PRO BONO BIO PLC

FINANCIAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2015

CORPORATE INFORMATION

Directors

Jon Aisbitt (appointed on 31 July 2015)
Ali Baruni (appointed on 31 July 2015)
Michael Earl
Pavel Erochkine (appointed on 31 July 2015)
William Henry
George Iliffe
John Mayo
Irina Rapoport (appointed on 31 July 2015)
Richard Wolf-Garraway

Company secretary

Throgmorton Secretaries LLP

Registered Office and Number

4th Floor, Reading Bridge House
George Street
Reading
Berkshire RG1 8LS

Company Registration Number: 08705972

Independent Auditor

Grant Thornton UK LLP
Grant Thornton House
Melton Street
Euston Square
London NW1 2EP

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New disruptive products

Pro Bono Bio PLC is a world leading nano-lipid, healthcare technology company focused on pain, haematology and dermatology.

Pro Bono Bio PLC and its subsidiaries comprise an innovative healthcare business engaged in the development and marketing of nano-lipid based medical devices and management solutions improving the performance of approved drugs and proteins.

- We provide safer, more efficient healthcare solutions than traditional pharmaceuticals alone

- Our success is demonstrated by a range of 'in market' and 'market ready' products

- Reimbursed prescription status of our products is set to drive sales in future

- We are developing market disruptive products targeting large and attractive healthcare markets with multiple benefits to both health services and patients

We are focused on pain relief, haematology and skin care with potential to extend our technology into other areas

Highlights

Highlights during 2015 are set out below:

- Sales of Flexiseq gel to treat osteoarthritis and joint pain in 2015 exceeded 23 million treatments. The product is now available in more countries and more major retailers than in 2014, including in Boots and Lloyds Pharmacies in the UK and dm-drogerie markt in Germany;

- A study to demonstrate the efficacy of Flexiseq on non-steroidal anti-inflammatory drug ("NSAID") intolerant patients was implemented in 2015; the study is now fully recruited with results expected in 2016; this is a key step in obtaining satisfactory prescription reimbursement from healthcare systems;

- The Sequaderma range of dermatological cosmetics products was launched in the UK and Ireland in the second half of 2015;

- The group continued its development of a range of innovative products for haemophiliacs; these include:
  - subcutaneously administered long acting blood factor treatments for severe haemophiliacs; and
  - a benign lipid chaperone to boost the effectiveness of endogenous blood factors that may be administered intravenously, subcutaneously or trans-dermally;

- The group obtained loan finance of US$15 million from a listed Canadian healthcare company, Knight Therapeutics, which is the group's distributor in Canada

Innovative product strategy and focused commercial strategy

Strategy

Our strategy is to:

- Create innovative solutions to meet well-defined large unmet medical needs using our nano-lipid technology platforms;

- Focus commercial activity in building up two product ranges to treat:
  - Pain in Europe; working with marketing partners in the United States, Japan and the rest of the world; and
  - Haemophilia globally;

- Develop all other opportunities to a value inflection point that allows us to attract marketing companies to assist in bringing the products to market. Some areas can and should be partnered early in development as the partner's in-licensing activities are at a research level, others later in development and some products should only be in-licensed by marketers when they have reached the market; and

- Seek partnerships with larger companies who have R&D molecules or marketed products (near patent expiry) that need improvement where our nano-lipid technologies can materially improve their performance.

Key performance indicators

	2015	2014
Number of countries where products are sold	15	9
Total revenues (£'000)	6,625	5,049[1]
Gross margin	73%	73%
Contribution (gross profit less advertising and promotion costs) (£'000)	1,333	2,497[1]
Contribution margin	20%	49%
Research and development (£'000)	4,992	1,949[1]
EBITDA (£'000)	(8,307)	(1,263)[1]

Note 1: Pro Bono Bio PLC was incorporated on 25 September 2013 to act as a holding company and during 2014 acquired a number of businesses which give rise to the group in its current form. As a result the group's comparative income statement for 2014 mainly reflects activities arising after 11 July 2014, being the date of the first acquisition.

23 million treatments sold across 15 countries

Operating performance of Pro Bono Bio PLC group

2015 was the first full year of operations for the Pro Bono Bio PLC group in its current form following its establishment and reorganisation during 2014.

The group is focused on three main activities. First, it develops and sells unique drug-free products under its Flexiseq brand to treat osteoarthritis and joint pain. Second, it develops and sells cosmetics products under its Sequaderma brand to address a range of dermatological conditions. Third it is developing a range of innovative treatments for haemophiliacs.

Flexiseq was launched at the end of 2012 and by the start of 2015 was sold in a number of countries, including the UK, Ireland, Germany, Austria, Italy, Malta, Turkey, South Africa, Hong Kong, Singapore and Malaysia. During 2015 the group broadened its retail channels in existing markets and also entered new countries. Sales of Flexiseq were made for the first time in the Baltic States, Italy and Australia. In the group's largest markets in the UK and Germany, a number of major new retailers and wholesalers started selling Flexiseq in 2015, including Boots, Superdrug, Tesco and Alliance in the UK and dm-drogerie markt in Germany. Outside Europe the group typically sells its products to regional or country focused distributors.

In February 2015 the group launched Flexiseq Sport. This product extends the Flexiseq range with a product targeted at active consumers and sportsmen or women who suffer from joint pain but who have not yet been diagnosed with osteoarthritis. This product is manufactured at a purity level that is guaranteed to meet WADA's standards when testing for performance enhancing drugs.

During 2015 the group sold more than 23 million treatments of Flexiseq and Flexiseq Sport and generated revenues of £6.3 million from sales of these products.

In July 2015 the group launched a range of five new cosmetics products targeted at consumers with dermatological conditions, including ageing thinning skin, acne, eczema, dermatitis and rosacea. These products were initially available in the UK exclusively at the Lloyds Pharmacy chain but are now also available at Superdrug. In October 2015 the range was launched in Ireland and Malta.

From launch the group generated £0.3 million from sales of the Sequaderma range of products in 2015. This level of sales was disappointing and we are improving our commercial model before expanding into other chains and territories.

In November 2014 the group acquired the rights to a long acting treatment for haemophiliacs under the LongAte brand name that has regulatory approval and marketing authorisation for sale in Russia. The group has not yet commenced the commercialisation of this product, which needs to be administered intravenously. In the meantime, based on our own earlier research, the group has been developing a range of innovative treatments for haemophiliacs that would allow the treatment to be administered by a subcutaneous injection, significantly reducing discomfort experienced by the patient, improving compliance and reducing the system costs of administration. This range of subcutaneous products will require clinical trials to be undertaken prior to obtaining the necessary regulatory and marketing approvals.

The group has also undertaken further development activities in relation to its Flexiseq range of products. The principal activities include the funding of a clinical trial to demonstrate the efficacy of Flexiseq in treating osteoarthritis and joint pain amongst patients that are intolerant to or unable to take NSAIDs. The study is now fully recruited but its results will not be available until the second half of 2016. This study is expected to be a major factor in persuading health systems (initially in the UK and Germany) to reimburse the Flexiseq product when prescribed to treat NSAID intolerant sufferers of osteoarthritis and joint pain. The other main development activity in respect of Flexiseq is to agree with the FDA a determination of the status of Flexiseq as a medical device, as it is in the EU, or a drug. An evaluation by the FDA commenced in late 2015 and a determination is expected in the first half of 2016.

At the start of 2015 the group established a presence in North America by opening an office in Toronto and recruiting a team to develop a plan to commercialise the group's products in North America. The team evaluated the opportunity for the group's range of products and concluded that Flexiseq should be marketed as a reimbursable prescription product to health system providers in the United States. It was concluded that this opportunity would be best addressed through an established US marketing partner. Simultaneously, the group decided that its cosmetic range should be partnered in North America. As a result of these conclusions, in January 2016 the group determined that its team in Toronto should be wound down. Upon receiving a determination from the FDA of the status of Flexiseq, the group will actively seek a marketing partner in the United States.

The group's development activities in relation to the cosmetics products consist mainly of the addition of a number of potential products to the Sequaderma range, including products targeted at uneven skin tone, lightening the skin without the use of steroids or other active chemicals, and ageing and thinning skin around the eyes.

The group also has a development team that is conducting research and development in the field of anti-infective treatments. This activity has received grant funding from both the UK and US governments totalling £0.8 million during 2015 in support of a new broad spectrum of antibiotics for serious diseases. While the progress of this development team has been promising it is not a core activity for the group. As a consequence we are seeking a partner for this development programme.

Gross profit margin of 73% and research and development spend of £5 million

Financial performance of Pro Bono Bio PLC group

The group's financial performance during 2015 was satisfactory. The group recorded revenues from product sales of £6.6 million and other income from research grants of £0.8 million. The group's direct costs comprised cost of goods sold of £1.6 million (including non-cash provisions against inventory of £0.4 million), royalty payments of £0.7 million and transportation and logistics costs of £0.3 million. The group's gross profit in 2015 was £4.9 million yielding a gross margin of 73%.

Advertising and promotion costs totalled £3.5 million for 2015. Contribution to fixed costs (being gross profit less advertising and promotion costs) was £1.3 million resulting in a contribution margin of 20%. Fixed costs included the group's investment in research and development of £5.0 million for the year. General and administrative costs in 2015 amounted to £4.4 million. In addition, there was a non-cash bad debt charge of £0.2 million. The majority of this charge arose from the write off of legacy non-trading balances that had been transferred to the business as part of the 2014 reorganisation.

Overall, the group recorded an EBITDA loss of £8.3 million. After taking account of finance costs, tax and non-cash deductions for depreciation of tangible fixed assets and amortisation of intangible assets the group recorded a loss after tax of £19.9 million.

In June 2015 Knight Therapeutics, a Canadian listed healthcare company, agreed to provide loan finance of US$15 million to the group. The group has also entered into a distribution agreement which grants rights to Knight Therapeutics to distribute the group's blood factor products in Canada and rights to distribute all of its products in Quebec and Israel.

The group's cash resources increased from £1.8 million to £2.6 million during 2015.

Current shareholders of Pro Bono Bio PLC

The beneficial shareholders of Pro Bono Bio PLC are the senior management and investors, including John Mayo, Michael Earl, Bill Henry, George Iliffe and Richard Wolf-Garraway, who are also directors of the company, and Molard International (PTC) as trustee of RNPharma trust. The sole beneficiary of RNPharma trust is Rusnano Capital AG.

During 2015 Celtic Pharma Holdings II LP, the holder of the Convertible Preference Shares ("CPS") issued by Pro Bono Bio PLC, distributed all of these shares to its limited partners and its general partner. As a result, Rusnano Capital AG and certain other individuals and institutions now hold all of the CPS issued by the company. The CPS are expected to convert into between 30% and 40% of the fully diluted ordinary equity of the company in the event of an initial public offering or sale of the company.

Typical risks for high growth healthcare development company

Principal risks and uncertainties

The principal risks and uncertainties faced by the group and kept under review by the board of the company have been summarised below. They typify the risks faced by rapid growth healthcare development companies.

