CYPROTEX DISCOVERY LIMITED

Report and Financial Statements

For the year ended 31 December 2019

Registered number : 04184635

Registered No. 4184635

DIRECTORS
Enno Spillner
Lloyd Payne
Robert Riley
Craig Johnstone

SECRETARY
Ranjeet Sagoo

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AUDITOR
Ernst & Young LLP
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STRATEGIC REPORT

The directors present their strategic report for the year ended 31 December 2019.

PRINCIPAL ACTIVITY
The principal activity of the company during the financial period has been that of providing *in vitro* and *in silico* ADMET/PK (Absorption, Distribution, Metabolism, Excretion, Toxicity/Pharmacokinetic) information to the Pharmaceutical, Biotechnology, Cosmetics, Personal Care, Agrochemical, Chemical industries and Academia.

Key Trends

Increase In Outsourcing - The Pharmaceutical Industry has been struggling over the past decade with a pronounced decrease in productivity caused by an increase in R&D spending which has not yielded a proportional increase in new drug approvals. Therapeutic innovation is becoming more challenging with a greater risk of late stage failure and increased demands from the regulators has made the process more costly. This lack of productivity has led to a period of consolidation with closures of R&D sites of many of the large companies in the past 5-10 years. By the Pharmaceutical Industry reducing their internal R&D capabilities and in an attempt to focus on their core business, the industry is now observing a growth in outsourcing to Contract Research Organisations ('CROs'). Organisations such as Cyprotex who have developed highly automated and efficient systems and specialise in their field are benefiting from this trend. Despite the growing popularity of outsourcing, in-house ADME-Tox testing still accounts for a significant proportion the industry's total expenditure.

Earlier Screening - Late stage failure of drugs is a major issue for the Pharmaceutical Industry with many instances of attrition only occurring during clinical trials or even post launch. The level of investment expended at this stage is huge and cannot be recovered. Many companies are still reliant on preclinical toxicity testing to identify safety liability which is too late and may not be able to accurately predict clinical toxicity due to species differences in physiology and drug metabolism. Cyprotex is well placed to address this need, and through a continued dedication to R&D, we are now considered to be industry leaders in this rapidly evolving discipline.

New Regulations - New guidelines released by the regulatory authorities are a key driver of Cyprotex's business as well as the market in general. Cyprotex are able to support the full *in vitro* FDA and EMA-compliant drug-drug interaction packages for preclinical and clinical stage studies and have the internal expertise to provide advice in the areas of study design and data interpretation. In response to regular updates by the regulatory authorities, Cyprotex rapidly adapt their protocols and analysis techniques to reflect the most up-to-date guidelines so the studies meet the strict criteria required for regulatory acceptance. To further support the scientific community in this rapidly evolving field, Cyprotex has developed popular educational guides 'Everything you need to know about ADME' and 'DDI regulatory guidance – an easy to follow guide' which are freely available via our website

Addressing Ethical Issues

Toxicity testing in animals is a major ethical issue. In Europe, and several other countries, this has been addressed by a total ban on animal testing for the Cosmetics Industry. Groups such as the European Union Reference Library for alternatives to animal testing (EURL ECVAM) are committed to validating new *in vitro* alternatives to animal testing, and have played a major role in the acceptance of these alternative methods.

Banning preclinical toxicity testing for pharmaceuticals is still some way off due to the greater risks when drugs reach the systemic circulation. However, as the industry develops more sophisticated *in vitro* approaches for identifying liability, it is entirely possible that the Pharmaceutical Industry will, in the future, follow the same track as the Cosmetics Industry.

Predicting the Clinical Situation

Developing more relevant *in vitro* models and building *in silico* models to better correlate with the clinical outcome continues to be a major challenge and focus for the industry. We are seeing a trend for greater acceptance of PBPK (physiologically based pharmacokinetic) and QSAR (quantitative structure activity relationship) modelling techniques by the regulatory authorities.

Right from its inception, Cyprotex's philosophy has been to develop better ways of predicting the human clinical outcome from the *in vitro* data generated. This has been achieved by a combination of:

- Building robust efficient methods – Cyprotex has invested heavily in building a highly automated screening facility which is underpinned by state of the art equipment and an internally developed and sophisticated LIMS (laboratory information management system). A team of software engineers work closely with the scientists to identify opportunities for improving efficiency. By developing these processes, large banks of robust data can be gathered quickly and cost-effectively which is ideal for predictive model building purposes.

- Research and Development (R&D) – Cyprotex strives to keep itself at the forefront of the ADME-Tox field by investing in R&D and developing new improved *in vitro* methodologies which produce more reliable and representative data which can be extrapolated to the *in vivo* situation. Several proprietary technologies have been developed as a direct result of internal R&D efforts. The success of these commercial services highlights the importance of performing new research in the field and being first to market with these technologies.

- Developing *in silico* predictive models – Cyprotex are one of the few contract research organisations to offer both *in vitro* and *in silico* predictive modelling capabilities. We specialise in physiologically based pharmacokinetic (PBPK) modelling approaches which combines the *in vitro* ADME data with anatomical, physiological, biochemical and chemical information to predict the plasma and tissue levels of drugs or chemicals in the body.

Competitive Environment

The ADME market is well established with standardised protocols for many of the key tests. Interpretation and understanding of the data is typically more straightforward. For this reason, competition within the ADME screening arena is high, and only companies which offer significant advantages over the competition can survive. As a consequence, there has been a period of consolidation with several instances of contract research organisations being acquired by larger organisations.

The Western CRO companies are experiencing fierce competition from Asian companies predominantly in India and China. Due to the low wages in these regions, the costs associated with screening are significantly lower than can be offered in the West. This has proved attractive to the Pharmaceutical companies who are under pressure to reduce R&D spending. Although still a considerable threat, there remain a number of concerns to this outsourcing approach which include:

- Quality of data and level of experience
- Protection of intellectual property rights
- Rising costs as the Asian economy develops
- Communication issues
- Time differences

Apart from some of the regulatory assays for genotoxicity and safety pharmacology testing, the *in vitro* toxicology testing market is less well defined and approaches are still being developed for areas such as hepatotoxicity. As such, there is less competition and Cyprotex has been able to lead the way in terms of R&D in this field.

Our Competitive Advantage - Cyprotex has managed to remain ahead of market expectations due to its ability to differentiate itself over the competition by offering the following advantages:

- High Throughput Screening Approaches – Cyprotex has focused heavily on improving efficiency of screening by developing high throughput screening approaches for its main ADME services. Cyprotex can therefore produce very reproducible, robust and cost effective data with a short turnaround.

