

CYPROTEX DISCOVERY LIMITED

Report and Financial Statements

For the year ended 31 December 2017

Registered number : 04184635

TUESDAY



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**DIRECTORS**

Anthony D Baxter	(Resigned on 31 July 2017)
John K Dootson	(Resigned 30 June 2017)
Mario Polywka	(Appointed 15 March 2017)
Ralph E Spillner	(Appointed 15 March 2017)
Lloyd Payne	(Appointed 15 March 2017)
Robert Riley	(Appointed 30 June 2017)

**SECRETARY**

Kamran Bashir

**AUDITOR**

Ernst & Young LLP  
100 Barbirolli Square  
Manchester  
M2 3EY

**REGISTERED OFFICE**

114 Innovation Drive  
Milton Park  
Abingdon  
Oxfordshire  
OX14 4RZ

## STRATEGIC REPORT (*CONTINUED*)

The directors present their strategic report for the year ended 31 December 2017.

### 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.

### CHANGE OF OWNERSHIP

Following a successful application to the court on 13 December 2016, effective 14 December 2016, the entire share capital of the parent company Cyprotex PLC, now called Cyprotex Limited, was acquired by Evotec AG, a company registered in Germany and listed on the Frankfurt Stock Exchange. On 15 December 2016, Cyprotex PLC shares were de-listed from the Alternative Investment Market of the London Stock Exchange.

### 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 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 four fifths of 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. In 2017, the US Food and Drug Administration (FDA) released revised guidelines on drug interactions., Cyprotex can now 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 the new draft FDA guidance, Cyprotex have updated their popular educational guides 'Everything you need to know about ADME' and 'DDI regulatory guidance – an easy to follow guide'.

### 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.

## STRATEGIC REPORT (*CONTINUED*)

### 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 only companies 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. We have developed our own proprietary PBPK models to predict whole body pharmacokinetics or absorption in the human intestine. In 2015, we also launched chemPK™ and chemTox which virtually predict pharmacokinetics and toxicity, respectively, from structure.

### 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

## STRATEGIC REPORT (*CONTINUED*)

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** - it is one of the only companies 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.
- **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, the Group's portfolio of services has expanded significantly allowing customers to tap into a full range of integrated services and expertise - spanning from early drug discovery through to IND and beyond..

***Pioneering Technology and Processes*** – Cyprotex has a strong focus on R&D. We have developed a number of novel technologies and were the first company to introduce a high throughput microelectrode array system for measuring cardiotoxicity using stem cell derived cardiomyocytes.

### **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 of outsourcing ADME-Tox evaluation. The Group's 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. Organically, by acquisition and by partnership, we have continued to build and diversify our offerings to allow us to address our customers' ADME-Tox requirements. As a Board, we remain confident that our outsourcing model in the ADME-Tox market based on rapid results, reproducibility and cost effectiveness is a highly valuable and specialist service and we remain committed to the creation of value for all stakeholders.

## STRATEGIC REPORT (CONTINUED)

**FINANCIAL REVIEW****Financial overview**

It is pleasing to report that the Company's revenues have grown substantially, up 16% 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 2017, capitalising on previous investments, and further widened and strengthened its customer base to de-risk the business and make it more resilient. Total revenues for the year were £16.45 million, up 16.25% on the comparative period (2016: £14.15 million).

The Company remains cash generative and despite 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 2017 standing at £0.72 million (2016: £2.25 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 2017 as a measure of the success of the business are as follows:

	2017	2016	Increase/(decrease) over prior year
	£m	£m	
Revenue	16.45	14.15	16.25%
Operating profit	3.86	2.38	£1.48 m
Underlying EBITDA^	5.04	4.40	£0.64 m
Cash	0.72	2.25	(£1.53m)

^ Excluding share-based payment charges

**Revenues and profitability**

The Company achieved record revenue in the year of £16.45 million with operating profits up £1.48 million at £3.86 million.

With good cost control the Company has developed and strengthened its portfolio of service offerings and capabilities. The Company continued to actively manage its dependency on revenues from any single customer, with the proportion of 2017 revenues from the Company's largest customer at 15.0% (2015: 14.2%) down from 34% ten years ago.

## STRATEGIC REPORT (CONTINUED)

EBITDA	2017	2016	2015
	£m	£m	£m
Operating profit	3.86	2.38	2.28
add back:			
- Share based payment charge	-	0.70	0.14
- Depreciation & impairment	1.18	1.32	0.84
Underlying EBITDA	5.04	4.40	3.26

Operating profit for the year was £3.86 million, which was £1.48 million higher than the prior year which was a record for the business. Underlying EBITDA from operations (defined as EBITDA excluding the share-based payment charge, which is a non-cash item) remains positive and very robust at a healthy £5.04 million versus £4.40 million in the prior year. This confirms the continuing ability of the Company to consistently generate cash from its core operations.

