

Action Potential Venture Capital Limited
(Registered number: 08603529)

Directors' report and financial statements

for the year ended 31 December 2019



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 2019

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Action Potential Venture Capital Limited
(Registered number: 08603529)

Directors' report for the year ended 31 December 2019

The Directors present their report on Action Potential Venture Capital Limited (the "Company") and the audited financial statements for the year ended 31 December 2019.

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 United Kingdom (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 companies which are involved 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 \$2,027,000 (2018: loss of \$1,390,000). 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 investments of the Company are fair valued at the year end and the total uplift in the value of the investments during the year amounts to \$23,297,000 which is recorded within other comprehensive income.

The loss for the year of \$2,027,000 will be transferred from reserves (2018: loss of \$1,390,000 transferred from reserves).

Directors

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

A Walker

C Panagiotidis (appointed on 15 February 2019 and resigned on 2 March 2020)

J Eckstein (resigned on 31 May 2019)

S Williams (appointed on 26 April 2019)

C Lynch (appointed on 2 March 2020)

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 third party proceedings to which the Director is a party by reason of his or her engagement in the business of the Company.

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Directors' report for the year ended 31 December 2019 (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.

Modern Slavery

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 2019.

Corporate Governance

As a subsidiary company of the Group which is listed on the New York and London Stock Exchanges, the Company has developed governance practices and processes that are fit for purpose.

The Directors have applied an undocumented system of governance by:

- (a) Promoting the purpose of the Group to deliver manufacturing and distribution of medicines through its subsidiaries' operations.
- (b) Regularly reviewing its composition to ensure that it has an appropriately diverse balance of skills, backgrounds, experience and knowledge and that individual Directors have sufficient capacity to make a valuable contribution.
- (c) To support effective decision-making Directors take into account the System of Internal Control and the Code of Conduct when acting in their capacity as a Director of the Company.
- (d) In accordance with the governance practices and processes that it adopts, the Board is supported by Systems of Internal Control to identify opportunities to create and preserve value.
- (e) Having regard to and fostering good stakeholder relationships.

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Directors' report for the year ended 31 December 2019 (continued)

Stakeholder Engagement

The Company aims to build enduring relationships with customers, partners, suppliers and communities in the countries where it operates. The Company works with its business partners in an honest, respectful and responsible way and seeks to work with others who share the Company's commitments to safety, ethics and compliance.

The Company's activities affect a wide variety of individuals and organisations. The Company engages with these stakeholders and listens to their differing needs and priorities as an everyday part of its business and uses the input and feedback to inform its decision making.

On behalf of the Company, the Group participates in industry associations that offer opportunities to share good practices and collaborate on issues of importance. Additionally, the Group works with governments on a range of issues that are relevant to its business, from regulatory compliance, to collaborating on community initiatives.

The Group seeks to engage with customers through social media, focus groups and in-depth interviews with customers to better understand customer's needs and seek their feedback.

Disclosure of information to auditor

As far as each of the Directors are aware, there is no relevant audit information of which the Company's auditor is 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 auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

Going concern

Having assessed the principal risks and other matters, including the potential impact of the COVID- 19 pandemic, the Directors are of the opinion that the current level of activity remains sustainable. In relation to the challenges that arise from the COVID- 19 pandemic, the considerations have included the potential risks related to services provided by the Company. The Directors have taken into account that as part of the GSK Group of companies, the Company has already received the necessary letter of support from the Group and can take actions to ensure business continuity through operational channels, as well as the ability to manage variable costs. On the basis of those considerations, the Directors believe that it remains appropriate to adopt the going concern basis of accounting in preparing the financial statements.

Approach to Brexit

In preparing for the UK's exit from the EU (Brexit), we have taken a risk based approach to planning and mitigation, in conjunction and complete alignment with the Group, whilst the discussions on future relationships between the UK and the European Union are negotiated. The Group's approach to Brexit, which includes that of the Company, is discussed in the Group's 2019 annual report which does not form part of this report.

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Directors' report for the year ended 31 December 2019 (continued)

Risks associated with the coronavirus outbreak

The potential impact of the coronavirus outbreak on the Company's current activities remains uncertain. Up to the date of this Report, the outbreak has not had a material impact on the results of the Company. The situation could change at any time and there can be no assurance that the coronavirus outbreak will not have a material adverse impact on the future results of the Company.