- Add Value by Extrapolation of Results - Cyprotex is one of the few contract research organisations which offers both screening and *in silico* approaches enabling them to provide a more complete added value service where the results can be extrapolated to the human clinical situation. Our 'Beyond the Data' philosophy is supported by our expert scientists who assist our clients in truly understanding the data and how it relates to translation to the clinic.

- Highly Experienced Team – Cyprotex has an enthusiastic and committed team of highly qualified and experienced scientists, molecular modellers and software engineers who work well together to address customer needs – excellent customer service is a key focus for the company.

- Range of Services – Cyprotex have developed an extensive range of offerings which extend from early stage discovery screening through to late stage studies for drug interactions. Through the acquisition of Cyprotex by Evotec, and subsequent acquisition of Aptuit and Just Biotherapeutics, the Group's portfolio of services has expanded significantly allowing customers to tap into a full range of integrated services and expertise for small and large molecules - spanning from early drug discovery through to IND and beyond.

Pioneering Technology and Processes – Cyprotex has a strong focus on R&D and regularly publish our research findings in peer-reviewed journals. We have developed a number of novel technologies and were the first company to introduce a high throughput microelectrode array service for measuring cardiotoxicity using human iPSC (induced pluripotent stem cell) derived cardiomyocytes. More recently, Cyprotex has joined forces with other research teams within the Evotec Group to focus on expanding its –omics capabilities with a specific focus on transcriptomics and its role in the prediction of drug-induced liver injury.

Our Goal

Our objective is to be the world's foremost ADME-Tox services company. We aim to provide market - leading scientific expertise coupled with a superior service performance in terms of robust data quality, cost efficiency and turnaround times.

Our Business Model

Cyprotex capitalises on the increasing trend of pharmaceutical and biotechnology companies outsourcing ADME-Tox. Our expertise and investments in ADME-Tox technologies allows us to provide a breadth, quality, speed, and cost-effectiveness of service superior to what our customers can achieve on their own. In a constantly changing environment, the company continues to build and diversify its offerings to allow us to address our customers' ADME-Tox requirements. Now part of the Evotec Group, Cyprotex's customers benefit from access to a more complete service offering, right the way from early drug discovery through to IND and beyond. In fact, many of Cyprotex's clients now work with many different areas of the Evotec Group to tap into additional expertise and knowledge in support of their projects.

FINANCIAL REVIEW

Financial overview

It is pleasing to report that the Company's revenues have grown substantially, up 20% over the prior year. It is testament to the hard work and dedication of our staff that we have grown our underlying business to the point of achieving a tenth year of profitability.

Performance

The Company recorded strong growth in 2019, capitalising on previous investments, and further widened and strengthened its customer base. Total revenues for the year were £22.87 million (2018: £19.01 million).

The Company remains cash generative and even with a part repayment of an intercompany loan and significant capital expenditure in the year, it has sufficient available liquid resources with cash balances at 31 December 2019 standing at £5.62 million (2018: £2.59 million). The Company is positioned to fund propriety developments to expand and diversify its offerings, and to actively seek opportunities for growth.

Key Performance Indicators – Financial

The key financial performance indicators used by the Board in 2019 as a measure of the success of the business are as follows:

	2019	2018	Increase/(decrease) over prior year
	£m	£m	£m
Revenue	**22.87**	19.01	3.86
Operating profit	**7.72**	5.99	1.73
Underlying EBITDA	**9.33**	7.24	2.09
Cash	**5.62**	2.59	3.03

Principal Risks and Uncertainties

Management has attempted to minimise its exposure to identified external and internal variables that may have an effect on the operations of the Company. Where possible, measures to monitor and mitigate such risks have been enacted, and processes adopted to formally identify and examine such situations. The nature of the Company's operations nevertheless requires the Board and its investors to assess the principal risks facing its operations and these are considered below.

COVID-19

With regard to the current COVID-19 pandemic outbreak, the company has not experienced any significant financial impact and has maintained business continuity throughout this period. Many business continuity measures have been put in place, including shift operations to reduce density at any given time, regular task force meetings comprising site leadership, increase in stock for critical lines and increased communication with all stakeholders, in particular employees and customers.

The nature of the Company's activities and its varied customer base has meant that the business has seen no fall in demand. This is expected to continue but the possibility of global macro-economic weaknesses persisting could impact some of our customers, which may in turn affect future revenue and profitability of the Company.

Business Evolution
Trading activity is dependent on continuing global investment in new drug discovery and development. Adoption of new practices for such development, or significant regulatory changes by authorities such as the FDA, or the supplanting of molecular compounds by means of electronic simulation or software emulation or prediction, would have a direct impact on likely revenues achieved by the Company.

Economic Activity
In a worldwide economic downturn, marketing and pricing strategies would need to be modified to reflect those new conditions. Investment in drug discovery has the benefit of the fact that personal health and longevity has historically followed longer-term patterns and is made substantially by governments. As such, the business is not over reliant on short-term fluctuations in consumer confidence.

Fixed Overheads
A large proportion of the Company's overheads are fixed. There is a potential risk that if revenues contract, these fixed costs will not be covered. The operating costs of the core operation have only limited scope for reduction without impacting the breadth and quality of services.

Competition
The market in which the Company operates is competitive, highly fragmented, and subject to in-sourcing. Through technological and process innovation and investment, the Company endeavours to offer a breadth and quality of service unsurpassed by its competitors. The Company competes for market share not only with other contract research organisations, but also potential customers' own in-house ADME-Tox departments.

Product Obsolescence
The Company offers highly technological services. Having developed a high degree of expertise and efficiency in delivering these services, management is confident of the Company's ability to remain competitive.

Seasonality
Variations in seasonal demand are driven by the budgeting, holiday, and project-planning cycles of the Company's customer base. Historically, trade is strongest during the final quarter as annual projects complete. Trade slows in the third quarter due to summer holidays, and briefly in the weeks immediately after the New Year. During the slower periods the Company utilises surplus resources for its internal research and product development programmes.

Fluctuations in Commodity Prices
The completion of our services relies on materials that are specific and specialist by nature. The prices of such products are susceptible to fluctuations dependent upon market conditions. To mitigate the impact of such price movements, management has established a number of regular supply arrangements that provide some forward visibility.

Fluctuations in Currency Exchange Rates
A significant sum of the Company's revenue was derived in US dollars and Euros. With the majority of operating costs incurred in Sterling, the Company could be exposed to foreign currency fluctuations. The entity operates as part of a larger group, which has a Treasury department that manages foreign exchange exposure on an on-going basis. Such currency exposures are reduced through natural hedges and, where appropriate, hedging instruments, such as forward contracts.