Competition: The group has a competitive range of products but operates in a dynamic market where competitive new products are launched from time to time. The group spends substantial amounts on advertising and promotion but does not have the scale of marketing budget that is available to some of its larger competitors. Moreover, in 2015 the group made around a third of its sales by volume via its largest customer. In 2016 the group has plans to further diversify its customer base both in the UK and in continental Europe. As a result of competitive forces in its markets there is a risk that the group is unable to diversify its customer base and a further risk that it loses its principal customer.

Product liability: While the group's products have not shown any contraindications in patients to date there is nonetheless a risk that some patients develop side effects. The group has put in place product liability insurance to cover claims arising should this happen. The consequent loss of sales volumes is, however, a risk that cannot be insured.

Regulatory approvals: The group is developing new products which may require regulatory approvals in the EU and North America as well as other regions. In addition, some of its existing product range requires approval in North America and Japan, which the group plans to obtain. The group has an excellent track record in successfully obtaining all the necessary approvals for its current product range to be sold in the EU and a number of other countries. There is, nevertheless, a risk that approvals to be sought are delayed or, in the worst case, not obtained, thereby reducing the expected volumes of sales by the group in future.

Patent protection and licences: The group has protected its current and future products with a range of patents and know how to provide protection from imitators. In addition, the group has executed licence arrangements with other entities to ensure it has acquired all the technology it requires to develop its current and future ranges of products for the next several years. In spite of this there is a risk that another party is successful in emulating one or more of the group's products without breaching its patents or intellectual property rights.

Funding: The group is currently loss making and is consuming cash. The group is in discussions with a number of parties to provide additional funding to the group. These discussions have yet to result in a definitive agreement to provide funds to the group. Although the directors are confident that in due course the group will obtain committed funding to meet its payment obligations there is, nevertheless, a risk that the group will not obtain such funding and will not be able to continue as a going concern.

Key staff: The group has a small permanent staff of around 45 FTEs. A number of the group's managers, researchers and other members of staff are highly talented and have been responsible for the group's success and achievements to date. With a small team there is a risk that key members of management and staff leave the business and cannot easily be replaced. Where practicable, the group has succession plans in place but because of the likely need to recruit externally there is a risk of delays in the execution of the group's business plan in the event of unexpected losses of staff.

Outsourced manufacturing: The group has outsourced manufacture of all of its products to a third party contract manufacturer. At present the group has no second source of supply although the current contract manufacturer has the ability and the capacity to manufacture the group's products in at least two manufacturing locations. The group is evaluating possible second sources of supply but until it has a contract in place there is a risk that its current supplier is unable to meet the group's production requirements resulting in a delay or loss of expected sales volumes.

Currency fluctuations: The group currently earns the majority of its revenues in Sterling but incurs the majority of its direct costs in Euros. In addition the group has liabilities to repay borrowings and make payments of contingent consideration denominated in US Dollars. The group does not actively hedge its currency exposures using derivative instruments. As a result of income and expenses and assets and liabilities denominated in different currencies the group is exposed to fluctuations in a number of currencies but principally those of the Euro and the US Dollar versus its reporting currency of Sterling.

Exciting products for important large unmet medical needs

Current trading and prospects

We believe that the prospects for Flexiseq are very good. Following a period of experimental price discounting of the product in the second half of 2015, sales at the start of 2016 have been slower as Flexiseq's price has been restored to its recommended level. In spite of this, with a growing base of loyal and satisfied customers we are confident that unit sales of this range of products in the UK and Europe will be significantly higher in 2016 than they were in 2015. Furthermore, we expect to make progress in 2016 identifying marketing partners for Flexiseq in Japan and the United States. If successful this should drive up our longer term revenues very substantially.

We are continuing our efforts to establish the Sequaderma range of products in the UK and Ireland but do not intend to allocate significant capital to this challenge. Rather, we expect to find a more efficient way to commercialise this range. We are considering refocussing some of these products as medical devices targeted at specific skin conditions to optimise the marketing resources required to successfully establish footholds for these products. In due course, we expect to seek geographic partners to market this range of products.

We are developing a supply chain for the commercialisation of LongAte, the intravenously administered blood factor product for haemophiliacs. In addition, we are planning studies for LongAte, to be administered subcutaneously, in Russia, as well as further clinical studies for ChapAte, the blood factor chaperone, which we have developed as an adjuvent therapy for haemophiliacs.

The group has an exciting range of 'in market' and 'market ready' products that address important unmet medical needs. In addition, it has a strong pipeline of development activities. The group's current and future product pipeline was valued by an independent expert in 2014 at the time of its reorganisation and the majority of the value was judged to arise from the application of its Sequessome technologies in the fields of pain relief and skin care. A further independent valuation was undertaken in early 2016 which showed a substantial overall increase in the worth of the group attributable to the application of its technologies in the field of haematology. This underlines the substantial progress made over the past two years developing the group's presence in this exciting area which now represents a major part of the value of the group.

Overall we are positive about the group's prospects for 2016 and expect to announce further product, commercial and financial developments during the year.

On behalf of the board of directors

J. Mayo

John Mayo
Chairman
29 April 2016

PRO BONO BIO PLC

BOARD OF DIRECTORS

Pro Bono Bio's board of directors has a broad and complementary range of skills that will be invaluable in driving the group forwards to achieve its ambitious business objectives and, as a result, to generate substantial value for its stakeholders.

John Mayo CBE, Chairman and Chief Executive Officer

Founder and shareholder of Pro Bono Bio, Beehive Capital and Celtic Pharma Holdings Advisors ("Celtic Pharma"). Former CFO of GEC and Astra Zeneca. Former board member of Schlumberger, Alstom, Pentland and Newcastle United. Also served on various UK public bodies. Over 15 years in the pharmaceutical industry.

Michael Earl, Chief Operating Officer

Founder and shareholder of Pro Bono Bio. Partner and Commercial Head of Celtic Pharma. Former VP European Operations at Chiron and Commercial Development at Celltech. Over 30 years in the healthcare industry including at Smithkline Beecham, Abbott and Astra Zeneca.

Dr. Richard Garraway, Head of Commercial

Founder and shareholder of Pro Bono Bio; partner of Celtic Pharma. Former head of technology incubator and investor in biotechnology companies at Imperial Innovations plc. Former FMCG and healthcare investment banker at JP Morgan. Former inventor of FMCG products with the Gillette Company. More than 20 years' experience in pharmaceutical product formulation and delivery technology.

Dr. Bill Henry, New Product Innovation and Haematology Director

Founder and shareholder of PBB; Partner of Celtic Pharma. Former senior positions at PowderMed, Celltech and Astra Zeneca; Research Scholar at BP.

George Iliffe, Head of Strategy and Business Development

Founder and shareholder of Pro Bono Bio. Partner of Celtic Pharma. Over 10 years in the pharmaceutical industry representing Celtic Pharma on investor company boards. Former banker and investor in biotech companies.

Jon Aisbitt, Non-Executive Director and Chairman of the Audit Committee

Chairman of Man Group plc. More than 20 years' experience in international corporate finance and was previously Partner and Managing Director in the Investment Banking Division of Goldman Sachs.

Ali Baruni, Non-Executive Director

Over 37 years' experience in the financial services industry. Previously in senior roles at Bankers Trust Company and Citibank.

Pavel Erochkine, Non-Executive Director and member of the Audit Committee

Deputy Chief Executive Officer, Investments, of Rusnano Capital. Career has focused on investments across the private equity sector and Russian sector.

Irina Rapoport, Non-Executive Director

Chief Executive Officer of Rusnano Capital. More than 20 years' experience in management, investment and strategic planning. Previously Managing Director of Renaissance Asset Management.

The directors present their report for the year ended 31 December 2015.

Directors of the company

The directors who served during the year and up until the date of this report are shown on page 2.

Result

The loss after tax of the group for 2015 was £19,210,000 (2014: £4,951,000).

Dividends

The directors do not recommend any dividend for the year (2014: £nil).

Research and development

During 2015 the group employed an average of 16 staff in its research and development activities. During this period the group invested £5.0 million in research and development activities. Such activities focused on development and clinical studies in respect of the group's range of products for osteoarthritis and joint pain. Further development of the group's haematology and skin care products was also undertaken during the year.

Part of the group's research and development activity is focused on its anti-infective products. In spite of successful development activity it is not the group's intention to commercialise this range of products and it is seeking a partner to take over this activity.

Future developments

The directors aim to maintain the strategies which have resulted in the group's development during 2015. They consider that the next year will show significant growth in revenues from continuing operations, particularly beyond the UK and Ireland.

Events since the balance sheet date

In January 2016, the company granted options over 3,685 ordinary shares to its employees under its share option scheme. These options vest over a period of 3 years and are exercisable at the nominal value of each share. Some of the options granted only become exercisable if certain performance conditions are met.

At the start of 2015 the group established a presence in North America by opening an office in Toronto and recruiting a team to develop a plan to commercialise the group's products in North America. The team evaluated the opportunity for the group's range of products and concluded that Flexiseq should be marketed as a reimbursable prescription product to health system providers in the United States. It was concluded that this opportunity would be best addressed through an established US marketing partner. Simultaneously, the group decided that its cosmetic range should be partnered in North America. As a result of these conclusions, in January 2016 the group determined that its team in Toronto should be wound down.

Financial instruments

The group did not use derivative financial instruments during the year. Details of the group's financial risk management are included in note 20 to the financial statements.

Going Concern

The group is currently making operating losses and consuming cash as it grows its business. The directors expect to stem these losses as soon as practicable and, in the meantime, to raise new funding to meet the group's cash requirements. The directors are optimistic about the group's prospects for 2016 and expect to be able to grow its sales principally through the continued marketing and development of the group's osteoarthritis and joint pain product range.

Until the group develops more significant revenues and generates cash from its operations it will remain dependent on external funding in order for it to continue as a going concern. The directors have identified the funding needed for the next 12 months, which they plan to obtain from borrowings or by issuing equity or other securities to current or new investors or the sale of assets or the receipts from the sale of product distribution rights. Discussions with prospective financiers of the group in connection with a number of initiatives are at an advanced stage. However, should these plans not result in the required cash and existing investors are unwilling to continue to provide support, the business may not be able to continue as a going concern. These conditions indicate the existence of a material uncertainty that may cast significant doubt about the group's ability to continue as a going concern.

The Directors reasonably expect that the company should have adequate resources to continue in operational existence for at least the next 12 months after the date of authorisation of these financial statements. Accordingly the directors continue to adopt the going concern basis of accounting in preparing the annual financial statements. The group and the company financial statements do not include the adjustments that would be required if the group and the company were unable to continue as a going concern.

Directors' liabilities

The company has granted an indemnity to each of its directors against liability in respect of proceedings brought by third parties, subject to the conditions set out in section 234 of the Companies Act 2006. Such qualifying indemnity provision remains in force as at the date of approving the Directors' report.

Political donations

The group has not made any political donations during the year.

