Company Registration No. 06605196

Avacta Life Sciences Limited

STATUTORY FINANCIAL STATEMENTS

for the year ended

31 July 2017

Avacta Life Sciences Limited
CONTENTS

The directors present the strategic report for Avacta Life Sciences Limited for the year ended 31 July 2017.

PRINCIPAL ACTIVITIES AND REVIEW OF THE BUSINESS
The principal activity of the Company in the year under review is the development of its Affimer technology, an engineered alternative to antibodies.

The Company is developing novel alternatives to antibodies called Affimers (a trademark registered by the Company) which can bind to proteins with very high affinity and specificity. Affimers, and Affimer microarrays, have the potential to revolutionise the diagnosis of disease by providing a method to detect disease biomarkers, and identify new signatures of disease. The Company's technology also enables a completely new way to study the molecular basis of disease, opening up new routes to therapy.

Affimer Research and Diagnostics Reagents
Avacta has chosen to focus initially on three large application areas where Affimers have clear technical benefits over antibodies as research and diagnostics reagents. Those are: immunoassays, separations and rapid diagnostics.

The Company has also adopted a licensing business model and in order to secure licensing deals for Affimer reagents to build a longer term royalty-based revenue stream we provide custom Affimers on a fee-for-service basis to allow the potential licensee to evaluate Affimers specific to their target in their application. In addition, the Company undertakes in-house R&D to generate technical marketing data demonstrating the benefits of Affimer reagents in various applications to support business development activities.

During the year, significant progress has been made both in building the pipeline of evaluations, which is reflected in an increase in custom Affimer order book of 91% year-on-year, and in generating the data packs that support business development. The pipeline of evaluations, which has been building for over a year, is now beginning to deliver licensing agreements and repeat business that will underpin medium- and long-term revenue growth. A major milestone was achieved during the year in that the first licence for development was agreed with one of the top three global diagnostics companies. This followed successful evaluation of multiple Affimers that were developed to capture a particular marker of disease in blood whilst not cross-reacting with other markers to which existing antibodies do cross-react. This work should lead to a wider relationship with this larger global diagnostics company as well as the potential commercial exploitation of the licensed Affimers.

More than ten Affimer R&D licences have been agreed following successful custom Affimer projects. These allow the third party to use the Affimers generated for in-house R&D in assays to support clinical studies for example, or enable new R&D experiments to be carried out, and repeat business is being generated.

Further evidence of the rapidly building momentum can be seen in the number of recent scientific publications from third parties using Affimers: seven in the past twelve months, double the number in the previous twelve months. These scientific papers include a wide range of imaging applications, biosensors and diagnostics and they have a very positive contribution to building awareness of the Affimer technology across the life sciences market.

With clear commercial traction established and momentum building, the key objectives for the Affimer reagents business unit in order to build a profitable revenue stream are:

- conversion of evaluations into licence deals that will ultimately lead to royalty revenue;
- growing the evaluations pipeline and repeat custom Affimer business; and
- generation of technical marketing data supporting the business development efforts and opening up new applications outside of the three initial focus areas.

Affimer Therapeutics

Avacta has chosen to focus its investment in therapeutics in the area of immuno-oncology (IO) due to the intense commercial interest in IO assets at the present time and because certain technical benefits of the Affimer technology make it highly competitive as an IO therapeutic platform. IO harnesses the power of the patient's own immune system to attack the cancer. The approach relies on the fact that tumour cells have certain proteins on their surface that can be used for targeting therapies, or can be blocked or stimulated to create an immune attack.

The two key technical benefits of the Affimer technology compared with antibodies that will allow the Company to develop differentiated and commercially valuable medicines in the IO space are:

- Affimer proteins are easily connected together to form dimers, trimers and higher order multimers and, crucially, these multimers are still easy to produce and process; and
- Affimer proteins are small, robust and easily produced by cells and tissues.

Avacta's therapeutic development strategy is based around delivering three medium-term objectives:

- Progress the first Affimer into the clinic to demonstrate safety and tolerability in man.
- Build a pipeline of commercially valuable therapeutic Affimers for partnering.
- Secure further partnering/licensing deals.

In order to meet the first objective and progress an Affimer into the clinic as quickly as possible, the Company decided to select a drug target that was relatively well known and therefore presented lower risk in terms of the target biology. The immune checkpoint PD-L1 was selected for this purpose.