Regulatory Changes Affecting the Business
The industry in which the Company operates is strictly regulated. Regulatory changes may increase or decrease revenues and/or expenditures. Management aims to mitigate such risks by keeping aware of potential regulatory changes. Currently, management foresees no such regulatory change likely to adversely affect its operations; rather, management anticipates regulatory guidance toward independent and more thorough verification to work in the Company's favour.

Our People

The success of the Company is highly dependent upon the recruitment and retention of highly qualified and skilled staff. They are the key drivers of profitability and growth. Remuneration schemes are in place to mitigate the risk of losing key individuals and to reduce the risk arising from the absence of suitable resources.

Treasury Policies and Financial Risk

Surplus funds are intended to support the Company's working capital requirements and provide adequate resources to expand its service offerings, both organically and by acquisition. These funds are invested through the use of short-term and period deposits of up to three months. It is not Company policy to use complicated financial derivatives to routinely manage exposure and other financial assets and liabilities. Financial risks are considered on a regular basis by the Board, including future interest rates, liquidity, credit and foreign currency risk. Apart from using short-term and period deposits, interest-rate risks are limited to the fixed element of finance lease/hire purchase agreements that the Company has occasionally used.

Liquidity Risk

Surplus funds are invested on a short-term basis at money-market rates making such funds available at short notice.

Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Company. In order to manage risk, the Directors set limits for customers principally based on payment history. The group carries no credit insurance and therefore the maximum exposure to credit risk is the carrying value of trade receivables.

By order of the Board

Enno Spillner
Chief Finance Officer
30 September 2020

DIRECTORS' REPORT

The directors present their report and the financial statements for the year ended 31 December 2019.

RESULTS AND DIVIDENDS

The profit for the period after taxation amounted to £6,206,993 (2018: £4,877,845). A dividend of £1,500,000 was paid during the year (2018: £1,000,000).

DIRECTORS AND THEIR INTERESTS

The directors set out below have held office during the whole of the period from 1 January 2019 to the date of this report.

Mario Polywka (resigned 1 January 2019)
Ralph E Spillner
Lloyd Payne
Robert Riley
Craig Johnstone (appointed 1 January 2019)

No director had any interest in the share capital of the company during the year.

RESEARCH AND DEVELOPMENT

As a contract research organisation, we recognise that continuous innovation is key to our future success.

There are four main drivers for our R&D activities:

Responding to regulatory guidance

The regulatory guidance is constantly adapting as new science develops. One example is the regulatory guidance for *in vitro* drug-drug interaction studies – a key area of focus and expertise for Cyprotex. It is critical that as a business we respond quickly to any amendments in this guidance so that there is no interruption to our service offering. This may involve developing new or amending existing protocols and/or altering our data processes at short notice to meet the criteria for the regulatory guidelines.

Custom assay development

Cyprotex often works alongside its clients to develop custom assays for their projects. Many of these projects are large scale high throughput ADME screening projects designed to reflect a client's in-house protocol so any data generated can be compared and ranked against existing databases. Considerable resource is required for these projects including investment in additional instrumentation, set-up and validation of protocols, and changes to information systems infrastructure to analyse, extract and upload data into client-specific databases. We work closely with our clients at all stages of these development projects to ensure our procedures meet their expectations in terms of quality of service and turnaround time. Many of these strategic customers will eventually ship hundreds of compounds per week for testing and so it is essential that the initial set-up and validation of the assay is robust so there is no impact on future screening activities.

Improving efficiency

Through major advances in liquid handling and analytical technology, the speed of screening has dramatically enhanced over recent years which, in turn, has significantly reduced the overall cost of service. As a business, we are constantly evaluating new techniques which allow us to become more efficient without impacting on quality. Evotec are firm advocates of Continuous Improvement Philosophy and several of our teams within Cyprotex are trained within Lean Six Sigma. This is already reaping rewards in terms of time and cost savings and is freeing up resource for other activities within the business.

New innovation

New innovation is one of the most exciting R&D activities. It allows Cyprotex to be at the very forefront of scientific research and endorses our position as scientific leaders in the field of ADME-Tox. As well as showcasing our research at conferences and within scientific publications, the R&D activities performed at Cyprotex can often be developed into new services which provide our customers with pioneering solutions which cannot always be accessed through other contract research companies. Within the Evotec Group a collaborative project is currently underway in the field of -omics research, joining resource and expertise from multiple fields including cell biology, transcriptomics, bioinformatics, machine learning and artificial intelligence. Cyprotex is heavily involved in this project and currently focused on the relationship between transcriptomics and drug induced liver injury.

Juggling R&D activities with ongoing commercial demands can be challenging, however through careful planning and management along with a dedicated team of expert scientists and software engineers, R&D has become an integral part of our day-to-day activities. During 2020 and beyond, we will start to see the benefit of these R&D activities as they attract a more diverse and loyal customer base and will shape our future success for the business.

GOING CONCERN

At 31 December 2019, the company's has net assets of £12.93m and net current assets of £9.36m. The Directors consider that it is appropriate to prepare the financial statements on a going concern basis, due to the entity being profitable, possessing sufficient cash reserves and its assets exceeding its liabilities.

For a period of 12 months from the approval date of these financial statements, the Directors have reviewed the budget, financial forecasts including cash flow forecasts and other relevant information, including appropriate sensitivities. They believe that the Company has adequate resources to continue in operation for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual financial statements.

INFORMATION PROVIDED IN THE STRATEGIC REPORT

The Company's business activities, together with the factors likely to affect its future development, its financial position, financial risk management objectives, and its exposures to price, credit, liquidity and cash flow risk are described in the Strategic Report on pages 5 to 7.

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 enquires of fellow Directors and the company's auditor, each Director has taken all the steps that he is obliged to take as a Director in order to make himself aware of any relevant audit information and to establish that the auditor is aware of that information.

EVENTS AFTER THE END OF REPORTING PERIOD

As highlighted in the Strategic Report, from March 2020 onwards the company has not seen negative financial impacts of the global pandemic COVID-19 to date. As the global pandemic was declared post year end this represents a non-adjusting event. The company has not experienced any significant financial impact and has maintained business continuity throughout this period and is therefore not anticipating a significant change in its gross profit levels for 2020 as a result of the pandemic.

Subsequent to year end the company declared interim dividend of £1.0m and £1.3m on 4 March 2020 and 6 April 2020 respectively.

AUDITOR

Ernst & Young LLP offer themselves for reappointment as auditor in accordance with section 485 of the Companies Act 2006.

By order of the Board

Enno Spillner

Chief Finance Officer

30 September 2020

DIRECTORS' RESPONSIBILITY 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), including Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101). 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 accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards, including FRS 101, have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are 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 AUDITOR'S REPORT TO THE MEMBERS OF CYPROTEX DISCOVERY LIMITED

Opinion

We have audited the financial statements of Cyprotex Discovery Limited for the year ended 31 December 2019 which comprise Income Statement, the Statement of Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity, and the related notes 1 to 20, 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 101 "Reduced Disclosure Framework (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 December 2019 and of its profit 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.

