

Alba Bioscience Limited

Report and Financial Statements

31 March 2016

SC310584

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COMPANIES HOUSE

Directors

J C Allan
D J P E Cowan
J A Stackawitz

Secretary

R W Boyd

Auditors

Ernst & Young LLP
Bedford House
16 Bedford Street
Belfast
BT2 7DT

Registered Office

Douglas Building
Pentlands Science Park
Bush Loan
Penicuik
EH26 0PL

Registered No. SC310584

Strategic report

The directors present their strategic report for Alba Bioscience Limited (the “Company” or “Alba Bioscience”) for the year ended 31 March 2016.

Results and dividends

The results for the year are set out on page 10. The Company’s turnover for the year ending 31 March 2016 was £11,682,022 (2015 – £10,519,385). The Company’s loss after tax for the year was £595,380 (2015 – loss £1,019,806).

The Statement of Financial Position as at 31 March 2016 sets out the financial position of Alba Bioscience and reflects net assets of £18,214,608 (2015 – £4,808,155) and cash at bank of £12,621,673 (2015 – £320,351).

Principal activities and review of the business

The principal activity of Alba Bioscience is the development, manufacture and sale of products for the global transfusion diagnostics market. Products manufactured by the Company are sold to hospitals, blood banking operations and other transfusion diagnostics companies worldwide.

The Company has active programmes in place to discover and develop new products to address the global transfusion diagnostics market.

The Company also has an active programme in place to license its existing products for sale in the USA, to allow it to expand the breadth of products being offered in this key market. To date over 33 (2015 – 33) products have been licensed by Alba Bioscience with the United States Food and Drug Administration (“FDA”) for sale in the USA. These products are being sold directly to customers in the USA by an affiliate of the Company.

The Company continues to grow its business developing and manufacturing transfusion diagnostic products for other transfusion diagnostics companies (“OEM customers”). Sales to OEM customers have continued to grow in the past twelve months, allowing the Company to discontinue manufacturing certain lower-margin products or withdraw from lower-margin geographic regions.

Alba Bioscience continues to work on a major project focused on the development of a next-generation automation platform initially targeted at the transfusion diagnostics market place (the “MosaiQ™ Project”). Funding for this project is provided by a combination of financing from Group companies and grant support from Scottish Enterprise.

New product launches and expansion of market share, coupled with the continued investment in our staff and facilities, will continue to drive the positive growth of Alba Bioscience.

The Company is part of the Quotient Limited group of companies (“the Group”).

During the year the Company issued 1,400,000 B Ordinary shares to Quotient Limited for £10 each.

Strategic report

Key performance indicators

The Company employs a number of KPIs to monitor the performance of the business which are included in the monthly management report and considered at management meetings.

<i>Product revenue and gross profit:</i>	<i>2016</i>	<i>2015</i>	<i>Movement</i>
Product revenue	£11,321,714	£10,067,931	12.5%
Product gross profit percentage	44.2%	40.0%	

The directors are pleased with the growth in product revenue achieved in the year. The increase in gross profit percentage mainly reflects positive sales mix changes and price increases offset by exchange rate movements. Product revenue and product revenue gross profit exclude revenue arising from OEM customer development programmes.

The directors also monitor other expenditure and Balance Sheet categories versus agreed budgets. No formal key performance indicators are used.

<i>Other revenue:</i>	<i>2016</i>	<i>2015</i>	<i>Movement</i>
OEM customer development revenue	£360,308	£451,454	(20.2)%

Other revenue represents milestone revenue achieved on the company's product development projects for its customers.

In June 2013, the Company entered into an agreement with a major customer to develop a range of rare antisera products. Under the terms of the agreement, the Company is entitled to receive milestone payments of \$2,750,000 (£1,813,865) upon the receipt of CE-marks for the rare antisera products, \$1,400,000 (£923,422) upon the receipt of FDA approval of the rare antisera products, \$650,000 (£428,731) once cumulative product revenues reach \$250,000 (£164,897) and two further milestones of \$500,000 (£329,794) each upon the updating of the CE-mark and FDA approvals to cover use of the products on the customer's automation platform.

In the year ended 31 March 2014, the Company recognised \$2,750,000 (£1,813,865) of milestone revenue relating to the achievement of the CE marketing milestone. In the year ended 31 March 2015, the company received \$650,000 (£451,454) due when the customer completed purchases of \$250,000 (£173,636) of the rare antisera products covered by the agreement and a further \$100,000 (£69,454) of additional development fees which were not part of the original agreement.

In the year ended 31 March 2016 the Company received a payment of \$500,000 (£360,308) for achieving a CE mark on the products associated with this project.

Research and development

Expenditure on research and development during the year to 31 March 2016 amounted to £11.2 million (2015 – £12.0 million). This investment was focused on two key areas:

- Development of new liquid reagent products for the global transfusion diagnostics market, for the Company and its affiliates and for OEM customers. Current levels of expenditure in this area will be maintained for the foreseeable future; and
- With the support of the Group and Scottish Enterprise, development of the MosaiQ™ Project, which will initially be aimed at addressing the transfusion diagnostics market. The directors believe this technology has the potential to become the next generation automated testing platform for transfusion diagnostics, offering considerable benefits in terms of patient outcomes and efficiency.

Strategic report

Principal risks and uncertainties

The directors have carefully considered the principal risks and uncertainties facing the business.

Competitive risk

The Company operates in a changing and competitive market place where continuing growth is dependent upon maintaining existing customer relationships and developing new business by offering a wider range of products and services, expanding geographically and growing its customer base.