Partnering/licensing deals will be secured based on having Affimer proteins with beneficial clinical effects and having substantial data packs to support the valuations of those assets. The strategy to build the pipeline is to leverage the key technical benefits of Affimers listed above to create assets that are differentiated from antibody and other technologies. The strategy may be summarised as follows:

- Since Affimers are good for creating multimers, the Company has chosen to focus its in-house development programmes in two areas that require multimers: T-cell recruitment and agonism.
- Since Affimers are small, robust and easily produced by cells and tissues, the Company has worked to secure collaborations in gene delivery, CAR-T and drug conjugates where these properties are key benefits. In order to keep resources focused on in-house programme milestones, Affimer proteins that are being developed for the in-house programme are being used where possible for these collaborations.

AVA-004 PD-L1 programme update

There has been excellent progress during the year in the lead immuno-oncology programme – a PD-L1 inhibitor. PD-L1 (Programmed Death Ligand 1) is an immune-checkpoint protein that appears on the surface of a tumour cell to 'fool' the immune system into 'thinking' that the tumour cell is a healthy cell and should be left alone. By blocking the PD-L1 on the surface of a tumour cell, the cell cannot 'hide' from the immune system. which will then attack it as an aberrant cell.

The Company has now generated multiple Affimer PD-L1 inhibitors and formatted them to create therapeutic molecules that remain in the bloodstream for long enough to have a therapeutic effect.

During the year, the efficacy of an Affimer PD-L1 inhibitor was demonstrated in an animal model showing a reduction in tumour growth rate comparable with the benchmarking antibody that was used in the study. This is the first time that the efficacy of an Affimer has been demonstrated in vivo and as such is a major technical milestone for the technology. It shows that the Affimer remained functional in vivo, and was available in the serum for long enough to have a clinical effect and that it had the desired clinical effect. The study also went on to show that the biological effect of the Affimer antagonist was observed as expected, i.e. there was an increase in certain immune system cells in the environment of the tumour comparable again with the biological effects of the benchmarking antibody.

A lead Affimer inhibitor of PD-L1 has now been selected for further development during 2018. This includes further in vivo studies and manufacturing development with the objective of being ready for the first-in-man clinical trial beginning in 2019.

Partnerships update
In 2015 Avacta entered into a collaboration, licensing and option agreement with Moderna Therapeutics. Under the terms of the agreement, Moderna made an upfront payment of $500,000 which provides them with exclusive access to Affimer molecules that bind certain targets. This may be extended to include additional targets by a further payment. Moderna is also making certain payments to Avacta for research services to deliver pre-clinical development milestones.

Moderna has the option to enter into exclusive licence agreements for selected therapeutic Affimer candidates for clinical development and in each case Avacta will be entitled to milestone payments. The total value of these payments could reach several tens of millions of dollars. Avacta is also entitled to royalties in connection with future product sales.
The Company is limited by confidentiality in what it can say about the progress within the Moderna collaboration but the programme is progressing well and, during the reporting period, expanded to include more drug targets.

KEY PERFORMANCE INDICATORS

At this stage of the Company's development, the non-financial key performance indicators focus around the development of the Affimer technology and customer projects, together with the progress of the first Affimer drug candidate into Phase I clinical trials. Both of these are discussed in more detail within the Principle Activities and review of the Business on pages 2 to 4.

In addition, the number of customers evaluating the Affimer technology which may lead to commercial licensing agreements is seen as a growing acceptance of the technology.

The financial key performance indicators focus around revenues and research and development expenditure.

PRINCIPLE RISKS AND UNCERTAINTIES

Research and development
The Company's research and development activities are focused around the Affimer technology within the reagent, diagnostic and therapeutic areas.

There is a risk, consistent with similar biotechnology companies developing new and innovative technology platforms, that the scientists involved are unable to produce the results required for their internal development programmes or customer-related projects.

The development teams continue to work on improving the core Affimer technology platform, with oversight from the Senior Leadership Team and Scientific Advisory Board.

Timing
There is a risk that the development of the Affimer technology may take longer than planned to meet the requirements of current and potential customers.

Given the proprietary nature of the Affimer technology and its early stage development, it may take some time for customers to evaluate and utilise the technology instead of more established antibody technologies. This could delay the completion of commercial licences for the technology and the resultant revenues from these licences.

Key staff
The Company has in place an experienced and motivated Senior Leadership Team together with a growing number of highly skilled senior scientists.

Loss of key staff could lead to a delay in the Company's plans and operations.

The Company aims to provide remuneration packages and working conditions that will attract and retain staff of the required level, informally benchmarking the level of benefits provided to its staff against comparator companies.

