Company registration number: 02886521

# MW Encap Limited

## Annual Report and Financial Statements

## 31 December 2016

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**MW Encap Limited**

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## MW Encap Limited

### Directors and other information

| | |
|---|---|
| **Directors** | Stephen Brown<br>John de Grandpre<br>John L Shroyer<br>Guldo Driesen<br>Amit M Patel |
| **Secretary** | John de Grandpre |
| **Corporate Secretary** | Jordan Company Secretaries Limited (Appointed 1/4/16) |
| **Company number** | 02886521 |
| **Registered office** | 20-22 Bedford Row<br>London<br>England<br>WC1R 4JS |
| **Business address** | 4 - 5 Oakbank Park Way<br>Livingston<br>West Lothian<br>EH53 0TH |
| **Auditor** | KPMG LLP<br>Saltire Court<br>20 Castle Terrace<br>Edinburgh<br>EH1 2EG |

MW Encap Limited

Strategic report
Year ended 31 December 2016

**Main Business Objectives**

MW Encap Limited (Encap) focuses on its core technology of liquid filled hard capsules. The company is a world leader in the technology and has the expertise, equipment and facilities to develop liquid filled hard capsule products and manufacture under GMP conditions for clinical and commercial (licensed) pharmaceutical products. The main business objective is to grow the Development business (number and value of client projects) and to retain manufacturing contracts for products on commercialisation.

**Business Model/Strategy**

The business has been in operation since 1989 as a manufacturing operation. Since 2005 the strategy has been to build the Development services (values and number of client projects) and thus increase the opportunity to establish new commercial product manufacturing contracts at the company as these products progress through the development and registration process. A number of products are in the pipeline and scheduled to become commercial products over the next 2-3 years. As noted in note 23, the ultimate parent undertaking has changed to Lonza Group, a company registered in Switzerland.

**Financial Risk Management and Policies**

The company's operations expose it to a variety of financial risks.

Encap has a long history with its commercial clients and there is no history of bad debts. No single commercial client is greater than 10% of total revenues. Nevertheless, Encap maintains contact with all commercial clients and monitors for any signs of change of control or instability.

Encap Development services business is split across a relatively large number of clients (>30). There are two development customers in the late stage of the development process which currently provide ~ 13% of total revenues.

Credit Risk/Cashflow Risk - Trade debtors are managed in respect of credit and cashflow risk by policies concerning the credit offered to clients and regular monitoring of amounts outstanding for both time and credit limits.

Liquidity Risk - Trade creditors' liquidity risk is managed ensuring sufficient funds are available to meet amounts due.

Financial Risk - The company has established a risk and financial management framework whose primary objectives are to protect the company from events that hinder the achievement of the company's performance objectives.

**Review of the Business**

As included in the Statement of Income and retained earnings, the turnover for the year under review amounted to £12,444,430 (2015 : £11,099,858). This figure consists of the value of development and manufacturing services to clients. The loss before taxation amounted to £29,475 (2015 : £537,155).

26 Sept 2017

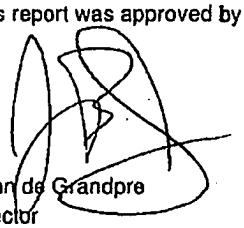
**Environmental, Health and Safety (EHS)**

Compliance with laws, regulations and other applicable EHS requirements is a top priority for Encap and its parent company Capsugel SA. While compliance is a critical starting point, the company is also focused on continually enhancing all aspects of our business, including EHS. To that end the company seeks to achieve the highest standards of EHS performance, which includes three key elements:

1. Fully compliant operations
2. Zero EHS incidents
3. Environmentally sustainable operations, products and services.

The company has a written policy covering each of the above three elements and it is Encaps' Site Management responsibility to implement this policy and Capsugel SA EHS Management System.

This report was approved by the board of directors on 26 Sept 2017 and signed on behalf of the board by:



John de Grandpre
Director

## Directors' report
## Year ended 31 December 2016

The directors present their report and the financial statements of the company for the year ended 31 December 2016.

### Directors
The directors who served the company during the year were as follows:

Stephen Brown
John de Grandpre
John L Shroyer
Guido Driesen
Amit M Patel

MW Encap Limited is a wholly owned subsidiary of MW Encap (Holdings) Limited.