Regulatory risk

The Company operates in a heavily regulated market sector and is regularly audited by agencies such as the US Food and Drug Administration for US licencing and Underwriters Laboratories for CE marking. Audit results have historically been excellent and the directors expect this to continue.

Financial risk management policy

The Company's financial instruments comprise cash, trade debtors and creditors and certain other debtors and creditors. The main risks associated with these are set out below:

Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Company aims to mitigate liquidity risk through managing cash generation by its operations, applying cash collection targets and carefully controlling expenditure throughout the Company. The Company also manages liquidity risk through external leases and related-party debt.

The Company has provided a bond and floating charge over all its assets as security for the indebtedness of its parent company, Quotient Limited (see note 19).

Foreign currency risk

The Company's principal foreign currency exposure is due to its manufacturing costs largely arising in pounds Sterling whilst the majority of its products are sold in US dollars and other foreign currencies. The Company has entered into forward currency contracts as disclosed in note 20 to the accounts to hedge its foreign currency exposure.

Interest rate risk

The Company has limited exposure to movement in interest rates.

Credit risk

Cash surpluses are deposited with reputable banking institutions. Trade debtors are monitored on an ongoing basis for collection and provision is made for doubtful debts where appropriate.

On behalf of the Board



D J P E Cowan

Director

24 November 2016

Registered No. SC310584

Directors' report

The directors present their report for Alba Bioscience Limited (the "Company" or "Alba Bioscience") for the year ended 31 March 2016.

Directors

The directors who served the Company during the year were as follows:

J C Allan
D J P E Cowan
J A Stackawitz

Employee involvement

The Company maintains its commitment to employee involvement throughout the business. Employees are kept well informed of the performance and objectives of the Company and its affiliates through personal briefings, regular meetings and e-mail. In addition, via a Staff Association, an employee has the opportunity to make inputs into Human Resources and policy matters within the Company.

Disabled employees

The Company gives full consideration to applications for employment from disabled persons where the candidates' particular aptitudes and abilities are consistent with adequately meeting the requirements of the job. Opportunities are available to disabled employees for training, career development and promotion.

Where existing employees become disabled, it is the Company's policy to provide continuing employment wherever practicable in the same or an alternative position and to provide appropriate training to achieve this aim.

Going concern

The Company's business activities, together with the factors likely to affect its future development and position, are set out in the "Principal activities and review of the business" section in the Strategic Report. The financial position of the Company, its cash flows and liquidity position are set out in the "Results and dividends" section in the Strategic Report.

Note 1 to the financial statements contains information on the rationale for the adoption of the going concern basis of accounting in preparing these financial statements.

Directors' report

Disclosure of information to the auditors

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 Company's auditor, the directors have taken all the steps that they are obliged to take as a director in order to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information.

Issue of share capital

During the year the Company issued 1,400,000 B Ordinary shares to Quotient Limited for £10 each.

Political donations

The Company made no political donations in the year (2015 – nil).

Auditors

In accordance with s485 of the Companies Act 2006 a resolution to reappoint Ernst & Young LLP as auditors will be put to the members at the Annual General Meeting.

On behalf of the Board



D J P E Cowan
Director

24 November 2016

Directors' responsibilities statement

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the Company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

Independent auditors' report

to the members of Alba Bioscience Limited

We have audited the financial statements of Alba Bioscience Limited for the year ended 31 March 2016 which comprise the Income Statement, the Statement of Comprehensive Income, the Statement of Changes in Equity, the Statement of Financial Position and the Statement of Cash Flows and the related notes 1 to 24. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland".

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 7, 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

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Strategic Report and the Directors' Report to identify material inconsistencies with the audited financial statements, and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on the financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 March 2016 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Emphasis of matter – Going concern

In forming our opinion, which is not modified, we have also considered the adequacy of the disclosures made in note 1 to the financial statements concerning the Company's ability to continue as a going concern. The conditions described in note 1 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.

Independent auditors' report

to the members of Alba Bioscience Limited

Opinion on other matter prescribed by the Companies Act 2006

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

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

Ernst & Young LLP

Marie Treacy (Senior Statutory Auditor)
For and on behalf of Ernst & Young LLP, Statutory Auditor
Belfast

29 November 2016

Income statement

for the year ended 31 March 2016

		2016	2015
	Notes	£	£
Turnover	2	11,682,022	10,519,385
Cost of sales		(6,316,174)	(6,041,193)
Gross profit		5,365,848	4,478,192
Selling and distribution costs		(785,242)	(567,075)
Administrative expenses		(15,576,634)	(16,670,371)
Other operating income	3	10,425,251	11,860,315
Operating loss	3	(570,777)	(898,939)
Interest receivable and similar income	6	3,489	236
Interest payable and similar charges	7	(28,092)	(25,523)
Loss on ordinary activities before taxation		(595,380)	(924,226)
Tax	8	–	(95,580)
Loss for the financial year		<u>(595,380)</u>	<u>(1,019,806)</u>

All amounts relate to continuing activities.