Disabled employees

The group gives full consideration to applications for employment from disabled persons where the candidate's particular aptitudes and abilities are consistent with adequately meeting the requirements of the job. Should existing employees become disabled, it is the group's policy to provide continuing employment wherever affordable and practicable in the same or an alternative position and to provide appropriate training to achieve this aim.

Employee involvement

The company operates a framework for employee information and consultation which complies with the requirements of the Information and Consultation of Employees Regulations 2004. All employees are encouraged to present their suggestions and views on the group's performance. Regular meetings are held between management and employees to allow a free flow of information and ideas. Employees participate directly in the success of the business through the group's bonus schemes and will be encouraged to invest in the group through participation in its share option scheme during 2016.

Disclosure of information to the auditor

So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing its report, of which the auditor is unaware. Having made enquiries of fellow directors and the group's auditor, each director has taken all the steps that he is obliged to take as a director in order to make himself aware of any relevant audit information and to establish that the auditor is aware of that information.

On behalf of the board of directors

John Mayo
Chairman
29 April 2016

Directors' responsibilities statement

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRS) and applicable United Kingdom 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 group and the company and of the profit or loss of the group 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 estimates that are reasonable and prudent; and
- state whether applicable IFRS have been followed, subject to any material departures disclosed and explained in the financial statements.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the group's and the company's transactions and disclose with reasonable accuracy at any time the financial position of the group and company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the group and company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF PRO BONO BIO PLC

We have audited the financial statements of Pro Bono Bio Plc for the year ended 31 December 2015 which comprise the group and parent company balance sheets, the group statement of comprehensive income, the group and parent company statements of cash flow, the group and parent company statements of changes in equity and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

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.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 15, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2015 and of the group's loss for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Emphasis of matter - Going concern

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosure made in note 2 to the financial statements concerning the company's ability to continue as a going concern. The group incurred a net loss of £19,210,000 during the year ended 31 December 2015 and, at that date, the group had a cash balance of £2,635,000. Based on management's forecasts, the company will need to obtain additional financing through borrowings or through the issuance of new equity or through the sale of assets or product distribution rights. These conditions, along with the other matters explained in note 2 to the financial statements, indicate the existence of a material uncertainty which may cast significant doubt about the company's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the company was unable to continue as a going concern.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company 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.

Grant Thornton UK LLP

Perry Burton
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
London
29 April 2016

PRO BONO BIO PLC

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2015

	Note	Year ended 31 Dec 2015 £'000	Year ended 31 Dec 2014 £'000
Revenues	3	6,625	5,049
Grant income		814	276
Total revenue and grant income		7,439	5,325
Cost of sales	4	(2,578)	(1,662)
Gross profit		4,861	3,663
Advertising and promotion costs		(3,528)	(1,166)
Research and development costs		(4,992)	(1,949)
General and administrative costs	5	(4,424)	(1,811)
Bad debt expense		(224)	-
Depreciation and amortisation		(14,376)	(4,777)
Total expenses		(27,544)	(9,703)
Operating loss		(22,683)	(6,040)
Finance income	6	-	1
Finance costs	6	(1,876)	(421)
Loss before income tax		(24,559)	(6,460)
Income tax credit	8	5,349	1,509
Loss for the financial year		(19,210)	(4,951)
Loss for the financial year attributable to:			
Owners of the parent		(19,117)	(4,909)
Non-controlling interest		(93)	(42)
		(19,210)	(4,951)

Footnotes regarding 2014 comparative figures

1. Pro Bono Bio PLC was incorporated on 25 September 2013 to act as a holding company and during 2014 acquired a number of businesses which give rise to the group in its current form. As a result the group's comparative income statement for 2014 mainly reflects activities arising after 11 July 2014, being the date of the first acquisition.
2. See note 21.3 for details regarding the restatement of certain figures in the statement of comprehensive income and the balance sheet as a result of a reassessment of the judgements made around functional currencies in the application of IAS 21 (The effects of changes in foreign exchange rates) to the recording of the currency of the fair value adjustment to intangible assets acquired in 2014.

The notes on pages 27 to 62 are an integral part of these consolidated financial statements.

PRO BONO BIO PLC

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2015

	Year ended 31 Dec 2015 £'000	Year ended 31 Dec 2014 (restated) £'000
Loss for the financial year	(19,210)	(4,951)
Items that may subsequently be reclassified to profit and loss		
Exchange differences on translating foreign operations	92	1,320
Total comprehensive income for the year	(19,118)	(3,631)
Total comprehensive income attributable to:		
Owners of the parent	(19,025)	(3,589)
Non-controlling interest	(93)	(42)
Total comprehensive income for the year	(19,118)	(3,631)

The notes on pages 27 to 62 are an integral part of these consolidated financial statements.

PRO BONO BIO PLC

CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2015

ASSETS

	Note	2015 £'000	2014 (restated) £'000
Non-current assets			
Intangible assets	9	472,404	486,679
Property, plant and equipment	10	63	71
Total non-current assets		472,467	486,750
Current assets			
Inventories	11	1,117	1,308
Trade and other receivables	12	2,378	2,246
Income taxes recoverable		501	281
Cash and cash equivalents		2,635	1,795
Total current assets		6,631	5,630
Total assets		479,098	492,380

The notes on pages 27 to 62 are an integral part of these consolidated financial statements.

CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2015

EQUITY AND LIABILITIES

	Note	2015 £'000	2014 (restated) £'000
Non-current liabilities			
Convertible preference shares	17	300,000	300,000
Borrowings	14	9,177	-
Provisions for other liabilities and charges	15	10,970	10,587
Deferred tax liability	16	88,205	92,779
		408,352	403,366
Current liabilities			
Borrowings	14	1,267	-
Trade and other payables	13	4,422	4,518
Deferred tax liability	16	4,642	4,963
Total current liabilities		10,331	9,481
Total liabilities		418,683	412,847
Equity attributable to owners of the parent			
Share capital and share premium	18	100	100
Currency translation reserve		1,412	1,320
Accumulated losses		(24,026)	(4,909)
		(22,514)	(3,489)
Non-controlling interests		82,929	83,022
Total equity		60,415	79,533
Total equity and liabilities		479,098	492,380

The financial statements of Pro Bono Bio PLC (registration number 08705972) on pages 18 to 62 were authorised for issue by the board of directors on 29 April 2016 and were signed on its behalf.

John Mayo
Chairman

M. J. Earl

Michael Earl
Director

The notes on pages 27 to 62 are an integral part of these consolidated financial statements.

COMPANY BALANCE SHEET AS AT 31 DECEMBER 2015

	Note	2015 £'000	2014 £'000
Non-current assets			
Investments in subsidiaries	23	366,109	366,216
Current assets			
Trade and other receivables		1	18
Amounts due from subsidiary undertakings		9,214	2,006
Cash and cash equivalents		1,398	58
Total current assets		10,613	2,082
Total assets		376,722	368,298
Non-current liabilities			
Convertible preference shares	17	300,000	300,000
Borrowings	14	9,177	-
Amounts due to subsidiary undertakings		67,816	68,191
		376,993	368,191
Current liabilities			
Borrowings	14	1,267	-
Trade and other payables		102	28
		1,369	28
Total liabilities		378,362	368,219
Equity attributable to owners of the parent			
Share capital and share premium	18	100	100
Accumulated losses		(1,740)	(21)
Total equity		(1,640)	79
Total equity and liabilities		376,722	368,298

The financial statements of Pro Bono Bio PLC (registration number 08705972) on pages 18 to 62 were authorised for issue by the board of directors on 29 April 2016 and were signed on its behalf.

John Mayo
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M. J. Earl

Michael Earl
Director

The notes on pages 27 to 62 are an integral part of these consolidated financial statements.

PRO BONO BIO PLC

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2015

	Note	Share capital £'000	Share premium £'000	Currency translation reserve £'000	Accumulated losses £'000	Total £'000	Non-controlling interest £'000	Total equity £'000
Balance at 1 January 2014		50	-	-	-	50	-	50
Loss for the financial year		-	-	-	(4,909)	(4,909)	(42)	(4,951)
Translation of foreign operations (restated)		-	-	1,320	-	1,320	-	1,320
Total comprehensive income for the year		-	-	1,320	(4,909)	(3,589)	(42)	(3,631)
Issue of share capital	18	50	-	-	-	50	-	50
Non-controlling interests arising on business combination	22	-	-	-	-	-	2,828	2,828
Issue of Class A, B and C shares by PBB (Malta) Limited	22	-	-	-	-	-	80,236	80,236
Transactions with owners		50	-	-	-	50	83,064	83,114
Balance at 31 December 2014 (restated)		100	-	1,320	(4,909)	(3,489)	83,022	79,533
Balance at 1 January 2015		100	-	1,320	(4,909)	(3,489)	83,022	79,533
Loss for the financial year		-	-	-	(19,117)	(19,117)	(93)	(19,210)
Translation of foreign operations		-	-	92	-	92	-	92
Total comprehensive income for the year		-	-	92	(19,117)	(19,025)	(93)	(19,118)
Transactions with owners		-	-	-	-	-	-	-
Balance at 31 December 2015		100	-	1,412	(24,026)	(22,514)	82,929	60,415

The notes on pages 27 to 62 are an integral part of these consolidated financial statements.

COMPANY STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2015

	Note	Share capital £'000	Share premium £'000	Accumulated losses £'000	Total equity £'000
Balance at 1 January 2014		50	-	-	50
Total comprehensive income for the year		-	-	(21)	(21)
Total		50	-	(21)	29
Transactions with owners: issue of share capital	18	50	-	-	50
Balance at 31 December 2014		100	-	(21)	79
Balance at 1 January 2015		100	-	(21)	79
Total comprehensive income for the year		-	-	(1,719)	(1,719)
Balance at 31 December 2015		100	-	(1,740)	(1,640)

The notes on pages 27 to 62 are an integral part of these consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2015

	Note	Year ended 31 Dec 2015 £'000	Year ended 31 Dec 2014 £'000
Cash flows from operating activities			
Cash outflow from operations	19	(7,533)	(1)
Interest received		-	1
Finance costs		(1,583)	(420)
Income tax credits received		454	-
Net cash flows used in operating activities		(8,662)	(420)
Cash flows from investing activities			
Purchase of intangible assets		-	(32)
Purchase of property, plant and equipment		(41)	(1)
Cash holdings from acquired subsidiaries		-	2,198
Net cash flows (used in) generated from investing activities		(41)	2,165
Cash flows from financing activities			
Proceeds from issuance of share capital		-	50
Proceeds from borrowings		12,543	-
Repayment of borrowings		(3,000)	-
Net cash flows generated from financing activities		9,543	50
Net increase in cash and cash equivalents		840	1,795
Cash and cash equivalents at 1 January		1,795	-
Cash and cash equivalents at 31 December		2,635	1,795

The notes on pages 27 to 62 are an integral part of these consolidated financial statements.

