Registered number: NI 046249

Almac Discovery Limited
Annual report and financial statements
for the year ended 30 September 2017

Almac Discovery Limited

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Contents

Directors and advisers

Directors

A D Armstrong
S A Barr
C Hayburn
S Campbell
K Stephens

Company secretary

C Hayburn

Registered office

Almac House
20 Seagoe Industrial Estate
Craigavon
BT63 5QD

Solicitors

Pinsent Masons LLP
Arnott House
12-16 Bridge Street
Belfast
BT1 1LS

Bankers

Danske Bank
11 Donegall Square West
Belfast
BT1 6JS

Independent auditors

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Waterfront Plaza
8 Laganbank Road
Belfast
BT1 3LR

Directors' report for the year ended 30 September 2017

The directors present their annual report and the audited financial statements of the company for the year ended 30 September 2017.

Principal activities

Almac Discovery Limited is a private limited company incorporated and domiciled in Northern Ireland. The company's registered address is detailed on page 1.

The principal activities of the company are the discovery and development of novel and innovative approaches to the treatment of cancer and associated conditions.

Financial risk management

Given the nature of its operations, the company has exposure to foreign exchange risk relating to the new contract discussed above. Regarding credit risk, it is standard company policy to perform appropriate credit checks on all potential customers before contracts are entered into. Further commentary is provided in note 3.

Results and dividends

The loss after income tax for the financial year is £111,877 (2016: £2,720,203). The directors do not recommend payment of a dividend (2016: £nil).

Research and development activities

The company is committed to research and development in the area of drug discovery and development of novel and innovative approaches to the treatment of cancer and associated conditions. Research in the year totalled £4,695,190 (2016: £3,948,887) and was expensed as incurred. This is stated before the deduction of £292,873 (2016: £6,598) of research and development tax credits. No development expenditure was incurred in the year (2016: £nil).

Directors

The directors who served during the year and up to the date of approval of the financial statements are shown on page 1.

Going concern

The directors have prepared cash flow forecasts for a period of at least twelve months from the date of signing of this report and confirm that adequate funding has been committed by Almac Group Limited, the Company's ultimate parent, to support the company's operations and planned growth over this period. The directors have received confirmation that Almac Group Limited intend to support the company for at least one year after these financial statements are signed. Consequently, the directors have prepared these financial statements on a going concern basis.

Employees

The company systematically provides employees with all information on matters of concern to them, consulting them or their representatives regularly, so that their views can be taken into account when making decisions that are likely to affect their interests. Employee involvement in the company is encouraged, as achieving a common awareness on the part of all employees of the financial and economic factors affecting the company plays a major role in objectives.

Directors' report for the year ended 30 September 2017

Employees (continued)

The company is committed to employment policies, which follow best practice based on equal opportunities for all employees, irrespective of sex, race, colour, disability or marital status. The company gives full and fair considerations to applications for employment from disabled persons, having regard to their particular aptitudes and abilities. Appropriate arrangements are made for the continued employment and training, career development and promotion of disabled persons employed by the company. If members of staff become disabled the company continues employment, either in the same or an alternative position with appropriate retraining being given if necessary.

Small companies' exemption

The above report has been prepared in accordance with the special provisions relating to small companies with Part 15 of the Companies Act 2006.

Statement of disclosure of information to auditors

So far as each of the directors in office at the date of approval of these financial statements is aware:

- there is no relevant audit information of which the company's auditors are unaware; and

- they have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

Independent auditors

The independent auditors, PricewaterhouseCoopers LLP have indicated their willingness to continue in office, and a resolution concerning their re-appointment will be proposed at the Annual General Meeting.

This statement was approved by the board and signed on its behalf.

K Stephens
Director
19 December 2017

Statement of directors' responsibilities in respect of the financial statements

The directors are responsible for preparing the Annual report and the financial statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. 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 the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; 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.

The directors 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.

K Stephens
Director
19 December 2017

Independent auditors' report to the members of Almac Discovery Limited

Report on the audit of the financial statements

Opinion

In our opinion, Almac Discovery Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 30 September 2017 and of its loss and cash flows for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual report and financial statements (the "Annual report"), which comprise: the balance sheet as at 30 September 2017; the income statement, the cash flow statement and the statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

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

- 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.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern.

Reporting on other information

The other information comprises all of the information in the Annual report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of 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 this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Directors' report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Independent auditors' report to the members of Almac Discovery Limited (continued)

Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Directors' report for the year ended 30 September 2017 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Directors' report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of directors' responsibilities in respect of the financial statements set out on page 4, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also 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.