Statement of comprehensive income

for the year ended 31 March 2016

	2016	2015
	£	£
Loss for the financial year	<u>(595,380)</u>	<u>(1,019,806)</u>
Gain/(loss) on cash flow hedges	130,481	(122,809)
Loss on cash flow hedges recognised in income statement	<u>(128,648)</u>	<u>(67,248)</u>
Total other comprehensive income/(loss)	1,833	(190,057)
Total comprehensive loss for the year	<u>(593,547)</u>	<u>(1,209,863)</u>

Statement of changes in equity

for the year ended 31 March 2016

	<i>Called up share capital</i> £	<i>Share premium</i> £	<i>Cash flow hedge reserve</i> £	<i>Profit and loss account</i> £	<i>Total equity</i> £
At 31 March 2014	740	7,403,967	56,199	(1,442,888)	6,018,018
Loss for the year	–	–	–	(1,019,806)	(1,019,806)
Other comprehensive loss	–	–	(190,057)	–	(190,057)
Total comprehensive loss for the year	–	–	(190,057)	(1,019,806)	(1,209,863)
Share based payments transactions	–	–	–	380,104	380,104
Share based payments recharge from parent undertaking	–	–	–	(380,104)	(380,104)
At 31 March 2015	740	7,403,967	(133,858)	(2,462,694)	4,808,155
Loss for the year	–	–	–	(595,380)	(595,380)
Other comprehensive income	–	–	1,833	–	1,833
Total comprehensive income /(loss) for the year	–	–	1,833	(595,380)	(593,547)
Share based payments transactions	–	–	–	419,317	419,317
Share based payments recharge from parent undertaking	–	–	–	(419,317)	(419,317)
New shares issued	140	13,999,860	–	–	14,000,000
At 31 March 2016	880	21,403,827	(132,025)	(3,058,074)	18,214,608

Statement of financial position

at 31 March 2016

	Notes	2016 £	2015 £
Fixed assets			
Intangible assets	9	1,225,553	1,307,590
Tangible assets	10	3,381,531	12,717,638
		<u>4,607,084</u>	<u>14,025,228</u>
Current assets			
Stocks	11	3,797,113	2,781,614
Debtors	12	2,811,103	2,283,184
Cash at bank and in hand		12,621,673	320,351
		<u>19,229,889</u>	<u>5,385,149</u>
Creditors: amounts falling due within one year	13	<u>(5,416,043)</u>	<u>(14,439,590)</u>
Net current assets/(liabilities)		<u>13,813,846</u>	<u>(9,054,441)</u>
Total assets less current liabilities		<u>18,420,930</u>	<u>4,970,787</u>
Creditors: amounts falling due after more than one year	14	<u>(206,322)</u>	<u>(162,632)</u>
Net assets		<u>18,214,608</u>	<u>4,808,155</u>
Capital and reserves			
Called up share capital	15	880	740
Share premium		21,403,827	7,403,967
Cash flow hedge reserve		(132,025)	(133,858)
Profit and loss account		<u>(3,058,074)</u>	<u>(2,462,694)</u>
Shareholders' funds		<u>18,214,608</u>	<u>4,808,155</u>

The financial statements were approved by the Board of Directors and signed on its behalf by:



D J P E Cowan

Director

24 November 2016

Statement of cash flows

for the year ended 31 March 2016

	Notes	2016 £	2015 £
Net cash (outflow)/inflow from operating activities	23	<u>(30,598)</u>	<u>220,467</u>
Investing activities			
Interest received		3,489	236
Payments to acquire tangible fixed assets		(5,295,345)	(9,332,517)
Payments to acquire intangible fixed assets		<u>(46,854)</u>	<u>(120,115)</u>
Net cash flow from investing activities		<u>(5,338,710)</u>	<u>(9,452,396)</u>
Financing activities			
Interest element of finance lease rentals		(28,092)	(25,523)
Issue of share capital		14,000,000	–
Group funding		3,873,183	8,823,275
Repayment of finance leases and hire purchase contracts		<u>(174,461)</u>	<u>(102,939)</u>
Net cash flow from financing activities		<u>17,670,630</u>	<u>8,694,813</u>
Increase/(decrease) in cash and cash equivalents		12,301,322	(537,116)
Cash and cash equivalents at 1 April 2015		<u>320,351</u>	<u>857,467</u>
Cash and cash equivalents at 31 March 2016		<u>12,621,673</u>	<u>320,351</u>

Notes to the financial statements

at 31 March 2016

1. Accounting policies

Statement of compliance

Alba Bioscience Limited is a limited liability company incorporated in Scotland with registered number SC310584. The Registered Office is Douglas Building, Pentlands Science Park, Bush Loan, Penicuik, EH26 0PL.

The financial statements have been prepared in compliance with FRS 102 as it applies to the financial statements of the Company for the year ended 31 March 2016. The Company transitioned from previously extant UK GAAP to FRS 102 as at 1 April 2014. An explanation of how transition to FRS 102 has affected the reported financial position and financial performance is given in note 24. The Company has taken advantage of certain disclosure exemptions available under FRS102 as it is part of the Quotient Limited group of companies as set out in note 21. These exemptions include:

- a) The requirements of Section 4 Statement of Financial Position paragraph 4.12(a)(iv) to disclose a reconciliation of the number of shares outstanding at the beginning and at the end of the period;
- (b) The requirements of Section 26 Share-based Payment paragraphs 26.18(b), 26.19 to 26.21 and 26.23 as equivalent disclosures are included in the consolidated financial statements of Quotient Limited,
- (c) The requirement of Section 33 Related Party Disclosures paragraph 33.7 7 to disclose key management personnel compensation in total.

Basis of preparation

The financial statements were authorised for issue by the Board of Directors on 24 November 2016.

