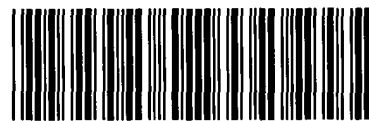


Action Potential Venture Capital Limited
(Registered number: 08603529)

Directors' report and financial statements

for the year ended 31 December 2018

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Registered office address:
980 Great West Road
Brentford
Middlesex
TW8 9GS
England

Action Potential Venture Capital Limited
(Registered number: 08603529)

Directors' report and financial statements
for the year ended 31 December 2018

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Action Potential Venture Capital Limited
(Registered number: 08603529)

Directors' report for the year ended 31 December 2018

The Directors present their report on Action Potential Venture Company (the "Company") and the audited financial statements for the year ended 31 December 2018.

Principal activities and future developments

The Company is a member of the GlaxoSmithKline Group (the "Group"). The Company is a private company limited by shares and is incorporated and domiciled in the UK (England). The address of the registered office is 980 Great West Road, Brentford, Middlesex TW8 9GS.

The principal activity of the Company is to invest in the discovery and development of bioelectronic therapies for the treatment or cure of human diseases. The Directors do not envisage any change to the nature of the business in the foreseeable future.

Review of business

The Company made a loss for the year of \$1,390,000 (2017: loss of \$360,000). The Directors are of the opinion that the current level of activity and the year end financial position are sustainable due to the financial support from GlaxoSmithKline Finance plc.

The loss for the year of \$1,390,000 will be transferred from reserves (2017: loss of \$360,000 transferred from reserves).

Results and dividends

The Company's results for the financial year are shown in the income statement on page 7.

No dividend is proposed to the holders of ordinary shares in respect of the year ended 31 December 2018. (2017: \$nil).

Post balance sheet events

In June 2019, there was an increase of \$21million in the fair value of an investment of the Company. The increase in share price was mainly attributable to progress on the clinical development.

Directors and their interests

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

Glaxo Group Limited

The Wellcome Foundation Limited

J Eckstein (resigned on 31 May 2019)

A Walker

C Panagiotidis (appointed on 15 February 2019)

S Williams (appointed on 26 April 2019)

No Director had, during the year or at the end of the year, any material interest in any contract of significance to the Company's business with the exception of the Corporate Directors, where such an interest may arise in the ordinary course of business. A Corporate Director is a legal entity of the Group, as opposed to a natural person (an individual) Director.

Directors' indemnity

Each of the Directors who is an individual benefits from an indemnity given by another Group undertaking, GlaxoSmithKline Services Unlimited. This indemnity is in respect of liabilities arising out of this party proceedings to which the Director is a party by reason of his or her engagement in the business of the Company.

Action Potential Venture Capital Limited
(Registered number: 08603529)

Directors' report for the year ended 31 December 2018 (continued)

Statement of Directors' responsibilities

The Directors are responsible for preparing the Directors' report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards), including FRS 101 'Reduced disclosure framework' ("FRS 101") 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 these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK accounting standards, comprising FRS 101, 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 also 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. 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.

Governance

The Company's approach to the Modern Slavery Act 2015 is set by the Group. Each year, as part of their governance arrangements, the Group formally reviews and approves the approach to the Modern Slavery Act 2015 and has confirmed that the approach is still valid for 2018.

Disclosure of information to auditors

As far as each of the Directors are aware, there is no relevant audit information of which the Company's auditors are unaware, and the Directors have taken all the steps that ought to have been 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.

Going concern

The Directors believe that preparing the financial statements on the going concern basis is appropriate due to the continued financial support of the intermediate parent GlaxoSmithKline Finance plc. The Directors have received confirmation that GlaxoSmithKline Finance plc intend to support the Company for at least one year after these financial statements are signed. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

Action Potential Venture Capital Limited
(Registered number: 08603529)

Directors' report for the year ended 31 December 2018 (continued)

Approach to Brexit

In preparing for the UK's exit from the EU (Brexit), the Directors of the Group have taken a risk-based approach to maintain continuity of supply of our medicines, vaccines and consumer healthcare products to the people in the UK and EU at the Group level, rather than at an individual statutory entity level. For this reason, the Company's Directors believe that a discussion of the Group's approach to Brexit would not be appropriate for an understanding of the impact of Brexit to the position of the Company's business. The Group's approach to Brexit, which includes that of the Company, is discussed in the Group's 2018 annual report which does not form part of this report.