The Company made a profit overall for the tenth successive year with profit after taxation of £3.04 million in 2017 (2016: £2.35 million).

### Capital Structure

At 31 December 2017, Shareholders' funds were of £4.3 million (2016: £1.3 million). The increase in Shareholders' funds was due to profitable trading.

### Cash

A summary cash position is set out below:

	2017	2016	2015
	£m	£m	£m
Net cash (outflow)/inflow	(1.53)	(2.68)	2.11
Opening cash	2.25	4.93	2.82
Closing cash	0.72	2.25	4.93

During the year the Company repaid a loan to the parent entity amounting to £1.5 million. Capital expenditure in the year amounted to £1.9 million, after the company secured a major sales contract, which required the purchase of additional equipment.

### 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.

### 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

## STRATEGIC REPORT (CONTINUED)

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**

Sales by territory	2017	2016	2015	2014	2013
	%	%	%	%	%
United Kingdom	21	22	34	23	22
Rest of Europe	37	37	34	37	45
North America	40	37	30	39	31
Rest of the World	2	4	2	1	2
Total	100	100	100	100	100

The above analysis demonstrates that the business is not dominated by customers from any specific region, providing a degree of insulation from local variations.

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.



## STRATEGIC REPORT (*CONTINUED*)

### **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**

Approximately 56% of the Company's revenue (2016: 52%) was derived in US dollars, Euros, Japanese yen or Swiss francs. With the majority of operating costs incurred in Sterling, the Company could be exposed to foreign currency fluctuations. Some costs are hedged naturally. Forward book visibility is limited to a number of weeks. Whilst larger customers agree in principle to the volumes of compounds to be screened each year, workflows have no absolute certainty. It is against this operational background that the Company currently does not sell currency forward.

### **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 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.

### **Foreign Currency Risk**

The Company has considerable potential exposure to foreign currency fluctuations as around 56% of revenues are now denominated in US dollars, Euros, Japanese Yen and Swiss francs. To limit this exposure the Company has sales price agreements with major customers. These agreements do not exceed one year and are not coterminous. Additionally, individual services contracts (known internally as 'Rounds') are short in time frame and normally completed within ten working days of a compound arriving on site. Control over debtor management within the Company is strong. Surplus currency is sold on receipt.

### **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.

## STRATEGIC REPORT (CONTINUED)

<b><u>Trade receivables - external</u></b>	<b><u>Unit</u></b>	<b><u>2017</u></b>	<b><u>2016</u></b>	<b><u>2015</u></b>
Total trade receivable	£m	3.87	2.21	2.52
Number of receivables in excess of 5% of total	number	4	4	3
% of total receivable, balances in excess of 5% of total	%	55	49	32

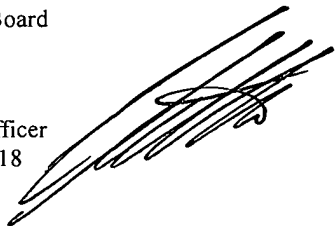
In order to manage risk, the Directors set limits for customers principally based on payment history. The group carries no credit insurance and therefore the maximum exposure to credit risk is the carrying value of trade receivables.

**Financial Overview**

The year ended 31 December 2017 was another challenging year for companies within the preclinical contract research market. The Company finished the year with record revenues and registered a tenth year of profitability. The year saw yet further significant expenditure on upgrading and increasing our bio-analytical capability and facilitating additional service offerings in the ADME and toxicology markets. These investments give us added capacity and capability to readily meet customer requirements and service greater demands. The business remains well placed to grow and develop further in 2018 supported by a sound financial framework.

By order of the Board

Enno Spillner  
Chief Finance Officer  
10 September 2018



## DIRECTORS' REPORT

The directors present their report and the financial statements for the year ended 31 December 2017.

### RESULTS AND DIVIDENDS

The profit for the period after taxation amounted to £3,039,197 (2016: £2,352,162). The directors do not recommend the payment of an ordinary dividend (2016: £nil).

### DIRECTORS AND THEIR INTERESTS

The directors who served during the period were as follows:

A D Baxter	(resigned 31 July 2017)
J K Dootson	(resigned 30 June 2017)
M Polywka	(appointed 15 March 2017)
R E Spillner	(appointed 15 March 2017)
L Payne	(appointed 15 March 2017)
R Riley	(appointed 30 June 2017)

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

### RESEARCH AND DEVELOPMENT

Research and development activities are essential for Company's growth and expansion. As well as enabling Cyprotex to offer new products and services to its customers, it allows the Company to increase its scientific credibility in the field - ensuring that we are not just recognised as a service provider but as a leader in ADME-Tox research.