### Dividends
The directors do not recommend the payment of a dividend.

### Future developments
Encap will add facilities and equipment in 2017 to expand its development service offerings to include capsule microdosing using the Xcelodose technology. The company has a pipeline of late stage client projects which are expected to progress to product submissions and approvals over the next 5 years.

### Events after the end of the reporting period
Particulars of events after the reporting period are detailed in note 23 to the financial statements.

### Disclosure of information in the Strategic report
The information relating to main business objectives, business model/strategy, financial risk management and policies, review of the business, environmental and health and saftey policies have been included in the Strategic Report in accordance with section 414C(11) of the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013.

**Statement of directors' responsibilities in respect of the annual report and the financial statements**

The directors are responsible for preparing the Strategic report, Directors' report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with 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 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 accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They 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.

**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 each 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 ought to have taken as a director to make himself aware of any relevant audit information and to establish that the company's auditor is aware of that information.

**Auditor**

Pursuant to Section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and KPMG LLP will therefore continue in office.

This report was approved by the board of directors on 26 Sept 2017 and signed on behalf of the board by:

John de Grandpre
Director
Registered Office
20-22 Bedford Row
London
England
WC1R 4JS

## Independent auditor's report to the members of MW Encap Limited

We have audited the financial statements of MW Encap Limited for the year ended 31 December 2016 on pages 9 to 24. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standard (United Kingdom Generally Accepted Accounting Practice), including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland.

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.

### Respective responsibilities of directors and auditor

As explained more fully in the Directors' responsibilities 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. Our responsibility is to audit, and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

### Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2016 and of its loss for the year then ended;
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Strategic report and the Directors' report for the financial year is consistent with the financial statements.

Based solely on the work required to be undertaken in the course of the audit of the financial statements and from reading the Strategic report and the Directors' report:

- we have not identified material misstatements in those reports; 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**

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and the 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.



Andrew Shaw (Senior Statutory Auditor)

For and on behalf of KPMG LLP, Statutory Auditor
Saltire Court
20 Castle Terrace
Edinburgh
EH1 2EG
28 September 2017

## MW Encap Limited

### Statement of Income and retained earnings
### Year ended 31 December 2016

| | Note | 2016 £ | 2015 £ |
|---|---|---|---|
| **Turnover** | 4 | 12,444,430 | 11,099,858 |
| Cost of sales | | (4,153,330) | (4,207,467) |
| **Gross profit** | | 8,291,100 | 6,892,391 |
| Distribution costs | | (205,366) | (244,128) |
| Administrative expenses | | (8,460,663) | (7,539,113) |
| Other operating income | 5 | 346,469 | 357,433 |
| **Operating loss** | 6 | (28,460) | (533,417) |
| Other interest receivable and similar income | 9 | 2,994 | 1,565 |
| Interest payable and similar charges | 10 | (4,009) | (5,303) |
| **Loss on ordinary activities before taxation** | | (29,475) | (537,155) |
| Tax on loss on ordinary activities | 11 | (26,527) | 266,860 |
| **Loss for the financial year and total comprehensive income** | | (56,002) | (270,295) |
| **Retained earnings at the start of the year** | | 5,324,865 | 5,595,160 |
| **Retained earnings at the end of the year** | | 5,268,863 | 5,324,865 |

All the activities of the company are from continuing operations.

**The notes on pages 12 to 24 form part of these financial statements.**

## MW Encap Limited

### Statement of financial position
### 31 December 2016

| | Note | 2016 £ | £ | 2015 £ | £ |
|---|---|---|---|---|---|
| **Fixed assets** | | | | | |
| Intangible assets | 12 | 697,177 | | 739,213 | |
| Tangible assets | 13 | 4,745,695 | | 2,750,991 | |
| | | | 5,442,872 | | 3,490,204 |
| **Current assets** | | | | | |
| Stocks | 14 | 733,574 | | 864,315 | |
| Debtors | 15 | 5,873,996 | | 5,501,354 | |
| Cash at bank and in hand | | 912,749 | | 1,466,104 | |
| | | 7,520,319 | | 7,831,773 | |
| **Creditors: amounts falling due within one year** | 16 | (7,297,813) | | (5,604,870) | |
| **Net current assets** | | | 222,506 | | 2,226,903 |
| **Total assets less current liabilities** | | | 5,665,378 | | 5,717,107 |
| **Creditors: amounts falling due after more than one year** | 17 | | - | | (22,254) |
| **Provisions for liabilities** | | | (95,515) | | (68,988) |
| **Net assets** | | | 5,569,863 | | 5,625,865 |
| **Capital and reserves** | | | | | |
| Called up share capital | 21 | | 301,000 | | 301,000 |
| Profit and loss account | | | 5,268,863 | | 5,324,865 |
| **Shareholders' funds** | | | 5,569,863 | | 5,625,865 |