Independent auditor

PricewaterhouseCoopers LLP resigned during the year as the Company's auditor. Subsequently Deloitte LLP were appointed to act as the Company's auditor pursuant to section 485(3) Companies Act 2006.

This report has been prepared taking advantage of the small companies exemption in accordance with section 415A of the Companies Act 2006.

On behalf of the Board



C Panagiotidis
Director
30 September 2019

Action Potential Venture Capital Limited
(Registered number: 08603529)

Independent auditor's report to the members of Action Potential Venture Capital Limited

Report on the audit of the financial statements

Opinion

In our opinion the financial statements of Action Potential Venture Capital Limited (the 'Company'):

- 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, including Financial Reporting Standard 101 "Reduced Disclosure Framework" and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the income statement;
- the statement of comprehensive income;
- the balance sheet;
- the statement of changes in equity; and
- the related notes 1 to 16.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 "Reduced Disclosure Framework".

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We are required by ISAs (UK) to report in respect of the following matters where:

- the Directors' use of the going concern basis of accounting in 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 these matters.

Other information

The Directors are responsible for the other information. The other information comprises the information included in the Directors' report and financial statements, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Action Potential Venture Capital Limited
(Registered number: 08603529)

Independent auditor's report to the members of Action Potential Venture Capital Limited (continued)

Other information (continued)

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in respect of these matters.

Responsibilities of directors

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

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

Auditor's 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 auditor's 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 auditor's report.

Report on other legal and regulatory requirements

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 directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the directors' report has been prepared in accordance with applicable legal requirements.

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

Action Potential Venture Capital Limited
(Registered number: 08603529)

Independent auditor's report to the members of Action Potential Venture Capital Limited (continued)

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

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

We have nothing to report in respect of these matters.

Use of our report

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

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

Deloitte LLP

Deloitte LLP
Statutory Auditor
Reading, United Kingdom
30 September 2019

Action Potential Venture Capital Limited
(Registered number: 08603529)

Income statement
for the year ended 31 December 2018

	Notes	2018 \$'000	2017 \$'000
Other operating income		46	40
Other operating expense		(627)	(22)
Operating (loss) / profit	4	(581)	18
(Loss) / profit before interest and taxation		(581)	18
Finance expense	6	(995)	(447)
Loss before taxation		(1,576)	(429)
Taxation	7	186	69
Loss for the year		(1,390)	(360)

The results disclosed above for both the current year and prior year relate entirely to continuing operations.

Action Potential Venture Capital Limited
(Registered number: 08603529)

Statement of comprehensive income
for the year ended 31 December 2018

	Notes	2018 \$'000	2017 \$'000
Loss for the year		(1,390)	(360)
Items that will not be reclassified to the income statement:			
Fair value movements on equity investments	13	707	-
Other comprehensive income for the year		707	-
Total comprehensive loss for the year		(683)	(360)

Action Potential Venture Capital Limited
(Registered number: 08603529)

Balance sheet
as at 31 December 2018

	Notes	2018 \$'000	2017 \$'000
Non-current assets			
Equity investments	8	44,876	34,462
Other investments	9	671	-
Total Non-current assets		45,547	34,462
Current assets			
Trade and other receivables	10	319	133
Total assets		45,866	34,595
Current liabilities			
Trade and other payables	11	(45,649)	(33,695)
Net current liabilities		(45,330)	(33,562)
Net assets		217	900
Equity			
Share capital	12	-	-
Other reserves	13	2,207	1,500
Accumulated losses		(1,990)	(600)
Shareholders' equity		217	900

The financial statements on pages 7 to 21 were approved by the Board of Directors on 30 September 2019 and signed on its behalf by:



C Panagiotidis
Director

Action Potential Venture Capital Limited
(Registered number: 08603529)