Emphasis of matter – Effects of COVID-19

We draw attention to note 3 and 20 of the financial statements, which describes the economic and social actions the company are undertaking as a result of COVID-19 which has the potential to impact the revenue and profitability of the company. Our opinion is not modified in respect of this matter.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial
- statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CYPROTEX DISCOVERY LIMITED ***(CONTINUED)***

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.

Opinions on other matters prescribed by the Companies Act 2006

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

- the information given in the 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.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 10, 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.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CYPROTEX DISCOVERY LIMITED (*CONTINUED*)

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

David Brown (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Reading
Date 1-10-2020

INCOME STATEMENT AND STATEMENT OF COMPREHENSIVE INCOME
for the year ended 31 December 2019

Income Statement

Continuing operations	Note	2019	2018
		£	£
Turnover	4	**22,867,619**	19,005,713
Cost of sales		**(12,968,081)**	(11,073,750)
Gross profit		**9,899,538**	7,931,963
Research and development		**(292,961)**	(587,125)
Administrative expenses		**(2,305,086)**	(1,976,104)
Other operating income		**419,257**	623,654
Operating profit	5	**7,720,748**	5,992,388
Interest receivable	7	**25,711**	20,371
Interest payable	7	**(111,798)**	(30,569)
Profit on ordinary activities before taxation		**7,634,661**	5,982,190
Taxation	8	**(1,427,668)**	(1,104,345)
Profit for the year		**6,206,993**	4,877,845

Statement of Comprehensive Income

	2019	2018
	£	£
Profit for the year	**6,206,993**	4,877,845
Other comprehensive income/(loss) that may be reclassified subsequently to profit or loss	-	-
Total comprehensive income for the year	**6,206,993**	4,877,845

BALANCE SHEET
at 31 December 2019

	Notes	2019	2018
		£	£
Fixed assets			
Tangible assets	9	**6,667,880**	3,078,941
Current assets			
Stocks	10	**1,408,189**	994,380
Debtors	11	**6,414,890**	4,779,389
Deferred tax assets	8	**115,857**	220,076
Cash at bank and in hand		**5,617,815**	2,591,205
		13,556,751	8,585,050
Creditors: amounts falling due within one year	12	**(4,192,859)**	(3,304,301)
Net current asset		**9,363,892**	5,280,749
Total assets less current liabilities		**16,031,772**	8,359,690
Creditors: amounts falling due after one year	13	**(3,097,872)**	(139,532)
Net assets		**12,933,900**	8,220,158
Capital and reserves			
Called up share capital	14	**85**	85
Share premium account		**195,985**	195,985
Profit and loss account		**12,737,830**	8,024,088
Shareholders' funds		**12,933,900**	8,220,158

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

Enno Spillner
Director
30 September 2020
Registered number: 04184635

STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2019

Statement of Changes in Equity

	Share capital	Share premium	Profit & loss account	Total equity
	£	£	£	£
Balance at 1 January 2019	85	195,985	8,024,088	8,220,158
Profit for the year	-	-	6,206,993	6,206,993
Share based payments transactions	-	-	6,749	6,749
Dividend payment	-	-	(1,500,000)	(1,500,000)
Balance at 31 December 2019	**85**	**195,985**	**12,737,830**	**12,933,900**

	Share capital	Share premium	Profit & loss account	Total equity
	£	£	£	£
Balance at 1 January 2018	85	195,985	4,143,017	4,339,087
Profit for the year	-	-	4,887,845	4,887,845
Share based payments transactions	-	-	3,226	3,226
Dividend payment	-	-	(1,000,000)	(1,000,000)
Balance at 31 December 2018	**85**	**195,985**	**8,024,088**	**8,220,158**

NOTES TO THE ACCOUNTS
For the year ended 31 December 2019

1. STATEMENT OF COMPLIANCE WITH FRS 101

Cyprotex Discovery Limited, a private company limited by shares, is incorporated and domiciled in England and Wales. These financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101) and in accordance with applicable accounting standards.

The Company's financial statements are presented in Sterling.

The principal accounting policies adopted by the Company are set out in note 2.

2. ACCOUNTING POLICIES

Basis of preparation

The accounting policies which follow set out those policies which apply in preparing the financial statements for the year ended 31 December 2019. The Company has taken advantage of the following disclosure exemptions under FRS 101 as equivalent disclosures are provided in the group accounts of Evotec SE:

(a) the requirements of paragraphs 45(b) and 46 to 52 of IFRS 2

(b) the requirements of IFRS 7 Financial Instruments: Disclosures;

(c) the requirements of paragraphs 91-99 of IFRS 13 Fair Value Measurement;

(d) the requirements of the second sentence of paragraph 110 and paragraphs 113(a), 114, 115, 118, 119(a) to (c), 120 to 127 and 129 of IFRS 15 Revenue from Contracts with Customers.

(e) the requirement in paragraph 38 of IAS 1 'Presentation of Financial Statements' to present comparative information in respect of:

(i) paragraph 79(a)(iv) of IAS 1;

(ii) paragraph 73(e) of IAS 16 Property, Plant and Equipment;

(f) the requirements of paragraphs 10(d), 10(f), 39(c) and 134-136 of IAS 1 Presentation of Financial Statements;

(g) the requirements of IAS 7 Statement of Cash Flows;

(h) the requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors;

(i) the requirements of paragraph 17 of IAS 24 Related Party Disclosures;

(j) the requirements in IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member ; and

(k) the requirements of paragraphs 130(f)(ii), 130(f)(iii), 134(d)-134(f) and 135(c)-135(e) of IAS 36 Impairment of Assets.

2. ACCOUNTING POLICIES (continued)

Impact of new accounting standards and recent accounting pronouncements

The Company applied IFRS 16 for the first time. The nature and effect of the changes as a result of adoption of this new accounting standard are described below.

There are no other amendments to accounting standards that are effective for the year ended 31 December 2019 that have had a material impact on the Company's financial statements. The Company has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective.

All of the following IFRS pronouncements that were issued by the IASB and IFRIC wand endorsed by the EU were not effective and have not been applied by the company. The IASB issued pronouncements, amongst them amendments regarding IFRS 3 "Business Combinations" and regarding the Conceptual Framework, which have been ratified by the EU. Further pronouncements, eg IFRS 17 "Insurance Contracts," "Amendments to IAS 1 and IAS 8 regarding the definition of material" and the "Interest Rate Benchmark Reform and the impact on financial reporting (IFRS 9, IAS 39 and IFRS 7)," have been issued, but not yet endorsed by the EU. None of the pronouncements will have a material impact on the Company's financial statements.