Post balance sheet event

The Directors have considered the impact on the Company of the COVID-19 pandemic, which is a non-adjusting post balance sheet event. The Directors do not consider that there have been any material adverse changes to the carrying values of the Company's assets nor material adjustments to liabilities subsequent to the year-end which require disclosure in these financial statements.

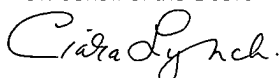
Independent auditor

Deloitte LLP were appointed to act as the Company's auditor pursuant to section 485(3) Companies Act 2006. Deloitte LLP were then appointed by the members in general meeting during the year in accordance with s485(4) Companies Act 2006.

Small company exemption

This report has been prepared taking advantage of the small companies exemption in accordance with section 415A of the Companies Act 2006. The Company has taken advantage of the small companies exemption from preparing a Strategic report in accordance with section 414B of the Companies Act 2006.

On behalf of the Board



C Lynch
Director
07 October 2020

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 2019 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 17.

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 have reviewed the directors' disclosures in the financial statements about whether they consider it appropriate to adopt the going concern basis of accounting in preparing them and their identification of any material uncertainties to the Company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements.

We considered as part of our risk assessment the nature of the Company, its business model and related risks including where relevant the impact of COVID-19, the requirements of the applicable financial reporting framework and the system of internal control. We evaluated the directors' assessment of the Company's ability to continue as a going concern, including challenging the underlying data and key assumptions used to make the assessment, and evaluated the directors' plans for future actions in relation to their going concern assessment.

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

Conclusions relating to going concern (continued)

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.

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.

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

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.

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 the small companies' exemption in preparing the directors' report and from the requirement to prepare a 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
08 October 2020

Action Potential Venture Capital Limited
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Income statement
for the year ended 31 December 2019

	Notes	2019 \$'000	2018 \$'000
Other operating income		-	46
Other operating expense		(1,073)	(627)
Operating loss	4	(1,073)	(581)
Loss before interest and taxation		(1,073)	(581)
Finance expense	6	(1,572)	(995)
Loss before taxation		(2,645)	(1,576)
Taxation	7	618	186
Loss for the year		(2,027)	(1,390)

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

Action Potential Venture Capital Limited
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Statement of comprehensive income
for the year ended 31 December 2019

	Notes	2019 \$'000	2018 \$'000
Loss for the year		(2,027)	(1,390)
Items that will not be reclassified to the income statement:			
Net fair value movements	13	23,204	707
Exchange gain from investments carried at fair value	13	93	-
Other comprehensive income for the year		23,297	707
Total comprehensive income / (loss) for the year		21,270	(683)

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Balance sheet
as at 31 December 2019

	Notes	2019 \$'000	2018 \$'000
Non-current assets			
Equity investments	8	83,454	44,876
Other investments	9	2,467	671
Total non-current assets		85,921	45,547
Current assets			
Trade and other receivables	10	420	133
Cash and cash equivalents		72	-
Corporation tax		517	186
Total current assets		1,009	319
Total assets		86,930	45,866
Current liabilities			
Trade and other payables	11	(65,443)	(45,649)
Net current liabilities		(64,434)	(45,330)
Net assets		21,487	217
Equity			
Share capital	12	-	-
Other reserves	13	25,504	2,207
Accumulated losses		(4,017)	(1,990)
Shareholder's equity		21,487	217

The financial statements on pages 8 to 22 were approved by the Board of Directors on 07 October 2020 and signed on its behalf by:



C Lynch
Director

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Statement of changes in equity
for the year ended 31 December 2019

	Share capital \$'000	Other reserves \$'000	Accumulated losses \$'000	Total \$'000
At 1 January 2018	-	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
Loss for the year	-	-	(2,027)	(2,027)
Other comprehensive income	-	23,297	-	23,297
At 31 December 2019	-	25,504	(4,017)	21,487

Action Potential Venture Capital Limited
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Notes to the financial statements for the year ended 31 December 2019

1 Presentation of the financial statements

General Information

The Company is a private company limited by shares and is incorporated and domiciled in the United Kingdom (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 companies which are involved 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.

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 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.

The financial statements are presented in United States Dollar.