Statement of changes in equity
for the year ended 31 December 2018

	Share capital \$'000	Other reserves \$'000	Accumulated losses \$'000	Total \$'000
At 1 January 2017	-	1,500	(240)	1,260
Loss for the year	-	-	(360)	(360)
Other comprehensive income	-	-	-	-
At 31 December 2017	-	1,500	(600)	900
Loss for the year	-	-	(1,390)	(1,390)
Other comprehensive income	-	707	-	707
At 31 December 2018	-	2,207	(1,990)	217

Action Potential Venture Capital Limited
(Registered number: 08603529)

Notes to the financial statements for the year ended 31 December 2018

1 Presentation of the financial statements

General information

The Company is a member of the GlaxoSmithKline Group (the "Group"). The Company is a private company limited by shares and is incorporated and domiciled in the UK (England). The address of the registered office is 980 Great West Road, Brentford, Middlesex TW8 9GS.

The principal activity of the Company is to invest in the discovery and development of biotechnological therapies for the treatment of rare human diseases. The Directors do not envisage any change to the nature of the business in the foreseeable future.

The financial statements are presented in United States Dollar.

2 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, unless otherwise stated.

(a) Basis of preparation

The financial statements have been prepared in accordance with Financial Reporting Standard 100 Application of Financial Reporting Requirements ("FRS 100") and Financial Reporting Standard 101 Reduced Disclosure Framework ("FRS 101").

The Company has received a letter of support from GlaxoSmithKline Finance Plc which confirms its intention to provide financial support for at least twelve months from the date of signing of the financial statements. As a result of continued financial support, the Directors of the Company are satisfied that the going concern basis remains appropriate.

These financial statements have been prepared on the going concern basis under the historical cost convention as modified by the revaluation of financial assets at fair value through other comprehensive income and equity investments, and in accordance with the Companies Act 2006.

Disclosure exemptions adopted

In preparing these financial statements the Company has taken advantage of all disclosure exemptions conferred by FRS 101. Therefore these financial statements do not include:

- Paragraphs 45(b) and 46 to 52 of FRS 2, 'Share-based payments' (details of the number and weighted-average exercise prices of share options, and how the fair value of goods or services received was determined);
- The requirements of paragraphs 62, B64(d), B64(e), B64(f), B64(g), B64(h), B64(i), B64(j), B64(k), B64(l), B64(m), B64(n), B64(o), B64(p), B64(q), B66 and B67 of FRS 3 Business Combinations;
- The requirements of paragraph 33(c) of FRS 5 Non-current Assets Held for Sale and Discontinued Operations;
- FRS 7, 'Financial instruments: disclosures';
- The requirements of the second sentence of paragraph 110 and paragraphs 113(a), 114, 115, 118, 119(a) to (c), 120 to 127 and 129 of FRS 15 Revenue from Contracts with Customers;
- Paragraphs 91 to 99 of FRS 13, 'Fair value measurement' (disclosure of valuation techniques and inputs used for fair value measurement of assets and liabilities);
- Paragraph 38 of IAS 1, 'Presentation of financial statements: comparative information requirements in respect of:
 - (i) paragraph 79(a) (iv) of IAS 1;
 - (ii) paragraph 79(e) of IAS 16 Property, plant and equipment;
 - (iii) paragraph 118(e) of IAS 38 Intangible assets (reconciliations between the carrying amount at the beginning and end of the period);
 - (iv) paragraph 76 and 79(d) of IAS 40 Investment property;
 - (v) paragraph 50 of IAS 41 Agriculture.

Action Potential Venture Capital Limited
(Registered number: 08603529)

Notes to the financial statements for the year ended 31 December 2018

2 Summary of significant accounting policies (continued)

(a) Basis of preparation (continued)

Disclosure exemptions adopted (continued)