These financial statements were approved by the board of directors and authorised for issue on 26 Sept 2017, and are signed on behalf of the board by:

Stephen Brown.

Stephen Brown
Director

Company registration number: 02886521

**The notes on pages 12 to 24 form part of these financial statements.**

**MW Encap Limited**

**Statement of changes in equity**
**Year ended 31 December 2016**

| | Called up share capital | Profit and loss account | **Total** |
|---|---|---|---|
| | £ | £ | £ |
| **At 1 January 2015** | 301,000 | 5,595,160 | 5,896,160 |
| Loss for the year | - | (270,295) | (270,295) |
| **Total comprehensive income for the year** | - | (270,295) | (270,295) |
| **At 31 December 2015 and 1 January 2016** | 301,000 | 5,324,865 | 5,625,865 |
| Loss for the year | - | (56,002) | (56,002) |
| **Total comprehensive income for the year** | - | (56,002) | (56,002) |
| **At 31 December 2016** | 301,000 | 5,268,863 | 5,569,863 |

## 1. General information

The company is a private company limited by shares, registered in England. The address of the registered office is MW Encap Limited, 20-22 Bedford Row, London, England, WC1R 4JS.

## 2. Statement of compliance

These financial statements have been prepared in compliance with FRS 102, 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'.

## 3. Accounting policies

**Basis of preparation**

The financial statements have been prepared on the historical cost basis.

The financial statements are prepared in sterling, which is the functional currency of the entity.

The company is exempt from the requirement of FRS 102 to prepare a cashflow statement, as it is a wholly owned subsidiary of MW Encap (Holdings) Limited and its cashflows are included within the consolidated cashflow statement of that company.

The company's ultimate parent undertaking , MW Encap (Holdings) Limited, includes the company in its consolidated financial statements. The consolidated financial statements of MW Encap (Holdings) Limited are available to the public and may be obtained from the address in note 25. 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:

Reconciliation of the number of shares outstanding from the beginning to end of the period;

Cash flow statement and related notes; and

Key management personnel compensation.

As the consolidated financial statements of MW Encap (Holdings) Limited include the equivalent disclosures, the company has also taken the exemptions under FRS 102 available in respect of the following disclosure:

The disclosures required by FRS 102.11 Basic Financial Instruments and FRS 102.12 Other Financial Instrument Issues in respect of financial instruments not falling within the fair value accounting rules of paragraph 36 (4) of Schedule 1.

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

Judgements made by the directors, in the application of these accounting policies that have significant effect on the financial statements, and estimates with a significant risk of material adjustment in the next year are discussed in note 26.

**Turnover**

Turnover comprises the value of production goods and development contracts supplied by the company, net of value added tax and trade discounts. Revenue from production sales is recognised at sales invoice date when the company has delivered products to customers. Revenue from development sales is predominately based on milestone stage payments which reflect the value of work done for customers, spread over the period of the projects. The amount of profit attributable to the stage of completion of the development sales is recognised when the outcome of the milestone can be foreseen with reasonable certainty. Provision is made for any losses as soon as they are foreseen.

**Taxation**

The taxation expense represents the aggregate amount of current and deferred tax recognised in the reporting period. Tax is recognised in the statement of comprehensive income, except to the extent that it relates to items recognised in other comprehensive income or directly in capital and reserves. In this case, tax is recognised in other comprehensive income or directly in capital and reserves, respectively.

Current tax is recognised on taxable profit for the current and past periods. Current tax is measured at the amounts of tax expected to pay or recover using the tax rates and laws that have been enacted or substantively enacted at the reporting date.