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.

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

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

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

We have no exceptions to report arising from this responsibility.

Independent auditors' report to the members of Almac Discovery Limited (continued)

Entitlement to exemptions

Under the Companies Act 2006 we are required to report to you if, in our opinion, the directors were not entitled to take advantage of the small companies exemption from preparing a strategic report. We have no exceptions to report arising from this responsibility.

Emma Murray

Emma Murray (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Belfast
19 December 2017

Income statement for the year ended 30 September 2017

	Note	2017 £	2016 £
Continuing operations			
Revenue	2	**5,527,964**	1,881,063
Cost of sales	6	**(98,234)**	(539,256)
Gross profit		**5,429,730**	1,341,807
Administrative expenses	6	**(484,914)**	(399,827)
Research and development expenditure	6	**(4,695,190)**	(3,948,887)
Operating profit/(loss)		**249,626**	(3,006,907)
Operating profit/(loss) is analysed as:			
Operating profit before depreciation, amortisation and R&D ("EBITDA")		**5,429,730**	1,341,808
Depreciation of property, plant and equipment		**(483,233)**	(399,192)
Amortisation and impairment of intangible assets		**(1,681)**	(634)
Research and development expenditure ("R&D")		**(4,695,190)**	(3,948,887)
Finance costs	5	**(415,699)**	(365,743)
Finance income	5	**3,809**	1,986
Finance costs – net	5	**(411,890)**	(363,757)
Loss before income tax		**(162,264)**	(3,370,664)
Income tax credit	8	**50,387**	650,461
Loss for the year attributable to owners of the company		**(111,877)**	(2,720,203)

The notes on pages 12 to 28 are an integral part of these financial statements.

There is no other comprehensive income for the year (2016: £nil).

Statement of changes in equity for the year ended 30 September 2017

	Share capital £	Accumulated losses £	Total equity £
At 1 October 2015	2	(11,720,757)	(11,720,755)
Loss for the financial year and total comprehensive expense	-	(2,720,203)	(2,720,203)
At 1 October 2016	2	(14,440,960)	(14,440,958)
Loss for the financial year and total comprehensive expense	-	(111,877)	(111,877)
At 30 September 2017	**2**	**(14,552,837)**	**(14,552,835)**

The notes on pages 12 to 28 are an integral part of these financial statements.

Balance sheet as at 30 September 2017

	Note	2017 £	2016 £
Assets			
Non-current assets			
Intangible assets	9	**6,005**	7,686
Property, plant and equipment	10	**2,367,443**	2,515,597
Total non-current assets		**2,373,448**	2,523,283
Current assets			
Trade and other receivables	11	**713,239**	1,887,764
Current income tax recoverable		**228,450**	228,450
Cash and cash equivalents		**113**	30
Total current assets		**941,802**	2,116,244
Total assets		**3,315,250**	4,639,527
Liabilities			
Current liabilities			
Borrowings	13	**14,631,942**	17,261,659
Trade and other payables	14	**1,839,352**	960,873
Total current liabilities		**16,471,294**	18,222,532
Non-current liabilities			
Other non-current liabilities	15	**237,255**	169,364
Deferred income tax liabilities	16	**190,947**	49,687
Deferred income	17	**968,589**	638,902
Total non-current liabilities		**1,396,791**	857,953
Total liabilities		**17,868,085**	19,080,485
Equity			
Capital and reserves attributable to owners of the company			
Share capital	18	**2**	2
Accumulated losses		**(14,552,837)**	(14,440,960)
Total equity		**(14,552,835)**	(14,440,958)
Total equity and liabilities		**3,315,250**	4,639,527

The notes on pages 12 to 28 are an integral part of these financial statements.

The financial statements on pages 8 to 28 were authorised for issue by the Board of directors on 19 December 2017 and were signed on their behalf by:

A D Armstrong
Director

S Campbell
Director

Cash flow statement for the year ended 30 September 2017

	Note	2017 £	2016 £
Cash flows from operating activities			
Cash generated from/(used in) operations	19	**1,900,559**	(3,417,923)
Finance costs		**(415,699)**	(365,743)
Tax paid		**-**	(448,767)
Net cash generated from/(used in) operating activities		**1,484,860**	(4,232,433)
Cash flows from investing activities			
Purchase of property, plant and equipment		**(335,079)**	(1,724,935)
Purchase of intangible assets		**-**	(8,166)
Finance income		**3,809**	1,986
Capital grants received		**586,835**	254,173
Net cash generated from/(used in) investing activities		**255,565**	(1,476,942)
Cash flows from financing activities			
(Repayment of)/advances from group undertakings		**(1,763,466)**	5,814,595
Net cash (used in)/generated from financing activities		**(1,763,466)**	5,814,595
Net (decrease)/increase in cash and cash equivalents		**(23,041)**	105,220
Cash and cash equivalents and bank overdrafts at beginning of the year		**(131,541)**	(236,761)
Cash and cash equivalent and bank overdrafts at end of the year	12	**(154,582)**	(131,541)

The notes on pages 12 to 28 are an integral part of these financial statements.