PRO BONO BIO PLC

COMPANY CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2015

	Year ended 31 Dec 2015 £'000	Year ended 31 Dec 2014 £'000
Cash flows from operating activities		
Cash inflow from operations	465	39
Finance costs	(1,192)	-
Net cash flows (used in) generated by operating activities	(727)	39
Cash flows from investing activities		
Loans to and investments in subsidiaries	(7,476)	(31)
Net cash flows used in investing activities	(7,476)	(31)
Cash flows from financing activities		
Proceeds from issuance of share capital	-	50
Proceeds from borrowings	9,543	-
Net cash flows generated from financing activities	9,543	50
Net increase in cash and cash equivalents	1,340	58
Cash and cash equivalents at 1 January	58	-
Cash and cash equivalents at 31 December	1,398	58

The notes on pages 27 to 62 are an integral part of these consolidated financial statements.

INTRODUCTION

Pro Bono Bio PLC ("PBB" or the "company") and its subsidiaries (together the "group") principally engage in the business of developing and selling healthcare products. The company is a limited liability company incorporated on 25 September 2013 and is domiciled in the United Kingdom.

1. Significant changes in the current reporting period

The financial position and performance of the group was particularly affected by the following events and transactions during the reporting period:

- Increased revenues generated from the sales of the Flexiseq range of products;
- Increased costs of finished goods supplied by the group's contract manufacturer and also provisions made against obsolete inventory;
- Increased royalties payable to third parties in respect of sales of the group's products;
- Higher advertising and promotion costs incurred to market the group's Flexiseq range of products and to launch its Sequaderma range of products;
- Increased development costs principally as result of the implementation of the osteoarthritis NSAID intolerant study;
- Increased administrative costs principally as result of the establishment of an office and team in North America; and
- Higher borrowings and borrowing costs arising from loans drawn down during the year.

For a detailed discussion about the group's performance and financial position please refer to our strategic review on pages 4 to 10.

2. Going concern

The group is currently making operating losses and consuming cash as it grows its business. The directors expect to stem these losses as soon as practicable and, in the meantime, to raise new funding to meet the group's cash requirements. The directors are optimistic about the group's prospects for 2016 and expect to be able to grow its sales principally through the continued marketing and development of the group's osteoarthritis and joint pain product range.

Until the group develops more significant revenues and generates cash from its operations it will remain dependent on external funding in order for it to continue as a going concern. The directors have identified the funding needed for the next 12 months, which they plan to obtain from borrowings or by issuing equity or other securities to current or new investors or the sale of assets or receipts from the sale of product distribution rights. Discussions with prospective financiers of the group in respect of a number of initiatives are at an advanced stage. However, should these plans not result in the required cash and existing investors are unwilling to continue to provide support, the business may not be able to continue as a going concern. These conditions indicate the existence of a material uncertainty that may cast significant doubt about the group's ability to continue as a going concern.

The directors reasonably expect that the company should have adequate resources to continue in operational existence for at least the next 12 months after the date of authorisation of these financial statements. Accordingly the directors continue to adopt the going concern basis of accounting in preparing the annual financial statements. The group and the company financial statements do not include the adjustments that would be required if the group and the company were unable to continue as a going concern.

ANALYSIS OF FIGURES IN THE FINANCIAL STATEMENTS

This section provides additional information about those individual line items in the financial statements that the directors consider most relevant in the context of the operations of the entity, including:

- accounting policies that are relevant for an understanding of the items recognised in the financial statements. These cover situations where the accounting standards either allow a choice or do not deal with a particular type of transaction;

- analysis and sub-totals, including segment information; and

- information about estimates and judgements made in relation to particular items.

3. Revenues

Operating segments are determined by the chief operating decision maker based on information used to allocate the Company's resources. It has been determined that there is one operating segment for the group's sale of its healthcare products.

Revenues from external customers by country, based on the destination of the customer:

	Year ended 31 Dec 2015 £'000	Year ended 31 Dec 2014 £'000
UK and Ireland	5,230	3,702
Continental Europe	1,030	340
Asia	236	894
Rest of world	129	113
	6,625	5,049

Revenues of approximately £3.1 million (2014: £3.4 million) are derived from a single external customer. These revenues were generated in the UK.

4. Cost of sales

The cost of inventories recognised as an expense and included in cost of sales amounted to £1,599,000 (2014: £799,000). This cost includes writing down the value of obsolete inventory totalling £350,000 (2014: £nil).

5. General and administrative costs

	Year ended 31 Dec 2015 £'000	Year ended 31 Dec 2014 £'000
Management and administrative costs	2,979	1,178
Professional fees	374	269
Travel expenses	153	51
Establishment and other costs	918	313
	4,424	1,811

General and administrative costs include an amount accrued of £35,000 for auditor's remuneration for the 2015 audit of the company. The auditor is expected to receive fees for other services, mainly concerning the audit of the group's subsidiaries in 2015, which have been accrued for an amount of a further £57,000. In 2014 the company recorded audit costs of £37,000 in its consolidated income statement.

6. Finance income and costs

	Year ended 31 Dec 2015 £'000	Year ended 31 Dec 2014 £'000
Bank interest receivable	-	1
Finance income	-	1
Interest expense		
Paid and accrued	(743)	(223)
Amortisation of fee associated with Knight loan (see note 14)	(293)	-
Foreign currency loss	(461)	(194)
Other finance/bank charges	(379)	(4)
Finance costs	(1,876)	(421)
Net finance (costs)	(1,876)	(420)

7. Employee benefits

	Year ended 31 Dec 2015 £'000	Year ended 31 Dec 2014 £'000
Wages and salaries (including bonuses)	3,387	1,238
Employer payroll taxes	362	133
Employer pension contributions	67	-
	3,816	1,371

The average number of personnel employed during the financial year was 42 (as at 31 December 2014: 31).

Remuneration paid by the group to the directors of the parent company is set out below.

	Year ended 31 Dec 2015 £'000	Year ended 31 Dec 2014 £'000
Short-term employee benefits	871	362
	871	362

Remuneration paid by the group to the highest paid director is set out below.

	Year ended 31 Dec 2015 £'000	Year ended 31 Dec 2014 £'000
Aggregate remuneration	234	119
	234	119

8. Income tax expense

	Year ended 31 Dec 2015 £'000	Year ended 31 Dec 2014 £'000
Current tax		
Current tax on loss for the year	(454)	-
Total current tax	(454)	-
Deferred tax (credit)	(4,895)	(1,509)
Income tax (credit)	(5,349)	(1,509)

The tax on the group's loss before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the consolidated entities as follows:

	Year ended 31 Dec 2015 £'000	Year ended 31 Dec 2014 £'000
Reconciliation of tax expense		
Loss before tax	(24,559)	(6,460)
Tax calculated at domestic tax rates applicable to profits in the respective countries and giving an effective rate of 23% (2014: 33%)	(5,746)	(2,136)
Tax effects of:		
Tax losses and other differences for which no deferred income tax asset was recognised	26	627
Adjustments in respect of prior years	371	-
Tax credit	(5,349)	(1,509)

9. Intangible assets

	Goodwill £'000	Intellectual property, trademarks and licences £'000	Total £'000
Cost			
As at 31 December 2013	-	-	-
Additions	-	32	32
Acquisitions of subsidiaries (see note 22)	193,486	297,652	491,138
Exchange differences (restated)	-	265	265
As at 31 December 2014 (restated)	193,486	297,949	491,435
Additions	117	-	117
Acquisitions of subsidiaries	25	-	25
Post recognition re-measurement	(242)	-	(242)
Exchange differences	-	152	152
As at 31 December 2015	193,386	298,101	491,487
Accumulated amortisation and impairment			
As at 31 December 2013	-	-	-
Amortisation charge	-	4,755	4,755
Acquisitons of subsidiaries	-	1	1
As at 31 December 2014	-	4,756	4,756
Amortisation charge	-	14,327	14,327
As at 31 December 2015	-	19,083	19,083
Net book value			
Cost (restated)	193,486	297,949	491,435
Accumulated amortisation	-	(4,756)	(4,756)
As at 31 December 2014 (restated)	193,486	293,193	486,679
Cost	193,386	298,101	491,487
Accumulated amortisation	-	(19,083)	(19,083)
As at 31 December 2015	193,386	279,018	472,404

Goodwill of approximately £193 million and intellectual property, trademarks and licences of approximately £298 million arose upon the acquisition of all of the group's material subsidiaries between July and September 2014 and which now comprise the majority of the group's current operations. These acquisitions were accounted for as a business combination in 2014 and which has been described in more detail in note 22.

Impairment test for goodwill

The business operates as a single cash generating unit and therefore management monitors the value of goodwill for the PBB group as a whole.

The recoverable amount of goodwill has been determined based on value-in-use calculations. These calculations use pre-tax cash flow projections based on financial projections prepared by management covering a five-year period.

Thereafter revenues and cash flows beyond the five-year period are extrapolated using the estimated long-term growth rate stated below.

The key assumptions used in the value-in-use calculations are as follows:

- annual revenue growth rates in the five year period: -29% to 1,914%;
- gross profit margins: 69% to 90%;
- pre-tax discount rate: 15%; and
- long-term growth rate: 3%.

The financial projections are based on assumptions that have been provided by an independent expert valuation firm and used by management to derive a set of consolidated financial projections for the group as whole. The group is relatively new and its track record is short. As a result any projections concerning its future performance will be inherently more uncertain than for an established group with a longer track record. While these financial projections are ambitious they have been derived based on the considerable potential for the group's products in their target markets.

Based on these assumptions the value in use calculations show that the recoverable amount of goodwill exceeds its carrying value by a significant margin. This substantial amount of headroom suggests that there has been no impairment of intangible assets including goodwill.

Sensitivity analysis

Using a compound annual sales volume growth rate of 88%, a gross margin reduction of 17% (to a range of 51% to 73%) or pre-tax discount rate of 29% would, each taken in isolation, result in the recoverable amount being close to the carrying amount.

10. Property, plant and equipment

	Plant and machinery £'000	Fixtures, fittings and equipment £'000	Total £'000
At 31 December 2013			
Cost or valuation	-	-	-
Accumulated depreciation	-	-	-
Net book amount	-	-	-
Year ended 31 December 2014			
Opening net book amount	-	-	-
Additions/movements	-	1	1
Acquistions of subsidiaries	40	52	92
Depreciation charge	(7)	(15)	(22)
Closing net book amount	33	38	71
At 31 December 2014			
Cost or valuation	40	53	93
Accumulated depreciation	(7)	(15)	(22)
Net book amount	33	38	71
Year ended 31 December 2015			
Opening net book amount	33	38	71
Additions/movements	32	9	41
Depreciation charge	(21)	(28)	(49)
Closing net book amount	44	19	63
At 31 December 2015			
Cost or valuation	72	62	134
Accumulated depreciation	(28)	(43)	(71)
Net book amount	44	19	63

The group fully outsources its supply chain and logistics activities and therefore does not hold any significant tangible fixed assets.

11. Inventories

The group's inventories comprise only finished goods.