Deferred tax is recognised in respect of all timing differences at the reporting date. Unrelieved tax losses and other deferred tax assets are recognised to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits. Deferred tax is measured using the tax rates and laws that have been enacted or substantively enacted by the reporting date that are expected to apply to the reversal of the timing difference.

**Foreign currencies**

Foreign currency transactions are initially recorded in the functional currency, by applying the spot exchange rate as at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rate ruling at the reporting date, with any gains or losses being taken to profit or loss.

**Operating leases**

Lease payments are recognised as an expense over the lease term on a straight-line basis. The aggregate benefit of lease incentives is recognised as a reduction to expense over the lease term, on a straight-line basis.

**Intangible assets**

Intangible fixed assets are held at cost and amortised over the estimated useful life of the intangible. If there is an indication that there has been a significant change in amortisation rate, useful life or residual value of intangible assets, the amortisation is revised prospectively to reflect the new estimates.

**Amortisation**

Amortisation is calculated so as to write off the cost of an asset, less its estimated residual value, over the estimated time to generate revenues as follows:

| | |
|---|---|
| Patents, trademarks and licences | - Straight line over 223 months |

**Research and development**

Research expenditure is written off in the year in which it is incurred.

Development expenditure is also written off in the year in which it is incurred.

**Tangible assets**
Tangible assets are initially recorded at cost, and are subsequently stated at cost less any accumulated depreciation and impairment losses.

**Depreciation**
Depreciation is calculated so as to write off the cost or valuation of an asset, less its residual value, over the useful economic life of that asset as follows:

| | |
|---|---|
| Short leasehold property | - Straight line over the length of the lease |
| Plant and machinery | - 10%-50% Straight line |
| Fittings fixtures and equipment | - 15%-30% Straight line |

If there is an indication that there has been a significant change in depreciation rate, useful life or residual value of tangible assets, the depreciation is revised prospectively to reflect the new estimates.

**Impairment**
A review for indicators of impairment is carried out at each reporting date, with the recoverable amount being estimated where such indicators exist. Where the carrying value exceeds the recoverable amount, the asset is impaired accordingly. Prior impairments are also reviewed for possible reversal at each reporting date.

**Stocks**
Stocks are measured at the lower of cost and estimated selling price less costs to complete and sell. Cost includes all costs of purchase, costs of conversion and other costs incurred in bringing the stocks to their present location and condition.

**Hire purchase and finance leases**
Assets obtained under hire purchase contracts are capitalised as tangible assets and depreciated as above. Obligations under such agreements are included in creditors net of finance charge allocated to future periods.
Assets held under finance leases are recognised in the statement of financial position as assets and liabilities at the lower of the fair value of the assets and the present value of the minimum lease payments, which is determined at the inception of the lease term. Any initial direct costs of the lease are added to the amount recognised as an asset.
Lease payments are apportioned between the finance charges and reduction of the outstanding lease liability using the effective interest method. Finance charges are allocated to each period so as to produce a constant rate of interest on the remaining balance of the liability.

**Government grants**
Capital based government grants are included within accruals and deferred income in the Statement of financial position and credited to the Statement of income and retained earnings over the estimated useful economic lives of the assets to which they relate.

**Provisions**

Provisions are recognised when the entity has an obligation at the reporting date as a result of a past event; it is probable that the entity will be required to transfer economic benefits in settlement and the amount of the obligation can be estimated reliably. Provisions are recognised as a liability in the Statement of financial position and the amount of the provision as an expense.

Provisions are initially measured at the best estimate of the amount required to settle the obligation at the reporting date and subsequently reviewed at each reporting date and adjusted to reflect the current best estimate of the amount that would be required to settle the obligation. Any adjustments to the amounts previously recognised are recognised in profit or loss unless the provision was originally recognised as part of the cost of an asset. When a provision is measured at the present value of the amount expected to be required to settle the obligation, the unwinding of the discount is recognised in finance costs in profit or loss in the period it arises.

**Basic financial instruments**

Trade and other debtors/creditors:

Trade and other debtors are recognised initially at transaction price less attributable transaction costs. Trade and other creditors are recognised initially at transaction price plus attributable transaction costs. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses in the case of trade debtors. If the arrangement constitutes a financing transaction, for example if payment is deferred beyond normal business terms, then it is measured at the present value of future payments discounted at a market rate of instrument for a similar debt instrument.