- The following paragraphs of IAS 1, 'Presentation of financial statements':
 - 10(d) (statement of cash flows),
 - 10(f) (a balance sheet as at the beginning of the preceding period when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements),
 - 16 (statement of compliance with all IFRS),
 - 38A (requirements for minimum of two primary statements, including cash flow statements),
 - 38B-D (additional comparative information),
 - 40A-D (requirements for a third balance sheet),
 - 111 (cash flow statement information), and
 - 134 - 136 (capital management disclosures).
- IAS 7, 'Statement of cash flows';
- Paragraph 30 and 31 of IAS 8 'Accounting policies, changes in accounting estimates and errors' (requirement for the disclosure of information when an entity has not applied a new IFRS that has been issued but is not yet effective);
- Paragraph 17 of IAS 24, 'Related party disclosures' (key management compensation);
- The requirements in IAS 24, 'Related party disclosures' to disclose related party transactions entered into between two or members of a group; and
- The requirements of paragraphs 130(f)(ii), 130(f)(iii), 134(d) to 134(f) and 135(c) to 135(e) of IAS 36 Impairment of Assets.

The financial statements of GlaxoSmithKline plc can be obtained as described in note 2(b).

The preparation of 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 the financial statements are disclosed in Note 3.

(b) Ultimate and immediate parent undertaking

The Company is a wholly owned subsidiary of the ultimate parent company. GlaxoSmithKline plc, a Company registered in England and Wales, is the Company's ultimate parent undertaking and controlling party. The largest and smallest group of undertakings for which group financial statements are prepared and which include the results of the Company, are the consolidated financial statements of GlaxoSmithKline plc. Copies of the consolidated financial statements can be obtained from the Company Secretary, GlaxoSmithKline plc, 980 Great West Road, Brentford, Middlesex TW8 9GS. The immediate parent undertaking is Glaxo Group Limited. These financial statements are separate financial statements.

(c) Implementation of IFRS 9 'Financial instruments'

The Company has applied IFRS 9 'Financial instruments' with effect from 1 January 2018. IFRS 9 introduces new requirements for the classification and measurement of financial assets and financial liabilities, impairments for financial assets and general hedge accounting.

Details of these new requirements as well as their impact on the Company's financial statements are described below. The Company has adopted IFRS 9 retrospectively but with certain permitted exceptions as detailed below.

Action Potential Venture Capital Limited
(Registered number: 08603529)

Notes to the financial statements for the year ended 31 December 2018

2 Summary of significant accounting policies (continued)

(c) Implementation of IFRS 9 'Financial instruments' (continued)

Classification and measurement of financial assets

The date of initial application was 1 January 2018. The Company has not applied the requirements of IFRS 9 to instruments that were derecognised prior to 1 January 2018 and has not restated prior years. Any difference between the previous carrying amount and the revised carrying amount at 1 January 2018 has been recognised as an adjustment to opening retained earnings at 1 January 2018.

All financial assets that are within the scope of IFRS 9 are required to be measured at amortised cost or fair value, with movements through other comprehensive income or the income statement on the basis of the Company's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

The Company has elected to recognise the movements in the fair value of equity investments in other comprehensive income under IFRS 9. Investments in equity instruments that were previously classified as available-for-sale financial assets measured at fair value have been designated as measured at fair value through other comprehensive income (FVTOCI) under IFRS 9. As a result, fair value movements are now recorded in other comprehensive income along with gains or losses on disposal of the investments.

Convertible investments previously classified as available-for-sale are now classified as other investments. The table below shows the amount of adjustment for each financial statement line item affected by the application of IFRS 9 at 1 January 2018.

	As previously reported \$000	IFRS 9 adjustments \$000	As restated \$000
Non-current assets			
Equity investments	-	33,858	33,858
Other investments	-	604	604
Available-for-sale investments	34,462	(34,462)	-
Total effect on non-current assets	34,462	-	34,462

The Company's trade and other receivables were all classified as financial assets measured at amortised cost under IAS 39. Under IFRS 9 the business model under which each portfolio of trade and other receivables held has been assessed. The Company has portfolio under IFRS 9 to collect the contractual cashflows (measured at amortised cost).

There were no material changes in the carrying value of the financial assets as a result of these changes in measurement basis.

Impairment of financial assets

IFRS 9 requires an expected credit loss (ECL) model to be applied to financial assets rather than the incurred credit loss model required under IAS 39. The expected credit loss model requires the Group to account for expected losses as a result of credit risk on initial recognition of financial assets and to recognise changes in those expected credit losses at each reporting date.