2017 has been a year of integration and growth. R&D activity has focused predominantly on expansion of our high throughput capabilities – an area which generates considerable revenue for the company. Our strategic clients are classified as those spending >£200,000 per year. Throughout the year, we have expanded five of our existing strategic clients and converted three non-strategic relationships into strategic ones. Most importantly, we secured a new strategic client with significant future revenues. Supporting these activities involves substantial investment, especially during the initial set-up. Often customer-specific protocols are required and a close working relationship is established with the client to ensure the data meet their requirements in terms of quality, reproducibility and turnaround time. This process requires considerable commitment from both parties and, therefore, tends to lead to longer term screening programmes which are highly critical to the ongoing success of the business.

In 2017, integration within the Evotec group has progressed well and the business has consolidated some of its activities during this process. This has helped identify key areas for expansion of the Cyprotex business and enabled a focused approach to R&D in 2018 which is guided by industry trends, customer demand and regulatory recommendations.

### GOING CONCERN

At 31 December 2017, the company's assets exceeded its liabilities by £4,339,087. 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.

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 6 to 10.

## DIRECTORS' REPORT

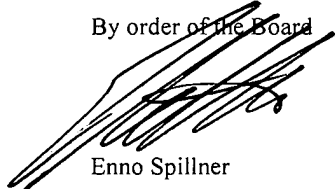
### DISCLOSURE OF INFORMATION TO THE AUDITORS

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 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.

### 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

Company Director

10 September 2018

## 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 FRS 101 and applicable law. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting 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 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 2017 which comprise Income Statement, the Statement of Comprehensive Income, the Balance Sheet the Statement of Changes in Equity, and the related notes 1 to 21, 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 2017 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.

### **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.

### **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

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

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 12], 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.

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

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*

Kevin Harkin (Senior statutory auditor)  
for and on behalf of Ernst & Young LLP, Statutory Auditor  
Reading  
Date

*21 September 2018*



## INCOME STATEMENT AND STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2017

### Income Statement

Continuing operations	Note	2017	2016 (restated)
		£	£
<b>Turnover</b>	4	16,447,669	14,151,646
Cost of sales		(11,013,409)	(8,788,081)
<b>Gross profit</b>		5,434,260	5,363,565
Research and development		(300,956)	(576,531)
Administrative expenses		(1,747,501)	(2,404,436)
Other operating income		477,685	-
<b>Operating profit</b>	5	3,863,488	2,382,598
Interest receivable	7	4,549	27,032
Interest payable	7	(93,240)	(13,754)
<b>Profit on ordinary activities before taxation</b>		3,774,797	2,395,876
Taxation	8	(735,600)	(43,714)
<b>Profit for the year</b>		3,039,197	2,352,162

### Statement of Comprehensive Income

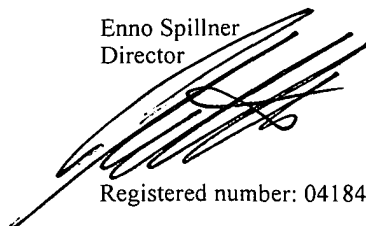
	2017	2016
	£	£
Profit for the year	3,039,197	2,352,162
Other comprehensive income/(loss) that may be reclassified subsequently to profit or loss	-	-
<b>Total comprehensive income for the year</b>	3,039,197	2,352,162

**BALANCE SHEET**  
 at 31 December 2017

	Notes	2017	2016	2015
		£	£	£
<b>Fixed assets</b>				
Tangible assets	9	3,347,656	3,065,350	3,119,710
<b>Current assets</b>				
Stocks	10	783,252	653,572	626,644
Debtors	11	5,436,851	3,236,492	3,195,151
Deferred tax assets	8	183,056	443,535	558,944
Cash at bank and in hand		722,046	2,251,601	4,931,741
		7,125,205	6,585,200	9,312,480
<b>Creditors: amounts falling due within one year</b>	12	(1,927,878)	(8,325,304)	(13,924,175)
<b>Net current asset/(liabilities)</b>		5,197,327	(1,740,104)	(4,611,695)
<b>Total assets less current liabilities</b>		8,544,984	1,325,246	(1,491,985)
<b>Creditors: amounts falling due after one year</b>	13	(4,205,896)	(25,356)	(188,307)
<b>Net assets/(liabilities)</b>		4,339,087	1,299,890	(1,680,292)
<b>Capital and reserves</b>				
Called up share capital	14	85	85	85
Share premium account		195,985	195,985	195,985
Other reserves		-	-	1,140,271
Profit and loss account		4,143,017	1,103,820	(3,016,633)
<b>Shareholders' funds/ (deficit)</b>		4,339,087	1,299,890	(1,680,292)