The financial statements are prepared in accordance with applicable United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), which have been applied consistently (except as otherwise stated). The financial statements are presented in Pounds Sterling which is the functional currency of the Company.

In preparing the Company's financial statements on a going concern basis, the directors have considered the financial position and circumstances of the Company. The Company has experienced an increase in product revenue during the past twelve month trading period and the directors expect this trajectory to continue. The Company has sufficient financial resources together with long-term relationships and contracts with a number of customers and suppliers across different geographic areas. As a consequence the directors believe that the Company is well placed to manage its business risks successfully.

The Company is a wholly owned subsidiary of Quotient Limited. On 14 October 2016 Quotient Limited completed the private placement of up to \$120 million aggregate principal amount of 12% Senior Secured Notes due 2023 (the "Notes"), of which \$84 million were issued on that date generating available cash of \$40.5 million. Quotient Limited expects to issue the remaining \$36 million of the Notes upon the public announcement of successful field trial results for the MosaiQ™ IH Microarray. Pursuant to the terms of collateral agreements entered into by Quotient Limited and its subsidiaries, holders of the Notes have been granted a fixed charge over the shares of the Company held by Quotient Limited. In addition, Quotient Limited's obligations under the terms of the Notes have also been guaranteed by all its subsidiaries, including the Company. Under the terms of this guarantee, the holders of the Notes have been granted a fixed and floating charge over the assets and undertakings of the Company.

The Quotient Limited group has expenditure plans over the next twelve months, including the continued development of MosaiQ™ to commercialisation, that exceed its current cash holdings and which are expected to be funded from a combination of funding sources, including through the use of existing cash balances and the issuance of the additional Notes.

There can be no assurance however that the Quotient Limited group will be able to successfully complete the MosaiQ™ field trials and receive the expected proceeds from the additional Notes issuance when necessary, or that the holders of the Notes would not exercise their rights under the terms of the collateral agreements should sufficient funds not be obtained when necessary resulting in a material uncertainty which casts significant doubt over the Company's ability to continue as a going concern for the foreseeable future.

Notes to the financial statements

at 31 March 2016

1. Accounting policies (continued)

Basis of preparation (continued)

The directors of Quotient Limited and the Company are confident in the availability of these funding sources and believe that it is unlikely that the holders of the Notes would exercise their rights over the assets and undertakings of the Company pursuant to the fixed and floating charge for a period of at least twelve months from the date of approval of the Company's financial statements. As a result, the directors of the Company continue to adopt the going concern basis in preparing the financial statements.

Accordingly, these financial statements do not include any adjustments to the carrying amount or classification of assets and liabilities that would result if the Company was unable to continue as a going concern.

Judgements and key sources of estimation uncertainty

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for revenues and expenses during the year. However, the nature of estimation means that actual outcomes could differ from those estimates. The following judgements (apart from those involving estimates) have had the most significant effect on amounts recognised in the financial statements.

Goodwill and intangible assets

Goodwill is being amortised over a twenty year period. This goodwill represents intangible assets such as customer relationships, master cell lines and certain other items, which include domain names and product trademarks, identified as at the time of the acquisition of the business in August 2007, but which could not be reliably measured and hence were not individually recognised. The estimated useful life of 20 years is based on a variety of factors such as the expected use of these intangible assets by the business, the retention of key employees and customers, technological obsolescence, any legal, regulatory or contractual provisions that can limit useful life and assumptions that market participants would consider in respect of similar businesses.

Also included in intangible assets are the costs of obtaining product licenses for our products. These include external costs such as regulatory agency fees associated with the approval and bringing to market of our products once the development is complete. These assets are amortised over an expected product life of ten years, based upon the expected life cycle of the related products.

There is a risk that the directors' expectations regarding use of these intangible assets may not be borne out by actual events and conditions, with consequential accelerated amortisation or immediate impairment of the cost of these assets being recognised.

The directors review the useful lives and carrying amounts of the Company's goodwill and intangible assets annually to determine whether there is any indication that the assumed useful lives are no longer valid. In addition as set out below the directors consider whether the value of those assets is impaired. This requires an estimation of the fair value less cost of disposal and value in use of these assets, which includes the estimation of future cash flows and the application of a suitable discount rate, all of which are uncertain with actual outcomes varying from those assumed.

Intangible fixed assets

Goodwill arising on acquisitions is capitalised, classified as an asset on the Statement of Financial Position and amortised on a straight-line basis over its useful economic life. This was determined to be 20 years. This estimate is based on a variety of factors such as the expected use of the acquired business and assets, the expected usual life of the cash generating units to which the goodwill is attributed, any legal, taxation, regulatory or contractual provisions that can limit useful life and assumptions that market participants would consider in respect of similar businesses.

Expenditure incurred to secure product licences are capitalised within intangible fixed assets and amortised over their useful economic life of 10 years.

Notes to the financial statements

at 31 March 2016

1. Accounting policies (continued)

Tangible fixed assets

Tangible fixed assets are stated at cost less depreciation. Depreciation is provided at rates calculated to write off the cost of fixed assets, less their estimated residual value, over their expected useful life on the following basis:

Land and buildings tenant's improvements	–	25% per annum straight-line
Plant and machinery	–	4%, 12.5% and 25% per annum straight-line
Master cell banks	–	nil

The carrying values of tangible fixed assets are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

Master cell banks are recorded at cost annually. No depreciation is provided on the assets.

Research and development

Expenditure on research and development is written off to the income statement in the year in which it is incurred.