IFRS 16 Leases

IFRS 16 supersedes IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognize most leases on the balance sheet.

Lessor accounting under IFRS 16 is substantially unchanged from IAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in IAS 17.

The Company adopted IFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognised at the date of initial application. The Company elected to use the transition practical expedient to not reassess whether a contract is, or contains a lease at 1 January 2019. Instead, the Company applied the standard only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application.

The Company has lease contracts for building. Before the adoption of IFRS 16, the Company classified each of its leases (as lessee) at the inception date as an operating lease.

Upon adoption of IFRS 16, the Company applied a single recognition and measurement approach for all leases except for short-term leases and leases of low-value assets.

- *Leases previously accounted for as operating leases*

The Company recognised right-of-use assets and lease liabilities for those leases previously classified as operating leases, except for short-term leases and leases of low-value assets. The right-of-use assets for most leases were recognised based on the carrying amount as if the standard had always been applied, apart from the use of incremental borrowing rate at the date of initial application. In some leases, the right-of-use assets were recognised based on the amount equal to the lease liabilities, adjusted for any related prepaid and accrued lease payments previously recognised. Lease liabilities were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application.

2. **ACCOUNTING POLICIES** (continued)

Impact of new accounting standards and recent accounting pronouncements (continued)
The Company also applied the available practical expedients wherein it:

- Used a single discount rate to a portfolio of leases with reasonably similar characteristics
- Relied on its assessment of whether leases are onerous immediately before the date of initial application
- Applied the short-term leases exemptions to leases with lease term that ends within 12 months of the date of initial application
- Excluded the initial direct costs from the measurement of the right-of-use asset at the date of initial application
- Used hindsight in determining the lease term where the contract contained options to extend or terminate the lease

When adopting IFRS 16, the lease liabilities were discounted using the incremental borrowing rates as of 1 January 2019. The weighted average discount rate was between 2.85% and 7.20%. When determining the incremental borrowing rate, reference interest rates with a term up to 20 years were used based on the yield of government bonds. A lease risk premium was added to these reference rates.

The implementation of IFRS 16 had nil impact on retained earnings on 1 January 2019.

Property, plant, and equipment

Property, plant, and equipment are stated at cost, net of depreciation and any provision for impairment. No depreciation is charged during the period of construction or commissioning.

Depreciation
Depreciation is calculated to write down the cost, less any estimated residual value, of all property, plant, and equipment by equal annual instalments over the estimated useful economic lives as follows:

Leasehold improvements	-	over lease term
Office equipment	-	3 – 10 years
Computer equipment	-	over 3 years
Laboratory equipment	-	over 5 years

Assets held under finance leases are depreciated over the shorter of the estimated useful life of the asset and the lease term. Material residual value estimates are updated at least annually.

Impairment testing of property, plant, and equipment
For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units). As a result, some assets are tested individually for impairment and some are tested at the cash-generating unit level.

Individual assets or cash-generating units are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

2. ACCOUNTING POLICIES (continued)

Impairment testing of property, plant, and equipment (continued)

An impairment loss is recognised for the amount by which the assets or cash-generating unit's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of fair value, reflecting market conditions less costs to sell, and value in use based on an internal discounted cash flow evaluation. Impairment losses recognised for cash-generating units, to which goodwill has been allocated, are credited initially to the carrying amount of goodwill. Any remaining impairment loss is charged pro rata to the other assets in the cash-generating unit. With the exception of goodwill, all assets are subsequently reassessed for indications that an impairment loss previously recognised may no longer exist. If such indication exists, the Company estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the statement of profit or loss unless the asset is carried at a revalued amount, in which case, the reversal is treated as a revaluation increase.

Disposal of assets

The gain or loss arising on the disposal of an asset is determined as the difference between the disposal proceeds and the carrying amount of the asset and is recognised in the income statement.

Impairment of financial assets

The Company assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. If no objective evidence exists of impairment on an individual or collective basis then a financial asset will be carried at amortised cost. However, if objective evidence does exist that an impairment has occurred, then the financial asset would be carried at this revised impaired value and the difference would be recognised as an expense in the income statement. An impaired value is calculated as the present value of future cash flows discounted at the original effective interest rate.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable.

Revenue is reduced for any rebates and other similar allowances.

Revenue on the outright sale of services and software, where no supplier obligations remain, is recognised on delivery to the customer.

Revenue from a contract to provide services is recognised by reference to the stage of completion of the contract.

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the balance sheet date. The outcome of the transaction is deemed to be able to be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the entity;
- the stage of completion of the transaction at the balance sheet date can be measured reliably and is estimated by reference to the level of work performed; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

2. ACCOUNTING POLICIES (continued)

Revenue recognition (continued)
Interest income is accrued on a time basis by reference to the principal outstanding and at the effective interest rates applicable.

Stocks
Stocks are stated at the lower of cost and net realisable value on a first-in first-out basis, after making allowance for obsolete and slow-moving items. Net realisable value is based on estimated selling price less further costs expected to be incurred to completion.

Research and development expenditure
Expenditure on research (or the research phase of an internal project) is recognised as an expense in the period in which it is incurred. Development costs incurred are capitalised during the development phase when all the following conditions are satisfied:

- completion of the intangible asset is technically feasible so that it will be available for use or sale;
- the Company intends to complete the intangible asset and use or sell it;
- the Company has the ability to use or sell the intangible asset;
- the intangible asset will generate probable future economic benefits. Among other things, this requires that there is a market for the output from the intangible asset or the intangible asset itself, or, if it is to be used internally, the asset will be used in generating such benefits;
- there are adequate technical, financial, and other resources to complete the development and to use or sell the intangible asset; and
- the expenditure attributable to the intangible asset during its development can be measured reliably.

Development costs not meeting these criteria for capitalisation are expensed as incurred.
Following initial recognition of the development expenditure as an asset, the cost model is applied requiring the asset to be carried at cost less any accumulated amortisation and accumulated impairment losses.

Amortisation of the asset begins when development is complete and the asset is available for use. It is amortised evenly over the period of expected future benefit. During the period of development, the asset is tested for impairment annually. Careful judgement by the Directors is applied when deciding whether the recognition requirements for development costs have been met. This is necessary as the economic success of any product development is uncertain and may be subject to future technical problems at the time of recognition. Judgements are based on the information available at each year end date. In addition, all internal activities related to the research and development of new software products are continuously monitored by the Directors.

