

UL Medicines Limited

Directors' report and financial statements

Registered number 6120521

31 January 2017

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Strategic report

The Directors present their Strategic report for the year ended 31 January 2017.

Principal activity

The principal activity of the Company in the year under review was the supply and distribution of unlicensed medicines.

Business review

Performance

The results of the Company for the year are set out of page 7. The Company is a wholly owned subsidiary and is an integral part of the Quantum Pharma Plc Group of companies, included as part of the Group's 'Specials' division; the Company services the Group with its wide range of imported unlicensed medicines.

The Company is a leading supplier of high quality imported medicines, specials and batch made specials to both NHS and private hospitals throughout the UK. Its reputation for quality and service is built on a range of approximately 500 imported medicines sourced from more than 24 countries as well as its specialist over-labelling service that translates accompanying local language and patient documentation into English.

The Company exited the year strongly following a softer first half and despite securing a number of new hospital tenders in the year, turnover decreased 1% to £11.1 million (2016: £11.3 million). Following the result of the EU referendum in June 2016, the Company has faced challenges relating to the impact of the Sterling weakness on the cost of imported lines creating pressures at a margin level, however underlying hospital volumes are growing and the business benefited from temporary supply opportunities following shortages of licensed products.

The balance sheet as at 31 January 2017 demonstrates that the financial position of the Company has been strengthened with net assets of £7,824,905 (2016: £6,516,797).

Measurement

The Company uses a number of financial and non-financial KPI's to measure performance and these are reported both at Board, Group and employee level. These KPI's include sales and margin performance by market, cost per order and financial forecast achievement. As far as financial performance is concerned the key measure for the business is EBITDA. The Directors consider that the Company has a very effective measurement and reporting system, consistent with its size and complexity.

Risks and uncertainties

The Directors have carefully considered the principal risks and uncertainties facing the business. The Company operates in a niche market place which is driven by the general public's health needs. Due to the Company's secured preferred supplier hospital business and its continuing strategic partnerships with its major wholesale customers, the Board believe they are managing the risks and uncertainties of the business. As such, whilst this remains a very competitive landscape, the business does not necessarily face the same level of risk and uncertainties as those experienced in the wider economy.

The Company imports products from overseas and is therefore exposed to foreign exchange risk. The Company does not have any current policy involving long term hedging for exchange risk and currently minimises net exposure by using short term forward contracts, although there were none open at the year end.

Strategic report *(continued)*

Business review *(continued)*

Outlook

Despite the decline in financial performance in the year the overall market outlook for the Company is favourable. The Company has a strong reputation within the sector and has been successful in securing a number of preferred supplier NHS Framework Agreements which leaves it well placed to continue to perform well. Growth is forecast to continue in the coming year due to new hospital business as well as growing its existing portfolio of products to further enhance its service offering. Financial performance is in line with expectations.

By order of the Board



GT Murray
Director

Quantum House
Hobson Industrial Estate
Burnopfield
County Durham
NE16 6EA

22 June 2017

Directors' report

The Directors present their report and financial statements for the year ended 31 January 2017.

Proposed dividend

The Directors do not recommend the payment of a final dividend.

Directors

The Directors who held office during the year and up to the date of signing this report were as follows:

MJ Such	(resigned 8 March 2016)
AG Trouton	
BJ Fisher	(appointed 3 March 2016)
CA Rigg	(appointed 8 March 2016, resigned 27 January 2017)
CJ Brown	(appointed 16 March 2016)
DA Sanson	(appointed 16 March 2016)
AP Matthews	(appointed 11 May 2016, resigned 1 March 2017)
GT Murray	(appointed 23 January 2017)

Political and charitable contributions

The Company made no political or charitable donations or incurred any political expenditure during the year.

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.

By order of the Board



GT Murray
Director

Quantum House
Hobson Industrial Estate
Burnopfield
County Durham
NE16 6EA

22 June 2017

Statement of Directors' responsibilities in respect of the Strategic report, the Directors' report and the financial statements

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice), *including FRS 101 Reduced Disclosure Framework*.

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

- select suitable accounting policies and then apply them consistently;
- make judgments and 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.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.