Stocks

Raw materials, work in progress and finished goods are valued at the lower of cost and net realisable value after making due allowance for obsolete and slow-moving stocks. Cost includes all direct costs and an appropriate proportion of fixed and variable overheads.

Pensions

The Company operates a defined contribution pension scheme and the pension charge represents the amounts payable by the Company to the fund in respect of the year.

Grants

Grants of a revenue nature are credited to the income statement so as to match them with the expenditure to which they relate. Grants in respect of capital expenditure are credited to a deferred income account and are released to profit over the expected useful lives of the relevant assets by equal annual instalments. Grants already received will be released to the income statement over their respective periods.

Deferred taxation

Deferred tax is recognised in respect of all timing differences which are differences between taxable profits and total comprehensive income that arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in the financial statements, except that tax assets are recognised only to the extent that the directors consider that it probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

Foreign currencies

Monetary assets and liabilities denominated in foreign currencies are translated into pounds Sterling at rates of exchange ruling at the Statement of Financial Position date.

Transactions in foreign currencies are translated into pounds Sterling at the rate ruling on the date of the transaction.

Exchange gains and losses on transactions and monetary assets and liabilities are recognised in the income statement. Exchange gains and losses on non-monetary assets and liabilities are taken to reserves.

Notes to the financial statements

at 31 March 2016

1. Accounting policies (continued)

Finance lease commitments

Assets held under finance leases which are those where substantially all the risks and rewards of ownership of the asset have passed to the Company, are capitalised in the Statement of Financial Position and are depreciated over their useful lives. The interest element of the rental obligations is charged to the income statement over the period of the lease and represents a constant proportion of the balance of capital repayments outstanding.

Operating leases

The Company has entered into commercial contracts as a lessee to obtain the use of property, plant and equipment. The classification of such leases as operating or finance leases requires the Company to determine, based on an evaluation of the terms and conditions of the arrangements, whether it acquires the significant risks and rewards of ownership of these assets and accordingly whether the lease requires an asset and liability to be recognised in the statement of finance position.

Rentals under operating leases are charged on a straight-line basis over the lease term.

Revenue recognition

Revenue is recognised to the extent that the group obtains the right to consideration in exchange for its performance. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates, VAT and other sales taxes or duty. The following criteria must also be met before revenue is recognised:

Sale of goods

Revenue from the sale of goods is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on dispatch of the goods, the amount of revenue can be measured reliably, it is probable that the economic benefits associated with the transaction will flow to the entity and the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Rendering of services

Revenue from the performance of product development activities is recognised by reference to the stage of completion in line with customer contracts. Stage of completion is measured by reference to specific, agreed milestones.

Share based payment transactions

Employees of the Company, being part of the Quotient group, may be entitled to receive share options in Quotient Limited. There are awards of share options to staff throughout each financial year with all share options being on similar terms. Options are granted at market price at date of award, have a ten year expiry date, vest over three years in equal tranches and are settled by equity.

The cost of these equity-settled transactions with employees is measured by reference to the fair value of the equity instruments granted at the date at which they are granted and is recognised as an expense over the vesting period, which ends on the date on which the relevant employees become fully entitled to the award. Fair value is determined using an appropriate pricing model. In valuing equity-settled transactions, no account is taken of any vesting conditions, other than conditions linked to the price of the shares of the parent company (market conditions) and non-vesting conditions. No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market or non-vesting condition, which are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance conditions are satisfied.

At each balance sheet date before vesting, the cumulative expense is calculated, representing the extent to which the vesting period has expired and management's best estimate of the achievement or otherwise of non-market conditions and of the number of equity instruments that will ultimately vest or in the case of an instrument subject to a market condition, be treated as vesting as described above. The movement in cumulative expense since the previous balance sheet date is recognised in the income statement, with a corresponding entry in equity.

Notes to the financial statements

at 31 March 2016

1. Accounting policies (continued)

Share based payment transactions (continued)

Recharges levied by Quotient Limited in respect of share based transactions are charged directly to equity on the basis that this represents a return of the deemed capital contribution recorded in equity in respect of the share based payments charge.

Derivative instruments

In the normal course of business, the Company's financial position is routinely subjected to market risk associated with foreign currency exchange rate fluctuations. The Company's policy is to mitigate the effect of these exchange rate fluctuations on certain foreign currency denominated business exposures. The Company has a policy that allows the use of derivative financial instruments to hedge foreign currency exchange rate fluctuations on forecasted revenue denominated in foreign currencies. The Company carries derivative financial instruments (derivatives) on the balance sheet at their fair values. The Company does not use derivatives for trading or speculative purposes. The Company does not believe that it is exposed to more than a nominal amount of credit risk in its foreign currency hedges, as counterparties are large, global and well-capitalised financial institutions. To hedge foreign currency risks, the Company uses foreign currency exchange forward contracts, where possible and prudent.

The Company considers its most current forecast in determining the level of foreign currency denominated revenue to hedge as cash flow hedges. The Company combines these forecasts with historical trends to establish the portion of its expected volume to be hedged. Any gains or losses arising from changes in the fair value of derivatives are taken directly to the income statement, except for the effective portion of cash flow hedges, which is recognised in other comprehensive income and later reclassified to the income statement when the hedge item affects profit or loss. If the underlying forecasted transaction does not occur, or it becomes probable that it will not occur, the related gains and losses on the cash flow hedge are reclassified from accumulated other comprehensive income (loss) to the income statement at that time.