Notes to the financial statements for the year ended 30 September 2017

1 Accounting policies

General information

The company's principal activities during the year were as described in the Directors' report. The financial statements are presented in UK pound sterling. Almac Discovery Limited is a private limited company incorporated and domiciled in Northern Ireland. The company's registered address is detailed on page 1.

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Basis of preparation

The financial statements of Almac Discovery Limited have been prepared on the going concern basis and in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU), the Companies Act 2006 applicable to companies reporting under IFRS, and IFRIC interpretations. The financial statements have been prepared under the historical cost convention.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the company's accounting policies. Management has concluded that there are no critical assumptions, estimates or judgements involving a high degree of judgment or complexity which require further disclosure. The company's accounting policies and estimates are detailed below.

Going concern

The directors have prepared cash flow forecasts for a period of at least twelve months from the date of signing of this report and confirm that adequate funding has been committed by Almac Group Limited, the Company's ultimate parent, to support the company's operations and planned growth over this period. The directors have received confirmation that Almac Group Limited intend to support the company for at least one year after these financial statements are signed. Consequently, the directors have prepared these financial statements on a going concern basis.

New standards, amendments and interpretations effective in the year to 30 September 2017

The accounting policies set out below are those that the company has adopted under International Financial Reporting Standards as adopted by the European Union for the year ended 30 September 2017.

No standards have been adopted by the company for the first time during the financial year beginning on or after 1 October 2016 that have had a material impact on the company.

Standards, amendments and interpretations that are not yet effective and have not been adopted early by the company

The following new standards, new interpretations, and amendments to standards and interpretations that are not yet effective and have not been adopted early by the company:

Amendments to IAS 12, 'Income taxes' on Recognition of deferred tax assets for unrealised losses (effective 1 January 2017)
Amendments to IAS 7, 'Statement of cash flows' (effective 1 January 2017)
IFRS 9, 'Financial instruments' (effective 1 January 2018)
IFRS 15, 'Revenue from contracts with customers' (effective 1 January 2018)
Amendment to IFRS 4 'Insurance contracts' regarding the implementation of IFRS 9, 'Financial instruments' (1 January 2018)
Amendment to IFRS 9, 'Financial instruments', on general hedge accounting (effective 1 January 2018)
Amendments to IFRS 15, 'Revenue from contracts with customers' (effective 1 January 2018)
IFRS 16 (Leases) (1 January 2019)

The introduction of these new standards, interpretations and amendments is not expected to have a material impact on the company.

Notes to the financial statements for the year ended 30 September 2017 (continued)

1 Accounting policies (continued)

Intangible assets

The costs of acquiring and bringing into use computer software are capitalised and amortised on a straight-line basis over the estimated useful economic life of the software which is between three to five years.

Capitalised software development costs include external direct costs of material and services together with direct labour costs relating to software development. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the group are recognised as intangible assets when the following criteria are met:

- it is technically feasible to complete the software product so that it will be available for use;
- management intends to complete the software product and use or sell it;
- there is an ability to use or sell the software product;
- it can be demonstrated how the software product will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and
- the expenditure attributable to the software product during its development can be reliably measured.

Directly attributable costs that are capitalised as part of the software product include the software development employee costs and an appropriate portion of relevant overheads. Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

Property, plant and equipment

Property, plant and equipment is stated at historical cost less accumulated depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

For all assets depreciation is calculated so as to write off the cost less their estimated residual values, on a straight line basis over the expected useful economic lives of the assets concerned, or over the life of project, whichever is earlier.

The principal annual depreciation rates used are as follows:

		%
Plant and machinery	-	10
Fixtures and fittings	-	10
Computer equipment	-	20

The assets' residual values and useful economic lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within administrative expenses in the income statement.

Notes to the financial statements for the year ended 30 September 2017 (continued)

1 Accounting policies (continued)

Financial assets

The company classifies all its financial assets as loans and receivables.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. The group's loans and receivables comprise 'trade and other receivables' and cash and cash equivalents in the balance sheet.