The financial statements were approved by the Board of Directors on 10 September 2018 and were signed on its behalf by:

Enno Spillner  
 Director



Registered number: 04184635

**STATEMENT OF CHANGES IN EQUITY**  
for the year ended 31 December 2017

**Statement of Changes in Equity**

	Share capital	Share premium	Other reserve	Profit & loss account	Total equity
	£	£	£	£	£
Balance at 1 January 2017	85	195,985	-	1,103,820	1,299,890
Profit for the year	-	-	-	3,039,197	3,039,197
Other comprehensive income	-	-	-	-	-
Total comprehensive profit for the year	-	-	-	4,143,017	4,143,017
<b>Balance at 31 December 2017</b>	<b>85</b>	<b>195,985</b>	<b>-</b>	<b>4,143,017</b>	<b>4,339,087</b>

	£	£	£	£	£
Balance at 1 January 2016	85	195,985	1,140,271	(3,016,633)	(1,680,292)
Profit for the year	-	-	-	2,352,162	2,352,162
Other comprehensive income	-	-	-	-	-
Total comprehensive profit for the year	-	-	-	2,352,162	2,352,162
Share based payments transactions	-	-	699,715	-	699,715
Deferred taxation	-	-	(71,695)	-	(71,695)
Transfer	-	-	(1,768,291)	1,768,291	-
Balance at 31 December 2016	85	195,985	-	1,103,820	1,299,890

Other reserves relate to share based payment transactions. All remaining share options were exercised on the sale of the ultimate parent company of Cyprotex Discovery Limited, Cyprotex PLC, to Evotec AG on 14 December 2016 and consequently in the year ended 31 December 2016 other reserves are reclassified, within equity, to profit & loss account.

## NOTES TO THE ACCOUNTS

For the year ended 31 December 2017

### 1. AUTHORISATION OF FINANCIAL STATEMENTS AND STATEMENT OF COMPLIANCE WITH FRS 101

The financial statements of Cyprotex Discovery Limited (the "Company") for the year ended 31 December 2017 were authorised for issue by the board of directors on 10 September 2018 and the balance sheet was signed on the board's behalf by Enno Spillner, Group CFO. Cyprotex Discovery Limited is a private company limited by shares 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 2017. The Company has taken advantage of the following disclosure exemptions under FRS 101 as equivalent disclosures are provided in the group accounts of Evotec AG:

- (a) the requirements of IFRS 7 Financial Instruments: Disclosures;
- (b) the requirements of paragraphs 91-99 of IFRS 13 Fair Value Measurement;
- (c) 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;
- (d) the requirements of paragraphs 10(d), 10(f), 39(c) and 134-136 of IAS 1 Presentation of Financial Statements;
- (e) the requirements of IAS 7 Statement of Cash Flows;
- (f) the requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors;
- (g) the requirements of paragraph 17 of IAS 24 Related Party Disclosures;
- (h) 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
- (i) 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.

## NOTES TO THE ACCOUNTS

For the year ended 31 December 2017

### 2. ACCOUNTING POLICIES (continued)

#### *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:

Freehold land and buildings	-	over 50 years
Long leasehold land and buildings	-	over 50 years
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.

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.

## NOTES TO THE ACCOUNTS

For the year ended 31 December 2017

### 2. ACCOUNTING POLICIES (continued)

#### ***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.

Where a contract for services involves delivery of several different elements and is not fully delivered or performed by the year end, revenue is recognised based on the proportion of the fair value of the elements delivered to the fair value of the overall contract.

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.

## NOTES TO THE ACCOUNTS

For the year ended 31 December 2017

### 2. ACCOUNTING POLICIES (continued)

#### *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.

#### *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.

## NOTES TO THE ACCOUNTS

For the year ended 31 December 2017

### 2. ACCOUNTING POLICIES (continued)

#### *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.

#### *Leased assets*

In accordance with IAS 17, the economic ownership of an asset held under finance lease is transferred to the lessee if the lessee bears substantially all the risks and rewards related to the ownership of the leased asset. The related asset is recognised at the time of commencement of the lease at the fair value of the leased asset or, if lower, the present value of the minimum lease payments (each determined at the inception of the lease) plus incidental payments, if any, to be borne by the lessee. A corresponding amount is recognised as a finance leasing liability. The interest element of leasing payments is charged to the income statement in constant proportion to the capital balance outstanding over the period of the lease. All other leases are regarded as operating leases and the payments made under them are charged to the income statement on a straight-line basis over the lease term. Lease incentives are spread over the term of the lease.