ECLs are applied to all net trade receivables using the simplified approach, and 12-month ECL are applied to all other receivables using the general approach. No ECL allowance for trade receivables was recognised on transition to IFRS 9.

Action Potential Venture Capital Limited
(Registered number: 08603529)

Notes to the financial statements for the year ended 31 December 2018

2 Summary of significant accounting policies (continued)

(d) Foreign currency transactions

Foreign currency transactions are booked in the functional currency of the Company at the exchange rate ruling on the date of the transaction. Foreign currency monetary assets and liabilities are translated into the functional currency at rates of exchange ruling at the balance sheet date. Exchange differences are included in the income statement. The functional and presentation currency of the Company is United States Dollar.

(e) Expenditure

Expenditure is recognised in respect of services received when supplied in accordance with contractual terms.

(f) Finance expense

Finance expense is recognised on an accruals basis using the effective interest method.

(g) Financial assets

Financial assets are measured at amortised cost, fair value through other comprehensive income ('FVTOCI'). The measurement basis is determined by reference to both the business model for managing the financial asset and the contractual cash flow characteristics of the financial asset.

The Company has elected to designate equity investments as measured at FVTOCI. They are initially recorded at fair value plus transaction costs and then remeasured at subsequent reporting dates to fair value. Unrealised gains and losses are recognised in other comprehensive income. On disposal of the equity investment, gains and losses that have been deferred in other comprehensive income are transferred directly to retained earnings.

Dividends on equity investments are recognised in the income statement when the Company's right to receive payment is established.

Purchases and sales of equity investments are accounted for on the trade date.

(h) Other investments

Investments in convertible equity investments are measured at fair value through profit and loss. They are initially recorded at fair value and then remeasured at subsequent reporting dates to fair value. Unrealised gains and losses are recognised in the income statement.

On disposal of other investments, gains and losses are recognised directly in the income statement. Unrealised gains and losses are recognised in the income statement.

Interest received on other investments are recognised in the income statement when the Company's right to receive payment is established.

Purchases and sales of other investments are accounted for on the trade date.

(i) Fair value of investments

The Company's investments typically represent unlisted entities that are involved in early stage development of biotechnology therapies.

The following considerations are used when calculating the fair value of unlisted life science companies:

– The cost generally represents fair value as of the transaction date. Similarly where there has been a recent investment in the unlisted company by third parties, the funding pricing generally represents fair value as of the transaction date, although further judgement may be required to the extent that the instrument in which the recent investment was made is different from the instrument held by the Company.

– The length of period for which it remains appropriate to use cost or the latest funding pricing depends on the specific circumstances of the investment and the stability of the external environment and adequate consideration needs to be given to the current facts and circumstances. Where there is objective evidence that an investment has been impaired or increased in value since the investment was made, such as observable data suggesting a change of the financial, technical, or commercial performance of the underlying investment, the Company carries out an enhanced assessment to determine the fair value.

Action Potential Venture Capital Limited
(Registered number: 08603529)

Notes to the financial statements for the year ended 31 December 2018

2 Summary of significant accounting policies (continued)

(j) Impairment of financial assets

Expected credit losses are recognised in the income statement on financial assets measured at amortised cost and at fair value through other comprehensive income apart from equity investments.

For financial assets other than trade receivables a 12-month expected credit loss ('ECL') allowance is recorded on initial recognition. If there is evidence of a significant increase in the credit risk of an asset, the allowance is increased to reflect the full lifetime ECL. If there is no realistic prospect of recovery, the asset is written off.

(k) Trade and other receivables

Trade and other receivables are carried at original invoice amount less allowance for expected credit losses. Expected credit losses are calculated in accordance with the approaches permitted by IFRS 9. For trade receivables, the simplified approach is used by using a provision matrix applying lifetime historical credit loss experience to the trade receivables. The expected credit loss rate varies depending on whether and the extent to which settlement of the trade receivables is overdue and it is also adjusted as appropriate to reflect current economic conditions and estimates of future conditions. For the purpose of determining credit loss rates, customers are classified into groupings that have similar loss patterns. The key drivers of the loss rate are the nature of the business unit and the location and type of customer.