Impairment of financial assets

The company assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated income statement.

Trade and other receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as noncurrent assets.

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

Cash and cash equivalents

In the consolidated statement of cash flows, cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less and bank overdrafts. In the consolidated balance sheet, bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

Trade and other payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities.

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Notes to the financial statements for the year ended 30 September 2017 (continued)

1 Accounting policies (continued)

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are classified as current liabilities unless the group has an unconditional right to defer settlement of the liability for at least twelve months after the balance sheet date.

Current and deferred income tax

The tax expense for the year comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the country where the company operates and generates taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates and laws that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity of different taxable entities where there is an intention to settle the balances on a net basis.

Amounts paid by, or amounts received by, the company in respect of group relief that represent the tax benefit surrendered/received are recorded as an income tax expense/credit in the statement of comprehensive income. Where the amounts paid by, or amounts received by, the company exceed the tax benefit surrendered/received, the excess is recorded directly in equity as a movement in other comprehensive income.

Grants

Grants are recognised at their fair value where there is a reasonable assurance that the grant will be received and the group will comply with all attached conditions. Grants relating to costs are deferred and recognised in the income statement over the period necessary to match them with the costs that they are intended to compensate. Grants relating to property, plant and equipment are included in non-current liabilities as deferred income and are credited to the income statement on a straight-line basis over the expected useful economic lives of the related assets.

Research and development

Expenditure on research is written off in the year in which it is incurred. Development expenditure is capitalised when the criteria for recognising an asset are met.

Research and development tax credits

Under UK tax legislation introduced in the 2013 Finance Bill research & development credits can be claimed against qualifying research & development expenditure. Where these credits are not expected to be restricted by the PAYE/NI cap included within the legislation then the credit is, in substance, a government grant. The company has elected to treat such credits as a government grant and recognise the credits in the same period as the research & development expenditure arises.

Notes to the financial statements for the year ended 30 September 2017 (continued)

1 Accounting policies (continued)

Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the group's activities. Revenue is shown, net of sales taxes, returns, rebates and discounts.

The group recognises revenue when the amount of revenue can be reliably measured and it is probable that future economic benefits will flow to the entity. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The group considers this to be upon customer receipt of products, which is when title to the product is transferred to the customer or upon completion of services when results of testing have been delivered to the customer or logistics operations have been performed. The group uses the percentage-of-completion method in accounting for its fixed price contracts to deliver services. Use of the percentage-of-completion method requires the group to estimate the services performed to date as a proportion of the total services to be performed.

Foreign currency translation

Items included in the financial statements are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The financial statements are presented in UK pound sterling, which is the company's functional and presentation currency.

Foreign currency transactions are translated into the functional currency at the exchange rate ruling on the date of the transaction. All monetary assets and liabilities denominated in foreign currency are translated at the rate of exchange ruling at the balance sheet date.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the income statement within finance income or cost. All other foreign exchange gains or losses are presented in the income statement within administrative expenses.

Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

Pension obligations

The company operates a defined contribution plan for employees whereby the company pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The company has no further payment obligations once the contributions have been paid. The contributions are recognised as an employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

Share-based payments

The company issues cash-settled share-based payments to certain employees of the company for their services to the company. The company accounts for these share based payments as cash-settled share-based payments which are measured at fair value and recognised as an expense in the income statement with a corresponding increase in liabilities. The fair values of these payments are measured at each reporting date using professional external valuers, in line with the terms and conditions upon which the awards are granted. The fair value is recognised over the period during which employees become unconditionally entitled to the awards, subject to the company's estimate of the number of awards which will lapse due to employees leaving the company prior to vesting. The total amount recognised in the income statement as an expense is adjusted to reflect the actual amount of awards that are expected to vest, except where forfeiture is due to employee's termination of contract.

2 Revenue

Revenue is attributable to the company's principal activities carried out in the United Kingdom.

Notes to the financial statements for the year ended 30 September 2017 (continued)

3 Financial risk management

Financial risk factors

Given the nature of its operations, the company has minimal exposure to foreign exchange risk. Regarding credit risk, it is standard company policy to perform appropriate credit checks on all potential customers before contracts are entered into. The company's operations expose it to liquidity risk. The company has in place a risk management programme that seeks to limit the adverse effects on the financial performance of the company by monitoring the foregoing risks.