#### *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.



## NOTES TO THE ACCOUNTS

For the year ended 31 December 2017

### 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*

In accordance with IFRS 2, the fair value of equity-settled share-based payments to employees is determined at the date of grant and is expensed on a straight-line basis over the vesting period based on the Company's estimate of when share options will eventually vest. In the case of share options granted, fair value is measured by a Black-Scholes or Monte Carlo pricing model. In determining fair value, market vesting conditions and non-vesting conditions (but not any non-market vesting conditions) are taken into account.

All share-based payment arrangements granted after 7 November 2002 that had not vested prior to 1 January 2006 are recognised in the financial statements in accordance with IFRS 1.

All equity-settled share-based payments are ultimately recognised as an expense in the income statement with a corresponding credit to the share-based payment reserve.

If there are performance or service conditions ('vesting conditions'), the expense is allocated over the vesting period based on the best available estimate of the achievement or otherwise of non-market vesting conditions and of the number of equity instruments that ultimately vest. However, awards subject to a market condition or non-vesting conditions are treated as vesting, irrespective of whether or not the market condition or non-vesting condition is satisfied, provided that all the other performance and service conditions are met. Estimates are revised subsequently if there is any indication that the number of share options expected to vest differs from previous estimates. Any cumulative adjustment prior to vesting is recognised in the current period. No adjustment is made to any expense recognised in prior periods if share options that have vested are not exercised.

Where a new award is designated as replacing a cancelled award, the cost based on the original award terms continues to be recognised over the original vesting period. In addition an expense is recognised over the remainder of the new vesting period for the incremental fair value of any modification, based on the difference between the fair value of the original award and the modified award, both measured on the date of modification. No reduction is recognised if the difference is negative.

Upon exercise of share options, the proceeds received net of attributable transaction costs are credited to share capital, and where appropriate share premium.

#### *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.

## NOTES TO THE ACCOUNTS

For the year ended 31 December 2017

### 2. ACCOUNTING POLICIES (continued)

#### *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.

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.

At 31 December 2017 there were no assets categorised as fair value through profit and loss.

#### *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.

At 31 December 2017 there were no liabilities categorised as fair value through profit and loss.

**NOTES TO THE ACCOUNTS**  
For the year ended 31 December 2017

**2. ACCOUNTING POLICIES (continued)**

***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.
- 'Other Reserve' represents shared based payment transactions
- 'Profit and loss account' represents retained profits and losses.

**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.

**3. GOING CONCERN**

At 31 December 2017, the company's assets exceeded its liabilities by £4,339,087. 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.

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.

## NOTES TO THE ACCOUNTS

For the year ended 31 December 2017

**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, losses and operating assets 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:

	2017	2016 (restated)
	£	£
United Kingdom	3,356,112	3,168,570
Rest of Europe	6,122,371	5,237,674
North America	6,606,876	5,225,650
Rest of the World	362,310	519,752
	<b>16,447,669</b>	<b>14,151,646</b>

**5. OPERATING PROFIT**

Operating profit is stated after charging/ (crediting):

	2017	2016
	£	£
Auditors' remuneration		
- audit services	32,000	20,000
- other assurance services	-	6,000
Depreciation of owned assets	1,000,320	682,299
Depreciation of assets held under finance lease and hire purchase contracts	179,936	298,111
Research and development expenditure including staff costs	300,956	576,531
Loss/(Gain) of foreign currency translation	112,587	(237,652)
Gain on sale of tangible fixed assets	(20,652)	-
Impairment of tangible fixed assets (see note 9)	-	338,502
Government grants	(66,689)	(44,663)
Share based payment charge (see note 17)	-	699,715
Operating lease charges	444,452	148,270
Research and development expenditure credit	(410,466)	-

**NOTES TO THE ACCOUNTS**  
For the year ended 31 December 2017

**6. STAFF COSTS AND DIRECTORS' REMUNERATION**

	2017	2016
	£	£
Wages and salaries	3,951,627	3,816,026
Social security costs	415,207	506,370
Other pension costs (see note 16)	362,437	348,148
	<u>4,729,271</u>	<u>4,670,544</u>

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

	2017	2016
	No	No
Operations Technical	17	17
Development Technical	93	76
Administration	6	5
Selling and Distribution	4	3
	<u>120</u>	<u>101</u>

**6. STAFF COSTS AND DIRECTORS' REMUNERATION (continued)**

Directors' remuneration	2017	2016
	£	£
Emoluments	135,234	281,301
Compensation for loss of office	-	124,070
Pension	18,591	40,860
	<u>153,825</u>	<u>446,231</u>

Total emoluments paid to the highest paid director during the period were £101,682 (2016: £446,231) including pension contributions of £18,591 (2016: £17,458) and compensation for loss of office of £nil (2016: £124,070). One Director (2016: Two) accrued benefits under a defined contribution scheme. No directors exercised share options during the period (2016: Two).