Loss of facilities
Should the Company's facilities become damaged, the ability to carry on development programmes and meet customer deadlines may be affected.

The Company has recently relocated to purpose-built facilities in both Wetherby and Cambridge and has business continuity plans in place together with adequate insurance to cover any business damage or interruption.

By order of the Board

T. Gardiner

TP Gardiner
Director

21 November 2017

The Directors present their Report and Financial Statements for Avacta Life Sciences Limited, for the year ended 31 July 2017.

RESULTS AND DIVIDENDS

The loss for the period after taxation was £6,591,600 (2016: £5,955,935). The directors do not recommend the payment of a dividend (2016: £nil).

DIRECTORS

The directors who served the Company during the period and to the date of this report were as follows:

P Ko Ferrigno (resigned 24 January 2017)
DAM Smith
TP Gardiner

PRINCIPAL RISKS

The main financial risk faced by the Company is interest rate risk. The Board reviews and agrees policy for managing this risk.

Interest rate risk

The Company continues to manage the cash position in a manner designed to maximise interest income, while at the same time minimising any risk to these funds. Surplus cash funds are deposited with commercial banks that meet credit criteria approved by the Board, for periods between one and twelve months.

THIRD PARTY INDEMNITY PROVISION FOR DIRECTORS

Qualifying third party indemnity provision is in place for the benefit of all directors of the Company.

STATEMENT AS TO DISCLOSURE OF INFORMATION TO AUDITOR

The Directors who held office at the date of approval of this Directors' Report confirm that, so far as they are aware, there is no relevant audit information of which the Company's auditor is unaware; and each Director has taken all the steps that he or she ought to have taken to make himself or herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

RE-APPOINTMENT OF AUDITOR

A resolution for the re-appointment of KPMG LLP will be proposed at the forthcoming Annual General Meeting to be held on 18 January 2018.

By order of the board

T. Gardiner

TP Gardiner
Director

21 November 2017

Registered office:
Unit 20
Ash Way
Thorp Arch Estate
Wetherby
LS23 7FA

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE STRATEGIC REPORT, THE DIRECTORS' REPORT AND THE FINANCIAL STATEMENTS

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 they have elected to prepare the financial statements in accordance with UK accounting standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland.*

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 judgements and estimates that are reasonable and prudent;
- state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

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 responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF LIFE SCIENCES LIMITED

Opinion

We have audited the financial statements of Avacta Life Sciences Limited ("the company") for the year ended 31st July 2017 which comprise the Profit and Loss Account, Balance Sheet, Statement of Changes in Equity and related notes set out on pages 10 to 19.

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31st July 2017 and of its loss for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the company in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Going concern

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least twelve months from the date of approval of the financial statements. We have nothing to report in these respects.

Strategic report and directors' report

The directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required 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; or
- the directors were not entitled to take advantage of the small companies exemption from the requirement to prepare a strategic report.

We have nothing to report in these respects.

Directors' responsibilities

As explained more fully in their statement set out on page 6, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; 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 they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

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 our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not 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 aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

The purpose of our audit work and to whom we owe our responsibilities

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.

Johnathan Pass (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
1 Sovereign Square
Sovereign Street
Leeds
LS1 4DA
21 November 2017

Avacta Life Sciences Limited
PROFIT AND LOSS ACCOUNT
for the year ended 31 July 2017

	Notes	2017 £	2016 £
TURNOVER		1,281,965	866,765
Cost of sales		(422,539)	(451,139)
Gross profit		859,426	415,626
Administrative expenses		(8,831,160)	(7,506,607)
Other operating income		41,620	114,945
OPERATING LOSS		(7,930,114)	(6,976,036)
LOSS BEFORE TAXATION	*2*	(7,930,114)	(6,976,036)
Tax on loss	*4*	1,338,514	1,020,101
LOSS AFTER TAXATION		(6,591,600)	(5,955,935)

The loss for the year arises from the company's continuing operations. There is no other comprehensive income for either year, other than the result for that year.

The notes on pages 13 to 19 form part of these financial statements.