12. Trade and other receivables

	2015 £'000	2014 £'000
Trade receivables	1,753	1,613
Other receivables	174	454
Prepaid expenses	451	179
	2,378	2,246

During 2015 the group has provided for trade receivables totalling £60,000 (2014: £ nil) and other debtors totalling £164,000 (2014: £ nil). The provision against other debtors comprised legacy non-trading balances that had been transferred to the business as part of the 2014 reorganisation and are judged not to be recoverable.

The carrying amounts of the group's trade receivables are denominated in the following currencies:

	2015 £'000	2014 £'000
Sterling	911	654
Euro	622	959
US dollar	122	-
Russian Rouble	98	-
	1,753	1,613

13. Trade and other payables - current

	2015 £'000	2014 £'000
Trade payables	1,824	2,828
Other payables	21	196
Social security and other taxes	100	102
Accrued expenses	2,477	1,392
	4,422	4,518

14. Borrowings

	Interest rates applicable in 2015	Maturity	2015 £'000	2014 £'000
Non-current				
Loan	12 per cent.	2016-2018	9,177	-
			9,177	-
Current				
Loan	12 per cent.	2016-2018	1,267	-
			1,267	-

In February 2015 Pro Bono Entrepreneur Limited ("PBBEL"), a wholly owned subsidiary, entered into a facility under which a supplier provided £3 million to support the launch of new products. The facility was unsecured and repayable out the revenues generated from sales of Flexiseq by PBBEL in the UK. This facility was repaid in full during 2015.

On 26 June 2015 the company entered an agreement with Knight Therapeutics to borrow US$15 million.

The loan was drawn down on 26 June 2015 in full and is repayable in 8 equal quarterly instalments of US$937,500 commencing on 25 September 2016 with the balance of US$7.5 million repayable on 25 June 2018. Interest is payable each quarter at a rate of 12% per annum. The rate will reduce to 10% per annum in the event the company completes an issue of equity that raises US$25 million or more. The company has granted security over all of the material assets of group in favour of Knight Therapeutics. Under the loan agreement, the company has agreed to various customary representations and undertakings, including compliance with certain financial covenants. As at the date of these accounts the company was in full compliance with all covenants under the loan agreement.

The company has also entered into a number of ancillary agreements in connection with the loan agreement. The company has entered into an agreement which grants rights to Knight Therapeutics to distribute the group's blood factor products in Canada and rights to distribute all of its products in Quebec and Israel. In addition the company has agreed to provide equity (or cash at the company's option) worth between US$2.0 million and US$2.75 million depending upon the timing of but concurrent with its next equity issue that raises US$25 million or more (the "Fee"). The company has also granted Knight Therapeutics a warrant over 750 ordinary shares in Pro Bono Bio PLC at an exercise price of US$3,000 per share (the "Warrant").

The Directors assessed the value of the Warrant at the time it was granted and determined that in relation to the amount of the loan the fair value of the Warrant was immaterial and that accordingly the loan and other related agreements should be treated as a financial liability of the company.

The initial fair value of the liability portion of the loan was determined by deducting an estimate of the fair value of the Fee based on the anticipated amount and expected timing of payment of the Fee. Based on this assumption and the scheduled repayments of principal and interest under the loan agreement the effective cost of this arrangement is estimated to be 18% per annum. The outstanding liability is recognised on an amortised cost basis pro rata to the amount of the loan outstanding over its term to maturity.

The table below sets out the fair value of the liability of the group's borrowings as at 31 December 2015.

	2015 £'000	2014 £'000
Liability brought forward	-	-
Amount of loan drawn down	9,543	-
Exchange differences	608	-
Liability component brought forward	10,151	-
Amortisation of fee associated with Knight loan (see note 6)	293	-
Liability carried forward	10,444	-

15. Provisions for other liabilities and charges

	Deferred and contingent consideration £'000	Total £'000
At 31 December 2013	-	-
Provisions arising from acquisition of subsidiaries (see note 22)	10,587	10,587
At 31 December 2014	10,587	10,587
Reduction in value of vendor note	(242)	(242)
Exchange differences	625	625
At 31 December 2015	10,970	10,970

By an agreement dated 18 November 2014 PBB (Malta) Limited ("PBBM") acquired Recoly and its subsidiaries for consideration payable as follows: (1) low single digit royalties on aggregate net sales; and (2) deferred consideration of $10 million upon FDA approval in the US or two major EU countries and $10 million upon cumulative Net Sales on Products reaching $50 million. PBBM also agreed to pay €17,500 at closing to settle amounts due to former shareholders and €687,000 to settle amounts due to former shareholders, but only if cumulative Net Sales on Products reach $10 million

Management has assessed the fair value of the liabilities assumed by PBBM under the share purchase agreement. For this purpose management has assessed the fair value of these liabilities to equal the sum of the consideration payable in the event of FDA approval and sales exceeding $50 million giving an aggregate expected payment for deferred consideration of $20 million (recorded at a discounted value of £10 million).

This arrangement is considered to be a level 3 financial instrument. The amounts of deferred and contingent consideration described above have been assumed to be paid between 2017 and 2020 and have been discounted at a rate of 10% to derive the fair value of this financial liability. Had the contingent payments been made a year later than assumed the liability would have been reduced by £1.0 million. Had the discount rate used been one percentage point higher the liability would have been reduced by £0.2 million.

In addition, the provisions included an undiscounted amount of deferred consideration of £0.5 million payable in respect of the acquisition of Pro Bono Bio Group PLC on 7 July 2014. This was reduced during 2015 to an amount of £0.3 million and will be payable to a related party following an agreement between the vendor, that related party and members of the Pro Bono Bio group.

16. Deferred tax liability

The analysis of deferred tax liabilities is set out below.

	2015 £'000	2014 (restated) £'000
Deferred tax liability - non current	88,205	92,779
Deferred tax liability - current	4,642	4,963
	92,847	97,742

The movement on the deferred income tax account is set out below.

	2015 £'000	2014 (restated) £'000
As at 1 January	97,742	-
Deferred tax liability arising from fair value uplift in respect of acquired intellectual property and licences (see note 22)	-	99,251
Income statement credit (see note 8)	(4,895)	(1,509)
As at 31 December	92,847	97,742

The group did not recognise deferred income tax assets in respect of accumulated tax losses for the company and its subsidiaries totalling £41 million (2014: £30 million) that may be carried forward against future taxable income.

17. Convertible preference shares

On 11 September 2014 the company issued 300,000,000 convertible preference shares at nominal value of £1 per convertible preference share ("CPS") to Celtic Pharma Holdings II LP in consideration for the acquisition of certain subsidiaries as described more fully in note 22.

The CPS rank equally for dividends and pro rata to all other shares on a return of capital or liquidation. The CPS may not attend, speak or vote at general meetings of the company. The CPS will convert into ordinary shares upon a conversion event (a sale or an IPO) such that the fully diluted number of ordinary shares represented by the CPS equals 30% of the capital in issue, provided that the total funding level (cash subscribed for ordinary shares between the date of issue and the date of conversion of the CPS) does not exceed the total funding threshold (US$300 million). Upon the 6th anniversary of the date of adoption of the articles the company may, at its option, either redeem the CPS for £300 million in cash, or convert the CPS into ordinary shares for each CPS, provided that number of fully diluted shares represented by CPS equals 40% of the capital in issue.

Because the CPS does not convert into a predetermined fixed number of ordinary shares, it does not meet one of the conditions stipulated in IAS 32 for the instrument to be recorded as an equity instrument. Although the instrument imposes no obligation on the company to make any cash distributions to the holders of the CPS and has all the other features of an equity instrument stipulated in IAS 32, it has nevertheless been recorded as a financial liability of the company in its consolidated financial statements in order to comply strictly with the requirements of IFRS.

Management has assessed the fair value of the CPS based on its valuation of the group, which is not materially out of line with recent independent valuations of the group. On the basis of these valuations management considers that the fair value of the CPS at 31 December 2015 is not materially different from the redemption value of £300 million for these shares.

18. Share capital and share premium

	Number of ordinary shares '000	Number of A ordinary shares '000	Share capital £'000	Share premium £'000	Total £'000
At 31 December 2013	50	-	50	-	50
Issues during the year	-	50	50	-	50
At 31 December 2014	50	50	100	-	100
Issues during the year	-	-	-	-	-
At 31 December 2015	50	50	100	-	100

On 18 December 2014 the company issued 49,998 A Ordinary Shares to Molard International (PTC) as trustee of RNPharma trust. The sole beneficiary of RNPharma trust is Rusnano Capital AG.

No ordinary shares have been issued during 2015.

19. Cash flows from operating activities

	Year ended 31 Dec 2015 £'000	Year ended 31 Dec 2014 £'000
Loss before tax	(24,559)	(6,460)
Depreciation and amortisation charges (notes 9 and 10)	14,376	4,777
Finance income (note 6)	-	(1)
Finance costs (note 6)	1,876	421
Decrease in inventories	191	114
(Increase) in receivables	(132)	(942)
Increase in payables	715	2,090
Cash flows used in operating activities	(7,533)	(1)

RISK

This section of the notes discusses the group's exposure to various risks and shows how these could affect the group's financial position and performance.

20. Financial risk management

20.1 Financial risk factors

The group's activities expose it to a variety of financial risks: market risk (primarily currency risk), credit risk and liquidity risk. The group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the group's financial performance.

a) Foreign currency risk

The group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the Euro and the US dollar. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations.

The group does not enter into derivative financial instruments to hedge its foreign currency risk.

At 31 December 2015, if Sterling had weakened by 5% against the Euro with all other variables held constant, the recalculated post-tax loss for the year would have been £78,000 (2014: £72,000) worse, mainly as a result of cost of goods sold being denominated in Euros. Similarly, the impact on equity would have been £110,000 (2013: £62,000) higher because inventories are held in Euros.

At 31 December 2015, if Sterling had weakened by 5% against the US dollar with all other variables held constant, the recalculated post-tax loss for the year would have been £132,000 worse in 2015 (2014 restated: £12,000) because most of the group's finance costs are denominated in US dollars in 2015. The impact on equity would have been a decrease of £830,000 in 2015 (2014 restated: £318,000) because the borrowings and some of the contingent consideration of the group are denominated in US dollars.

b) Credit risk

Credit risk is managed on group basis, including credit risk relating to accounts receivable balances. The central finance function is responsible for managing and analysing the credit risk for each of the group's new customers before payment and delivery terms and conditions are offered. Credit risk arises from cash and cash equivalents and deposits with banks and financial institutions as well as credit exposures to distributors, wholesale customers and retail customers, including outstanding receivables and committed transactions.

For banks and financial institutions, normally the company seeks to deal only with independently rated parties. Typically the group's customers are not independently rated. Where there is no independent rating, the central finance function assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. The utilisation of credit limits is regularly monitored by the central finance function.

No credit limits were exceeded during the reporting period, and management does not expect any significant osses from non-performance by these counterparties.

c) Liquidity risk

The group's liquidity risk relates mainly to its continuing need to raise sufficient funding to support its operations and finance its corporate expenses.