For other receivables, the general approach is used where the Company entity recognises the losses that are expected to result from all possible default events over the expected life of the receivable, when there has been a significant increase in credit risk since initial recognition. However, if the credit risk on the receivable has not increased significantly since initial recognition, the entity measures the expected loss allowance based on losses that are expected to result from default events that are possible within 12 months after the reporting date. When a trade and other receivable is determined to be uncollectable it is written off, firstly against any expected credit loss allowance available and then to the income statement.

Subsequent recoveries of amounts previously provided for are credited to the income statement. Long-term receivables are discounted where the effect is material.

(l) Trade and other payables

Trade and other payables are initially recognised at fair value and then held at amortised cost using the effective interest method. Long-term payables are discounted where the effect is material.

(m) Taxation

Current tax is provided at the amounts expected to be paid or refunded applying rates that have been enacted or substantively enacted by the balance sheet date.

(n) Share capital

Ordinary shares are classified as equity.

(o) Financial assets for periods up to and including 31 December 2017

Classification

The Company classifies its financial assets in the following categories: available-for-sale investments and loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

Available-for-sale investments

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any other categories. They are included in non-current assets unless the investment matures or management intends to dispose of it within 12 months of the end of the reporting period.

Action Potential Venture Capital Limited
(Registered number: 08603529)

Notes to the financial statements for the year ended 31 December 2018

2 Summary of significant accounting policies (continued)

(o) Financial assets for periods up to and including 31 December 2017 (continued)

Classification (continued)

Loans and receivables

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

Recognition and measurement

Regular way purchases and sales of financial assets are recognised on the trade-date, being the date on which the Company commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the income statement. Financial assets are derecognised when the rights to receive cash flows from the investment have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. Financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

Available-for-sale investments are initially recorded at fair value plus transaction costs and then remeasured at subsequent reporting dates to fair value. Unrealised gains and losses on available-for-sale investments are recognised directly in other comprehensive income.

On disposal or impairment of the investments, any gains and losses that have been deferred in other comprehensive income are reclassified to the income statement. Dividends on equity investments are recognised in the income statement when the Company's right to receive payment is established.

Interest on available-for-sale investments calculated using the effective interest method is recognised in the income statement as part of finance income. Dividends on available-for-sale equity instruments are recognised in the income statement as part of other income when the Company's right to receive payment is established.

Purchases and sales of equity investments are accounted for on the trade date and purchases and sales of other available-for-sale investments are accounted for on settlement date.

(p) Impairment of financial assets for periods up to and including 31 December 2017

(a) Assets classified as available-for-sale

The Company assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired.

For equity investments, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on the financial asset previously recognised in profit or loss - is removed from equity and recognised in profit or loss. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement.

(q) Trade and other receivables for periods up to and including 31 December 2017

Trade and other receivables are carried at original invoice amount less any provisions for doubtful debts. Provisions are made where there is evidence of a risk of non-payment, taking into account ageing, previous experience and general economic conditions. When a trade or other receivable is determined to be uncollectable it is written off, firstly against any provisions available and then to the income statement.

Subsequent recoveries of amounts previously provided for are credited to the income statement. Long-term receivables are discounted where the effect is material.

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Notes to the financial statements for the year ended 31 December 2018

3 Critical accounting judgments and key sources of estimation uncertainty

In preparing the financial statements, the Directors are required to make estimates and assumptions that affect the amounts of assets, liabilities, revenue and expenses reported in the financial statements. Actual amounts and results could differ from those estimates. The following are considered to be the Critical accounting judgments and key sources of estimation uncertainty made.

The Directors do not consider that there are any critical accounting judgments, apart from those involving estimations (which are dealt with separately below), that have been made in the process of applying the Company's accounting policies and that have had a significant effect on the amounts recognised in the financial statements.