Foreign exchange risk

While all of the company's revenues are denominated in UK pounds, the company is exposed to foreign exchange risk in transactions with group undertakings based in the US whose functional currency is US dollars. The company has not used financial instruments to date to hedge foreign exchange exposure, this position is kept constantly under review. If the US Dollar had weakened/strengthened by 10% against UK pound sterling with all other variables held constant, the financial statements would have been impacted as follows:

	2017		2016	
	Impact on post-tax losses £'000	**Impact on equity £'000**	Impact on post-tax losses £'000	Impact on equity £'000
US dollar weakens by 10% against UK pound	**(41)**	**(41)**	32	32
US dollar strengthens by 10% against UK pound	**50**	**50**	(39)	(39)

Cash flow interest rate risk

If average interest rates over the year had increased/decreased by 1% with all other variables held constant, the financial statements would have been impacted as follows:-

	2017		2016	
	Impact on post-tax losses £'000	**Impact on equity £'000**	Impact on post-tax losses £'000	Impact on equity £'000
Interest rates increase by 1%	**(167)**	**(167)**	(139)	(139)
Interest rates decrease by 1%	**167**	**167**	139	139

Liquidity risk

The company projects cash flow requirements as part of its annual budget setting process. Cash requirements are monitored dynamically by the company's ultimate parent undertaking, with resources deployed to the company as required. As a result of its activities, the company is a net consumer of cash and combines intergroup funding with external sources to ensure that sufficient liquidity is maintained to allow continued operation.

4 Capital risk management

The company is a subsidiary of Almac Group Limited, their objectives when managing capital are to safeguard the group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders. For further details, refer to the report and financial statements for Almac Group Limited.

Notes to the financial statements for the year ended 30 September 2017 (continued)

5 Finance costs - net

	2017	2016
	£	£
Finance costs - interest payable to group undertakings	**(415,699)**	(365,743)
Finance income - interest receivable on loans from group undertakings	**3,809**	1,986
Finance costs - net	**(411,890)**	(363,757)

6 Expenses by nature

	2017	2016
	£	£
Employee benefits expense (note 7)	**2,265,911**	1,658,905
Depreciation and amortisation	**484,914**	399,827
Operating lease payments	**5,296**	12,970
Revenue grants	**(1,540,820)**	(794,591)
Transfer from capital grant reserve	**(257,148)**	(156,768)
Other expenses*	**4,320,185**	3,767,927
Total cost of sales, administrative expenses and research and development expenditure	**5,278,338**	4,888,270

*Other expenses of £4,320,185 (2016: £3,767,927) are stated after the deduction of £292,873 (2016: £6,598) of research and development tax credits.

Services provided by the independent auditors and network firms

During the year the company obtained the following services from the independent auditor at costs as detailed below:

	2017	2016
	£	£
Fees payable to the company's auditors for the audit of the financial statements	**4,280**	4,140
Fees payable to the company's auditors for other services:		
- other services pursuant to legislation	**2,850**	2,850
- tax services	**1,545**	1,545
	8,675	8,535

7 Employees and directors

	2017	2016
	£	£
Staff costs during the year:		
Wages and salaries	**1,946,817**	1,464,409
Social security costs	**169,490**	161,863
Other pension costs (note 20)	**72,332**	65,336
Share based payment costs (note 24)	**77,272**	(32,703)
	2,265,911	1,658,905

Notes to the financial statements for the year ended 30 September 2017 (continued)

7 Employees and directors (continued)

	2017 Number	2016 Number
Average monthly number of persons employed (including directors) during the year by activity:		
Research and development	**39**	38

There were no key members of management during the year or the previous year other than the directors. Two directors (2016: two) have retirement benefits accruing under a defined contribution plan. Directors remuneration is borne by other group companies and is disclosed for the group in Almac Group Limited financial statements.

8 Income tax credit

	2017 £	2016 £
Current tax		
Current tax credit	**20,030**	569,178
Adjustments in respect of previous periods	**171,617**	29,030
Total current tax	**191,647**	598,208
Deferred tax		
Origination and reversal of temporary differences	**19,563**	37,607
Adjustments in respect of prior periods	**(158,315)**	5,878
Changes in tax laws and rates	**(2,508)**	8,768
Total deferred tax	**(141,260)**	52,253
Income tax credit	**50,387**	650,461

The tax on the company's loss before tax differs from (2016: differs from) the theoretical amount that would arise using the weighted average tax rate applicable to (losses)/profits of the company as follows:

	2017 £	2016 £
Loss before income tax	**(162,264)**	(3,370,664)
Loss before income tax at the UK standard rate of 19.5% (2016: 20%)	**(31,641)**	(674,133)
Effects of:		
Adjustments in respect of previous periods	**(13,302)**	(34,908)
Income not subject to tax	**(46,536)**	(31,354)
Expenses not deductible for tax purposes	**38,584**	57,894
Group relief not paid for	**-**	40,808
Changes in tax laws and rates	**2,508**	(8,768)
Income tax credit	**(50,387)**	(650,461)

Notes to the financial statements for the year ended 30 September 2017 (continued)

9 Intangible assets

	Computer software £
Cost	
At 1 October 2015, 1 October 2016 and **30 September 2017**	**20,373**
Accumulated amortisation	
At 1 October 2015	12,053
Charge for the year	634
At 30 September 2016	12,687
Charge for the year	1,681
At 30 September 2017	**14,368**
Net book amount	
At 30 September 2017	**6,005**
At 30 September 2016	7,686
At 30 September 2015	154

Amortisation is included within research and development expenditure in the income statement.

Notes to the financial statements for the year ended 30 September 2017 (continued)

10 Property, plant and equipment

	Plant and machinery £	Fixtures, fittings and computer equipment £	Total £
Cost			
At 1 October 2015	1,574,989	1,823,265	3,398,254
Additions	1,185,178	539,757	1,724,935
At 1 October 2016	2,760,167	2,363,022	5,123,189
Additions	323,466	11,613	335,079
At 30 September 2017	**3,083,633**	**2,374,635**	**5,458,268**
Accumulated depreciation			
At 1 October 2015	895,635	1,312,764	2,208,399
Charge for the year	213,708	185,485	399,193
At 30 September 2016	1,109,343	1,498,249	2,607,592
Charge for the year	288,890	194,343	483,233
At 30 September 2017	**1,398,233**	**1,692,592**	**3,090,825**
Net book amount			
At 30 September 2017	**1,685,400**	**682,043**	**2,367,443**
At 30 September 2016	1,650,824	864,773	2,515,597
At 30 September 2015	679,354	510,501	1,189,855

Depreciation is included within research and development expenditure in the income statement.

11 Trade and other receivables

	2017 £	2016 £
Trade receivables	**5,507**	507,693
Amounts owed by group undertakings (note 25)	**6,018**	63,178
Group relief receivable (note 25)	**312,902**	764,663
Other receivables	**118,682**	21,593
Prepayments and accrued income	**270,130**	530,637
	713,239	1,887,764

The fair values of trade and other receivables are not materially different from the carrying values.

For the purposes of IFRS 7 "Financial instruments: Disclosures" all of the company's financial assets are classified as loans and receivables. The company has no assets that may be classified as held at fair value through profit and loss, derivatives used for hedging or available-for-sale.

Notes to the financial statements for the year ended 30 September 2017 (continued)

11 Trade and other receivables (continued)

The carrying amount of the company's trade and other receivables are denominated in the following currencies:

	2017 £	2016 £
Currency		
UK pound	**709,476**	1,386,587
US dollar	-	501,177
Euro	**3,763**	-
	713,239	1,887,764

The maximum exposure to credit risk at the reporting date is the fair value of each class of receivable above.

None of these trade receivables have had their terms renegotiated.

No classes within trade and other receivables contain impaired assets.

12 Cash and cash equivalents

Cash, cash equivalents and bank overdrafts include the following for the purposes of the cash flow statement:

	2017 £	2016 £
Cash and cash equivalents	**113**	29
Bank overdrafts (note 13)	**(154,695)**	(131,571)
	(154,582)	(131,542)

13 Borrowings

	2017 £	2016 £
Current		
Bank overdrafts – secured	**154,695**	131,571
Amounts owed to group undertakings (note 25)	**14,477,247**	17,130,088
Total current	**14,631,942**	17,261,659

Included within amounts owed to group undertakings is a loan due to Almac Group Limited, which is unsecured, interest free and has no set date of repayment.

The fair value of non-current borrowings equals their carrying amount as the impact of discounting is not significant.

For the purposes of IFRS 7 "Financial instruments: Disclosures" the financial liabilities noted above are classified as other financial liabilities. The company has no liabilities that may be classified as held at fair value through profit or loss or derivatives used for hedging.

Notes to the financial statements for the year ended 30 September 2017 (continued)

13 Borrowings (continued)

The carrying amounts of the company's borrowings are denominated in the following currencies:

	2017	2016
	£	£
UK Pound Sterling	**14,353,785**	17,242,885
Euro	**(38,082)**	38,387
US Dollar	**316,239**	(19,613)
Total current	**14,631,942**	17,261,659

There is no difference between the amounts shown above and the total contractual undiscounted cashflows of current borrowings.