Going concern basis

Having assessed the principal risks and other matters, including the potential impact of the COVID- 19 pandemic, the Directors are of the opinion that the current level of activity remains sustainable. In relation to the challenges that arise from the COVID- 19 pandemic, the considerations have included the potential risks related to services provided by the Company. The Directors have taken into account that as part of the GSK Group of companies, the Company has the ability to request support from the Group where necessary and can take actions to ensure business continuity through operational channels, as well as the ability to manage variable costs. On the basis of those considerations, the Directors believe that it remains appropriate to adopt the going concern basis of accounting in preparing the financial statements.

Disclosure exemptions adopted

In preparing these financial statements the Company has taken advantage of all disclosure exemptions conferred by FRS 101 to requirements set by the International Financial Reporting Standards (IFRS). Therefore these financial statements do not include:

- Paragraphs 45(b) and 46 to 52 of IFRS 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);

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Notes to the financial statements for the year ended 31 December 2019

2 Summary of significant accounting policies (continued)

(a) Basis of preparation (continued)

Disclosure exemptions adopted (continued)

- The requirements of paragraphs 62, B64(d), B64(e), B64(g), B64(h), B64(j) to B64(m), B64(n)(ii), B64(o)(ii), B64(p), B64(q)(ii), B66 and B67 of IFRS 3, 'Business Combinations';
- The requirements of paragraph 33(c) of IFRS 5, 'Non-current Assets Held for Sale and Discontinued Operations';
- IFRS 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 IFRS 15, 'Revenue from Contracts with Customers';
- Paragraphs 91 to 99 of IFRS 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 73(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' and
 - (v) paragraph 50 of IAS 41, 'Agriculture'.
- 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';
- The requirements of paragraph 52, the second sentence of paragraph 89, and paragraphs 90, 91 and 93 of IFRS 16, 'Leases';
- The requirements of paragraph 58 of IFRS 16, provided that the disclosure of details of indebtedness required by paragraph 61(1) of Schedule 1 to the Regulations is presented separately for lease liabilities and other liabilities, and in total;
- 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 and 18A 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.

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Notes to the financial statements for the year ended 31 December 2019

2 Summary of significant accounting policies (continued)

(b) Ultimate and immediate parent undertaking

The Company is a wholly owned subsidiary of the ultimate parent company. GlaxoSmithKline plc, a company registered in United Kingdom (England), 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) 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, unless they relate to investments carried at fair value. The functional and presentation currency of the Company is United States Dollar.

(d) Expenditure

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

(e) Finance expense

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

(f) Financial assets

Financial assets are measured at amortised cost and 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.

(g) Other investments

Investments in convertible loan notes are measured at fair value through profit and loss ('FVTPL'). 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.

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.

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Notes to the financial statements for the year ended 31 December 2019

2 Summary of significant accounting policies (continued)

(h) 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. 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 the fair value of an investment had changed, 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.

(i) 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.

(j) 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 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 Company 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.

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 2019

2 Summary of significant accounting policies (continued)

(k) Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, current balances with banks and similar institutions and highly liquid investments with maturities of three months or less. They are readily convertible into known amounts of cash and have an insignificant risk of changes in value.

(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.

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 judgements and key sources of estimation uncertainty made.

(a) Classification of equity investments

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

Equity investments	Type of investment	Percentage of shareholding	Registered office address
Axon Therapies, Inc.	Common stock, Series A	25.39%	C/O Coridea, LLC, 315 west 36th street, New York, 10018, Delaware, USA
Saluda Medical Party Limited	Series B Pfd Stock	7.70%	Level 1, 407 Pacific Highway Artarmon, NSW 2064, New South Wales, Australia

The investment in Axon Therapies, Inc. ('Axon'), is not considered as an investment in associate as the Company does not have any members in the executive board of Axon. As a result of which the Company does not have any significant influence on Axon. The fair value movements of investment in Axon are accounted through other comprehensive income.

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Notes to the financial statements for the year ended 31 December 2019

3 Critical accounting judgments and key sources of estimation uncertainty (continued)

(b) Valuation of equity investments

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

The key source of estimation uncertainty relates to the valuation of the Company's unlisted equity investments, with a carrying value of \$83,454,000 (2018: \$44,876,000).

The unlisted equity investments are primarily early stage, privately owned biotech start-ups. Significant valuation movements in investments of this nature are often driven by the results of research and development activity, the outcome of clinical trials, and regulatory approvals.