(a) Valuation of equity investments

The Company's investments are classified as equity investments and consist of the following:

Equity investments	Type of investment	Percentage of shareholding	Country of incorporation
Qionics, Inc.	Unlisted convertible notes (UCN)	38% (approx.)	Delaware, USA
Axon therapies, Inc.	Common stock	27.18%	Delaware, USA
Setpoint Medical Corporation	Series C, C-1 and D Pfd Stock	9.84%	Delaware, USA
Cala Health, Inc.	Series B Pfd Stock	6.49%	Delaware, USA
NeuSpera Medical, Inc.	Series A Pfd Stock	20.16%	Delaware, USA
CVRx, Inc.	Various Pfd Stock	4.29%	Delaware, USA
Saluda Medical Party Limited	Series B Pfd Shares	11.68%	New South Wales, Australia
Presidio Medical Inc.	Unlisted convertible notes (UCN)	-	New South Wales, Australia

Management have calculated the fair value of the investments based on the fair value the company. The fair value movements of equity investments are accounted for in revaluation reserves are accounted for through other comprehensive income.

The key source of estimation uncertainty relates to the valuation of the Company's unlisted equity investments. Many of the companies within the portfolio are early stage investments and privately owned. Accordingly, a market value can be difficult to determine. The accounting policy for the valuation of investments is described in note 2(i).

4 Operating (loss) / profit

	2018 \$'000	2017 -\$'000
The following item has been charged / (credited) in operating profit:		
Management fee	8	7
Audit fees	15	15
Fair value re-measurement of other investments	604	-
Interest on loan to equity investment	(46)	(40)

GlaxoSmithKline Services Unlimited provides various services and facilities to the Company including finance and administrative services for which a management fee is charged. Included in the management fee is a charge for auditor remuneration of \$15,000 (2017: \$15,000).

Interest on loan to equity investment consists of interest receivable of \$41,000 (2017: \$nil) from Presidio Inc. and \$nil (2017: \$40,000) from Qionics Inc. Based on an 8% interest rate per annum on the loan value of \$625,000 (2017: \$nil) and \$nil (2017: \$500,000) respectively. The loan and the interest are repayable in shares at a future date.

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Notes to the financial statements for the year ended 31 December 2018

5 Employees

All UK personnel are remunerated by GlaxoSmithKline Services Unlimited and receive no remuneration from the Company. A management fee is charged by GlaxoSmithKline Services Unlimited for services provided to the Company (see Note 4). The Company has no employees (2017: nil).

6 Finance expense

	2018 \$'000	2017 \$'000
On loans with Group undertakings	995	447

7 Taxation

	2018 \$'000	2017 \$'000
Income tax credit on loss		
Current tax:		
UK corporation tax	(186)	(83)
Adjustments in respect of previous years	-	14
Total current tax	(186)	(69)
Total tax credit for the year	(186)	(69)

The tax assessed for the year is higher (2017: higher) than the standard rate of corporation tax in the UK for the year ended 31 December 2018 of 19.00% (2017: 19.25%). The differences are explained below:

	2018 \$'000	2017 \$'000
Reconciliation of total tax credit		
Loss on ordinary activities before tax	(1,576)	(429)
Loss on ordinary activities at the UK statutory rate 19.00% (2017: 19.25%)	(300)	(83)
Effects of:		
Non-deductible expenditure	114	-
Adjustments in respect of previous years	-	14
Total tax credit for the year	(186)	(69)

Factors that may affect future tax charges:

A reduction in the UK corporation tax rate from 20% to 19% (effective from 1 April 2017) was substantively enacted on 26 October 2015, and a further reduction to 17% (effective 1 April 2020) was substantively enacted on 6 September 2016. This will reduce the company's future current tax charge accordingly. The deferred tax asset at balance sheet date has been calculated based on these rates.

8 Equity investments

	Equity investments \$'000
Cost	
At 1 January 2017	19,764
Additions	13,198
At 31 December 2017	32,962
Transfer to Other Investments on implementation of IFRS 9	(604)
Carrying value at 31 December 2017, as adjusted on implementation of IFRS 9	32,358
Additions	10,311
At 31 December 2018	42,669

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Notes to the financial statements for the year ended 31 December 2018

8 Equity investments (continued)

Revaluation reserve	
At 1 January 2017 and 31 December 2017	1,500
Movement in the year	707
At 31 December 2018	2,207
Carrying value at 31 December 2017	34,462
Transfer to Other Investments on implementation of IFRS 9	(604)
Carrying value at 31 December 2017 as adjusted on implementation of IFRS 9	33,858
Carrying value at 31 December 2018	44,876

Current year additions to equity investments consist of \$1,397,000 worth of series B preferred stock in Cala Health Inc., additional \$2,756,000 worth of Series B preferred stock of NeuSpera Inc and additional \$6,158,000 worth of Series B preferred stock of Saluda medical Party Limited.