KPMG LLP

Quayside House
110 Quayside
Newcastle upon Tyne
NE1 3DX
United Kingdom

Independent auditor's report to the members of UL Medicines Limited

We have audited the financial statements of UL Medicines Limited for the year ended 31 January 2017 set out on pages 7 to 23. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice), *including FRS 101 Reduced Disclosure Framework*.

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 4, 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 (APB'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 web-site 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 January 2017 and of its profit 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:

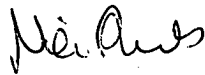
- we have not identified material misstatements in those reports; and
- in our opinion that report has been prepared in accordance with the Companies Act 2006.

Independent auditor's report to the members of UL Medicines Limited
(continued)

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 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.



Nick Plumb (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants

Quayside House
110 Quayside
Newcastle upon Tyne
NE1 3DX

22 June 2017

Profit and loss account
for the year ended 31 January 2017

	<i>Note</i>	2017 £	2016 £
Turnover	2	11,126,257	11,268,206
Cost of sales		(8,066,771)	(7,658,849)
Gross profit		3,059,486	3,609,357
Distribution costs		(177,306)	(186,457)
Administrative expenses		(1,299,384)	(1,001,841)
Operating profit		1,582,796	2,421,059
Profit on ordinary activities before taxation	3-5	1,582,796	2,421,059
Tax on profit on ordinary activities	6	(319,139)	(486,272)
Profit for the financial year		1,263,657	1,934,787

All of the results above derive from continuing activities.

There were no items to be classified within Other Comprehensive Income.

Balance sheet
at 31 January 2017

	<i>Note</i>	2017		2016	
		£	£	£	£
Fixed assets					
Tangible assets	7		15,652		21,242
Intangible assets	8		138,318		179,272
			153,970		200,514
Current assets					
Stocks	9	1,149,066		1,188,078	
Debtors	10	7,941,096		6,179,378	
Cash at bank and in hand		451,873		875,976	
		9,542,035		8,243,432	
Creditors: amounts falling due within one year	11	(1,871,100)		(1,927,149)	
Net current assets			7,670,935		6,316,283
Total assets less current liabilities			7,824,905		6,516,797
Capital and reserves					
Called up share capital	13		100		100
Profit and loss account			7,824,805		6,516,697
Shareholders' funds			7,824,905		6,516,797

These financial statements were approved by the Board of Directors on 22 June 2017 and were signed on its behalf by:



GT Murray
Director

Company registered number: 6120521

Statement of changes in equity
for the year ended 31 January 2017

	Called up share capital £	Profit & loss account £	Total equity £
Balance at 1 February 2016	100	6,516,697	6,516,797
Total comprehensive income for the year			
Profit for the year	-	1,263,657	1,263,657
Total comprehensive income for the year	-	1,263,657	1,263,657
Transactions with owners recorded directly in equity			
Equity settled share based payment transactions	-	44,451	44,451
Total contributions by and distributions to owners	-	44,451	44,451
Balance at 31 January 2017	100	7,824,805	7,824,905

	Called up share capital £	Profit & loss account £	Total equity £
Balance at 1 February 2015	100	4,572,353	4,572,453
Total comprehensive income for the year			
Profit for the year	-	1,934,787	1,934,787
Total comprehensive income for the year	-	1,934,787	1,934,787
Transactions with owners recorded directly in equity			
Equity settled share based payment transactions	-	9,557	9,557
Total contributions by and distributions to owners	-	9,557	9,557
Balance at 31 January 2016	100	6,516,697	6,516,797

Notes

(forming part of the financial statements)

1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial statements.

1.1 Basis of preparation

These financial statements are prepared in accordance with Financial Reporting Standard 101 *Reduced Disclosure Framework* ("FRS 101"). The amendments to FRS 101 (2014/15 Cycle) issued in July 2016 and effective immediately have been applied.

In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs"), but makes amendments where necessary in order to comply with Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemption has been taken.

The Company's ultimate parent undertaking, Quantum Pharma Plc, includes the Company in its consolidated financial statements. The consolidated financial statements of Quantum Pharma Plc are prepared in accordance with International Financial Reporting Standards and are available to the public and may be obtained from www.quantumpharmagroup.com.