The fair value of foreign currency forward contracts has been determined by calculating the present value of future cash flows, estimated using market-based observable inputs including forward and spot exchange rates and interest rate curves obtained from third party market price quotations.

Short-term debtors and creditors

Debtors and creditors with no stated interest rate and receivable or payable within one year are recorded at transaction price. Any losses arising from impairment are recognised in the income statement in other operating expenses.

Notes to the financial statements

at 31 March 2016

2. Turnover

Turnover represents amounts receivable for goods and services net of VAT and trade discounts.

The whole of the turnover is attributable to the sale of transfusion diagnostic products, research funding fees and the receipt of product development milestone payments relating to future products to be sold by the Company.

A geographical analysis of turnover is as follows:

	2016 £	2015 £
United Kingdom	553,411	546,281
Rest of European Union	3,787,335	3,749,507
United States of America	5,071,900	4,333,636
Rest of world	2,269,376	1,889,961
	<u>11,682,022</u>	<u>10,519,385</u>

In the opinion of the directors it would be seriously prejudicial to the interests of the Company to disclose profit or loss or net assets by segment.

3. Operating loss

This is stated after charging/(crediting):

	2016 £	2015 £
Auditors' remuneration		
– audit services	26,566	24,601
– taxation compliance	5,114	6,765
– other assurance services	<u>1,000</u>	<u>–</u>
Depreciation of tangible fixed assets		
– owned by the Company	349,991	303,495
– held under finance leases	110,125	121,062
Amortisation of intangible fixed assets (within Administrative expenses)	<u>128,191</u>	<u>122,542</u>
Operating lease rentals		
– plant and machinery	194,008	180,234
– other operating leases	523,800	445,219
Foreign exchange gains	(323,366)	(61,920)
Share based payments charge	419,317	380,104
Research and development expenditure	<u>11,104,794</u>	<u>11,963,911</u>
Revenue grants receivable	(46,879)	(1,165)
Research and development tax credits receivable		
– current year	(323,986)	(252,248)
– prior year	(10,427)	(158,835)
Services recharged to group companies	<u>(10,108,756)</u>	<u>(11,448,067)</u>

Notes to the financial statements

at 31 March 2016

4. Directors' remuneration

	2016	2015
	£	£
Aggregate remuneration in respect of qualifying services	375,354	362,453
Aggregate pension contributions to money purchase schemes	—	—
	<u>375,354</u>	<u>362,453</u>

Included in the above figures is £190,840 (2015 - £184,999) in respect of the highest paid director. The above amounts do not include sums of £564,883 (2015 - £578,892) paid by other group companies to the Company's directors, in respect of which it is not practical to apportion the amount related to qualifying services to the Company.

5. Staff costs

	2016	2015
	£	£
Wages and salaries	7,233,755	5,551,597
Social security costs	638,681	553,495
Other pension costs	342,137	284,558
	<u>8,213,573</u>	<u>6,389,650</u>

The average monthly number of employees (full time equivalents), including the directors, during the year was made up as follows:

	2016	2015
	No.	No.
Production	108	97
Sales and distribution	15	12
Research and development	75	55
Management and administration	19	19
	<u>217</u>	<u>183</u>

6. Interest receivable and similar income

	2016	2015
	£	£
Bank interest	3,489	236
	<u>3,489</u>	<u>236</u>

7. Interest payable and similar charges

	2016	2015
	£	£
Finance leases	28,092	25,523
	<u>28,092</u>	<u>25,523</u>

Notes to the financial statements

at 31 March 2016

8. Tax

(a) Tax on loss on ordinary activities

The tax charge is made up as follows:

	2016	2015
	£	£
Current tax:		
UK corporation tax on the loss for the year	–	–
UK corporation tax on research and development tax credits:		
- Current year	–	59,048
- Prior year	–	36,532
Total current tax (note 8(b))	–	95,580
Deferred tax:		
Movement in deferred tax liability	–	–
Tax on loss on ordinary activities	–	95,580

No tax is attributable on movements through other comprehensive income.

(b) Factors affecting the total tax charge for the year

The tax assessed for the year differs from the standard rate of corporation tax in the UK of 20% (2015–21%).

The differences are explained below:

	2016	2015
	£	£
Loss on ordinary activities before tax	(595,380)	(924,226)
Loss on ordinary activities multiplied by standard rate of corporation tax in the UK of 20% (2015 – 21%)	(119,076)	(194,087)
Effects of:		
Expenses not deductible for tax purposes	8,447	50,087
Changes in deferred tax not recognised	110,629	239,580
Total tax for the year (note 8(a))	–	95,580

(c) Unrecognised deferred tax assets

Deferred tax assets not recognised in the financial statements comprise:

	2016	2015
	£	£
Short-term timing differences	(9,456)	(4,897)
Timing differences on net compensation expenses	(100,575)	(39,202)
Fixed asset timing differences	106,638	568,142
Timing differences on the fair value of forward foreign exchange contracts	(23,765)	(26,772)
Trading losses	(668,256)	(1,125,116)
	(695,414)	(627,845)

The directors do not expect any material reversal of any deferred tax balance within the next 12 months.

Notes to the financial statements

at 31 March 2016

8. Tax (continued)

(d) Factors affecting future tax charges

During the period reductions to the rate of UK corporation tax to 19% (effective 1 April 2017) and 18% (effective 1 April 2020) were enacted. The company's deferred tax balances are all unprovided but have been disclosed at the enacted rates at which it is currently estimated that they will reverse.