2. ACCOUNTING POLICIES (continued)

Current versus non-current classification

The Company presents assets and liabilities in the statement of financial position based on current/non-current classification. An asset is current when it is:

- Expected to be realised or intended to be sold or consumed in the normal operating cycle;
- Held primarily for the purpose of trading;
- Expected to be realised within twelve months after the reporting period; or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period

All other assets are classified as non-current.

A liability is current when:

- It is expected to be settled in the normal operating cycle; or
- It is held primarily for the purpose of trading; or
- It is due to be settled within twelve months after the reporting period; or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period

The Company classifies all other liabilities as non-current.

Cash at bank and in hand

Cash at bank and in hand comprises cash on hand and demand deposits, together with other short-term highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value with maturities of three months or less from acquisition.

Leases

The Company recognises and measures all leases (excluding short-term leases and leases of low-value assets) using a single model.

Right-of-use assets

The company recognises right-of-use assets at the commencement date (i.e. the point in time the underlying leased asset is available for use). Right-of-use assets are measured at cost less any accumulated depreciation and any accumulated impairment losses, and adjusted for re-measurement of lease liabilities. The cost of the right-of-use assets include the amount of lease liabilities recognised, initial direct costs incurred and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets as follows:

Right-of-use assets relating to buildings - 8 -9 years

If legal ownership of the leases asset transfers to the Company at the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful like of the leased asset.

Lease Liabilities

At the commencement date of the lease, the Company recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees.

2. **ACCOUNTING POLICIES** (continued)

Leases (continued)

Variable lease payments that do not depend on an index or a rate are recognised as expenses in the period in which the even or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Company uses and incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is re-measured if there is a modification to the lease, a change in the lease term, a change in the lease payments (e.g. changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

Short-term leases and leases of low-value assets

The Company applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (i.e. those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). The Company also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered to be low-value. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

Foreign currencies

Transactions in foreign currencies are translated at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities in foreign currencies are translated at the rates of exchange ruling at the year-end date. Non-monetary items that are measured at historical cost in a foreign currency are translated at the exchange rate at the date of the transaction. Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Any exchange differences arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were initially recorded are recognised in the income statement in the period in which they arise. Exchange differences on non-monetary items are recognised in the statement of comprehensive income to the extent that they relate to a gain or loss on that non-monetary item taken to the statement of comprehensive income, otherwise such gains and losses are recognised in the income statement.

Taxation and deferred taxation

Current tax is the tax currently payable or receivable based on taxable profit or loss for the period. Deferred income taxes are calculated using the liability method on temporary differences. Deferred tax is generally provided on the difference between the carrying amounts of assets and liabilities and their tax bases. However, deferred tax is not provided on the initial recognition of goodwill, or on the initial recognition of an asset or liability unless the related transaction is a business combination or affects tax or accounting profit. In addition, tax losses available to be carried forward as well as other income tax credits to the Company are assessed for recognition as deferred tax assets.

Deferred tax liabilities are provided in full, with no discounting. Deferred tax assets are recognised to the extent that it is probable that the underlying deductible temporary differences will be able to be offset against future taxable income. Current and deferred tax assets and liabilities are calculated at tax rates that are expected to apply to their respective period of realisation, provided they are enacted or substantively enacted at the year-end date.

Changes in deferred tax assets or liabilities are recognised as a component of tax expense in the income statement, except when they relate to items that are charged or credited to other comprehensive income or directly to equity in which case the related deferred tax is also charged or credited to other comprehensive income or directly to equity.

2. ACCOUNTING POLICIES (continued)

Pensions

The Company operates a defined contribution scheme. Pension costs charged against the income statement are the contributions payable to the scheme in respect of the accounting period.

Government and other grants

Grants in respect of capital expenditure are credited to a deferred income account and are released to the income statement by equal annual instalments over the expected useful lives of the relevant assets. Grants of a revenue nature are credited to administrative expenses in the income statement in the same period as the related expenditure.

Share based payments

Evotec SE, the ultimate parent of the Company, runs a stock option programme and a share performance plan that allows certain employees of the Company to acquire shares of the parent company. The cost of the equity-settled transactions is determined by the fair value at the date when the grant is made using an appropriate valuation model.

The costs are recognised in the statement of comprehensive income, together with a corresponding increase in unearned compensation on share options in equity, over the period in which the performance and/or service conditions are fulfilled in employee benefits expense. The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Company's best estimate of the number of equity instruments that will ultimately vest.

No expense is recognised for awards that do not ultimately vest, except for equity-settled transactions for which vesting is conditional upon a market or non-vesting condition. These are treated as vested irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied. When the terms of an equity-settled award are modified, the minimum expense recognised is the expense had the terms not been modified, if the original terms of the award are met. An additional expense is recognised for any modification that increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the employee as measured at the date of modification.

Provisions

A provision is recognised when the Company has a legal or constructive obligation as a result of a past event; it is probable that the Company will be required to settle the obligation; and a reliable estimate can be made of the amount of the obligation.

Where applicable, expected future cash flows are discounted using a current pre-tax rate that reflects the risks specific to the liability. When discounting is used, any increase in provision due to unwinding a discount is recognised as a finance cost.

Financial assets

Financial assets are divided into the following categories: loans and receivables; financial assets at fair value through profit or loss; available-for-sale financial assets; and held-to-maturity investments. Financial assets are assigned to the different categories by management on initial recognition, depending on the purpose for which they were acquired.

All financial assets are initially recognised when the Company becomes a party to the contractual provisions of the instrument. Financial assets other than those categorised as at fair value through profit or loss are initially recognised at fair value plus transaction costs.

2. **ACCOUNTING POLICIES** (continued)

Financial assets (continued)

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Trade receivables are classified as loans and receivables. Loans and receivables are measured subsequent to initial recognition at amortised cost using the effective interest method, less provision for impairment. Any change in their value through impairment or reversal of impairment is recognised in the income statement.

Provision against trade receivables is made when there is objective evidence that the Company will not be able to collect all amounts due to it in accordance with the original terms of those receivables. The amount of the write-down is determined as the difference between the asset's carrying amount and the present value of estimated future cash flows using the original effective interest rate.

A financial asset is derecognised only where the contractual rights to the cash flows from the asset expire or the financial asset is transferred and that transfer qualifies for derecognition. A financial asset is transferred if the contractual rights to receive the cash flows of the asset have been transferred or the Company retains the contractual rights to receive the cash flows of the asset but assumes a contractual obligation to pay the cash flows to one or more recipients. A financial asset that is transferred qualifies for derecognition if the Company transfers substantially all the risks and rewards of ownership of the asset, or if the Company neither retains nor transfers substantially all the risks and rewards of ownership but does transfer control of that asset. An assessment for impairment is undertaken on each financial asset at least at each year end date.