As set out in the accounting policy for the valuation of investments (Note 2(h)), evidence from the pricing of funding rounds or other objective evidence of changes in the value is used by the directors in assessing the carrying value at the company's year end. Due to the nature of this information, and the timing of funding rounds taking place, the market value can be difficult to determine and objective evidence of the fair value at the company's year end date is not always available. There is a reasonable possibility that a material change in the valuation of these investments will occur in the next financial year.

It is not possible to provide detailed sensitivities due to the nature of the information upon which fair value estimates are made. During the current year, a valuation increase of \$23,204,000 was recorded (2018: valuation increase of \$707,000). If the valuation of all investments increased or decreased by 2%, the resulting credit or charge to other comprehensive income would be \$1,670,000. If the valuation of all investments increased or decreased by 10%, the resulting credit or charge to other comprehensive income would be \$8,345,000.

4 Operating loss

	2019 \$'000	2018 \$'000
The following item has been charged / (credited) in operating profit / (loss)		
Management fee	8	8
Audit fees	16	15
Administrative expenses	1,049	-
Fair value re-measurement of other investments	-	604
Interest on convertible loan instrument	-	(46)

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 \$16,000 (2018: \$15,000).

Administrative expenses includes \$1,121,000 (2018 : \$nil) of running costs for managing the portfolio recharged by S.R. One Ltd to the Company and offset by travel reimbursement costs of \$72,000.

Interest on convertible loan instrument includes interest receivable of \$nil (2018: \$41,000) from Presidio Inc. based on an 8% interest rate per annum on the loan value of \$nil (2018: \$625,000).

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 (2018: nil).

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Notes to the financial statements for the year ended 31 December 2019

6 Finance expense

	2019	2018
	\$'000	\$'000
On loans with Group undertakings	1,572	995

7 Taxation

	2019	2018
	\$'000	\$'000
Income tax credit on loss		
Current tax:		
UK corporation tax at 19% (2018: 19%)	(503)	(186)
Prior period adjustments	(115)	-
Total current tax	(618)	(186)
Total tax credit for the year	(618)	(186)

The tax assessed for the year is lower (2018: higher) than the standard rate of corporation tax in the UK for the year ended 31 December 2019 of 19.00% (2018: 19.00%). The differences are explained below:

	2019	2018
	\$'000	\$'000
Reconciliation of total tax credit		
Loss on ordinary activities before tax	(2,645)	(1,576)
Tax on ordinary activities at the UK statutory rate 19.00% (2018: 19.00%)	(503)	(300)
Effects of:		
Non-deductible expenditure	-	114
Adjustment in respect of previous years	(115)	-
Total tax credit for the year	(618)	(186)

Factors that may affect future tax rates:

A reduction in the UK corporation tax rate from 19% to 17% (effective 1 April 2020) was substantively enacted on 6 September 2016. The March 2020 Budget announced that a rate of 19% would continue to apply with effect from 1 April 2020, and this change was substantively enacted on 17 March 2020. There is no impact of this change on the tax charge as there are no instances of deferred taxation recognised in the statement of comprehensive income or directly in equity in either the current or prior year.

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Notes to the financial statements for the year ended 31 December 2019

8 Equity investments

	Equity investments \$'000
Cost	
At 1 January 2018	32,358
Additions	10,311
At 31 December 2018	42,669
Additions	14,162
Conversion of other investments to equity investments	1,119
At 31 December 2019	57,950
Revaluation reserve	
At 1 January 2018	1,500
Movement in the year	707
At 31 December 2018	2,207
Movement in the year	23,204
Exchange gain	93
At 31 December 2019	25,504
Carrying value at 31 December 2018	44,876
Carrying value at 31 December 2019	83,454

Current year additions to equity investments consist of \$1,500,000 worth of series A stock in Axon Therapies, Inc, additional \$6,799,000 worth of series C preferred stock in Cala Health, Inc, additional \$1,000 worth of ordinary shares in Closed Loop Medical Party Ltd, additional \$3,500,000 worth of series G of shares in CVRX, Inc and additional \$2,362,000 worth of Series B preferred stock of NeuSpera Medical, Inc.

