5	5
Total auditors' remuneration	**30**	**29**

7. Average Number of Employees (including directors)

The average number of executive directors and staff during the period was 1 (year ended 31 December 2017: 1); the average number of non-executive directors was 3 (year ended 31 December 2017: 6).

Notes to the Financial Statements (continued)

8. Tax on (loss) / profit

The major components of the income tax expense are:

	Year Ended 31 Dec 2018 £'000	Year Ended 31 Dec 2017 £'000
Current income tax charge for the year	-	33
Total tax charge in year	**-**	**33**

The tax on the Company's (loss) / profit before tax differs from (2017: differs from) the theoretical amount that would arise using the standard tax rate applicable to the profits of the Company as follows:

	Year Ended 31 Dec 2018 £'000	Restated Year Ended 31 Dec 2017 £'000
Factors affecting the tax charge for the year		
(Loss)/profit before taxation	(4,050)	1,156
Standard rate of tax at 19% (2017: 19.25%)	(770)	227
Effects of:		
Expenses not deductible	827	-
Provision for impairment of receivables	(33)	33
Group relief available	(24)	(257)
Adjustment in respect of previous years	-	33
Total tax charge	**-**	**33**

Factors that may affect future tax charges

Changes to the UK corporation tax rates were enacted in 2015 which reduced the main rate of corporation tax to 19% from 1 April 2017. Changes to the UK corporation tax rates were announced in the Chancellor's Budget on 16 March 2016 to reduce the rate to 17% from 1 April 2020.

Notes to the Financial Statements (continued)

9. Investments held at fair value

	Year Ended 31 Dec 2018 £'000	Year Ended 31 Dec 2017 £'000
Opening Balance	9,651	4,300
Additions in the year	6	5,311
Disposals in the year	(5,317)	-
Unrealised (loss) / gain on investments	(4,340)	40
Closing Balance	-	**9,651**

The Company is the sole limited partner of Arthurian Life Sciences Carried Interest Partner LP (the "LP"). The LP is entitled to receive a 20% share of any future profits arising from the WLSIF, over an 8% hurdle rate. At the year-end date, the WLSIF has not made any realisations and, accordingly, the Company has not recognised any related income. The directors consider that the carrying value of the investment approximates to fair value. The Company's position is valued at £nil (2017: £3.8m).

During the year the Company sold its limited partner interest in WLSIF to ALS SPV Limited, a 100% subsidiary of the Company, for nil gain and nil loss.

The Company also holds 100% of the share capital of Arix Bioscience Pty Limited, dormant company with net assets of £nil.

Unconsolidated structured entities

Both the WLSIF and the LP are considered to be structured entities, which are designed to achieve a specific purpose. A structured entity is one that has been set up so that any voting or similar rights are not the dominant factor in determining who controls the entity.

In particular, although the Company has power over the WLSIF, it does not have sufficient exposure to variable returns which would require it to consolidate WLSIF, as it is an agent of the fund and as such does not exhibit control.

The Company owns the right to the carried interest by way of its position as sole limited partner of the LP. There is a separate general partner, which is outside the control of the Company. The general partner controls the relevant activities of the LP, but its income interest is fixed at 0%. As such, the Company does not control the LP.

The Company provides fund management and advisory services to WLSIF, which has been set up to accommodate client requirements to hold investments in specific assets.

Income derived from involvement with the unconsolidated structured entities

The Company earns revenue through its involvement in the WLSIF as follows:

- Fund management fees – via Arthurian Life Sciences SPV GP Limited;
- Transaction fees – upon completion of an investment (payable by the fund portfolio company); and
- Ongoing monitoring fees – related to the provision of non-executive director services to portfolio companies.

As noted above, the Company can earn a 20% profit share, over an 8% hurdle rate, from future WLSIF realisations, via the LP.

Interest in the unconsolidated structured entities

The Company's interest in the unconsolidated structured entities relate to the contractual involvement with the WLSIF, via its direct investment, and via its carried interest investment, which expose it to variability of returns from the performance of the WLSIF.

Maximum exposure to unconsolidated structured entity

The Company's maximum exposure to the unconsolidated structured entities relates to its £nil investment in the LP and the fund management fees it receives from the WLSIF via Arthurian Life Sciences SPV GP Limited.

Financial support

The Company did not provide financial support to the WLSIF or the LP during the year. The direct investment into the WLSIF is for the purposes of financial return for the Company, and not considered financial support for the WLSIF.

Notes to the Financial Statements (continued)

10. Trade and Other Receivables

	As at 31 Dec 2018 £'000	As at 31 Dec 2017 £'000
Trade receivables	77	224
Provision for impairment of receivables	-	(174)
Other receivables	-	5
Prepayments	20	20
VAT receivable	5	5
Amounts due from group undertakings	6,145	-
	6,247	**80**

The fair value of other receivables approximates to their fair value. Other receivables do not contain impaired assets.

The amounts due from group undertakings are interest free, repayable on demand and unsecured.

All other receivables balances are denominated in British pound sterling.

11. Cash and Cash Equivalents

	As at 31 Dec 2018 £'000	As at 31 Dec 2017 £'000
Cash at bank and in hand	12	2,126

Cash and cash equivalents are all denominated in British pound sterling and are deposited with AA- rated institutions.

The fair value of cash and cash equivalents approximate to their carrying value.