**Going concern**

The directors have prepared cash flow forecasts for the company which cover a period of at least twelve months from the date of approval of these financial statements. The cash flow forecasts indicate that the company will generate enough cash to be able to meet its liabilities as they fall due and accordingly the directors have prepared the financial statements on the going concern basis.

**Expenses**

Interest receivable and interest payable:

Interest payable and similar charges include interest payable and unwinding of the discount on provisions. Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that takes a substantial time to be prepared for use, are expensed as incurred.

Other interest receivable and similar income include interest receivable on funds invested.

Interest income and interest payable are recognised in the Statement of income and retained earnings as they accrue, using the effective interest method. Dividend income is recognised in the Statement of income and retained earnings on the date the company's right to receive payments is established. Foreign currency gains and losses are reported on a net basis.

**Defined contribution plans**

Contributions to defined contribution plans are recognised as an expense in the period in which the related service is provided. Prepaid contributions are recognised as an asset to the extent that the prepayment will lead to a reduction in future payments or a cash refund.

## 4. Turnover

Turnover arises from:

| | 2016 | 2015 |
|---|---|---|
| | £ | £ |
| Production | 3,596,955 | 3,719,103 |
| Development | 8,847,475 | 7,380,755 |
| | 12,444,430 | 11,099,858 |

The turnover is attributable to the one principal activity of the company. An analysis of turnover by the geographical markets that substantially differ from each other is given below:

**Geographical markets**

| | 2016 | 2015 |
|---|---|---|
| | £ | £ |
| UK | 1,000,993 | 2,226,512 |
| Europe | 3,573,128 | 3,376,634 |
| Rest of World | 7,870,309 | 5,496,712 |
| | 12,444,430 | 11,099,858 |

## 5. Other operating income

| | 2016 | 2015 |
|---|---|---|
| | £ | £ |
| Government grant income | 14,470 | 14,470 |
| Other operating income | 331,999 | 342,963 |
| | 346,469 | 357,433 |

## 6. Expenses and auditor's remuneration

Operating loss is stated after charging:

| | 2016 | 2015 |
|---|---|---|
| | £ | £ |
| Amortisation of intangible assets | 42,036 | 42,037 |
| Depreciation of tangible assets | 693,843 | 759,487 |
| Impairment of tangible assets recognised in: | | |
| Administrative costs | - | 380,399 |
| Cost of stocks recognised as an expense | 1,105,973 | 1,299,837 |
| Impairment of trade debtors | 43,751 | 64,721 |
| Operating lease rentals | 275,015 | 203,539 |
| Foreign exchange differences | 66,550 | 48,671 |
| Fees payable for the audit of the financial statements | 22,900 | 18,474 |

## 7. Staff costs

The average number of persons employed by the company during the year, including the directors, amounted to:

| | 2016 | 2015 |
|---|---|---|
| Direct staff, supervisory and administration | 129 | 108 |

The aggregate payroll costs incurred during the year were:

| | 2016 | 2015 |
|---|---|---|
| | £ | £ |
| Wages and salaries | 4,976,255 | 3,979,680 |
| Social security costs | 451,545 | 395,751 |
| Other pension costs | 303,970 | 255,209 |
| | 5,731,770 | 4,630,640 |

## 8. Directors' remuneration

The directors' aggregate remuneration in respect of qualifying services was:

| | 2016 | 2015 |
|---|---|---|
| | £ | £ |
| Remuneration | 197,970 | 210,334 |
| Company contributions to pension schemes in respect of qualifying services | 22,144 | 20,518 |
| | 220,114 | 230,852 |

The number of directors who accrued benefits under company pension plans was as follows:

| | 2016 | 2015 |
|---|---|---|
| Defined contribution plans | 1 | 1 |

## 9. Other interest receivable and similar income

| | 2016 | 2015 |
|---|---|---|
| | £ | £ |
| Bank deposits | 2,994 | 1,565 |

## 10. Interest payable and similar charges

| | 2016 | 2015 |
|---|---|---|
| | £ | £ |
| Finance leases and hire purchase contracts | 4,009 | 5,303 |