In these financial statements, the Company has applied the exemptions available under FRS 101 in respect of the following disclosures:

- a Cash Flow Statement and related notes;
- disclosures in respect of transactions with wholly owned subsidiaries ;
- disclosures in respect of capital management;
- the effects of new but not yet effective IFRSs;
- disclosures in respect of the compensation of key management personnel; and
- disclosures of transactions with a management entity that provides key management personnel services to the Company.

As the consolidated financial statements of Quantum Pharma Plc include the equivalent disclosures, the Company has also taken the exemptions under FRS 101 available in respect of the following disclosures:

- certain disclosures required by IFRS 13 *Fair Value Measurement* and the disclosures required by IFRS 7 *Financial Instrument Disclosures*.

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

1.2 Going concern

The Company's ultimate parent undertaking is Quantum Pharma Plc, which is the parent undertaking of a group of companies engaged in the manufacture and supply of niche pharmaceutical products. The Company is subject to a cross guarantee with its ultimate parent undertaking and certain other Group undertakings in respect of borrowings within the Group.

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report within the financial statements of Quantum Pharma Plc. The financial position of the Group is also described in the Chief Financial Officer's review on in those financial statements. In addition, Note 28 to the Group financial statements includes the Group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and its exposure to credit risk and liquidity risk.

Notes (continued)

1 Accounting policies (continued)

The Group has considerable financial resources and financing facilities and has prepared detailed business plans for a period of 36 months that model headroom on the agreed financial covenants. The Directors are satisfied that, after sensitising the business plans for reasonably possible downside scenarios, there remains adequate headroom above the covenants that are in place.

After making enquiries, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to prepare the financial statements on a going concern basis.

1.3 Intangible assets

Research and development

Expenditure on research activities is recognised in the profit and loss account as an expense as incurred.

Expenditure on development activities is capitalised if the product or process is technically and commercially feasible and the Company intends and has the technical ability and sufficient resources to complete development, future economic benefits are probable and if the Company can measure reliably the expenditure attributable to the intangible asset during its development. Development activities involve a plan or design for the production of new or substantially improved products or processes. The expenditure capitalised includes the cost of materials, direct labour and an appropriate proportion of overheads and capitalised borrowing costs. Other development expenditure is recognised in the profit and loss account as an expense as incurred. Capitalised development expenditure is stated at cost less accumulated amortisation and less accumulated impairment losses.

Other intangible assets

Other intangible assets that are acquired by the Company are stated at cost less accumulated amortisation and less accumulated impairment losses.

The cost of an intangible asset acquired in a business combination is its fair value at the acquisition date.

Amortisation

Amortisation is charged to the profit and loss account on a straight-line basis over the estimated useful lives of intangible assets unless such lives are indefinite. Intangible assets with an indefinite useful life and goodwill are systematically tested for impairment at each balance sheet date. Other intangible assets are amortised from the date they are available for use. The estimated useful lives are as follows:

Product development - to be determined on an individual basis for each medicine developed

Software development - 5 years straight line

1.4 Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses.

Where parts of an item of tangible fixed assets have different useful lives, they are accounted for as separate items of tangible fixed assets.

Leases in which the Company assumes substantially all the risks and rewards of ownership of the leased asset are classified as finance leases. Where land and buildings are held under leases the accounting treatment of the land is considered separately from that of the buildings. Leased assets acquired by way of finance lease are stated at an amount equal to the lower of their fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and less accumulated impairment losses. Lease payments are accounted for as described below.

Notes (continued)

1 Accounting policies (continued)

1.4 Tangible fixed assets and depreciation (continued)

Depreciation is charged to the profit and loss account on a straight-line basis over the estimated useful lives of each part of an item of tangible fixed assets. Land is not depreciated. The estimated useful lives are as follows:

Depreciation is provided at the following annual rates in order to write off each asset over its estimated useful life

Leasehold improvements	-	Over the term of the lease
Plant and machinery	-	5 years straight-line
Office equipment	-	3 years straight-line

1.5 Impairment excluding stocks and deferred tax assets

Financial assets (including trade and other debtors)

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. For financial instruments measured at cost less impairment an impairment is calculated as the difference between its carrying amount and the best estimate of the amount that the Company would receive for the asset if it were to be sold at the reporting date. Interest on the impaired asset continues to be recognised through the unwinding of the discount. Impairment losses are recognised in profit or loss. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

1.6 Stocks

Stocks are stated at the lower of cost and net realisable value. Net realisable value is based on selling price less anticipated costs to completion and selling costs.