## NOTES TO THE ACCOUNTS

For the year ended 31 December 2017

**7. INTEREST RECEIVABLE AND INTEREST PAYABLE**

	2017	2016
	£	£
Interest receivable:		
Income from deposits	4,549	27,032
Interest payable:		
Interest element of finance leases and hire purchase contracts	4,601	13,754
Interest on intercompany loan	88,639	-
Interest on intercompany loan	93,240	13,754

**8. TAXATION ON PROFIT ON ORDINARY ACTIVITIES**

## (a) Tax on profit on ordinary activities

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

	2017	2016
	£	£
<i>Current tax</i>		
UK Corporation tax at 19.25% (2016: 20.00%)	475,121	-
Adjustment in respect of prior year	-	-
	-	-
<i>Deferred tax</i>		
Origination and reversal of timing differences	(58,220)	52,400
Adjustment in respect of prior periods	29,397	(18,976)
Tax losses utilised	289,302	10,290
Tax charge on profit on ordinary activities	735,600	43,714

## (b) Factors affecting tax charge

The tax charge for the period is lower than the standard rate of UK corporation tax at 19.25% (2016: 20.00%) due to the differences explained below:

NOTES TO THE ACCOUNTS

For the year ended 31 December 2017

8. TAXATION ON PROFIT ON ORDINARY ACTIVITIES (continued)

	2017	2016
	£	£
Profit on ordinary activities before tax	3,774,797	2,395,876
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 19.25% (2016: 20.00%)	726,648	479,175
Effects of:		
Expenses not assessable for tax purposes	7,862	206,058
Share based payments	-	(554,583)
Movement in unprovided deferred tax	-	(71,695)
Tax rate differences	-	6,648
Adjustment to UK corporation tax in respect of prior periods	-	-
Group relief claimed and not paid for	-	(5,406)
Adjustment in respect of prior years - R&D	-	-
Adjustment in R&D tax credit	(28,307)	2,493
Prior year deferred tax adjustment	29,397	(18,976)
Tax charge for the year	735,600	43,714

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

The Company has tax losses arising of approximately £nil (2016: £1,677,362) that are available for offset against future taxable trading profits. These losses are available for offset when the company makes taxable profits from the same trade.

(d) Deferred Tax

The Company has recognised a deferred tax asset of £183,056 (2015: £443,535) which represents the amount expected to be realised over the next two years. As the Company has been profitable for ten consecutive accounting periods it is considered appropriate to recognise a deferred tax asset.

**NOTES TO THE ACCOUNTS**  
For the year ended 31 December 2017

**8. TAXATION ON PROFIT ON ORDINARY ACTIVITIES (continued)**

Deferred tax asset	2017	2016	2015
	£	£	£
At 1 January	443,535	558,944	467,520
Movement in the year to equity	-	(71,695)	92,572
Movement in the year to profit and loss	(260,479)	(43,714)	(1,148)
At 31 December	183,056	443,535	558,944

The deferred tax asset comprises the following amounts:	2017	2016	2015
	£	£	£
Decelerated capital allowances	161,308	114,282	77,546
Other timing differences	21,748	10,553	175,989
Tax losses	-	318,700	305,409
	183,056	443,535	558,944

A reduction in the UK corporation tax rate from 20% to 19% was substantially enacted on 26 October 2015 and will be effective from 1 April 2017. Furthermore a reduction of 2%, reducing the UK corporation tax rate to 17% will be effective from 1 April 2020.

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 17.22% (2016: 18.63%).



## NOTES TO THE ACCOUNTS

For the year ended 31 December 2017

**9. TANGIBLE FIXED ASSETS**

	Land and buildings and leasehold improvements <sup>(a)</sup>	Office equipment	Computer equipment	Laboratory equipment	Total
Cost:	£	£	£	£	£
At 1 January 2017	1,126,582	112,709	807,653	6,677,851	8,724,795
Additions	226,091	32,778	132,101	1,600,940	1,991,910
Disposals	(1,126,582)	-	(151,719)	(78,293)	(1,356,594)
<b>At 31 December 2017</b>	<b>226,091</b>	<b>145,487</b>	<b>788,035</b>	<b>8,200,498</b>	<b>9,360,111</b>
Depreciation					
At 1 January 2017	576,582	77,281	619,615	4,385,967	5,659,445
Provided during the year	55,113	9,445	125,909	989,789	1,180,256
Depreciation on disposals	(597,234)		(151,719)	(78,293)	(827,246)
<b>At 31 December 2017</b>	<b>34,461</b>	<b>86,726</b>	<b>593,805</b>	<b>5,297,463</b>	<b>6,012,455</b>
Net book value					
<b>At 31 December 2017</b>	<b>191,630</b>	<b>58,761</b>	<b>194,230</b>	<b>2,903,035</b>	<b>3,347,656</b>
At 31 December 2016	550,000	35,428	188,038	2,291,884	3,065,350
At 31 December 2015	885,616	38,736	123,240	2,072,118	3,119,710

Included in laboratory equipment above were amounts under hire purchase contracts. The net book value of such assets was £179,936 (2016: £191,133) and the depreciation charged in the year was £179,936 (2016: £298,111).