Avacta Life Sciences Limited

BALANCE SHEET
at 31 July 2017

Company Registration No. 06605196

	Notes	2017 £	2016 £
FIXED ASSETS			
Tangible fixed assets	5	3,372,098	3,652,014
Intangible assets	6	438,437	480,444
Investments	7	170	170
		3,810,705	4,132,628
CURRENT ASSETS			
Stock	8	72,690	215,392
Debtors	9	2,144,483	2,075,927
Cash at bank and in hand		115,910	96,269
		2,333,083	2,387,588
CREDITORS: Amounts falling due within one year	10	(26,718,603)	(20,663,524)
NET CURRENT LIABILITIES		(24,385,520)	(18,275,936)
TOTAL ASSETS LESS CURRENT LIABILITIES		(20,574,815)	(14,143,308)
CAPITAL AND RESERVES			
Called up share capital	11	16	16
Share premium		461,340	461,340
Profit and loss account		(21,036,171)	(14,604,664)
SHAREHOLDER'S DEFICIT		(20,574,815)	(14,143,308)

The notes on pages 13 to 19 form part of these financial statements.

The financial statements on pages 10 to 19 were approved by the board of directors and authorised for issue on 21 November 2017 and are signed on its behalf by:

DAM Smith
Director

TP Gardiner
Director

Avacta Life Sciences Limited
STATEMENT OF CHANGES IN EQUITY
for the year ended 31 July 2017

	Share capital £	Share premium £	Profit and loss account £	Equity shareholder's Deficit £
As at 1 August 2015	16	461,340	(8,761,800)	(8,300,444)
Total comprehensive loss for the period	-	-	(5,955,935)	(5,955,935)
Share based payment charges	-	-	113,071	113,071
At 31 July 2016	16	461,340	(14,604,664)	(14,143,308)
Total comprehensive loss for the period	-	-	(6,591,600)	(6,591,600)
Share based payment charges	-	-	160,093	160,093
At 31 July 2017	16	461,340	(21,036,171)	(20,574,815)

The notes on pages 13 to 19 form part of these financial statements.

1 ACCOUNTING POLICIES

BASIS OF PREPARATION

These financial statements were prepared in accordance with Financial Reporting Standard 102 *The Financial Reporting Standard* applicable in the UK and Republic of Ireland ("FRS 102") as issued in August 2014. The amendments to FRS 102 issued in July 2015 and effective immediately have been applied. The presentation currency of these financial statements is sterling. All amounts in the financial statements have been rounded to the nearest £1.

The Company's ultimate parent undertaking, Avacta Group plc includes the Company in its consolidated financial statements. The consolidation financial statements of Avacta Group plc are available to the public and may be obtained from www.avacta.com or Unit 20, Ash Way, Thorp Arch Estate, Wetherby, LS23 7FA. In these financial statements, the Company is considered to be a qualifying entity (for the purposes of this FRS) and has applied the exemptions available under FRS 102 in respect of the following disclosures:

- the requirement to present a cash flow statement and related notes;
- financial instrument disclosures, including: categories of financial instruments, items of income, expenses, gains or losses relating to financial instruments, and exposure to and management of financial risks;
- the requirement to disclose related party transactions between the Company and wholly owned subsidiaries of the ultimate parent undertaking, Avacta Group plc;
- the requirement to disclose Group settled share based payment transactions.

The accounting policies set out below have, unless otherwise stated, have been applied consistently to all periods presented in these financial statements.

GOING CONCERN

The financial statements have been prepared on a going concern basis which assumes that the Company will be able to continue its operations for the foreseeable future.

The Directors have prepared and reviewed the financial projections for the twelve month period from the date of signing these Financial Statements. Based on the level of projected income and expenditure and the continuing support from the ultimate Parent company, Avacta Group plc whose Directors have confirmed their intention to continue to provide financial support to the Company, the Directors have a reasonable expectation that the Company has adequate resources to continue in business for the foreseeable future. Accordingly the going concern basis has been used in preparing the Financial Statements.

TURNOVER

The Group derives turnover from the sale of products, granting of licences and the provision of services. Turnover represents the fair value of consideration received or receivable in respect of products, licences or services supplied to third parties in the period, excluding sales related taxes and trade discounts. Turnover is recognised on sale of products when the significant risks and rewards of ownership of the products are transferred to the customer, this is usually when products are delivered and title passes to the customer. Turnover from the provision of services is recognised on services when the service has been performed. Turnover from licenses comprises exclusivity arrangements, technology access fees and similar arrangements, milestone income and royalties. The accounting policies for the licensing turnover stream are as follows: (i) Exclusivity arrangements, technology access fees and similar agreements are recognised as turnover in the accounting period in which the related services, or required activities, are performed or specified conditions are fulfilled in accordance with the terms of completion of the specific transaction; (ii) Certain services include milestone and royalty payments which are recognised as the service is provided to the extent that it is probable they will be received.