## 11. Tax on loss on ordinary activities

### Major components of tax expense/(income)

| | 2016 | 2015 |
|---|---|---|
| | £ | £ |
| **Current tax:** | | |
| UK current tax expense | - | 80,222 |
| Adjustments in respect of previous periods | - | (267,205) |
| Total current tax | - | (186,983) |
| **Deferred tax:** | | |
| Origination and reversal of timing differences | 26,527 | (79,877) |
| **Tax on loss on ordinary activities** | 26,527 | (266,860) |

The current tax charge/(credit) for the year is higher (2015: higher) than the standard rate of corporation tax in the UK, 20% (2015: 20.25%). The differences are explained below:

### Reconciliation of tax expense/(income)

A reconciliation is given below:

| | 2016 | 2015 |
|---|---|---|
| | £ | £ |
| Loss on ordinary activities before taxation | (29,475) | (537,155) |
| Current tax at 20% (2015: 20.25%) | (5,895) | (108,752) |
| Adjustments in respect of prior periods | - | (267,205) |
| Effect of expenses not deductible for tax purposes | 84,934 | 164,960 |
| Effect of capital allowances and depreciation | (52,512) | (55,863) |
| Tax on loss on ordinary activities | 26,527 | (266,860) |

A reduction in the UK corporation tax rate from 21% to 20% (effective from 1 April 2015) was substantively enacted on 2 July 2013. A further reduction to 19% (effective from 1 April 2017) was substantively enacted on 26 October 2015. An additional reduction to 17% (effective from 1 April 2020) was substantively enacted on 6 September 2016. This will reduce the company's future current tax charge accordingly.

## 12. Intangible assets

| | Patents, trademarks & licences | Total |
|---|---|---|
| | £ | £ |
| **Cost** | | |
| **At 1 January 2016 and 31 December 2016** | 781,250 | 781,250 |
| **Amortisation** | | |
| At 1 January 2016 | 42,037 | 42,037 |
| Charge for the year | 42,036 | 42,036 |
| **At 31 December 2016** | 84,073 | 84,073 |
| **Carrying amount** | | |
| **At 31 December 2016** | 697,177 | 697,177 |
| At 31 December 2015 | 739,213 | 739,213 |

## 13. Tangible assets

| | Short leasehold property | Plant and machinery | Fixtures, fittings and equipment | Total |
|---|---|---|---|---|
| | £ | £ | £ | £ |
| **Cost** | | | | |
| At 1 January 2016 | 1,445,863 | 4,833,605 | 152,898 | 6,432,366 |
| Additions | 1,491,271 | 1,194,059 | 3,217 | 2,688,547 |
| Disposals | - | (233,552) | - | (233,552) |
| **At 31 December 2016** | 2,937,134 | 5,794,112 | 156,115 | 8,887,361 |
| **Depreciation** | | | | |
| At 1 January 2016 | 663,260 | 2,946,098 | 72,017 | 3,681,375 |
| Charge for the year | 195,720 | 457,263 | 40,860 | 693,843 |
| Disposals | - | (233,552) | - | (233,552) |
| **At 31 December 2016** | 858,980 | 3,169,809 | 112,877 | 4,141,666 |
| **Carrying amount** | | | | |
| **At 31 December 2016** | 2,078,154 | 2,624,303 | 43,238 | 4,745,695 |
| At 31 December 2015 | 782,603 | 1,887,507 | 80,881 | 2,750,991 |

**Obligations under finance leases and hire purchase contracts**
Included within the carrying value of tangible assets are the following amounts relating to assets held under finance leases or hire purchase agreements:

| | Plant and machinery |
|---|---|
| | £ |
| **At 31 December 2016** | - |
| At 31 December 2015 | 38,366 |

## 14. Stocks

| | 2016 | 2015 |
|---|---|---|
| | £ | £ |
| Raw materials | 733,574 | 864,315 |

## 15. Debtors

| | 2016 | 2015 |
|---|---|---|
| | £ | £ |
| Trade debtors | 2,318,446 | 2,953,617 |
| Amounts owed by group undertakings | 189,303 | 511,077 |
| Prepayments and accrued income | 224,034 | 174,041 |
| Other debtors | 3,142,213 | 1,862,619 |
| | 5,873,996 | 5,501,354 |