**10. STOCKS**

	2017	2016	2015
	£	£	£
Raw materials and consumables	<b>783,252</b>	653,572	626,644

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 2017

**11. DEBTORS**

	2017	2016	2015
	£	£	£
Trade debtors	3,761,710	2,206,295	2,521,531
Amounts owed by group companies	91,282	-	-
Corporation tax	-	55,212	24,928
VAT recoverable	177,679	127,598	-
Prepayments	456,588	466,645	319,941
Accrued income	949,592	380,742	328,751
	<b>5,436,851</b>	<b>3,236,492</b>	<b>3,195,151</b>

**12. CREDITORS: amounts falling due within one year**

	2017	2016	2015
	£	£	£
Trade creditors	301,285	372,251	324,996
Obligations under finance leases and hire purchase contracts	25,383	162,951	209,971
VAT payable	-	-	6,664
Corporation tax	24,586		
Other taxes and social security costs	97,042	1,378,729	98,275
Accruals	856,307	450,792	484,313
Deferred income	309,115	154,427	172,725
Deferred grant income	175,925	229,143	28,348
Other creditors	-	27,361	31,498
Amounts owed to parent undertakings	-	5,549,650	12,567,385
Amounts owed to group undertaking	138,235	-	
	<b>1,927,878</b>	<b>8,325,304</b>	<b>13,924,175</b>

## NOTES TO THE ACCOUNTS

For the year ended 31 December 2017

**13. CREDITORS: amounts falling due after one year**

	2017	2016	2015
	£	£	£
Amounts owed to parent undertaking	4,061,135	-	-
Accruals	144,761	-	-
Obligations under finance leases and hire purchase contracts	-	25,356	188,307
	<b>4,205,896</b>	<b>25,356</b>	<b>188,307</b>

<b>Maturity profile</b>	2017	2016	2015
	£	£	£
In one year or on demand	-	162,951	209,971
In one to two years	17,485	25,356	162,951
In two to five years	4,113,590	-	25,356
Over five years	74,821	-	-
	<b>4,205,896</b>	<b>188,307</b>	<b>398,278</b>

The non-current accrued expenses payable after one year include an accrual for the element of lease incentives incurred on properties leased by the Company where the benefit received will be reflected in the statement of income after the next financial year.

Amounts owed to the parent undertaking is interest bearing at 3 months GBP Libor plus 1.2%.

**14. SHARE CAPITAL**

	2017	2017	2016 & 2015	2016 & 2015
	No.	£	No.	£
<i>Authorised</i>				
Ordinary shares of 0.000125p each	800,000,000	1,000	800,000,000	1,000
<i>Allotted, called up and fully paid</i>				
Ordinary shares of 0.000125p each	68,000,000	85	68,000,000	85

## NOTES TO THE ACCOUNTS

For the year ended 31 December 2017

**15. RELATED PARTY TRANSACTIONS**

The Company has taken advantage of the exemption conferred by IAS 24 not to make disclosures concerning transactions with entities that are part of the Evotec AG 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 2017 are £39,464 (2016: £41,122).

**17. SHARE BASED PAYMENTS – SHARE OPTIONS**

Cyprotex Limited the immediate parent company of Cyprotex Discovery Limited, had a share option scheme for all employees of the Company ('Employee Scheme'). Options were exercisable at a price equal to the average quoted market price of Cyprotex PLC shares on the date of grant. Vesting periods varied with each grant and details are given in the tables below. If the option remained unexercised after a period of ten years from the date of grant the option expired. Options were forfeited if an employee left the Company before the options vested.

On 23 January 2014, the Board of Cyprotex PLC adopted and approved the award of up to an additional 33,333,333 share options under the Cyprotex PLC (2014) Employee Incentive Scheme (the "2014 EIS Scheme"). In the year ended 31 December 2015, 499,999 share options were granted and 166,666 share options were forfeited. In the year ended 31 December 2014 29,999,999 share options were granted.

The executive share options awarded under the 2014 EIS Scheme vested and become exercisable immediately prior to a change of control of Cyprotex Limited within a ten year period. These '2014 EIS scheme' executive options were subject to the sale of business condition being met. The condition was met in the year ended 31 December 2016 with the acquisition of the entire share capital of Cyprotex Limited by Evotec AG on 14 December 2016. A Monte Carlo valuation model had been used to value the options upon grant date and all the awards are equity settled.