1 ACCOUNTING POLICIES *(continued)*

SHARE BASED PAYMENTS
The fair value of awards to employees or other parties that take the form of shares or rights to shares is recognised as an employee expense with a corresponding increase in equity. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options. The fair value of the options granted is measured using an option valuation model, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest except where forfeiture is due only to share prices not achieving the threshold for vesting.

INTANGIBLE ASSETS AND AMORTISATION
Goodwill represents the excess of the cost of an acquisition over the fair value of the net identifiable assets, liabilities and contingent liabilities of the acquired subsidiary at the date of acquisition. Goodwill on acquisition of subsidiaries is included in intangible assets. Goodwill is amortised over the expected useful life of 10 years.
Intangible assets that are subject to amortisation are tested for impairment when events or a change in circumstances indicate that the carrying amount may not be recoverable. Amortisation is provided at rates calculated to write off costs less estimated residual value of each asset over its expected useful life, as follows:

Patents	-	Lifetime of the patent
Software	-	5 years

TANGIBLE FIXED ASSETS AND DEPRECIATION
Tangible fixed assets are stated at historic cost. Depreciation is provided at rates calculated to write off cost less estimated residual value of each asset over its expected useful life, as follows:

Fixtures and fittings	-	10 - 20% per annum straight line
Laboratory equipment	-	20 - 33% per annum straight line
Leasehold Improvements	-	10 - 20% per annum straight line

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

DEFERRED TAXATION
Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the company's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis.

LEASED ASSETS AND OBLIGATIONS
Where assets are financed by leasing agreements that give rights approximating to ownership ('finance lease'), the assets are treated as if they had been purchased outright. The amount capitalised is the present value of the minimum lease payments payable during the lease term. The corresponding leasing commitments are shown as obligations to the lessor.

1 ACCOUNTING POLICIES *(continued)*

Lease payments are treated as consisting of capital and interest elements, and the interest is charged to the profit and loss account in proportion to the remaining balance outstanding.

All other leases are "operating leases" and the annual rentals are charged to the profit and loss account on a straight line basis over the lease term.

RESEARCH AND DEVELOPMENT
Expenditure on research and developments is written off to the profit and loss account in the year in which it is incurred.

2 LOSS BEFORE TAX	2017	2016
	£	£
Loss before tax is stated after charging:		
Research and development expenditure written off	3,076,279	2,274,479
Amortisation of intangible assets	99,920	93,803
Depreciation of property, plant and equipment	886,768	509,625
Loss on disposal of property, plant and equipment	1,688	5,197

Auditor's remuneration is paid by the parent undertaking, Avacta Group plc, the amount relating to the Company is estimated to be £5,000.

3 EMPLOYEES	2017	2016
	No.	No.
The average monthly number of persons (including directors) employed by the company during the period was:		
Office and management	64	49
	£	£
Staff costs for above persons:		
Wages and salaries	2,594,941	1,984,234
Social security costs	273,132	219,090
Pension costs	106,185	74,371
Share based payment charges	160,093	113,071
	3,134,351	2,390,766

DIRECTORS' REMUNERATION	2017	2016
	£	£
Total emoluments	79,078	81,831

The Group operates a defined contribution Group personal pension plan. The number of directors for whom retirement benefits are accruing under money purchase pension schemes amounted to 1 (2016: 1). The aggregate value of contributions paid by the Company in respect of these directors was £2,980 (2016: £3,897).

3 EMPLOYEES *(continued)*

Two of the directors did not receive any emoluments from the Company but were remunerated by the Company's ultimate parent undertaking, Avacta Group plc. Copies of the report and accounts of Avacta Group plc are available from its registered office at Unit 20, Ash Way, Thorp Arch Estate, Wetherby, LS23 7FA.

4 TAXATION

	2017	2016
	£	£
Corporation tax:		
Current year	(1,100,000)	(670,000)
Prior year	(238,514)	(350,101)
Current tax (credit) for the period	(1,338,514)	(1,020,101)

The tax credit assessed for the period is lower (2016: lower) than the standard rate of corporation tax in the UK of 19.7% (2016: 20.0%). The differences are explained below:

	2017	2016
	£	£
Loss on ordinary activities before tax	(7,930,114)	(6,976,036)
Loss on ordinary activities multiplied by the standard rate of corporation tax in the UK of 19.7% (2016: 20.0%)	(1,562,232)	(1,395,207)
Effects of:		
Expenses not allowable for taxation purposes	31,358	22,614
Depreciation in excess of capital allowances	194,597	112,883
Losses carried forward	1,336,277	1,259,710
Research and development credit	(1,100,000)	(670,000)
Research and development credit- prior year adjustment	(238,514)	(350,101)
Current tax (credit) for the period	(1,338,514)	(1,020,101)

There is no liability to corporation tax in the period. There is an un-recognised deferred tax asset due to trading losses in this period and prior financial years of approximately £4,514,000 (2016: £3,178,000). This asset has not been recognised as the profit, which would utilise these losses, cannot yet be forecast with sufficient reliability.