Financial liabilities

Financial liabilities are obligations to pay cash or other financial assets and are recognised when the Company becomes a party to the contractual provisions of the instrument.

Financial liabilities categorised as at fair value through profit or loss are remeasured at each reporting date at fair value, with changes in fair value being recognised in the income statement. All other financial liabilities are recorded at amortised cost using the effective interest method, with interest-related charges recognised as an expense in finance cost in the income statement. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are charged to the income statement on an accruals basis using the effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

Financial liabilities are categorised as at fair value through profit or loss where they are classified as held-for-trading or designated as at fair value through profit or loss on initial recognition. A financial liability is derecognised only when the obligation is extinguished, that is, when the obligation is discharged or cancelled or expires.

Equity

Equity comprises the following:

- 'Share Capital' represents the nominal value of equity shares.
- 'Share Premium' represents the excess over nominal value of the fair value of consideration received for equity shares net of expenses of the share issue.
- 'Profit and loss account' represents retained profits and losses.

2. ACCOUNTING POLICIES (continued)

Critical accounting estimates and judgements and key sources of estimation uncertainty

Estimates and accounting judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The preparation of financial statements requires management to make assumptions and estimates about future events. The resulting accounting estimates will, by definition, differ from actual results. The assumptions and estimates that have a significant risk of causing a material adjustment within the next financial year are:

Recognition of revenue and profit on contracts to provide services

Revenue and profit are recognised by reference to the estimated stage of completion of the contract.

Research and development

Careful judgement is applied when deciding whether the recognition requirements, set out in full above, for development costs have been met.

Deferred tax

Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits together with future planning strategies.

Assessment of lease terms

Following the implementation of IFRS 16, the company has made estimates relating to the discount rate and expected lease term. Actual results could differ from the estimates made.

3. GOING CONCERN

At 31 December 2019, the Company's assets exceeded its liabilities by £12.9m. The Directors consider that it is appropriate to prepare the financial statements on a going concern basis, due to the entity being profitable, possessing sufficient cash reserves and its assets exceeding its liabilities.

For a period of 12 months from the approval date of these financial statements, The Directors have reviewed the budget, financial forecasts including cash flow forecasts and other relevant information, including appropriate sensitivities. They believe that the Company has adequate resources to continue in operation for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual financial statements.

4. TURNOVER

Turnover, which is stated after value added tax and trade discounts, represents amounts invoiced to customers for goods and services recognised in accordance with the accounting policy above.

All turnover, profits/losses and operating assets/liabilities relate to one principal business activity, that of providing *in vitro* and *in silico* ADMET/PK (Absorption, Distribution, Metabolism, Excretion, Toxicity/Pharmacokinetics) information to the Pharmaceutical, Biotechnology, Cosmetics, Personal Care, Agrochemical, Chemical industries and Academia, which is wholly undertaken in the UK.

An analysis of turnover by destination is as follows:

	2019	2018
	£	£
United Kingdom	**4,742,514**	2,915,300
Rest of Europe	**8,617,740**	7,357,801
North America	**8,587,270**	7,843,217
Rest of the World	**920,095**	889,395
	22,867,619	19,005,713

5. OPERATING PROFIT

Operating profit is stated after charging/ (crediting):

	2019	2018
	£	£
Auditors' remuneration		
- audit services	**35,000**	35,000
Depreciation of owned assets	**1,145,122**	1,221,255
Depreciation of leased assets	**460,092**	25,388
Research and development expenditure including staff costs	**292,960**	587,125
(Gain) of foreign currency translation	**(72,818)**	(177,208)
Loss on disposal of tangible fixed assets	**19,098**	1,326
Grant income	**(62,720)**	(127,974)
Share based payment charge	**6,624**	3,226
Operating lease charges	**-**	474,086
Research and development expenditure credit	**(211,001)**	(204,778)

6. STAFF COSTS AND DIRECTORS' REMUNERATION

	2019	2018
	£	£
Wages and salaries	**4,994,699**	4,336,046
Social security costs	**459,577**	432,677
Other pension costs (see note 16)	**438,614**	381,923
	5,892,890	5,150,646

The number of employees, including directors, employed by the company at year end was as follows:

	2019	2018
	No	No
Operations and Development Technical	**132**	118
Administration	**11**	9
Selling and Distribution	**4**	4
	147	131

The directors' emoluments have been borne by the ultimate parent company, Evotec SE. These directors are also directors of the ultimate parent company, Evotec SE. The directors' services as a director of this entity are incidental to their main employment.

7. INTEREST RECEIVABLE AND INTEREST PAYABLE

	2019	2018
	£	£
Interest receivable:		
Income from deposits	**25,711**	20,371
Interest payable:		
Interest on leased assets	**111,798**	-
Interest on intercompany loan	**-**	30,569
Interest on intercompany loan	**111,798**	30,569

8. TAXATION ON PROFIT ON ORDINARY ACTIVITIES

(a) Tax on profit on ordinary activities

The tax charge/(credit) is made up as follows:

	2019	2018
Current tax	£	£
UK Corporation tax at 19% (2018: 19%)	1,350,673	1,183.102
Adjustment in respect of prior year	(27,224)	(41,737)
	1,323,449	1,141,365
Deferred tax		
Origination and reversal of timing differences	104,219	(37,020)
Tax charge on profit on ordinary activities	1,427,668	1,104,345

(b) Factors affecting tax charge

The tax charge for the period is lower than the standard rate of UK corporation tax at 19% (2018: 19%) due to the differences explained below:

	2019	2018
	£	£
Profit on ordinary activities before tax	7,634,661	5,982,190
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 19.00% (2018: 19%)	1,450,586	1,136,616
Effects of:		
Expenses/income not assessable for tax purposes	(11,339)	8,853
Depreciation in excess of capital allowances	15,645	
Share based payments	-	613
Adjustment to UK corporation tax in respect of prior periods	(27,224)	(41,737)
Tax charge for the year	1,427,668	1,104,345

(c) Factors that may affect current and future tax charges

In his budget of 8 July 2015, the Chancellor announced reductions in the UK corporation tax rate to 19% with effect from 1 April 2017 and to 18% from 1 April 2020, both of which were substantively enacted at the balance sheet date. Tax balances have been calculated at the rate they are expected to unwind at using rates substantively enacted at the balance sheet date. A further reduced rate of 17% was announced in the 2016 Budget with effect from 1 April 2020 which was enacted at the balance sheet date. In March 2020 legislation was substantively enacted to cancel the reduction in the corporation tax rate to 17% from April 2020. The impact of recognising the deferred tax assets and liabilities as at 31 December 2019 at 19% would have been immaterial.