1.7 Turnover

Turnover represents the amount receivable in the ordinary course of business from the provision of goods and services (excluding value added tax) to customers. Turnover is measured at the fair value of the right to consideration net of sales related rebates, discounts and value added tax.

The Company recognises revenue at the point of dispatch of goods and for services when they have been provided.

1.8 Expenses

Operating lease payments

Payments (excluding costs for services and insurance) made under operating leases are recognised in the profit and loss account on a straight-line basis over the term of the lease. Lease incentives received are recognised in the profit and loss account as an integral part of the total lease expense.

Finance lease payments

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent rents are charged as expenses in the periods in which they are incurred.

Notes (continued)

1 Accounting policies (continued)

1.8 Expenses (continued)

Interest receivable and Interest payable

Interest payable and similar charges include interest payable, finance charges on shares classified as liabilities and finance leases recognised in profit or loss using the effective interest method, unwinding of the discount on provisions, and net foreign exchange losses that are recognised in the profit and loss account (see foreign currency accounting policy). 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 capitalised as part of the cost of that asset. Other interest receivable and similar income include interest receivable on funds invested and net foreign exchange gains.

Interest receivable and interest payable is recognised in profit or loss as it accrues, using the effective interest method. Dividend income is recognised in the profit and loss account on the date the entity's right to receive payments is established. Foreign currency gains and losses are reported on a net basis.

1.9 Foreign currencies

Transactions in foreign currencies are translated to the Company's functional currencies at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date and retranslated to the functional currency at the foreign exchange rate ruling at that date. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are retranslated to the functional currency at foreign exchange rates ruling at the dates the fair value was determined. Foreign exchange differences arising on translation are recognised in the profit and loss account.

1.10 Employee benefits

The Company operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the Company in an independently administered fund. The Company also administers contributions to certain employees personal pension schemes. The amount charged to the profit and loss account represents the contributions payable to the schemes in respect of the accounting period.

1.11 Share based payments

The share option programme allows certain employees to acquire shares of the ultimate parent Company, Quantum Pharma Plc. Where the Company's parent grants rights to its equity instruments to the Company's employees, which are accounted for as equity-settled in the consolidated accounts of the parent, the Company accounts for these share-based payments as equity-settled.

The grant date fair value of share-based payment awards granted is recognised as an employee expense with a corresponding increase in equity, over the period that the employees become unconditionally entitled to the awards. The fair value of the options granted is measured using an option pricing model, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of awards that do meet the related service and non-market performance conditions at the vesting date. For share-based payment awards with non-vesting conditions, the grant date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

1.12 Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the profit and loss account except to the extent that it relates to items recognised directly in equity or other comprehensive income, in which case it is recognised directly in equity or other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Notes (continued)

1 Accounting policies (continued)

1.12 Taxation (continued)

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of goodwill; the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised.

1.13 Classification of financial instruments issued by the Company

Financial instruments issued by the Company are treated as equity (i.e. forming part of shareholders' funds) only to the extent that they meet the following two conditions:

- they include no contractual obligations upon the Company to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Company; and
- where the instrument will or may be settled in the Company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Company's own equity instruments or is a derivative that will be settled by the Company's exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the Company's own shares, the amounts presented in these financial statements for called up share capital and share premium account exclude amounts in relation to those shares.

Finance payments associated with financial liabilities are dealt with as part of interest payable and similar charges. Finance payments associated with financial instruments that are classified as part of shareholders' funds, are dealt with as appropriations in the reconciliation of movements in shareholders' funds.

1.14 Non-derivative financial instruments

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other debtors, cash and cash equivalents, loans and borrowings, and trade and other creditors.

Trade and other debtors

Trade and other debtors are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses.

Trade and other creditors

Trade and other creditors are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method.

2 Turnover

The Company's turnover primarily derives in the UK and is attributable to the Company's principal activity.