5 TANGIBLE FIXED ASSETS

	Leasehold Improvements	Laboratory Equipment	Fixtures, fittings & equipment	Assets under construction	Total
	£	£	£	£	£
Cost					
1 August 2016	524,984	3,223,863	110,465	1,050,426	4,909,738
Transfers from group companies	-	115,230	-	-	115,230
Additions	99,729	388,539	78,654	-	566,922
Transfers	1,050,426	-	-	(1,050,426)	-
Disposal	-	(57,307)	-	-	(57,307)
31 July 2017	1,675,139	3,670,325	189,119	-	5,534,583
Depreciation					
1 August 2016	14,583	1,194,409	48,732	-	1,257,724
Transfers from group companies	-	73,612	-	-	73,612
Charge for the period	199,205	650,183	37,380	-	886,768
Disposal	-	(55,619)	-	-	(55,619)
31 July 2017	213,788	1,862,585	86,112	-	2,162,485
Net book value					
31 July 2017	1,461,351	1,807,740	103,007	-	3,372,098
31 July 2016	510,401	2,029,454	61,733	1,050,426	3,652,014

6 INTANGIBLE ASSETS

	Goodwill	Patents	Software	Total
	£	£	£	£
Cost				
At 1 August 2016	385,000	56,015	157,262	598,277
Additions	-	55,980	1,933	57,913
31 July 2017	385,000	111,995	159,195	656,190
Amortisation				
At 1 August 2016	38,500	9,561	69,772	117,833
Charge for the year	38,500	8,629	52,791	99,920
31 July 2017	77,000	18,190	122,563	217,753
Net book value				
31 July 2017	308,000	93,805	36,632	438,437
31 July 2016	346,500	46,454	87,490	480,444

7 INVESTMENTS

	£
Cost	
At 1 August 2016	170
Addition	-
At 31 July 2017	170
Amortisation	
At 1 August 2016 and 31 July 2017	-
Net book value	
31 July 2017	170
31 July 2016	170

The Company's investment at the balance sheet date in the shares of companies is as follows:

Name of Company	**Nature of business**	**Percentage holding**	**Registered address**
Affimer Limited (formerly Promexus Limited)	Technologies for bio-therapeutic applications	100%	Unit 20, Ash Way, Thorp Arch Estate, Wetherby, LS23 7FA
Avacta Life Sciences Inc.	Technologies for bio-therapeutic applications	100%	Unit 20, Ash Way, Thorp Arch Estate, Wetherby, LS23 7FA

8 STOCK AND WORK IN PROGRESS

	2017 £	2016 £
Raw materials	72,690	215,392

9 DEBTORS

	2017 £	2016 £
Trade debtors	81,260	45,288
Prepayments	266,524	243,083
Other taxes and social security	148,623	249,390
Corporation tax	1,100,000	1,305,011
Other debtors	407,175	231,826
Amounts owed by fellow subsidiary undertakings	140,901	1,329
	2,144,483	2,075,927

10 CREDITORS: Amounts falling due within one year

	2017 £	2016 £
Trade creditors	478,216	220,957
Other taxes and social security	76,961	67,302
Accruals and deferred income	302,340	751,438
Amounts owed to ultimate parent undertaking	23,165,546	17,943,159
Amounts owed to fellow subsidiary undertakings	2,672,337	1,651,942
Other creditors	23,203	28,726
	26,718,603	20,663,524

Included within accruals and deferred income is £20,000 (2016: £16,000) in respect of grants received but not yet recognised in the profit and loss account.

11 SHARE CAPITAL

	2017 £	2016 £
Allotted, issued and fully paid:		
16,411 (2016: 16,411) Ordinary shares of 0.1p each	16	16

12 ULTIMATE PARENT UNDERTAKING

The immediate and ultimate parent undertaking is Avacta Group plc, a company registered in England and Wales. Copies of the report and accounts of that company are available from its registered office at Unit 20, Ash Way, Thorp Arch Estate, Wetherby, LS23 7FA.