8. TAXATION ON PROFIT ON ORDINARY ACTIVITIES (continued)

(d) Deferred Tax

The Company has recognised a deferred tax asset of £115,857 (2018: £220,076) which represents the amount expected to be realised over the next two years. As the Company has a track record of profitability it is considered appropriate to recognise a deferred tax asset.

Deferred tax asset	**2019**	2018
	£	£
At 1 January	**220,076**	183,056
Movement in the year to profit and loss	**(104,219)**	37,020
At 31 December	**115,857**	220,076

The deferred tax asset comprises the following amounts:	**2019**	2018
	£	£
Decelerated capital allowances	106,466	212,056
Other timing differences	9,391	8,020
	115,857	220,076

All amounts are calculated at the tax rates at which the timing differences are expected to reverse. The average of the rates used to calculate the deferred tax asset is 17% (2018: 17%).

NOTES TO THE ACCOUNTS
For the year ended 31 December 2019

9. TANGIBLE FIXED ASSETS

	Building & Leasehold improvements	Office equipment	Computer equipment	Laboratory equipment	Total
Cost	£	£	£	£	£
At 1 January 2019	226,091	108,318	1,114,518	8,839,362	10,288,289
Adjustment on transition to IFRS 16	3,717,547	-	-	-	3,717,547
Additions	-	-	208,703	1,286,352	1,495,055
Disposals	-	(28,636)	-	(134,783)	(163,419)
At 31 December 2019	**3,943,638**	**79,682**	**1,323,221**	**9,990,931**	**15,337,472**
Depreciation					
At 1 January 2019	77,432	54,444	749,424	6,328,048	7,209,348
Provided during the year	42,971	16,719	186,938	898,494	1,145,122
Provided during the year on right-of-use assets	460,092	-	-	-	460,092
Depreciation on disposals	-	(21,419)	-	(123,551)	(144,970)
At 31 December 2019	**580,495**	**49,744**	**936,362**	**7,102,991**	**8,669,592**
Net book value					
At 31 December 2019	**3,363,143**	**29,938**	**386,859**	**2,887,940**	**6,667,880**
At 31 December 2018	148,659	53,874	365,094	2,511,314	3,078,941

10. STOCKS

	2019	2018
	£	£
Raw materials and consumables	**1,408,189**	994,380

The difference between the replacement cost and the book value of stocks is not material

NOTES TO THE ACCOUNTS
For the year ended 31 December 2019

11. DEBTORS

	2019	2018
	£	£
Trade debtors	3,670,942	2,847,261
Amounts owed by group companies	764,074	698,809
VAT recoverable	283,899	122,829
Prepayments	717,515	595,738
Accrued income	877,069	514,752
Other debtors	101,391	-
	6,414,890	4,779,389

12. CREDITORS: amounts falling due within one year

	2019	2018
	£	£
Trade creditors	554,309	455,905
Current lease liabilities	395,326	-
Corporation tax	52,910	906,546
Other taxes and social security costs	138,848	116,556
Accruals	720,740	592,253
Deferred income	297,059	682,131
Deferred grant income	311,570	125,926
Amounts owed to group undertaking	1,722,097	424,984
	4,192,859	3,304,301

13. CREDITORS: amounts falling due after one year

	2019	2018
	£	£
Accruals	-	139,532
Non-current lease liabilities	3,097,872	-

The maturity profile for lease liabilities is included in note 19.

NOTES TO THE ACCOUNTS
For the year ended 31 December 2019

14. SHARE CAPITAL

	2019	2019	2018	2018
Authorised	No.	£	No.	£
Ordinary shares of 0.000125p each	**800,000,000**	**1,000**	800,000,000	1,000
Allotted, called up and fully paid				
Ordinary shares of 0.000125p each	**68,000,000**	**85**	68,000,0000	85

15. RELATED PARTY TRANSACTIONS

The Company has taken advantage of the exemption conferred by IAS 24 not to make disclosures concerning transactions with entities wholly owned by Evotec SE Group.

16. PENSION COMMITMENTS

The company operates a number of defined contribution schemes for its directors and employees. The assets of the schemes are held separately from those of the company in independently administered schemes. The unpaid contributions at 31 December 2019 are £ (2018: £42,214).

17. CAPITAL COMMITMENTS

At 31 December 2019, the Company had outstanding capital commitments of £63,609 (2018: £nil).

18. PARENT UNDERTAKING AND CONTROLLING PARTY

Cyprotex Discovery Limited is a direct wholly-owned subsidiary of Cyprotex Limited, a company registered in England and Wales. Cyprotex Limited is a direct wholly-owned subsidiary of Evotec SE, a company registered in Germany. Copies of the accounts of Evotec SE can be obtained from the Company Secretary, Manfred Eigen Campus, Essener Bogen 7, 22419 Hamburg, Germany. The ultimate parent company of the company is Evotec SE, a company registered in Germany.

19. LEASES

The Company has lease contract for building recognized within property, plant and equipment. The amounts recognised in the financial statements in relation to the lease are as follows.

Amounts recognised in the statement of financial position:

	31 December 2019	1 January 2019
Right-of-use assets	**£**	£
Building and leasehold improvements	**3,257,455**	3,717,547
Lease Liabilities		
Short term	**395,326**	1,247,875
Long-term	**3,097,872**	15,003,493

Amounts recognised in the income statement:

In the reporting period, the following amounts were recognised as expenses:

	2019
	£
Depreciation expense of right-of-use assets	**460,092**
Interest expense on lease liabilities	**111,798**
Total amount recognised in income statement	**571,890**

The total cash outflow for leases for the year ended 31 December 2019 was £495,378. There are no leases which the Company has committed to but not yet commenced.

Obligations under leases
The total future minimum leases payments under lease agreements are as follows:

	2019	2018
	£	£
Not later than 1 year	**395,326**	-
Later than 1 year and not later than 5 years	**1,947,731**	-
Later than 5 years	**1,150,141**	-
Present value of minimum lease payments	**3,493,198**	-

20. EVENTS AFTER THE REPORTING PERIOD

With regard to the current COVID-19 pandemic outbreak, the company has not experienced any significant financial impact and has maintained business continuity throughout this period. As the global pandemic was declared post year end this represents a non-adjusting event. Many business continuity measures have been put in place, including shift operations to reduce density at any given time, regular task force meetings comprising site leadership, increase in stock for critical lines and increased communication with all stakeholders, in particular employees and customers.

The nature of the Company's activities and its varied customer base has meant that the business has seen no fall in demand. This is expected to continue but the possibility of global macro-economic weaknesses persisting could impact some of our customers, which may in turn affect future revenue and profitability of the Company.

Subsequent to year end the company declared interim dividend of £1.0m and £1.3m on 4 March 2020 and 6 April 2020 respectively.