Notes (continued)

3 Expenses and auditor's remuneration

	2017 £	2016 £
<i>Operating profit is stated after charging:</i>		
Foreign currency losses	55,641	17,179
Amortisation of intangible assets	34,981	1,609
Impairment of intangible assets	116,852	-
Depreciation and other amounts written off tangible fixed assets:		
Owned	19,350	40,325
Hire of other assets – operating leases	33,749	40,671
	<u> </u>	<u> </u>
<i>Auditors' remuneration:</i>		
	2017 £	2016 £
Audit of these financial statements	7,800	7,760
	<u> </u>	<u> </u>

4 Remuneration of Directors

	2017 £	2016 £
Directors' emoluments	138,750	122,790
Company contributions to money purchase schemes	12,375	13,245
	<u> </u>	<u> </u>

The aggregate emoluments of the highest paid Director was £138,750 (2016: £122,790) and Company pension contributions of £12,375 (2016: £13,245) were made to a money purchase scheme on his behalf.

The number of Directors in respect of whose services shares were received or receivable under long term incentive schemes was 1 (2016: 1).

5 Staff numbers and costs

The average number of persons employed by the Company (including Directors) during the year, analysed by category, was as follows:

	Number of employees	
	2017	2016
Management and administration	8	11
Production	15	11
	<u> </u>	<u> </u>
	23	22
	<u> </u>	<u> </u>

Notes (continued)

5 Staff numbers and costs (continued)

The aggregate payroll costs of these persons were as follows:

	2017 £	2016 £
Wages and salaries	915,816	815,710
Social security costs	99,951	86,944
Other pension costs (Note 15)	24,590	25,477
Share based payments (Note 16)	44,451	9,557
	<u>1,084,808</u>	<u>937,688</u>

6 Taxation

Analysis of charge in year

	2017 £	2016 £
<i>UK corporation tax</i>		
Current tax on profit for the year	-	-
Group relief payable	325,108	494,086
Adjustment in respect of previous years	(40)	(5,771)
	<u>325,068</u>	<u>488,315</u>
<i>Deferred tax (Note 12)</i>		
Origination of timing differences	(7,567)	(3,253)
Effect of changes in tax rate	1,638	1,210
	<u>(5,929)</u>	<u>(2,043)</u>
Tax charge on profit on ordinary activities	<u>319,139</u>	<u>486,272</u>

Reconciliation of effective tax rate

	2017 £	2016 £
Profit for the year	1,263,657	1,934,787
Total tax charge	319,139	486,272
Profit excluding taxation	<u>1,582,796</u>	<u>2,421,059</u>
Tax using the corporation tax rate of 20% (2016: 20.16%)	316,559	488,085
Non-deductible expenses	982	2,484
Prior year adjustments – current tax	(40)	(5,771)
Reduction in tax rate on deferred tax balances	1,638	1,210
Other	-	264
Total tax charge	<u>319,139</u>	<u>486,272</u>

Notes (continued)

6 Taxation (continued)

Factors that may affect future current and total tax charges

A reduction in the UK corporation tax rate from 21% to 20% (effective from 1 April 2015) was substantively enacted on 2 July 2013. Further reductions to 19% (effective from 1 April 2017) and to 18% (effective 1 April 2020) were substantively enacted on 26 October 2015 and an additional reduction to 17% (effective 1 April 2020) was substantively enacted on 6 September 2016. This will reduce the Company's future current tax charge accordingly. The deferred tax asset at the balance sheet date has been calculated based on these rates.

7 Tangible fixed assets

	Leasehold improvements £	Plant & machinery £	Office equipment £	Total £
<i>Cost</i>				
At 1 February 2015	3,186	19,861	128,223	151,270
Additions	-	775	4,904	5,679
At 31 January 2016	3,186	20,636	133,127	156,949
At 1 February 2016	3,186	20,636	133,127	156,949
Additions	-	1,399	13,357	14,756
Disposals	(3,186)	-	-	(3,186)
At 31 January 2017	-	22,035	146,484	168,519
<i>Depreciation and impairment</i>				
At 1 February 2015	903	19,861	74,618	95,382
Depreciation charge for the year	650	-	39,675	40,325
At 31 January 2016	1,553	19,861	114,293	135,707
At 1 February 2016	1,553	19,861	114,293	135,707
Depreciation charge for the year	637	368	18,345	19,350
Disposals	(2,190)	-	-	(2,190)
At 31 January 2017	-	20,229	132,638	152,867
<i>Net book value</i>				
At 31 January 2016	1,633	775	18,834	21,242
At 31 January 2017	-	1,806	13,846	15,652