In 2016 the UK government proposed a further reduction to the rate of corporation tax to 17%, effective 1 April 2020. This reduction has not yet been substantively enacted and therefore does not impact the disclosed unprovided deferred tax assets and liabilities in the Financial Statements.

9. Intangible fixed assets

	<i>Purchased goodwill</i>	<i>Product licences</i>	<i>Total</i>
	£	£	£
Cost:			
At 1 April 2015	1,593,975	473,652	2,067,627
Additions	—	46,854	46,854
At 31 March 2016	1,593,975	520,506	2,114,481
Amortisation:			
At 1 April 2015	597,475	162,562	760,037
Charge for the year	79,699	49,192	128,891
At 31 March 2016	677,174	211,754	888,928
Net book value:			
At 31 March 2016	916,801	308,752	1,225,553
At 1 April 2015	996,500	311,090	1,307,590

Purchased goodwill is being amortised over the directors' estimate of its useful economic life of 20 years. Product licensing costs are being amortised over the directors' estimate of its useful economic life of 10 years.

Notes to the financial statements

at 31 March 2016

10. Tangible fixed assets

	<i>Land and buildings improvements</i>	<i>Plant and machinery</i>	<i>Master cell banks</i>	<i>Total</i>
	£	£	£	£
Cost:				
At 1 April 2015	797,387	13,441,433	103,788	14,342,608
Additions	1,253,875	4,200,890	714	5,455,479
Disposals	–	(18,192)	–	(18,192)
Transfer to group undertaking	–	(14,313,278)	–	(14,313,278)
At 31 March 2016	2,051,262	3,310,853	104,502	5,466,617
Depreciation:				
At 1 April 2015	150,228	1,474,742	–	1,624,970
Provided during the year	117,694	342,422	–	460,116
At 31 March 2016	267,922	1,817,164	–	2,085,086
Net book value:				
At 31 March 2016	1,783,340	1,493,689	104,502	3,381,531
At 1 April 2015	647,159	11,966,691	103,788	12,717,638

The Company has provided a bond and floating charge over all its assets as security for the bank borrowings by Quotient Biodiagnostics Inc, a fellow subsidiary company of Quotient Limited.

Plant and machinery at 31 March 2016 includes £nil (2015 – £10,449,851) of payments on account related to equipment being developed for use at the MosaiQ™ consumable manufacturing facility in Switzerland. These assets were transferred to Quotient Suisse SA, a member of the Quotient group, during the year.

The cost of master cell banks represents the historical cost of acquiring and maintaining the master cell banks, less cell banks used in production, plus new cell banks produced and moved to storage.

Included in the above are assets held under finance leases or hire purchase contracts as follows:

	<i>Plant and machinery</i>	
	<i>2016</i>	<i>2015</i>
	£	£
Net book values	257,051	402,900
Depreciation charge	110,125	110,125

Notes to the financial statements

at 31 March 2016

11. Stocks

	2016 £	2015 £
Raw materials	1,198,528	738,486
Work in progress	1,477,898	1,355,874
Finished goods and goods for resale	1,120,687	687,254
	<u>3,797,113</u>	<u>2,781,614</u>

The difference between the purchase price or production cost of stock and their replacement cost is not material.

During the year £6,316,174 (2015 – £6,041,193) of inventory at standard cost plus positive and negative variances was recognised as an expense.

12. Debtors

	2016 £	2015 £
Trade debtors	1,181,373	875,577
Amounts owed by group undertakings	818,181	–
Prepayments and accrued income	703,549	1,238,866
Other taxes	108,000	168,741
	<u>2,811,103</u>	<u>2,283,184</u>

13. Creditors: amounts falling due within one year

	2016 £	2015 £
Net obligations under finance leases and hire purchase contracts	96,747	154,764
Trade creditors	1,142,869	2,338,492
Other taxes and social security costs	253,183	203,248
Fair value of foreign exchange forward contracts	132,025	133,858
Amounts owed to group undertakings	–	9,220,789
Accruals and deferred income	3,791,219	2,388,439
	<u>5,416,043</u>	<u>14,439,590</u>

Notes to the financial statements

at 31 March 2016

14. Creditors: amounts falling due after more than one year

	2016 £	2015 £
Net obligations under finance leases and hire purchase contracts	206,322	162,632
	<u>206,322</u>	<u>162,632</u>

The Company acquires certain assets via hire purchase contracts. The assets are secured by these contracts which have similar conditions. They are repayable over three to five years, payable monthly and have lessee only purchase options.

Obligations under finance leases and hire purchase contracts, included above, are payable as follows:

	2016 £	2015 £
Within one year	96,747	154,764
In one to five years	206,322	162,632
	<u>303,069</u>	<u>317,396</u>
Included in liabilities falling due within one year	(96,747)	(154,764)
	<u>206,322</u>	<u>162,632</u>

15. Allotted and issued share capital

	No.	2016 £	No.	2015 £
<i>Allotted, called up and fully paid</i>				
Ordinary shares of "A" £0.0001 each	2,130,412	213	2,130,412	213
Ordinary shares of "B" £0.0001 each	6,674,264	667	5,274,264	527
		<u>880</u>		<u>740</u>

The A Ordinary £0.0001 and B Ordinary £0.0001 shares rank pari passu in all respects.

On 30 March 2016 the Company issued 1,400,000 B Ordinary shares with aggregate nominal value of £140 to its parent company, Quotient Limited, at £10 each in settlement of intra group loans.

