

# **Alba Bioscience Limited**

## **Report and Financial Statements**

For the year ended 31 March 2018

SC310584

THURSDAY



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20/09/2018 #269  
COMPANIES HOUSE

**Directors**

J A Stackawitz  
R W Boyd

**Secretary**

R W Boyd

**Auditors**

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

**Registered Office**

The Allan-Robb Campus  
5 James Hamilton Way  
Milton Bridge  
Penicuik  
EH26 0BF

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 2018.

### Results and dividends

The results for the year are set out on page 11. The Company’s turnover for the year ending 31 March 2018 was £15,996,223 (2017 – £15,217,495). The Company’s loss after tax for the year was £781,742 (2017 – profit £683,155).

### 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 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. At 31 March 2018, 55 (2017 – 51) products have been licensed by Alba Bioscience for sale in the U.S. by the United States Food and Drug Administration (“FDA”). These products are either sold directly to customers in the USA by an affiliate of the Company or sold by other transfusion diagnostics companies (“OEM customers”).

The Company continues to grow its business developing and manufacturing transfusion diagnostic products for OEM customers. Sales to OEM customers have continued to grow in the past twelve months, allowing the Company to discontinue the manufacture of lower-margin products or withdraw from lower-margin geographic regions.

Alba Bioscience continues to work with its affiliates on the development of a next-generation automation platform initially targeted at the global transfusion diagnostics market place (the “MosaiQ™ Project”). Funding for this project is provided by a combination of financing from Group companies.

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

The Company is a wholly-owned subsidiary of Quotient Limited (“Quotient”). Quotient and its subsidiaries (the “Group”) are a global group focused on the development, manufacture and commercialisation of transfusion diagnostics products.

## 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>2018</i>	<i>2017</i>	<i>Movement</i>
Product revenue	£15,528,897	£13,582,054	14.3%
Product gross profit percentage	<u>41.9%</u>	<u>37.3%</u>	

Product revenue increased due to better pricing and increased sales to existing OEM customers and the impact of recently launched new products. Product gross profit increased from 2017 to 2018 due to higher throughput and reduced waste in the year. Product revenue and product gross profit exclude milestone revenue arising from OEM customer development programmes.

<i>Other revenue:</i>	<i>2018</i>	<i>2017</i>	<i>Movement</i>
OEM customer development revenue	<u>£ 467,326</u>	<u>£1,635,441</u>	<u>(71.4)%</u>

Other revenue represents milestone revenue achieved on the company's product development projects for its OEM customers and is in line with the expected lifecycle of the projects under contract. This reduction in milestone revenue has had an impact on the profitability of the Company.

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 was entitled to receive milestone payments relating to project progress. In the year ended 31 March 2018 the Company received one payment of £467,326 (2017 - £1,635,441) pursuant to this development agreement.

<i>Operating (loss)/profit:</i>	<i>2018</i>	<i>2017</i>	<i>Movement</i>
Operating (loss)/profit	<u>(705,208)</u>	<u>699,625</u>	<u>(200.8)%</u>

The reduction in development revenue mentioned above was the main driver in the move from an Operating profit in 2017 to a loss in 2018.

### *Statement of financial position:*

The Statement of Financial Position as at 31 March 2018 sets out the financial position of Alba Bioscience and reflects net assets of £18,286,035 (2017 – £18,827,610) and cash at bank of £9,921,604 (2017 – £817,552).

Cash balances increased during the year as a result of the transfer of funds from other group companies. Tangible fixed assets have also increased significantly reflecting the fit-out of our new reagent manufacturing facility. As a consequence of both of these factors the Company's net group intercompany account moving from a debtor to creditor balance.

### Research and development

Expenditure on research and development during the year to 31 March 2018 amounted to £7,451,703 (2017 – £12,348,920). The reduction in spend was due to the project moving towards completion.

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 are expected to decline in the coming years; and
- Development of the MosaiQ™ project for the global transfusion diagnostics market.

## 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.

#### Overseas trading risk

As a result of the 23 June 2016 “Brexit” referendum, the United Kingdom government has begun negotiating the terms of the United Kingdom’s exit from and future relationship with the European Union. Although it is unknown what those terms will be, it is possible that there will be greater restrictions on imports and exports between the United Kingdom and European Union countries and increased regulatory complexities. Currently we do not foresee any significant issues, but the risk remains that future changes may adversely affect our operations and financial results.

#### 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 fixed 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 most 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 financial statements 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



R W Boyd  
Director  
5 September 2018

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 2018.