20.2 Capital risk management

The group's objectives when managing capital are to safeguard the group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets.

At 31 December 2015 the group had external borrowings outstanding totalling US$ 15 million. As mentioned in note 2, the group is currently loss-making and therefore remains dependent on securing external sources of funding.

20.3 Fair value estimation

Financial instruments are carried at fair value, by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3).

At 31 December 2015 the group had no material holdings of derivative financial instruments.

21. Critical accounting judgements and estimates

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

21.1 Critical judgements in applying the entities' accounting polices

The financial statements have been prepared on a going concern basis as stated in note 2.

When considering the business combination set out in note 22, the group assessed whether the entities being acquired are a business or a collection of assets and has determined the useful economic lives of the acquired intangible assets.

The valuations of the convertible preference shares issued by the company and the Class A, B and C redeemable preference shares issued by PBB (Malta) Limited as part of the business combinations are critical estimates.

The group has an inventory of finished goods that remains within its useful shelf life. Certain customers will not accept goods with a shelf life of less than 18 months. Accordingly the group has made a fair value adjustment in respect of all inventories that have a shelf life of less than 18 months.

21.2 Critical accounting estimates and assumptions

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

The group tests annually whether its intangible assets, including goodwill, have suffered any impairment, in accordance with the accounting policy stated in note 28.6. For the year ended 31 December 2015, substantial intangible assets have been recorded in the consolidated balance sheet. The recoverable amounts have been determined based on a valuation by the directors who have also taken account of a recent independent valuation of the business.

21.3 Reassessment of judgements made in the application of IAS 21 (The effects of changes in foreign currency rates) to the group's intangible assets acquired in 2014

Following the acquisition of intangible assets in 2014 in connection with the business combination described in note 22, the Directors have reviewed the application of IAS 21 to the fair value adjustment to those intangible assets. The fair value adjustment had been provisionally recorded in US dollars, being the functional currency of a particular subsidiary of the group acquired in 2014. The Directors have reconsidered this treatment and on balance consider that it is more appropriate to record the fair value adjustment in Sterling, being the functional currency of the main operating subsidiaries of the group acquired in the business combination and which are expected to give rise to the future cash flows that support the fair value of the acquired intangible assets.

The affected financial statement line items for the prior periods have been re-presented as follows:

Balance sheet (extract)	2014	Increase/ (decrease)	2014 (restated)
	£'000	£'000	£'000
Intangible assets	503,657	(16,978)	486,679
Total assets	509,358	(16,978)	492,380
Deferred tax liability (current and non-current)	(103,524)	5,782	(97,742)
Total liabilities	(418,629)	5,782	(412,847)
Currency translation reserve	(12,516)	11,196	(1,320)
Total equity	(90,729)	11,196	(79,533)

Statement of comprehensive income (extract)	2014	Increase/ (decrease)	2014 (restated)
	£'000	£'000	£'000
Exchange differences on translating foreign operations	12,516	(11,196)	1,320
Total comprehensive income for the year	7,565	(11,196)	(3,631)
Total comprehensive income attributable to:			
Owners of the parent	7,607	(11,196)	(3,589)
Non-controlling interest	(42)	-	(42)
Total comprehensive income for the year	7,565	(11,196)	(3,631)

GROUP STRUCTURE

This section provides information which will help users understand how the group structure affects the financial position and performance of the group as a whole. In particular, there is information about:

- changes to the structure that occurred during 2014 and 2015 as a result of business combinations; and

- transactions resulting in non-controlling interests.

A list of significant subsidiaries is provided in note 23.

22. Business combination

During 2014 the group was formed through the implementation of a number of connected transactions with related parties as described below.

- On 28 May 2014 PBB (Malta) Limited ("PBBM") formed PBB Holdings LLC ("PBBH LLC"), a Russian company, and subscribed for 10,000 shares of 1 rouble each (of which 9,900 shares are held in the name of PBBM and 100 shares are held in the name of John Mayo on behalf of PBBM).

- By an agreement dated 11 July 2014 PBBH LLC acquired 500 million ordinary shares of PBB Group PLC for US$877,000 in cash. By mutual agreement the consideration (which reimburses the seller for certain costs) has not yet been paid by PBBH LLC. The acquisition was unconditional and closed on 11 July 2014.

- The following part of the reorganisation took place pursuant to two agreements that were executed on 11 July 2014 and closed simultaneously on 11 September 2014. By an agreement dated 11 July 2014 between Celtic Pharma Holdings II LP ("CPH 2") and PBB, PBB acquired all of CPH 2's interests in Leverton Licence Holdings Limited ("LLHL") and Cantab Biopharmaceutical Holdings Limited ("CBH") in exchange for the issue of £300 million of convertible preference shares ("CPS") in PBB. By an agreement dated 11 July 2014 between CPH 2 and PBBM, PBBM acquired shares and warrants in New Pharma Licence Holdings Limited, Novacta Holdings Plc, Novacta Malta 1 Plc, Novacta Malta 2 Plc, Novacta Malta 3 Plc and Dialog Devices Limited, as well as a convertible loan from Dialog Devices Limited in exchange for the issue by PBBM of Anti-Infective (Class A Redeemable Preference) Shares, Haem (Class B Redeemable Preference) Shares and Diagnostics (Class C Redeemable Preference) Shares to CPH 2. The rights of the Class A, B and C shares are set out in the Articles of PBBM and summarised later in this note.

Separately from the connected transactions described above and by an agreement dated 18 November 2014 PBBM acquired Recoly and its subsidiaries for consideration payable as described in note 15.

The goodwill of approximately £193 million that arose from the acquisitions is attributable to the pipeline of existing and new products and the revenues likely to be generated from these products. None of the goodwill recognised is expected to be deductible for income tax purposes.

The following table summarises the consideration paid for the shareholdings acquired by the company and its subsidiaries, the fair value of the assets acquired, liabilities assumed and the non-controlling interest at the acquisition date.

Consideration for acquisition in 2014 of various subsidiaries that now comprise the operations of the PBB Group	**£'000**
Vendor note	513
Securities instruments (convertible preference shares) issued by parent company	300,000
Securities instruments (Class A, B and C Shares) issued by PBB (Malta) Limited	80,236
Contingent consideration	10,073
Total consideration	390,822

Recognised amounts of identifiable assets acquired and liabilities assumed	**£'000**
Cash and cash equivalents	2,198
Property, plant and equipment	92
Intangible assets - intellectual property and licenses (as analysed in the table later in this note)	297,652
Inventories	1,422
Trade and other receivables	1,254
Trade and other payables	(3,203)
Deferred tax liability	(99,251)
Total identifiable net assets	200,164
Non-controlling interests	(2,828)
Goodwill	193,486
Total	390,822

The fair value of the intangible assets of £297 million was assessed by management based on an independent valuation of the acquired assets at that time. The allocation of fair value at the time of acquisition is set out below:

Allocation of fair value to intangible assets	**£'000**
Sequessome interests	167,400
Haematology interests	96,165
Other interests	34,087
	297,652

Of the fair value of intangible assets associated with the haematology interests and other interests set out above a significant proportion relates to minority interests as described later in this note.

The fair value of inventory was based on an assessment of the recoverability and obsolescence of the finished goods acquired and the fair value of the trade and other receivables takes account of an impairment review of the underlying assets resulting in any necessary impairments being made.

For all other identifiable assets acquired and liabilities assumed as well as the non-controlling interest, the fair value was assessed by management to be in line with the net book values.

The fair value of the security interest and contingent consideration was assessed by management and the basis for those values is explained in more detail in note 15, note 17 and later in this note.

On 11 September 2014 PBB (Malta) Limited ("PBBM"), one of the company's directly held subsidiaries, issued 100,000 Class A redeemable preference shares, 100,000 Class B redeemable preference shares and 100,000 Class C redeemable preference shares to Celtic Pharma Holdings II LP. All of the shares had a nominal value of €0.01 each and were issued in exchange for certain subsidiaries as described earlier in this note.

The Articles of PBBM set out the terms of the following three classes of shares: Class A redeemable preference shares ("Anti-Infective Shares"), Class B redeemable preference shares ("Haem Shares"), and Class C redeemable preference shares ("Diagnostics Shares").

Holders of the Anti-Infective, Haem and Diagnostics Shares are not entitled to attend, speak or vote at general meetings of the PBBM.

The Anti-Infective and Haem Shares do not participate in the profits of PBBM. The Diagnostics Shares receive a preferential dividend equal to 10% of the net sales of Dialog Devices Limited each quarter, provided sales are positive for the quarter. At present Dialog Devices Limited generates no such sales.

Upon a return or reduction of capital there will be a first pro rata distribution as follows: (1) 75% of the Proceeds of the Anti-Infective Interests to the Anti-Infective Shares; (2) to the Haem Shares at PBBM's election: either, 75% of the Proceeds of the Haem Interests; or US$66 million in each of the first three financial years where Cantab Biopharmaceuticals Patents Limited earns a gross margin in excess of US$100 million from Haem Interests, subject to adjustment for any minority interests in CBP; (3) to the Diagnostics Shares, at PBBM's election: either, 75% of the Proceeds of the Diagnostics Interests; or US$20 million, plus interest at 10% per annum from the date of issue of the Diagnostics Shares. The Proceeds referred to above shall be determined based on the gross proceeds of sale which will be reduced by the aggregate of the expenses of sale and four times the costs invested by the PBB Group to enable the development and sale of the relevant assets to give the net proceeds for pro rata distribution.

Each of provisions (1), (2) and (3) above will apply in the event of a sale or disposal of respectively the Anti-Infective, Haem or Diagnostics Interests in which case the relevant class of Shares will be redeemed.

Since the Class A, B and C redeemable preference shares only result in the company making cash distributions to holders of these securities following a sale or disposal, and the company cannot be compelled to effect such a sale or disposal, IAS 32 requires that these securities are recorded as equity instruments in the books of the issuer, PBB (Malta) Limited. In the consolidated financial statements of the company these instruments, which are held by third parties, are therefore valued and recorded as non-controlling interests. For this purpose these non-controlling interests were valued as described below.

The Anti-Infective Shares provide that in the event of a sale of the Anti-Infective Interests, PBBM will pay 75% of the Proceeds from this sale. Management assessed the fair value of the assets and hence the Class A redeemable preference shares issued by PBBM to be nil.

The Haem Shares provide that PBBM will either, in the event of a sale of the Haem Interests, pay 75% of the Proceeds from the sale, or will pay up to US$200 million in the event the business has met certain sales targets. Since it was the group's intention to develop and commercialise its Haem Interest, management assessed the fair value of the Class B redeemable preference shares issued by PBBM to be US$200 million (recorded at a discounted value of £68 million).