16. Reserves

Share premium

This reserve records the amount above the nominal value received for shares sold, less transaction costs.

Cash flow hedge reserve

This reserve records the fair value of foreign exchange forward contracts.

Profit and loss account

This reserve records the cumulative profits and losses of the Company.

Notes to the financial statements

at 31 March 2016

17. Contingent liabilities

The Company was awarded grant funding of £1.8 million from Scottish Enterprise under the "R & D Plus" scheme in April 2008, all of which has been claimed prior to this financial year. The grant was claimable over 5 years as qualifying research and development progressed. The grant award includes a provision for full repayment of grant monies claimed in certain circumstances. The directors do not consider that any repayment is likely.

18. Pension

The Company operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the Company in an independently administered fund. The pension cost represents contributions payable by the Company to the fund during the year.

	2016	2015
	£	£
Contributions payable for the year	350,797	284,558
Contributions payable to the fund at the year end and included in creditors	<u>(52,534)</u>	<u>(42,724)</u>

19. Security for borrowings

The Company had granted a fixed and floating charge over its assets as security for the bank debt of Quotient Biodiagnostics Inc., a fellow member of the Quotient Limited group. On 14 October 2016 this facility was fully repaid and the Company was released from this charge. On the same date, the Company granted a fixed and floating charge over its assets and undertakings as security for the issue of the Notes issued by Quotient Limited, its parent company (see Note 1 above).

The Company has granted a standard security over certain assets to Lombard in connection with finance leases.

20. Other financial commitments

At 31 March 2016 the Company had total future minimum lease payments under non-cancellable operating leases as set out below:

	2016	2015
	£	£
Not later than one year	558,194	467,519
Later than one year and not later than five years	506,006	353,267
Later than five years	—	—
	<u>1,064,200</u>	<u>820,786</u>

The Company's operating lease arrangements do not include contingent rents, purchase options, escalations, significant restrictions or contain sub leases.

The Company has entered into a forward foreign currency arrangement to hedge the foreign currency risk on sales income arising in US dollars whereas the majority of its costs are in pound Sterling. The arrangement comprises a series of nine contracts, maturing each month of the first three quarters of the year ending 31 March 2017, each contract to sell \$500,000 US dollars and purchase pounds Sterling at a rate of £1:\$1.5000.

Notes to the financial statements

at 31 March 2016

21. Ultimate parent undertaking and controlling party

The immediate parent undertaking of the company is Quotient Limited which is incorporated in Jersey, with registered number 109886. The registered office of Quotient Limited is PO Box 1075, Elizabeth House, 9 Castle Street, St Helier, Jersey, JE4 2QP. Quotient Limited is the parent company for both the largest and smallest group for which group accounts are prepared and can be accessed on the group's website at www.quotientbd.com.

The directors do not consider there to be any, one controlling party of Quotient Limited.

22. Capital commitments

At 31 March 2016 the Company had £nil (2015 – £nil) material capital commitments.

23. Notes to the statement of cash flows

	2016	2015
	£	£
Loss for the year	(595,380)	(1,019,806)
Adjustments to reconcile loss for the year to net cash flow from operating activities		
Taxation charge	–	95,580
Interest payable and similar charges	28,092	25,523
Interest receivable and similar income	(3,489)	(236)
Depreciation on tangible fixed assets	460,116	424,557
Amortisation of intangible fixed assets	128,891	122,140
Share based payment	419,317	380,104
Increase in inventories	(1,015,499)	(301,959)
Decrease/(increase) in debtors	229,521	(705,731)
Increase in creditors	317,833	1,200,295
	<u>564,782</u>	<u>1,240,273</u>
Net cash (outflow)/inflow from operating activities	<u>(30,598)</u>	<u>220,467</u>

Notes to the financial statements

at 31 March 2016

24. Transition to FRS 102

The Company transitioned to FRS 102 from previously extant UK GAAP as at 1 April 2014. In transitioning to FRS 102 the Company has availed of the optional exemptions to retrospective application allowed by Section 35 of FRS 102 not to apply Section 19 to business combinations that were effected before the date of transition to FRS 102.

The impact from the transition to FRS 102 is as follows:

<i>Reconciliations at 1 April 2014</i>	<i>Cash flow hedge reserve £</i>	<i>Equity shareholders funds £</i>
Balances under previous UK GAAP	–	5,961,819
Foreign currency hedge contracts	56,199	56,199
Balances under FRS 102	<u>56,199</u>	<u>6,018,018</u>

<i>Reconciliations at 31 March 2015</i>	<i>Cash flow hedge reserve £</i>	<i>Equity shareholders funds £</i>
Balances under previous UK GAAP	–	4,942,013
Foreign currency hedge contracts	(133,858)	(133,858)
Balances under FRS 102	<u>(133,858)</u>	<u>4,808,155</u>

Foreign currency hedge contracts

Under previous UK GAAP foreign currency hedge contract gains or losses were recognised in the income statement as they mature. Under FRS 102 the Company is required to capitalise the unrealised gains or losses as at the statement of financial position date. The impact at 31 March 2014 was a gain of £56,199, at 31 March 2015 a loss of £133,858 and at 31 March 2016 a loss of £132,025.

Amounts owed to group undertakings

At 31 March 2015 amounts owed to a fellow group undertaking of £9,220,789 (1 April 2014 - £nil), were incorrectly classified as due in more than one year. These amounts have been correctly reclassified to creditors falling due within one year within the comparative balance sheet at 31 March 2015. There was no impact on net assets or the income statement.