Notes (continued)

8 Intangible assets

	Product development £	Software development £	Total £
Cost			
At 1 February 2015	-	41,646	41,646
Internal developments	46,241	92,994	139,235
At 31 January 2016	46,241	134,640	180,881
At 1 February 2016	46,241	134,640	180,881
Internal developments	70,611	40,268	110,879
At 31 January 2017	116,852	174,908	291,760
Amortisation			
At 1 February 2015	-	-	-
Amortisation for the year	-	1,609	1,609
At 31 January 2016	-	1,609	1,609
At 1 February 2016	-	1,609	1,609
Amortisation for the year	-	34,981	34,981
Impairment	116,852	-	116,852
At 31 January 2017	116,852	36,590	153,442
Net book value			
At 31 January 2016	46,241	133,031	179,272
At 31 January 2017	-	138,318	138,318

The amortisation charge is recognised in the following line items in the profit and loss account.

	2017 £	2016 £
Administrative expenses	34,981	1,609

An impairment charge of £116,852 (2015: £nil) has been recognised in the year and classified within administrative expenses. The impairment charge arises from the decision to not progress the development of certain medicines.

9 Stocks

	2017 £	2016 £
Finished goods	1,149,066	1,188,078

Raw materials, consumables and changes in finished goods and work in progress recognised as cost of sales in the year amounted to £7,609,741 (2016: £7,292,720). The write down of stocks to net realisable value charged to the profit and loss account amounted to £82,214 (2016: £63,180).

Notes (continued)

10 Debtors

	2017 £	2016 £
Trade debtors	1,052,438	1,278,645
Amounts owed by Group undertakings	6,586,865	4,481,083
Prepayments and accrued income	35,611	58,692
Corporation tax	249,599	350,304
Deferred tax assets (Note 12)	16,583	10,654
	<u>7,941,096</u>	<u>6,179,378</u>

11 Creditors: amounts falling due within one year

	2017 £	2016 £
Trade creditors	522,342	665,201
Amounts owed to Group undertakings	584,929	624,508
Other taxation and social security	271,153	307,894
Accruals and deferred income	492,676	329,546
	<u>1,871,100</u>	<u>1,927,149</u>

12 Deferred tax assets and liabilities

Recognised deferred tax assets and liabilities

Deferred tax assets are attributable to the following:

	2017 £	2016 £
Tangible fixed assets	15,999	10,654
Other	584	-
	<u>16,583</u>	<u>10,654</u>

Movement in deferred tax asset during the year

	1 February 2016 £	Recognised in profit & loss £	31 January 2017 £
Tangible fixed assets	10,654	5,345	15,999
Other	-	584	584
	<u>10,654</u>	<u>5,929</u>	<u>16,583</u>

Notes (continued)

12 Deferred tax assets and liabilities (continued)

Movement in deferred tax asset during the prior year

	31 January 2015	Recognised in profit & loss	31 January 2016
	£	£	£
Tangible fixed assets	8,611	2,043	10,654
	<u> </u>	<u> </u>	<u> </u>

13 Called up share capital

	2017 £	2016 £
<i>Allotted, called up and fully paid</i>		
100 ordinary shares of £1 each	100	100
	<u> </u>	<u> </u>

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

14 Contingent liabilities

The Company is party to a composite guarantee with the Group's lenders whereby the Company is liable, jointly and severally with other members of the Group (excluding Lamda UK Limited, Lamda Pharma S.A and Lamda Laboratories S.A) in respect of borrowings within the Group.

The Group's bankers and other lenders also have in place a debenture over the Company's assets in support of borrowings within the Group which amounted to £21,250,000 (2016: £29,250,000) at the balance sheet date.

15 Employee benefits

The Company contributes to the personal pension schemes of certain employees. The pension cost charge for the period represents contributions payable by the Company to the scheme and amounted to £24,590 (2016: £25,477).