Movement in the revaluation reserve consists of a fair value increase in Saluda Medical Party Limited of \$21,072,000, a fair value increase in Closed loop Medical of \$1,982,000, a fair value increase in Presidio Medical Inc of \$87,000, a fair value increase in Cala Health, Inc of \$62,000, and a fair value increase in Axon Therapies, Inc of \$1,000.

The exchange gain of \$93,000 relates to the investment in Saluda Medical.

The Directors believe that the carrying value of the investments is supported by their underlying assets, however, the fair value measurement is a key source of estimation uncertainty as disclosed in note 3(b).

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Notes to the financial statements for the year ended 31 December 2019

9 Other investments

	Other investments \$'000
Cost	
At 1 January 2018	604
Additions	666
Fair value movement	5
At 31 December 2018	1,275
Additions	2,915
Disposals	(604)
Conversion of other investments to equity investments	(1,119)
At 31 December 2019	2,467
Impairment	
At 1 January 2019	(604)
Disposals	604
At 31 December 2019	-
Carrying value at 31 December 2018	671
Carrying value at 31 December 2019	2,467

Other investments comprise non-current convertible loan notes which are recorded at fair value at each balance sheet date. 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 movements consist of \$2,467,000 worth of convertible notes in SetPoint Medical Corporation, \$448,000 of Cala Health Inc. convertible notes converted into preferred shares and \$671,000 of Presidio Medical Inc convertible loan notes converted into Series A shares.

Convertible notes are accounted for at fair value through profit and loss (FVTPL), taking into consideration the Group's conversion rights, i.e. voluntary conversion at maturity or voluntary conversion upon liquidation which are at predetermined set prices or are conversion options at a percentage of further financing prices. There were no material fair value movement during the year.

10 Trade and other receivables

	2019 \$'000	2018 \$'000
Amounts due within one year		
Amounts owed by Group undertakings	420	133
	420	133

The amounts owed by Group undertakings are unsecured, interest free and are repayable on demand.

In the current financial year, corporation tax asset has been presented separately on the balance sheet which has resulted in the change of the comparatives on the balance sheet.

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Notes to the financial statements for the year ended 31 December 2019

11 Trade and other payables

	2019 \$'000	2018 \$'000
Amounts falling due within one year		
Amounts owed to Group undertakings	65,439	45,645
Other payables	4	4
	65,443	45,649

Amounts owed to Group undertakings are unsecured and repayable on demand except for a call account balance with GlaxoSmithKline Finance plc of \$64,169,000 (2018: \$45,520,000) which is unsecured with interest received at USD LIBOR rate plus 0.25% (2018: USD LIBOR rate plus 0.25%) per annum and repayable on demand.

12 Share capital

	2019 Number of shares	2018 Number of shares	2019 \$'000	2018 \$'000
Issued and fully paid				
Ordinary Shares of £1 each (2018: £1 each)	100	100	-	-

13 Other reserves

	Fair value reserve \$'000
At 1 January 2018	1,500
Net fair value movements	707
At 31 December 2018	2,207
Net fair value movements	23,204
Exchange gain	93
At 31 December 2019	25,504

The movement in the fair value reserve consists of a fair value increase in Saluda Medical Party Limited of \$21,072,000, a fair value increase in Cala Health, Inc of \$62,000, a fair value increase in Closed loop Medical of \$1,982,000, a fair value increase in Presidio Medical Inc of \$87,000 and a fair value increase in Axon Therapies, Inc of \$1,000.

The exchange gain of \$93,000 relates to the investment in Saluda Medical.

14 Contingent liabilities

Group banking arrangement

The Company, together with fellow Group undertakings has entered into a Group banking arrangement with the Company's principal bank. The bank holds the right to pay and apply funds from any account of the Company to settle any indebtedness to the bank of any other party to this agreement. The Company's maximum potential liability as at 31 December 2019 is limited to the amount held on its accounts with the bank. No loss is expected to accrue to the Company from the agreement.

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Notes to the financial statements for the year ended 31 December 2019

15 Events after the end of the reporting period

The Directors have considered the impact on the Company of the COVID-19 pandemic, which is a non-adjusting post balance sheet event. The Directors do not consider that there have been any material adverse changes to the carrying values of the Company's assets nor material adjustments to liabilities subsequent to the year-end which require disclosure in these financial statements.

16 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 (2018: \$nil). Corporate Directors received no remuneration during the year, either as executives of the Group or in respect of their services to the Company (2018: \$nil).

17 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.