### Directors

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

J C Allan	(resigned 24 August 2017)
D J P E Cowan	(retired 21 March 2018)
J A Stackawitz	
R W Boyd	(appointed 29 March 2018)

### 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 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 "Key performance indicators" 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 did not issue any share capital (2017 – nil).

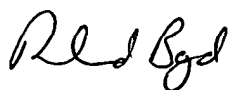
### Political donations

The Company made no political donations in the year (2017 – 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



R W Boyd  
Director  
5 September 2018

## **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 year. 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**

## **Opinion**

We have audited the financial statements of Alba Bioscience Limited for the year ended 31 March 2018 which comprise the Income Statement, the Statement of Comprehensive Income, the Statement of Changes in Equity, the Statement of Financial Position and the related notes 1 to 22, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the Company's affairs as at 31 March 2018 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

## **Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## **Material uncertainty related to going concern**

We draw attention to note 1 in the financial statements, which indicates that at 31 March 2018 the Company had net current liabilities of £2,767,796 after excluding non-current debtors, including £18,489,467 (2017 - £nil) owed to fellow group undertakings, and that the Company's shares and assets have been pledged as security to the holders of \$120 million of senior secured notes issued by the Company's parent undertaking, in respect of which substantial doubt exists over the ability of that parent undertaking to continue as a going concern. As stated in note 1, these events or conditions, along with other matters as set forth in note 1, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

# **Independent auditors' report**

**to the members of Alba Bioscience Limited**

## **Other information**

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

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

We have nothing to report in this regard.

## **Opinion on other matters prescribed by the Companies Act 2006**

In our opinion, based on the work undertaken in the course of the audit:

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

## **Matters on which we are required to report by exception**

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

We have nothing to report in respect of the following matters in relation to which 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.

# **Independent auditors' report**

**to the members of Alba Bioscience Limited**

## **Responsibilities of directors**

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, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

## **Auditor's responsibilities for the audit of the financial statements**

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

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

## **Use of our report**

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

*Ernst & Young LLP*

Michael Christie (Senior Statutory Auditor)  
For and on behalf of Ernst & Young LLP, Statutory Auditor  
Belfast  
5 September 2018

## Income statement

for the year ended 31 March 2018

		2018	2017
	Notes	£	£
<b>Turnover</b>	2	15,996,223	15,217,495
Cost of sales		<u>(9,025,055)</u>	<u>(8,515,500)</u>
<b>Gross profit</b>		6,971,168	6,701,995
Selling and distribution costs		(757,797)	(758,892)
Administrative expenses		(14,246,348)	(17,288,699)
Loss on disposal of tangible fixed assets		(13,120)	-
Other operating income		<u>7,340,889</u>	<u>12,045,221</u>
<b>Operating (loss)/profit</b>	3	(705,208)	699,625
Interest receivable and similar income	6	192	4,928
Interest payable and similar expenses	7	<u>(76,726)</u>	<u>(21,398)</u>
<b>(Loss)/profit before taxation</b>		(781,742)	683,155
Tax	8	-	-
<b>(Loss)/profit for the financial year</b>		<u><u>(781,742)</u></u>	<u><u>683,155</u></u>

All amounts relate to continuing activities.

## Statement of comprehensive income

for the year ended 31 March 2018

	2018	2017
	£	£
<b>(Loss)/profit for the financial year</b>	<u>(781,742)</u>	<u>683,155</u>
Net gains on cash flow hedges	172,249	427,803
Net gains/(losses) on cash flow hedges recognised in the income statement	<u>67,918</u>	<u>(497,956)</u>
Total other comprehensive income/(loss)	<u>240,167</u>	<u>(70,153)</u>
<b>Total comprehensive (loss)/income for the year</b>	<u><u>(541,575)</u></u>	<u><u>613,002</u></u>