12. Trade and Other Payables

	As at 31 Dec 2018 £'000	Restated As at 31 Dec 2017 £'000
Trade payables	11	20
Accruals and other payables	505	179
Amounts due to group undertakings	4,466	6,300
	4,982	**6,499**

The directors consider that the carrying amount of trade and other payables approximates to their fair value.

Intercompany balances are interest free and repayable on demand.

Notes to the Financial Statements (continued)

13. Pension and Other Post-Retirement Benefit Commitments

The Company operates a defined contribution pension scheme. The pension cost charge represents contributions made to employee personal pension arrangements, totalling £8k (year ended 31 December 2017: £2k). Of the contributions payable, no amounts are included in trade and other payables (31 December 2017: £nil).

14. Called Up Share Capital and Share Premium Account

	As at 31 Dec 2018 £	As at 31 Dec 2017 £
Authorised		
100 (2017: 100) ordinary shares of £1 each	100	100
Allotted and Called Up		
At beginning of year / period	100	100
Proceeds from shares issued	-	-
At end of year / period	**100**	**100**

15. Related Party Relationships and Transactions

During the year, the Company settled a net repayment of £1,768k with Arix Bioscience plc, the Company's ultimate controlling party, resulting in a balance outstanding as at 31 December 2018 of £4,466k (31 December 2017: £6,234k). This amount is unsecured, interest free and repayable on demand.

During the year, the Company received management fee income totalling £888k (year ended 31 December 2017: £1,598k) from Arthurian Life Sciences SPV GP Limited, an entity under common control, resulting in a balance outstanding as at 31 December 2018 of £820k (31 December 2017: £45k was owed by the Company in respect of the advance of these fees).

During the year the Company transferred its limited partner interest in WSILF to ALS SPV Limited, a 100% subsidiary of the Company. At 31 December 2018, the Company was due £5,325k from ALS SPV Limited (2017: £nil).

16. Ultimate Controlling Party

The Company's ultimate controlling party is Arix Bioscience plc.

Notes to the Financial Statements (continued)

17. Prior Year Adjustments

The notes and tables below are a summary of adjustments required to the prior year financial statements and their impact on the Balance Sheet and Income Statement. FRS 101 requires prior year adjustments to be made for all material adjustments identified.

Statement of Comprehensive Income for the year ended 31 December 2017

	As previously reported £'000	Adjustment A £'000	As currently reported £'000
Revenue	1,673	(22)	1,651
Administrative Expenses	(361)	-	(361)
Operating Profit	**1,312**	**(22)**	**1,290**
Change in fair value of investments	40	-	40
Provision for impairment of receivables	(174)	-	(174)
Profit before taxation	**1,178**	**(22)**	**1,156**
Tax on profit	(33)	-	(33)
Profit for the financial year	**1,145**	**(22)**	**1,123**

Notes to the Financial Statements (continued)

Balance Sheet as at 31 December 2017

	As previously reported £'000	Adjustment A £'000	As currently reported £'000
ASSETS			
Non-Current Assets			
Investments held at fair value	9,651	-	9,651
	9,651	**-**	**9,651**
Current Assets			
Cash and cash equivalents	2,126	-	2,126
Trade and other receivables	80	-	80
	2,206	**-**	**2,206**
TOTAL ASSETS	**1,190**	**-**	**1,190**
LIABILITIES			
Current liabilities			
Trade and other payables	(6,477)	(22)	(6,499)
Deferred revenue	-	-	-
Current income tax liabilities	(31)	-	(31)
	(6,508)	**(22)**	**(6,530)**
TOTAL LIABILITIES	**(6,508)**	**(22)**	**(6,530)**
NET ASSETS	**5,349**	**(22)**	**5,327**
EQUITY			
Share capital and share premium	250	-	250
Retained earnings	2,190	(22)	2,168
Other reserves	2,909	-	2,909
	5,349	**(22)**	**5,327**
TOTAL EQUITY	**5,349**	**(22)**	**5,327**

Notes to the Financial Statements (continued)

Statement of Changes in Equity for the year ended 31 December 2017

	Share Capital £'000	Share Premium £'000	Capital Reserve £'000	Retained Earnings £'000	Total £'000
As at 1 January 2017	-	250	2,909	1,045	4,204
Profit for the year as previously reported	-	-	-	1,145	1,145
Adjustment A	-	-	-	(22)	(22)
As at 31 December 2017	**-**	**250**	**2,909**	**2,168**	**5,327**

Adjustments

A In the year ended 31 December 2017, upon finalisation of the financial statements for the WLSIF the actual management fee to be charged for the year was calculated to be £22,000 lower than the amount recognised in the Company's financial statements. The identified amount was not adjusted for the prior year ended 31 December 2017 as it was not considered material.

18. Related Undertakings

The Company has a 100% subsidiary, Arix Bioscience Pty Limited, which is incorporated in Australia and has a registered address of Level 27, AMP Centre, 50 Bridge Street, Sydney NSW 2000.

The Company has a 100% subsidiary, ALS SPV Limited, which is incorporated in England and Wales and has a registered address of 20 Berkeley Square, London, W1J 6EQ.

The Company is the sole limited partner of Arthurian Life Sciences Carried Interest Partner LP, registered in Scotland with an address of 16 Charlotte Square, Edinburgh, EH2 4DF. The WLSIF (registered address: Life Sciences Hub Wales, 3 Assembly Square, Britannia Quay, Cardiff, Wales, CF10 4PL) is considered neither a subsidiary nor an associate.

19. Events After the Reporting Year

There are no events to report occurring after the end of the reporting year.