The effective interest rates at the balance sheet date were as follows:

	2017	2016
	%	%
Bank overdrafts	**2.94**	2.64

14 Trade and other payables

	2017	2016
	£	£
Trade payables	**729,507**	186,553
Amounts owed to group undertakings (note 25)	**90,861**	36,216
Other tax and social security	**52,392**	77,274
Other creditors	**15,113**	45,305
Accruals	**951,479**	615,525
	1,839,352	960,873

The fair value of trade and other payables are not materially different from their carrying values as the impact of discounting is not significant. For the purposes of IFRS 7 "Financial instruments: Disclosures" the financial liabilities noted above are classified as other financial liabilities. The company has no liabilities that may be classified as held at fair value through profit or loss or derivatives used for hedging.

There are no differences between the amounts shown above and the total contractual undiscounted cash flows of trade and other payables.

15 Other non-current liabilities

	2017	2016
	£	£
Accruals	**237,255**	169,364

Notes to the financial statements for the year ended 30 September 2017 (continued)

15 Other non-current liabilities (continued)

Maturity of other non-current liabilities

The maturity profile of the carrying amount of other non-current liabilities at 30 September was as follows:

	2017	2016
	£	£
In more than one year but not more than two years	**99,281**	51,182
In more than two years but not more than five years	**137,974**	118,182
	237,255	169,364

There is no difference between the amounts shown above and the total contractual undiscounted cash flows of trade and other non-current liabilities.

16 Deferred income tax liabilities

The gross movement on the deferred income tax account is as shown below:

Deferred tax liabilities	£
At 1 October 2015	(101,940)
Credited to the income statement	52,253
At 1 October 2016	(49,687)
Charged to the income statement	(141,260)
At 30 September 2017	**(190,947)**

The movement in deferred income tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction is as follows:

Deferred tax assets/(liabilities)	**Other temporary differences £**	**Accelerated capital allowances £**	**Total £**
At 1 October 2015	50,220	(152,160)	(101,940)
(Charged)/credited to the income statement	(9,212)	61,465	52,253
At 1 October 2016	41,008	(90,695)	(49,687)
(Charged)/credited to the income statement	8,184	(149,444)	(141,260)
At 30 September 2017	**49,192**	**(240,139)**	**(190,947)**

The analysis of deferred income tax liabilities is as follows:

	2017	2016
	£	£
Deferred income assets:		
- Deferred tax assets to be recovered after more than 12 months	**49,192**	41,008
Deferred income tax liabilities:		
- Deferred tax liabilities to be recovered after more than 12 months	**(240,139)**	(90,695)
Deferred income tax liabilities – net	**(190,947)**	(49,687)

Notes to the financial statements for the year ended 30 September 2017 (continued)

17 Deferred income

Government grants	**£**
At 1 October 2015	541,497
Capital grants received during the year	254,173
Released to the income statement	(156,768)
At 1 October 2016	638,902
Capital grants received during the year	586,835
Released to the income statement	(257,148)
At 30 September 2017	**968,589**

18 Share capital

	2017	2016
	£	£
Allotted and fully paid		
2 (2016: 2) ordinary shares of £1 each	**2**	2

19 Cash generated from/(used in) operations

	2017	2016
	£	£
Loss before income tax	**(162,264)**	(3,370,664)
Adjustments for:		
Depreciation of property, plant and equipment	**483,233**	399,193
Amortisation of intangible assets	**1,681**	634
Finance costs - net	**411,890**	363,757
Release of capital grant	**(257,148)**	(156,768)
Movement in trade and other receivables	**482,304**	(434,949)
Movement in trade and other payables	**940,863**	(219,125)
Net cash generated from/(used in) operations	**1,900,559**	(3,417,923)

20 Pension commitments

The company participates in a group defined contribution scheme for employees whereby the assets of the scheme are held separately from those of the group in an independently administered scheme. Contributions are charged to the income statement in the year to which they relate.

Pension costs for the defined contribution scheme are as follows:

	2017	2016
	£	£
Defined contribution scheme	**72,332**	65,336

Amounts owed to the pension scheme as at 30 September 2017 totalled £5,789 (2016: £7,329).