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

| | 2016 | 2015 |
|---|---|---|
| | £ | £ |
| Trade creditors | 1,113,788 | 880,006 |
| Amounts owed to group undertakings | 5,572,174 | 2,564,291 |
| Accruals and deferred income | 368,149 | 1,562,492 |
| Social security and other taxes | 132,675 | 447,684 |
| Obligations under finance leases and hire purchase contracts | 18,776 | 35,513 |
| Other creditors | 92,251 | 114,884 |
| | 7,297,813 | 5,604,870 |

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

| | 2016 | 2015 |
|---|---|---|
| | £ | £ |
| Obligations under finance leases and hire purchase contracts | - | 22,254 |

## 18. Deferred tax liability

The deferred tax included in the statement of financial position is as follows:

| | 2016 | 2015 |
|---|---|---|
| | £ | £ |
| Included in provisions | 95,515 | 68,988 |

The deferred tax account consists of the tax effect of timing differences in respect of:

| | 2016 | 2015 |
|---|---|---|
| | £ | £ |
| Accelerated capital allowances | 95,515 | 68,988 |

Due to the drop in the corporation tax rates as detailed in note 11 it is expected the deferred taxation liability will reduce in the next reporting period.

## 19. Employee benefits

**Defined contribution plans**
The amount recognised in profit or loss in relation to defined contribution plans was £303,970 (2015: £255,209).

## 20. Government grants

The amounts recognised in the financial statements for government grants are as follows:

| | 2016 | 2015 |
|---|---|---|
| | £ | £ |
| Recognised in other operating income: | | |
| Government grants recognised directly in income | 14,470 | 14,470 |

## 21. Called up share capital

**Issued, called up and fully paid**

| | 2016 | | 2015 | |
|---|---|---|---|---|
| | No | £ | No | £ |
| Ordinary shares of £ 1.00 each | 301,000 | 301,000 | 301,000 | 301,000 |

## 22. Operating leases

**The company as lessee**
The total future minimum lease payments under non-cancellable operating leases are as follows:

| | 2016 | 2015 |
|---|---|---|
| | £ | £ |
| Not later than 1 year | 345,929 | 299,863 |
| Later than 1 year and not later than 5 years | 1,075,058 | 1,184,543 |
| Later than 5 years | 696,192 | 799,034 |
| | 2,117,179 | 2,283,440 |

## 23. Events after the end of the reporting period

Since the year end, Capsugel SA, the ultimate parent undertaking, has been acquired by Lonza Group, a company registered in Switzerland.

## 24. Related party transactions

Identity of related parties with which the company has transacted:
As a member of the MW Encap (Holdings) group, the company is exempt from the requirements of FRS 102.33 to disclose transactions with other members of the group headed by MW Encap (Holdings) Limited.

During the year the company entered into the following transactions with related parties:

| | Transaction value | | Balance owed by/(owed to) | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| | £ | £ | £ | £ |
| Capsugel Belgium NV | 365,244 | (294,771) | 27,773 | (1,464,844) |
| Capsugel Holdings US Inc | 340,734 | (529,499) | (48,598) | (47,448) |
| Capsugel France SAS | 62,615 | 47,009 | 62,615 | - |
| Capsugel Australia PYT Ltd | 363,536 | (44,462) | (43,105) | (44,462) |
| Bend Research | - | 17,415 | - | 17,415 |

## 25. Controlling party

Lonza Group, a company registered in Switzerland, is the ultimate parent undertaking of MW Encap Limited.

The largest group in which the results of the company are consolidated is that headed by Lonza Group. The consolidated financial statements of this group are not available to the public.

The smallest group in which the results are consolidated is that headed by MW Encap (Holdings) Limited, incorporated in England. Copies of the MW Encap (Holdings) Limited consolidated accounts which incorporate the results of the company, are available from:

The Registrar of Companies
Companies House
4th Floor
Edinburgh Quay 2
139 Fountainbridge
Edinburgh
EH3 9FF

## 26. Accounting estimates and judgements

Key sources of uncertainty:
The company makes estimates and assumptions concerning the future. The resulting estimate will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are outlined below.

Development contracts:
Revenue and cost of sales in relation to development contracts are estimated based on the stage of completion. This estimate is reflected in the margin recognised on development contracts and in the amounts recoverable on long term contracts. Amounts recoverable on contracts are kept under constant review.