At 31 January 2017 contributions amounting to £927 (2016: £1,620) were payable to the scheme and included in creditors.

Notes (continued)

16 Employee share schemes

The Company's ultimate parent Company has established various Savings-Related Share Option schemes ('SAYE') and Executive Long-Term Incentive Plans ('LTIP').

The terms and conditions of the grants are as follows, whereby all options are settled by physical delivery of shares:

Share scheme	Date of grant	Employees entitled	Number of options granted	Vesting conditions	Contracted life
LTIP (2014)	11 December 2014	Executive Directors & Senior Management	227,500	3 years service & 3 year EBITDA target	3.0 years
SAYE (2015)	15 July 2015	All employees with over 6 months service	75,557	3 years service	3.1 years
LTIP (2016) Plan 1	18 July 2016	Executive Directors & Senior Management	36,818	3 years service & 3 year adjusted EBITDA target	3.0 years
SAYE (2016)	13 July 2016	All employees	176,915	3 years service	3.0 years

The number of options and weighted average exercise price of share options are as follows:

LTIP

	2017 Weighted average exercise price £	2017 Number of options	2016 Weighted average exercise price £	2016 Number of options
Outstanding at beginning of year	1.00	227,500	1.00	227,500
Granted during the year	0.00	36,818	-	-
Lapsed during the year	-	-	-	-
Exercised during the year	-	-	-	-
Outstanding at the end of the year	0.86	264,318	1.00	227,500
Exercisable at the end of the year	-	-	-	-

The options outstanding at 31 January 2017 have an exercise price in the range of £nil to £1.00 and have a weighted average contractual life of 3 years.

Notes (continued)

16 Employee share schemes (continued)

SAYE Schemes

	2017 Weighted average exercise price £	2017 Number of options	2016 Weighted average exercise price £	2016 Number of options
Outstanding at beginning of year	1.30	75,557	-	-
Granted during the year	0.55	176,915	1.30	75,557
Lapsed during the year	(1.30)	(75,557)	-	-
Exercised during the year	-	-	-	-
Outstanding at the end of the year	0.55	176,915	1.30	75,557
Exercisable at the end of the year	-	-	-	-

The options outstanding at 31 January 2017 have an exercise price of £0.55 and have a weighted average contractual life of 3 years.

The fair value of services received in return for share options granted is measured by reference to the fair value of share options granted.

Where the vesting conditions are linked to the Company's share price the estimate of the fair value of the services received is measured based on the Monte Carlo simulation model. The fair value of all other options has been measured based on the Black-Scholes model.

	LTIP		SAYE	
	2014	2016 Plan 1	2015	2016
Fair value at grant date	£0.26	£0.62	£0.54	£0.23
Exercise price	£1.0	£nil	£1.29	£0.55
Share price	£1.0	£0.67	£1.57	£0.66
Expected volatility	41%	53%	38%	50%
Option life (year)	3.0	3.0	3.1	3.1
Dividend yield	1.25%	2.34%	0.18%	2.36%
Risk free rate	0.89%	0.68%	1.09%	0.15%

The expected volatility is based on the median volatility of health care constituents of the FTSE AIM.

The costs charged to the profit and loss account relating to share based payments were as follows:

	2017 £000	2016 £000
LTIP	3,502	2,425
SAYE Schemes	40,949	7,132
	44,451	9,557

Notes (continued)

17 Commitments

Commitments under non-cancellable operating leases are as follows:

	2017 Land & buildings £	2017 Other £	2016 Land & buildings £	2016 Other £
Operating leases which expire:				
Within one year	48,912	10,022	8,750	15,230
In the second to fifth years inclusive	32,429	6,548	-	13,012
	<u>81,341</u>	<u>16,570</u>	<u>8,750</u>	<u>28,242</u>

18 Ultimate parent Company and parent undertaking of larger Group of which the Company is a member

The Company is a wholly owned subsidiary of Quantum Pharmaceutical Limited. Quantum Pharmaceutical Limited's ultimate parent Company is Quantum Pharma Plc.

The only Group in which the results of the Company are consolidated is that headed by Quantum Pharma Plc, incorporated in the United Kingdom. The consolidated financial statements of the Group are available to the public and may be obtained from Companies House.