The Diagnostics Shares provide that PBBM will either, in the event of a Sale of the Diagnostics Interests, pay 75% of the Proceeds from the sale, or will pay US$20 million plus interest at 10% per annum to acquire these interests. Since it was the group's intention to develop and commercialise its Diagnostics Interests management assessed the fair value of the Class C redeemable preference shares issued by PBBM to be US$20 million (recorded at a discounted value of £12 million).

The revenue included in the consolidated statement of comprehensive income since 11 July 2014 contributed by the acquired subsidiaries was £5.3 million in 2014. Had the acquired subsidiaries been consolidated from 1 January 2014, the consolidated statement of income would have shown pro-forma revenue of £10.4 million in 2014.

In November 2015, PBB Holdings LLC acquired, from a related party for nominal consideration of US$1, 100% of the equity of Pro Bono Bio LLC, another Russian company, which will seek regulatory approval for the group's products in Russia, commencing with Flexiseq. The fair value of the net liabilities acquired amounted to approximately £25,000.

23. Subsidiaries

The consolidated financial statements include the financial statements of Pro Bono Bio PLC and its subsidiaries.

As at 31 December 2015 the company had the following principal subsidiaries:

Consolidated subsidiaries	Country of Incorporation	Nature of business	Proportion of ordinary shares directly held by the parent	Proportion of ordinary shares held by the group	Proportion of ordinary shares held by non-controlling interests	Proportion of preference shares held by the group
PBB (Malta) Limited	Malta	Investment holding company	100%	100%		0%
PBB Holdings LLC	Russia	Investment holding company		100%		
Pro Bono Bio LLC	Russia	Healthcare products supplier		100%		
Pro Bono Bio Group PLC	United Kingdom	Investment holding company		100%		
Pro Bono Bio Entrepreneur Limited	United Kingdom	Healthcare products supplier		100%		
Pro Bono Bio International Trading Limited	Malta	Healthcare products supplier		100%		
Leverton Licence Holdings Limited	Malta	Intellectual property supplier	100%	100%		
Sequessome Technology Holdings Limited	Malta	Intellectual property supplier		100%		
Cantab Biopharmaceutical Patents Limited	Malta	Intellectual property supplier		100%		
Cantab Biopharmaceutical Holdings Limited	Malta	Investment holding company	100%	100%		
Cantab Biopharmaceutical Limited	United Kingdom	Healthcare products developer		100%		
Recoly NV	Dutch Antilles	Intellectual property supplier		100%		
Opperbas Holdings BV	Netherlands	Intellectual property supplier		100%		
Omri Labs Limited	Israel	Intellectual property supplier		100%		
Zilip Pharma BV	Netherlands	Intellectual property supplier		100%		
PBB Devices Limited	United Kingdom	Healthcare products developer		91%	9%	
Novacta Holdings PLC	Malta	Investment holding company		54%	46%	
Novacta Biosystems Limited	United Kingdom	Healthcare products developer		54%	46%	
Novacta Malta 1 PLC	Malta	Intellectual property supplier		59%	41%	
Novacta Malta 2 PLC	Malta	Intellectual property supplier		59%	41%	
Novacta Malta 3 PLC	Malta	Intellectual property supplier		59%	41%	
Cantab Anti-Infectives Limited	United Kingdom	Healthcare products developer		100%		
Pro Bono Bio Inc	Canada	Marketing services supplier		100%		

At 1 January 2014 the company's sole subsidiary was PBB (Malta) Limited. During 2014 the group established PBB Holdings LLC and Pro Bono Bio Inc. as new subsidiaries. It also acquired interests in all of the other subsidiaries set out above (save for Pro Bono Bio LLC) which the company has accounted for as a business combination since the date of acquisition of each subsidiary (see note 22).

During 2015 PBB Holdings LLC acquired 100% of the equity of Pro Bono Bio LLC (see note 22). In December 2015 Cantab Biopharmaceutical Holdings Limited, which had no material operations or external investments or holdings during 2015, was placed into liquidation.

All subsidiary undertakings are included in the consolidation. The proportion of the voting rights in the subsidiary undertakings held directly by the parent company do not differ from the proportion of issued ordinary shares held, except for Novacta Holdings PLC and its wholly owned subsidiary Novacta Biosystems Limited where, because of its holdings of non-voting ordinary shares the group has 59% of the voting rights compared with its holdings of ordinary shares which amount to 54% of the total issued ordinary shares.

There are no subsidiaries with non-controlling interests that have operations that are material to the group.

UNRECOGNISED ITEMS

This section of the notes provides information about items that are not recognised in the financial statements as they do not yet satisfy the recognition criteria.

24. Contingent liabilities

In November 2014, Celtic Pharma Holdings Advisors LLP ("CPHA") agreed to waive its management fee of US$1,430,809 payable by Celtic Pharma Holdings II LP (the Fund) provided the Fund agreed that such amount would in due course be paid out any proceeds that are distributed in connection with the Class A, B and C redeemable preference shares (the "RPS") issued to the Fund by PBB (Malta) Limited in September 2014. In December 2015 the limited partners of the Fund approved the dissolution of the Fund and the distribution of the securities held by the Fund, including its holding of the RPS to its limited partners. Because of its dissolution, the Fund will no longer be able to satisfy its obligation to CPHA. PBB (Malta) therefore agreed to assume the liability to pay CPHA its management fee, provided such fee is only payable out of the proceeds of the RPS (which would otherwise have been distributed to the holders of the RPS). Until there are any proceeds from the RPS, such liability will remain a contingent liability of PBB (Malta) Limited. When such proceeds are received they will fully fund payment of this liability. Accordingly, no provision is required in these financial statements.

Save as disclosed in this note and elsewhere in the financial statements, the group has no material contingent liabilities.

25. Commitments

a) Capital commitments

At 31 December 2015 the group had no outstanding capital commitments.

b) Operating lease commitments

Rental and operating lease payments were £298,000 for the year ended 31 December 2015 (2014 £37,000).

The group leases various offices and equipment under non-cancellable operating lease agreements. At the balance sheet date, the group had outstanding commitments under non-cancellable operating leases, which fall due as follows:

	2015	2014
	£'000	£'000
Within one year	298	32
In the second to fifth years inclusive	70	-
	368	32

26. Events after the reporting period

In January 2016, the company granted options over 3,685 ordinary shares to its employees under its share option scheme. These options vest over a period of 3 years and are exercisable at the nominal value of each share. Some of the options granted only become exercisable if certain performance conditions are met.

At the start of 2015 the group established a presence in North America by opening an office in Toronto and recruiting a team to develop a plan to commercialise the group's products in North America. The team evaluated the opportunity for the group's range of products and concluded that Flexiseq should be marketed as a reimbursable prescription product to health system providers in the United States. It was concluded that this opportunity would be best addressed through an established US marketing partner. Simultaneously, the group decided that its cosmetic range should be partnered in North America. As a result of these conclusions, in January 2016 the group determined that its team in Toronto should be wound down.

OTHER INFORMATION

This section of the notes includes other information that must be disclosed to comply with the accounting standards and other pronouncements, but that is not immediately related to individual line items in the financial statements.

27. Related party transactions

As at 31 December 2015 the group was controlled by John Mayo, Michael Earl, William Henry, George Iliffe and Richard Wolf-Garraway and Beehive Capital LLP (a UK limited partnership), which together own 50.001% of the ordinary and voting share capital of Pro Bono Bio PLC. The remaining ordinary and voting share capital of the company was held by Molard International (PTC) as trustee of the RNPharma trust. The sole beneficiary of the RNPharma trust is Rusnano Capital AG. John Mayo and his family interests are the controlling partners of Beehive Capital LLP.

Related party transactions – group disclosure

In addition to the related party transactions disclosed in notes 15 and 22, the following transactions were carried out with related parties to Pro Bono Bio PLC and its subsidiaries.

(a) Sales of goods and services

	Year ended 31 Dec 2015	Year ended 31 Dec 2014
	£'000	£'000
Sales of services		
Celtic Pharma Holdings II LP	-	18
TA Investors Limited (product sales and recharged IT costs)	136	5
S. A. Investors Limited (recharged IT costs)	13	3
Beehive Capital LLP (recharged IT costs)	1	-
	150	26

TA Investors Limited ("TAI") and S. A. Investors Limited ("SAI") are entities controlled by John Mayo.

The group entered an agreement in October 2015 with SAI, the parent of TAI, an internet retailer, to purchase 220,000 units of Flexiseq stock at cost plus a mark-up of approximately 20%. 20,000 units were deemed to have been delivered already and resulted in a credit to TAI in respect of earlier purchases. Of the remaining 200,000 units, 72,000 units were delivered to TAI in 2015 and the balance of 128,000 units are expected to be delivered in 2016. TAI will sell these units online and at a price that is no lower than the lowest prevailing price quoted from time to time by other major internet retailers.

(b) Purchases of goods and services

	Year ended 31 Dec 2015 £'000	Year ended 31 Dec 2014 £'000
Purchases of services		
S. A. Investors Limited (customer and marketing support services provided at market competitive hourly rates per call centre agent)	561	343
Celtic Pharma Holdings Advisors LLP (recharged rent, rates and facilities at cost)	84	79
TA Investors Limited (shared marketing costs in Hong Kong)	36	-
	681	422

During 2014 and until September 2015 SAI provided customer and marketing support services to the group. In October 2015 these purchases of services ended because of the transfer of staff from SAI to the group for no consideration.

Celtic Pharma Holdings Advisors LLP is the investment advisor to Celtic Pharma Holdings II LP. John Mayo, Michael Earl, William Henry, George Iliffe and Richard Wolf-Garraway together are the controlling partners of Celtic Pharma Holdings Advisors LLP.

(c) Year end balances arising from sales/purchases of goods/services

	2015 £'000	2014 £'000
Receivables from related parties		
TA Investors Limited	169	6
Celtic Pharma Holdings II LP	-	18
S.A. Investors Limited	19	4
Beehive Capital LLP	1	1
	189	29
Payables to related parties		
S. A. Investors Limited	17	139
Celtic Pharma Holidngs Advisors LLP	4	31
	21	170

The receivables from related parties arise mainly from sale transactions and are due on demand. The receivables are unsecured in nature and bear no interest. Save as disclosed below, no provisions are held against receivables from related parties (2014: £nil).

The payables to related parties arise mainly from purchase transactions and are due on demand. The payables bear no interest.

As a consequence of the business combination described in note 22, an amount of approximately £194,000 due from Celtic Pharma Holdings III LP and relating to its formation costs was acquired. Celtic Pharma Holdings GP III Limited is the general partner of the general partner of Celtic Pharma Holdings III LP and is together controlled by John Mayo, Michael Earl, William Henry, George Iliffe and Richard Wolf-Garraway. As part of the fair value adjustments made in connection with the aforementioned business combination the amount due from this related party was treated as fully impaired.

(d) Loans to related parties

As a consequence of the business combination described in note 22, amounts due from related parties comprising loans due from Pro Bono Bio LLC ("LLC") and Pro Bono Bio OJSC ("OJSC") which amounted to €263,000 (£204,000) were acquired. The loans were unsecured in nature and bore no interest. As part of the fair value adjustments made in connection with the aforementioned business combination the value of these loans from related parties was fully impaired.