## Statement of changes in equity

for the year ended 31 March 2018

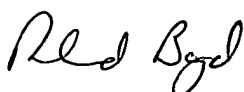
	<i>Called up share capital</i>	<i>Share premium</i>	<i>Cash flow hedge reserve</i>	<i>Profit and loss account</i>	<i>Total equity</i>
	£	£	£	£	£
At 31 March 2016	880	21,403,827	(132,025)	(3,058,074)	18,214,608
Income for the year	-	-	-	683,155	683,155
Other comprehensive loss	-	-	(70,153)	-	(70,153)
Total comprehensive income for the year	-	-	(70,153)	683,155	613,002
Share based payments transactions	-	-	-	589,317	589,317
Share based payments recharge from parent undertaking	-	-	-	(589,317)	(589,317)
At 31 March 2017	880	21,403,827	(202,178)	(2,374,919)	18,827,610
Loss for the year	-	-	-	(781,742)	(781,742)
Other comprehensive income	-	-	240,167	-	240,167
Total comprehensive loss for the year	-	-	240,167	(781,742)	(541,575)
Share based payments transactions	-	-	-	462,106	462,106
Share based payments recharge from parent undertaking	-	-	-	(462,106)	(462,106)
At 31 March 2018	880	21,403,827	37,988	(3,156,661)	18,286,034

# Statement of financial position

at 31 March 2018

	Notes	2018 £	2017 £
<b>Fixed assets</b>			
Intangible assets	9	1,111,371	1,144,391
Tangible assets	10	<u>17,334,327</u>	<u>2,051,739</u>
		<u>18,445,698</u>	<u>3,196,130</u>
<b>Current assets</b>			
Stocks	11	3,793,198	3,454,941
Debtors:			
amounts falling due within one year	12	5,607,304	18,464,153
amounts falling due after one year	12	3,600,000	-
Cash at bank and in hand		<u>9,921,604</u>	<u>817,552</u>
		<u>22,922,106</u>	<u>22,736,646</u>
<b>Creditors:</b> amounts falling due within one year	13	<u>(22,066,937)</u>	<u>(6,970,483)</u>
<b>Net current assets</b>		<u>855,169</u>	<u>15,766,163</u>
<b>Total assets less current liabilities</b>		<u>19,300,867</u>	<u>18,962,293</u>
<b>Creditors:</b> amounts falling due after more than one year	14	<u>(1,014,832)</u>	<u>(134,683)</u>
<b>Net assets</b>		<u>18,286,035</u>	<u>18,827,610</u>
<b>Capital and reserves</b>			
Called up share capital	15	880	880
Share premium		21,403,827	21,403,827
Cash flow hedge reserve		37,989	(202,178)
Profit and loss account		<u>(3,156,661)</u>	<u>(2,374,919)</u>
<b>Shareholders' funds</b>		<u>18,286,035</u>	<u>18,827,610</u>

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



R W Boyd  
Director  
5 September 2018

## Notes to the financial statements

at 31 March 2018

### 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 The Allan-Robb Campus, 5 James Hamilton Way, Milton Bridge, Penicuik, EH26 0BF.

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 2018. 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 22. 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; and,
- (d) The requirements of Section 7 Statement of Cash Flows and Section 3 Financial – Statement Presentation paragraph 3.17(d) to prepare a statement of cash flows.

#### **Basis of preparation**

The financial statements were authorised for issue by the Board of Directors on 5 September 2018.

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. At 31 March 2018 the Company's current liabilities exceeded its current assets by £2,744,831 (2017 – net current assets of £15,766,163). Included within the Company's current liabilities at 31 March 2018 is £18,489,467 (2017 - £nil) owed to fellow group undertakings. The Company expects to fund its operations in the near term from a combination of funding sources, including financial support from Quotient that, inter alia, comprises not demanding repayment of amounts owed by the Company to fellow group undertakings. Further, the Company has experienced an increase in product revenue during the latest financial year and the directors expect this to continue. The Company, before discretionary investment in research & development, is profitable, well-funded and has long-term relationships and contracts with several customers and suppliers across different geographic areas. Consequently, the directors believe that the Company is well placed to manage its business risks successfully.

The Company is a wholly owned subsidiary of Quotient.

On 14 October 2016 Quotient completed a 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, with a further \$36 million issued on 29 June 2018. Pursuant to the terms of collateral agreements entered into by Quotient and its subsidiaries, holders of the Notes have been granted a fixed charge over the shares of the Company held by Quotient. In addition, Quotient'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.

## Notes to the financial statements

at 31 March 2018

### 1. Accounting policies (continued)

#### *Basis of preparation (continued)*

Quotient and its subsidiaries (the "Group") have incurred net losses and negative cash flows from operations in each year since it commenced operations in 2007 and had an accumulated deficit of \$275.6 million as of 31 March 2018. At 31 March 2018, the Group had available cash holdings and short-term investments of \$25.5 million. In addition, the issue on 29 June 2018 of \$36 million of notes and the receipt of \$48.8 million in respect of the exercise before 31 July 2018 of warrants issued by Quotient in October 2017 has generated additional available finance. The Group has expenditure plans over the next twelve months that exceed its current available cash and short-term investment balances, raising substantial doubt about its ability to continue as a going concern. The Group expects to fund its operations in the near-term, including the ongoing development of MosaiQ™ through successful field trial completion, achievement of required regulatory authorisations and commercialisation from a combination of funding sources. These expected funding sources include the use of existing available cash and short-term investment balances, and the issuance of new equity or debt.