Notes to the financial statements for the year ended 30 September 2017 (continued)

21 Capital and other financial commitments

	2017	2016
	£	£
Contracts placed for future property, plant and equipment expenditure not provided in the financial statements	39,559	64,928

22 Operating lease commitments - minimum lease payments

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	Motor vehicles		Other	
	2017	2016	2017	2016
	£	£	£	£
No later than one year	-	2,835	2,177	2,177
More than one year and no later than five years	-	-	2,470	4,647
	-	2,835	4,647	6,824

23 Contingent liabilities

The company is party to an unlimited inter-company cross company guarantee in relation to group banking facilities.

There exists a contingent liability to repay certain capital and revenue grants received from Invest Northern Ireland if certain conditions are not met. The directors do not anticipate any repayment falling due under the terms on which the grants were received as there are no unfulfilled conditions.

24 Share based payments

The company operates a phantom share scheme whereby share awards are granted to directors and senior management employees. The share award is granted for £nil consideration, and is conditional on the director or employee continuing in employment for a period of three years from the date of share award is made, which is the first of January following the financial year end. The company accounts for these share awards as cash-settled share-based payments which are measured at fair value and recognised as an expense in the income statement with a corresponding increase in liabilities. The fair values of these payments are measured at each reporting date using professional external valuers, in line with the terms and conditions upon which the awards are granted.

The fair value is recognised over the period during which employees become unconditionally entitled to the awards, subject to the company's estimate of the number of awards which will lapse due to employees leaving the company prior to vesting. The total amount recognised in the income statement as an expense is adjusted to reflect the actual amount of awards that are expected to vest, except where forfeiture is due to employee's termination of contract.

Share awards are exercisable from the first of January, three years following the award date. The share award is exercisable at the share price as determined by professional qualified valuers at the end of financial year when the share is exercisable and all share awards are cash settled.

Notes to the financial statements for the year ended 30 September 2017 (continued)

24 Share based payments (continued)

The fair value of each share award granted and the assumptions used in the calculation are as follows:

Grant date	September 2017	September 2016
Share price at grant date	**£0.762**	£0.651
Number of employees	**3**	4
Share awards	**76,661**	120,954
Vesting period (years)	**4**	4
Option life (years)	**4**	4
Expected life (years)	**4**	4
Dividend yield	**Nil**	Nil
Risk free interest rate	**5.0%**	5.0%
Fair value	**£0.762**	£0.651

The fair value of share awards granted during the year determined using the Black-Scholes valuation model was £0.762 (2016: £0.651). The significant inputs into the model were the share price at grant date, exercise price, dividend yield, risk free interest rate and expected option life as shown above.

Movements in the number of share awards outstanding are as follows:

	2017 Number	2016 Number
Outstanding at 1 October	**181,396**	387,836
Granted	**76,661**	120,954
Forfeited	**-**	(194,211)
Exercised	**(48,149)**	(133,183)
Outstanding at 30 September	**209,908**	181,396
Exercisable on 1 January 2018/2017	**48,655**	48,149

The weighted average share price of share awards exercised in the year was £0.762 (2016: £0.651).

Share awards outstanding at the end of the year have the following expiry dates:

	2017 Number	2016 Number
2017	**-**	48,149
2018	**48,655**	48,655
2019	**84,592**	84,592
2020	**76,661**	-
	209,908	181,396

The total income recognised in the income statement was £77,272 (2016: £32,703). The year-end liability is £159,950 (2016: £118,089).

Notes to the financial statements for the year ended 30 September 2017 (continued)

25 Ultimate controlling party and related party transactions

The ultimate parent undertaking and the largest and smallest group of undertakings of which the company is a member and for which group financial statements are prepared is Almac Group Limited, a company incorporated in Northern Ireland. The registered office of Almac Group Limited is Almac House, 20 Seagoe Industrial Estate, Craigavon, BT63 5QD. Copies of the group financial statements are available from Companies Registry.

At the balance sheet date, the ultimate controlling parties are A D Armstrong, S Campbell, C Hayburn, and J W Irvine.

The McClay Foundation is a related party due to common directors.

Companies within Almac Group Limited are related parties of Almac Discovery Limited.

Transactions entered into during the year and year end balances with companies within Almac Group Limited were as follows:

	2017	2016
	£	£
Purchases from group undertakings	**488,061**	(426,170)
Management charge	**249,999**	(309,088)
Interest receivable from related parties (note 5)	**3,809**	1,986
Interest payable to related parties (note 5)	**415,699**	(365,743)
Amounts owed by group undertakings (note 11)	**6,018**	63,178
Amounts owed to group undertakings (note 13 and 14)	**(14,568,108)**	(17,166,304)
Group relief receivable (note 11)	**312,902**	764,663