At the time of the business combination, LLC and OJSC were legally owned by Celtic Pharma Holdings GP Limited ("GP Limited") which held these assets on trust for the group so as to facilitate discussions with the Russian authorities without involving the private equity fund, Celtic Pharma Holdings II LP. GP Limited is the general partner of Celtic Pharma Holdings II LP and is together controlled by John Mayo, Michael Earl, William Henry, George Iliffe and Richard Wolf-Garraway.

In November 2015, the group acquired, from GP Limited for nominal consideration of US$1, 100% of the equity of LLC, another Russian company, which is seeking regulatory approval for the group's products in Russia, commencing with Flexiseq. During 2015 OJSC was placed into liquidation.

(e) Key management compensation

The key managers comprise the Directors of the company. Directors' remuneration is set out note 7.

Related party transactions – parent company disclosures

The following transactions were carried out with related parties to Pro Bono Bio PLC and its subsidiaries.

(f) Sales and purchases of goods and services

	Year ended 31 Dec 2015 £'000	Year ended 31 Dec 2014 £'000
Sales of services		
PBB (Malta) Limited (management services)	-	41
Celtic Pharma Holdings II LP (recharged professional costs)	-	18
	-	59
Purchases of services		
Pro Bono Bio Entrepreneur Limited (management services)	-	30
	-	30

(g) Year end balances arising from sales/purchase of good/services (and also the transactions described in note 22)

	Year ended 31 Dec 2015 £'000	Year ended 31 Dec 2014 £'000
Receivables from related parties		
Pro Bono Bio Entrepreneur Limited	4,599	-
Leverton Licence Holdings Limited	2,526	1,965
Pro Bono Bio International Limited	2,024	-
Cantab Biopharmaceutical Patents Limited	44	-
Cantab Biopharmaceutical Holdings Limited	16	-
PBB Holdings LLC	3	-
New Pharma Licence Holdings Limited	2	-
PBB (Malta) Limited	-	41
Celtic Pharma Holdings II LP	-	18
	9,214	2,024
Payables to related parties		
PBB (Malta) Limited	67,816	68,161
Pro Bono Bio Entrepreneur Limited	-	30
	67,816	68,191

Save as disclosed below, the receivables from related parties arise mainly from intra group financing transactions and are due on demand. The receivables are unsecured in nature and bear no interest. No provisions are held against receivables from related parties (2014: £ nil).

Save as disclosed below, the payables to related parties arise mainly from purchase transactions and are due on demand. The payables bear no interest.

The amounts of £68,161,000 due to PBB (Malta) Limited and £1,965,000 due from Leverton Licence Holdings Limited arose in 2014 as a result of the transactions described in note 22.

28. Summary of significant accounting policies

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

28.1 Basis of preparation of the financial statements

The consolidated financial statements of the group have been prepared in accordance with International Financial Reporting Standards ('IFRS') and IFRS Interpretations Committee (IFRS IC) applicable to companies reporting under IFRS as adopted by the European Union and also the provisions of the UK Companies Act 2006.

The comparatives relate to the year ending on 31 December 2014. Pro Bono Bio PLC was incorporated on 25 September 2013 to act as a holding company and during 2014 acquired a number of businesses which give rise to the group in its current form. As a result the group's comparative income statement for 2014 mainly reflects activities arising after 11 July 2014, being the date of the first acquisition in 2014.

The company has prepared group accounts in accordance with the Companies Act 2006 and accordingly is not required to publish the company's individual profit and loss account pursuant to the exemption provided by section 408 of the Companies Act 2006. A loss of £1,719,000 (2014: £21,000) has been dealt with in the company's profit and loss account for the year ended 31 December 2015.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements include the determination of the fair value of certain assets and liabilities, the determination of the useful economic lives and residual values of fixed assets and the impairment review of non-current assets.

The group has applied the following standards and amendments for the first time for their annual reporting period commencing 1 January 2015:

- Annual Improvements to IFRSs – 2010-2012 Cycle and 2011 – 2013 Cycle
- Defined Benefit Plans: Employee Contributions – Amendments to IAS 19

The adoption of these amendments did not have any impact on the current period or any prior period and is not likely to affect future periods.

The group also elected to adopt the following two amendments early:

- Annual Improvements to IFRSs 2012-2014 Cycle, and
- Disclosure Initiative: Amendments to IAS 1.

As these amendments merely clarify the existing requirements, they do not affect the group's accounting policies or any of the disclosures.

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2015 reporting periods and have not been early adopted by the group. These are summarised below:

- IFRS 9 Financial Instruments: IFRS 9 addresses the classification, measurement and derecognition of financial assets and financial liabilities and introduces new rules for hedge accounting. In July 2014, the IASB made further changes to the classification and measurement rules and also introduced a new impairment model. These latest amendments now complete the new financial instruments standard. The standard is effective for accounting periods beginning on or after 1 January 2018. The group is yet to assess IFRS 9's full impact.

- IFRS 15 Revenue from Contracts with Customers: The IASB has issued a new standard for the recognition of revenue. This will replace IAS 18 which covers contracts for goods and services and IAS 11 which covers construction contracts. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer – so the notion of control replaces the existing notion of risks and rewards. The standard permits a modified retrospective approach for the adoption. Under this approach entities will recognise transitional adjustments in retained earnings on the date of initial application (e.g. 1 January 2017), i.e. without restating the comparative period. They will only need to apply the new rules to contracts that are not completed as of the date of initial application. The standard is effective for annual periods beginning on or after 1 January 2017. The group is yet to assess the full impact of IFRS 15.

- IFRS 16 Leases: IFRS 16 specifies how companies will recognise, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17. IFRS 16 applies to annual reporting periods beginning on or after 1 January 2019. The group is yet to assess IFRS 16's full impact.

There are no other standards that are not yet effective and that would be expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

28.2 Consolidation

(a) Subsidiaries

The consolidated financial statements comprise the financial statements of Pro Bono Bio PLC (the parent company) and its subsidiary investments.

Subsidiaries are all entities over which the group has control. The group controls an entity when the group is exposed to, or has rights to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are deconsolidated from the date that control ceases.

The group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets.

Any contingent consideration to be transferred by the group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not re-measured, and its subsequent settlement is accounted for within equity.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated. Accounting policies of subsidiaries have been aligned where necessary to ensure consistency with the policies adopted by the group.

28.3 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Sterling which is the company's functional and the group's presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or dates of valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies, with the exception of differences on certain intra-group balances mentioned below, are recognised in the income statement. Exchange differences arising on foreign currency intra-group balances for which settlement is neither planned nor likely to occur and which form part of the net investment in a foreign operation are taken directly to equity ("currency translation reserve") until the disposal of the net investment, at which time they are recognised in the income statement.

(c) Group companies

The results and financial position of all the group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(ii) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and

(iii) all resulting exchange differences are recognised as a separate component of equity.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. Exchange differences arising are recognised in other comprehensive income.

28.4 Property, plant and equipment

Plant and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Depreciation on assets is calculated so as to write off their costs, less estimated residual values, over their useful economic lives, as follows:

Fixtures, fittings and equipment - 3 to 5 years, straight-line basis

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in the income statement.

Depreciation commences when assets are ready for use.

28.5 Intangible assets

(a) Goodwill

Goodwill arises on the acquisition of subsidiaries and represents the excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured at fair value is less than the fair value of the net assets of the subsidiary acquired, in the case of a bargain purchase, the difference is recognised directly in the income statement.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the CGUs, or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of the CGU containing the goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs of disposal. Any impairment is recognised immediately as an expense and is not subsequently reversed.

(b) Intellectual Property, Trademarks and Licences

Separately acquired intellectual property, trademarks and licences are shown at historical cost.

Intellectual property, trademarks and licences acquired in a business combination are recognised at fair value at the acquisition date.

Intellectual property, trademarks and licences have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of trademarks and licences over their estimated useful lives of 20 years.

28.6 Impairment of non-financial assets

Intangible assets that have an indefinite useful life or intangible assets not ready to use are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are largely independent cash inflows (cash-generating units or CGUs). Prior impairments of non-financial assets (other than goodwill) are reviewed for possible reversal at each reporting date.

28.7 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the first-in, first-out ("FIFO") method. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

28.8 Trade and other receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade receivables are recognised and carried at fair value.

An estimate for doubtful debts is provided when collection of the full amount is no longer probable. Bad debts are written-off as incurred.

Receivables from related parties are recognised and carried at cost less an allowance for any non-collectable amounts.

28.9 Cash and cash equivalents

In the statements of cash flows, cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less and bank overdrafts. In the consolidated balance sheet, bank overdrafts are shown within borrowings in current liabilities.

28.10 Share capital

Ordinary shares are classified as equity. Ordinary share capital is recognised at the nominal value of the consideration received. Any difference between the fair value of the consideration received and the nominal value of the issued shares is recognised as share premium, after deducting related financing costs.

28.11 Convertible preference shares

The convertible preference shares, which are convertible into a variable number of shares, are classified as a financial liability per IAS 32. The liability is initially recorded at fair value and subsequently measured at amortised cost with changes in value being recorded in the income statement as finance income or cost based on an original effective interest rate.

28.12 Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

28.13 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest rate method.

Borrowings are classified as current liabilities unless the group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

28.14 Current and deferred income tax

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

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination, that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

28.15 Employee benefits

(a) Profit sharing and bonus plans

The group recognises a liability and an expense for bonuses. The group recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

(b) Termination benefits

Termination benefits are payable when employment is terminated by the group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The group recognises termination benefits at the earlier of the following dates: (a) when the group can no longer withdraw the offer of those benefits; and (b) when the entity recognises costs for a restructuring that is within the scope of IAS 37 and involves the payment of termination benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to their present value.

28.16 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods supplied, stated net of discounts, returns and value added taxes and after eliminating sales within the group. The group recognises revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of the group's activities, as described below. The group bases its estimate of returns on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

The group develops and sells a range of healthcare products to retailers, wholesalers and distributors. Sales of goods are recognised when a group entity has delivered products to the customer, the customer has full discretion over the channel and price to sell the products, and there is no unfulfilled obligation that could affect the customer's acceptance of the products.

Revenue is adjusted for the value of expected returns. Delivery does not occur until the products have been shipped to the specified location, the risks of obsolescence and loss have been transferred to the customer, and either the customer has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed or the group has objective evidence that all criteria for acceptance have been satisfied.

The products are often sold with predetermined promotional prices or volume discounts. Some customers have a right to return out of date products. Sales are recorded based on the price specified in the sales contracts, net of the stipulated promotional price or volume discounts and returns at the time of sale. Accumulated experience is used to estimate and provide for the discounts and returns.

No element of financing is deemed present as the sales are usually made with credit terms of up to 60 days, which is consistent with market practice.

28.17 Research and development costs

Research and development costs are written off to the profit and loss account in the year in which they are incurred.

28.18 Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.