There can be no assurance however that the Group will be able to obtain adequate further financing when necessary. In the event that the Group is not able to obtain further finance when necessary the holders of the Notes may exercise their rights under the terms of the collateral agreements resulting in a material uncertainty which casts significant doubt over the Company's ability to continue as a going concern for the foreseeable future.

The directors of Quotient and the Company are confident in the availability of these funding sources and believe that it is unlikely that the holders of the Notes will 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. In the course of preparing the Company's financial statements no judgements have been made in the process of applying the Company's accounting policies, other than in respect of those involving estimates as set out below. The directors consider that the following estimates and judgements are likely to have 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.

## Notes to the financial statements

at 31 March 2018

### 1. Accounting policies (continued)

#### *Basis of preparation (continued)*

#### *Goodwill and intangible assets (continued)*

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.

#### *Deferred tax assets*

Management judgement is required to estimate the amount of deferred tax assets that can be recognised, based upon likely timing and level of future taxable profits together with an assessment of the effect of future tax planning strategies. Further details are contained in note 8.

#### *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.

#### *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 and 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.

## Notes to the financial statements

at 31 March 2018

### 1. Accounting policies (continued)

#### ***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.

#### ***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.

#### ***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 2018

### 1. Accounting policies (continued)

#### *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.

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 hedged 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.

## Notes to the financial statements

at 31 March 2018

### 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:

	2018	2017
	£	£
United Kingdom	553,142	500,824
Rest of Europe	6,151,753	5,339,488
North America	6,356,913	6,444,177
Rest of world	2,934,415	2,933,006
	<u>15,996,223</u>	<u>15,217,495</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)/profit

This is stated after charging/(crediting):	2018	2017
	£	£
Auditors' remuneration:		
– audit services	55,932	37,745
– taxation compliance	4,791	2,469
Depreciation of tangible fixed assets:		
– owned by the Company	437,255	426,714
– held under finance leases	107,450	68,220
Amortisation of intangible fixed assets (within Administrative expenses)	<u>140,236</u>	<u>134,760</u>
Operating lease rentals:		
– plant and machinery	235,580	178,730
– other operating leases	632,581	549,230
Foreign exchange losses/(gains)	239,040	(504,405)
Share based payments charge	462,106	589,317
Research and development expenditure	<u>7,451,703</u>	<u>12,348,920</u>
Revenue grants receivable	-	(4,308)
Research and development tax credits receivable:		
– current year	(208,360)	(284,682)
– prior year	(1,612)	(56,257)
Services recharged to group companies	<u>(7,130,917)</u>	<u>(11,699,974)</u>

## Notes to the financial statements

at 31 March 2018

### 4. Directors' remuneration

	2018	2017
	£	£
Aggregate remuneration in respect of qualifying services	292,358	407,645
Aggregate pension contributions to money purchase schemes	11,618	9,951
	<u>303,976</u>	<u>417,596</u>

Included in the above figures is £186,991 (2017 - £232,281) in respect of the highest paid director.

The above amounts do not include sums of £792,481 (2017 - £1,001,922) 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

	2018	2017
	£	£
Wages and salaries	9,854,519	7,832,761
Social security costs	841,324	710,865
Other pension costs	441,263	360,089
	<u>11,137,106</u>	<u>8,903,715</u>

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

	2018	2017
	No.	No.
Production, commissioning and validation	141	108
Sales and distribution	15	15
Research and development	82	87
Management and administration	20	21
	<u>258</u>	<u>231</u>

### 6. Interest receivable and similar income

	2018	2017
	£	£
Bank interest	192	4,928
	<u>192</u>	<u>4,928</u>

### 7. Interest payable and similar expenses

	2018	2017
	£	£
Finance leases	76,726	21,398
	<u>76,726</u>	<u>21,398</u>

## Notes to the financial statements

at 31 March 2018

### 8. Tax

#### (a) Tax on loss

The tax (credit)/charge is comprised as follows:

	2018	2017
	£	£
<b>Current tax:</b>		
UK corporation tax on the (loss)/profit for the year	-	-
UK corporation tax on research and development tax credits:		
- Current year	-	-
- Prior year	-	-
Total current tax (note 8(b))	-	-
<b>Deferred tax:</b>		
Origination and reversal of timing differences	-	-
Tax on (loss)/profit	-	-

#### (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 19% (2017–20%).

The differences are explained below:

	2018	2017
	£	£
(Loss)/profit before tax	(781,742)	683,155
(Loss)/profit multiplied by standard rate of corporation tax in the UK of 19% (2017 – 20%)	(148,531)	136,631
<i>Effects of:</i>		
Expenses not deductible for tax purposes	11,156	(4,568)
Changes in deferred tax not recognised	137,375	(132,063)
Total tax for the year (note 8(a))	-	-

Deferred tax assets not recognised in the financial statements comprise:

	2018	2017
	£	£
Short-term timing differences	(11,981)	(11,432)
Timing differences on net compensation expenses	(171,157)	(167,466)
Fixed asset timing differences	207,651	142,131
Timing differences on the fair value of forward foreign exchange contracts	7,218	(38,414)
Trading losses	(499,024)	(443,598)
	(467,293)	(518,779)

The directors consider, given the Company's recent and likely future financial performance, that no deferred tax asset should be recognised.

#### (c) Factors affecting future tax charges

Reductions to the rate of UK corporation tax to 19% (effective 1 April 2017) and 17% (effective 1 April 2020) have been enacted. The company's deferred tax balances recognised or disclosed above have been measured at the enacted rates at which it is currently estimated that they will reverse.

## Notes to the financial statements

at 31 March 2018

### 9. Intangible fixed assets

	<i>Purchased goodwill</i>	<i>Product licences</i>	<i>Total</i>
	£	£	£
<b>Cost:</b>			
At 1 April 2017	1,593,975	574,104	2,168,079
Additions	-	107,216	107,216
At 31 March 2018	<u>1,593,975</u>	<u>681,320</u>	<u>2,275,295</u>
<b>Amortisation:</b>			
At 1 April 2017	756,873	266,815	1,023,688
Charge for the year	79,699	60,537	140,236
At 31 March 2018	<u>836,572</u>	<u>327,352</u>	<u>1,163,924</u>
<b>Net book value:</b>			
At 31 March 2018	<u>757,403</u>	<u>353,968</u>	<u>1,111,371</u>
At 1 April 2017	<u>837,102</u>	<u>307,289</u>	<u>1,144,391</u>

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 2018

### 10. Tangible fixed assets

	<i>Land and buildings and tenants improvements</i>	<i>Plant and machinery</i>	<i>Motor vehicles</i>	<i>Master cell banks</i>	<i>Total</i>
	£	£	£	£	£
<b>Cost:</b>					
At 1 April 2017	545,441	3,971,345	-	100,506	4,617,292
Additions	405,481	2,600,423	15,920	30	3,021,854
Disposals	-	(44,834)	-	(249)	(45,083)
Transfer from group undertaking	12,818,808	-	-	-	12,818,808
At 31 March 2018	<u>13,769,730</u>	<u>6,526,934</u>	<u>15,920</u>	<u>100,287</u>	<u>20,412,871</u>
<b>Depreciation:</b>					
At 1 April 2017	374,253	2,191,300	-	-	2,565,553
Provided during the year	94,215	448,721	1,769	-	544,705
Disposals	-	(31,714)	-	-	(31,714)
At 31 March 2018	<u>468,468</u>	<u>2,608,307</u>	<u>1,769</u>	<u>-</u>	<u>3,078,544</u>
<b>Net book value:</b>					
At 31 March 2018	<u>13,301,262</u>	<u>3,918,627</u>	<u>14,151</u>	<u>100,287</u>	<u>17,334,327</u>
At 1 April 2017	<u>171,188</u>	<u>1,780,045</u>	<u>-</u>	<u>100,506</u>	<u>2,051,739</u>

During the year the Company occupied its new reagent manufacturing facility at the Allan-Rob Campus, which was constructed by a fellow subsidiary undertaking Quotient Biocampus Limited. In March 2018 Quotient Biocampus Limited transferred those items of plant and equipment related to the fit-out of the building to the Company and sold the shell and core of the building to a third party as part of a sale and lease back transaction, with the Company being the lessee. The directors have assessed that this lease should be classified as an operating lease. The lease obligations in respect of this lease are contained within the disclosures in note 20. Further, as part of the lease the company was required to provide a rental deposit of £3,600,000 which is included within other debtors due after more than one year (see note 12).