Movement in the revaluation reserve consists of a fair value increase in NeuSpera Inc. of \$1,003,000, fair value increase in Cala Health of \$241,217, a fair value decrease in Axon Therapies of \$537,000.

The Directors believe that the carrying value of the investments is supported by their underlying assets.

9 Other investments

	Other investments \$'000
Cost	
At 1 January 2017	-
Additions	-
Disposals	-
At 31 December 2017	-
Transfer from Equity Investments on implementation of IFRS 9	604
At 31 December 2017, as adjusted on implementation of IFRS 9	604
Additions	666
Fair value movement	5
At 31 December 2018	1,275
Impairment	
At 1 January 2018	-
Movement in the year	(604)
At 31 December	(604)
Carrying value at 31 December 2017	-
Carrying value at 31 December 2017, as adjusted on implementation of IFRS 9	604
Carrying value at 31 December 2018	671

Other investments comprise non-current convertible loan notes which are recorded at fair value at each balance sheet date. For other investments, the fair value is estimated by management with reference to relevant available information, including the current market value of similar instruments and discounted cash flows of the underlying net assets.

Current year additions consist of a convertible loan note to Presidio Medical Inc. of \$625,000, and capitalised interest on the convertible loan note amounting to \$41,000, and a fair value increase of £5,000.

Following the discontinuation of Qionics Inc.'s operations the investment in the convertible loan note of Qionics Inc. was fully impaired.

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Notes to the financial statements for the year ended 31 December 2018

10 Trade and other receivables

	2018 \$'000	2017 \$'000
Amounts due within one year		
Amounts owed by Group undertakings	133	50
Corporation tax	186	83
	319	133

The amounts owed by Group undertakings are unsecured, interest free and are repayable on demand. The corporation tax debtor contains amounts which will be received from fellow Group companies.

11 Trade and other payables

	2018 \$'000	2017 \$'000
Amounts falling due within one year		
Amounts owed to Group undertakings	45,645	33,612
Other payables	4	83
	45,649	33,695

Amounts owed to Group undertakings are unsecured and repayable on demand except for a call account balance with GlaxoSmithKline Finance Plc of \$45,520,000 (2017: \$33,590,000) which is unsecured with interest received at USD LIBOR rate plus 0.25% (2017: USD LIBOR rate plus 0.25%) per annum and repayable on demand.

12 Share capital

	2018 Number of shares	2017 Number of shares	2018 \$'000	2017 \$'000
Issued and fully paid				
Ordinary Shares of £1 each (2017: £1 each)	100	100	-	-

13 Other reserves

	Other reserves \$'000
At 1 January 2017 and 31 December 2017	1,500
Net fair value movements	707
At 31 December 2018	2,207

Movement in the revaluation reserve consists of a fair value increase in NeuSpera Inc. of \$1,003,000, fair value increase in Cala Health of \$241,217, a fair value decrease in Axon Therapies of \$537,000.

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Notes to the financial statements for the year ended 31 December 2018

14 Directors' remuneration

During the year the Directors of the Company, with the exception of the Corporate Directors, were remunerated as executives of the Group and received no remuneration in respect of their services to the Company (2017: \$nil). Corporate Directors received no remuneration during the year, either as executives of the Group or in respect of their services to the Company (2017: \$nil).

15 Related party transactions

As a wholly owned subsidiary of the ultimate parent company, GlaxoSmithKline plc, advantage has been taken of the exemption afforded by FRS 101 'Reduced disclosure framework' not to disclose any related party transactions with other wholly owned members of the Group, or information around remuneration of key management personnel compensation.

16 Post balance sheet events

In June 2019, there was an increase of \$21million in the fair value of an investment of the Company. The increase in share price was mainly attributable to progress on the clinical development.