There were awards granted on 23 December 2015, 25 January 2014 and on 1 April 2014, and details of these awards to group employees and details of the share options outstanding during the year are as follows:

Employee and 2014 EIS	2017 Number of share options	Weighted average exercise price	2016 Number of share options	Weighted average exercise price
Outstanding at beginning of year	-	-	3,580,388	59.07p
Granted in the year	-	-	-	-
Forfeited during the year	-	-	-	-
Expired during the year	-	-	(25,000)	82.50p
Exercised during the year	-	-	(3,555,388)	58.91p
Outstanding at the end of the year	-	-	-	-
Exercisable at the end of the year	-	-	-	-

All awards were equity settled.

NOTES TO THE ACCOUNTS

For the year ended 31 December 2017

**17. SHARE BASED PAYMENTS – SHARE OPTIONS** *(continued)*

The weighted average share price of Cyprotex Limited at the date of exercise for share options exercised during the period was nil pence (2016: 160 pence).

During the prior year 25,000 share options expired and 3,555,388 were exercised on 13 December 2016, just prior to the acquisition of the Cyprotex Limited by Evotec AG on 14 December 2016. At 31 December 2016, no share options remained.

With no share options outstanding at 31 December 2016 the weighted average remaining contractual life was nil years. The inputs into the valuation model are as follows:

Valuation model used	Binomial	Binomial	Binomial
Option scheme	2014 EIS	2014 EIS	2014 EIS
Number of UK awards^	499,999	2,166,666	666,666
Grant date	23 December 2015	25 January 2014	1 April 2014
Share price at date of grant^	116.0p	75.0p	56.3p
Weighted average share price	-	-	-
Weighted average exercise price	60.0p	60.0p	60.0p
Sale of business condition	met	met	Met
Expected volatility	37%	41%	45%
Expected life	2.8 yrs	4.6 yrs	4.4 yrs
Risk-free rate	0.85%	1.67%	1.71%
Expected dividends	nil	nil	Nil

*^ as adjusted for subsequent ten for one share consolidation in July 2014*

Total charge relating to equity based settlements for employees is as follows:

	2017	2016
	£	£
Options granted 25 January 2014	-	334,551
Options granted 1 April 2014	-	64,382
Options granted 23 December 2015	-	300,782
	-	699,715

## NOTES TO THE ACCOUNTS

For the year ended 31 December 2017

### 18. CAPITAL COMMITMENTS

At 31 December 2017, the Company had outstanding capital commitments of £nil (2016: £nil).

### 19. 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 AG, a company registered in Germany. Copies of the accounts of Evotec AG 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 AG, a company registered in Germany.

### 20. OPERATING LEASE COMMITMENTS

Future minimum payments under non-cancellable operating leases are as follows:

	2017	2016
	£	£
Not later than one year	495,378	51,603
After one year but no more than five years	1,981,512	-
After five years	2,510,820	-
	<u>4,987,710</u>	<u>51,603</u>

On 13 January 2017 the company entered into a new lease at Block 24, Alderley Park, Macclesfield, Cheshire, UK with minimum future payments at 31 December 2017 of £4472,720.

Expensed in the year:

	2017	2016
	£	£
Operating lease charges	<u>427,164</u>	<u>148,270</u>

## NOTES TO THE ACCOUNTS

For the year ended 31 December 2017

**21. PRIOR YEAR RESTATEMENTS**

The prior year figures have been restated to present revenue relating to certain services delivered on the company's behalf by a fellow group company on a gross basis. In the previous period, such revenues were treated on a net basis. In contracting with the customer, the company has exposure to the significant risks and rewards associated with the sale as it remains responsible for providing the services, has latitude for establishing prices and bears the customer's credit risk. The impact of this change on the prior year is as follows:

	<b>Revenue</b>	<b>Cost of sales</b>
	<b>£</b>	<b>£</b>
As reported – year ended 31 December 2016	13,278,901	(2,669,790)
As restated – year ended 31 December 2016	14,151,646	(3,542,535)
Total	872,745	(872,745)

In addition, costs have been reclassified between the various cost categories to provide a truer indication of the nature of the expenditure. The cost of scientists and associated expenditure was previously subsumed within administrative expenses but as now been allocated between cost of sales and research and development. The impact of this change on the prior year is as follows:

	<b>Cost of sales</b>	<b>Research and development</b>	<b>Administrative expenses</b>
	<b>£</b>	<b>£</b>	<b>£</b>
As reported – year ended 31 December 2016	(2,669,790)	-	(8,226,513)
As restated – year ended 31 December 2016	(7,915,336)	(576,531)	(2,404,436)
Total	(5,245,546)	(576,531)	5,822,077

There was no impact on shareholders' funds for any of the periods reported