The Company has provided a fixed and floating charge over all its assets as security for the Notes issued by Quotient.

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 2018</i>	<i>Plant and machinery 2017</i>
	£	£
Net book values	<u>2,006,229</u>	<u>286,954</u>
Depreciation charge	<u>107,450</u>	<u>69,853</u>

Security has been granted over assets subject to hire purchase arrangements.

## Notes to the financial statements

at 31 March 2018

### 11. Stocks

	2018	2017
	£	£
Raw materials	1,030,013	1,057,147
Work in progress	1,926,234	1,491,695
Finished goods and goods for resale	836,951	906,099
	<u>3,793,198</u>	<u>3,454,941</u>

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

During the year £9,025,055 (2017 – £8,515,500) of inventory at standard cost plus positive and negative variances was recognised as an expense.

### 12. Debtors

	2018	2017
	£	£
Amounts falling due within one year:		
Trade debtors	1,538,177	1,436,380
Amounts owed by group undertakings	-	15,951,063
Prepayments and accrued income	1,185,069	929,139
Fair value of foreign exchange forward contracts	83,918	-
Other taxes	2,800,140	147,571
	<u>5,607,304</u>	<u>18,464,153</u>

	2018	2017
	£	£
Amounts falling due after one year:		
Other debtors	3,600,000	-
	<u>3,600,000</u>	<u>-</u>

Other debtors falling due after one year represent a rental deposit (see note 10).

### 13. Creditors: amounts falling due within one year

	2018	2017
	£	£
Trade creditors	1,433,769	1,560,352
Amounts owed to group undertakings	18,489,467	-
Other taxes and social security costs	314,384	286,756
Fair value of foreign exchange forward contracts	45,929	202,178
Accruals and deferred income	1,420,576	4,849,557
Net obligations under finance leases and hire purchase contracts	362,812	71,640
	<u>22,066,937</u>	<u>6,970,483</u>

## Notes to the financial statements

at 31 March 2018

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

	2018	2017
	£	£
Net obligations under finance leases and hire purchase contracts	1,014,832	134,683
	<u>1,014,832</u>	<u>134,683</u>

The Company has entered into finance leases or hire purchase arrangements to acquire certain fixed assets. Capital repayments due under finance leases have been capitalised. Security has been granted over assets subject to hire purchase arrangements. The finance leases and hire purchase arrangements are repayable over three to five years, payable monthly and, as appropriate, have lessee only purchase options.

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

	2018	2017
	£	£
Within one year	362,812	71,640
In one to five years	<u>1,014,832</u>	<u>134,683</u>
	1,377,644	206,323
Included in liabilities falling due within one year	<u>(362,812)</u>	<u>(71,640)</u>
	<u>1,014,832</u>	<u>134,683</u>

### 15. Allotted and issued share capital

	2018	2018	2017	2017
	No.	£	No.	£
<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	<u>667</u>	6,674,264	<u>667</u>
		<u>880</u>		<u>880</u>

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

### 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.

### 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.

## Notes to the financial statements

at 31 March 2018

### 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 paid or accrued by the Company during the year.

	2018	2017
	£	£
Contributions payable for the year	441,263	360,089
Contributions payable to the fund at the year end and included in creditors	<u>(63,057)</u>	<u>(60,356)</u>

### 19. Security for borrowings

On 14 October 2016 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 also granted security over certain assets to the providers of finance leases.

### 20. Other financial commitments

At 31 March 2018 the Company had total future minimum lease payments under non-cancellable operating leases as set out below:

	2018	2017
	£	£
Not later than one year	1,345,070	405,596
Later than one year and not later than five years	5,248,527	228,849
Later than five years	<u>56,320,080</u>	<u>-</u>
	<u>62,913,678</u>	<u>634,445</u>

During the year the Company entered into a 35-year lease to occupy the Allan-Robb Campus (see note 10).

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. The arrangement comprises a series of contracts, each contract to sell U.S. dollars and purchase pounds Sterling at exchange rates between £1:\$1.2990 and £1:\$1.4315.

### 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 28 Esplanade, St Helier, Jersey, JE2 3QA, Channel Islands. 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](http://www.quotientbd.com).

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

### 22. Capital commitments

At 31 March 2018 the Company had £nil (2017 – £nil) capital commitments.