Registered Number: SC095705

REPORT OF THE DIRECTORS AND

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012

FOR

INNOVATA BIOMED LIMITED

TUESDAY
A1NK6RM2
A12
11/12/2012
COMPANIES HOUSE
#282

INNOVATA BIOMED LIMITED

CONTENTS OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2012

	Page
Company Information	1
Report of the Directors	2
Report of the Independent Auditor	6
Statement of Comprehensive Income	7
Balance Sheet	8
Statement of Changes in Equity	9
Cash Flow Statement	10
Notes to the Financial Statements	11

COMPANY INFORMATION
FOR THE YEAR ENDED 31 MARCH 2012

DIRECTORS:	C P Blackwell A P Hyland
SECRETARY:	P F Burrell
REGISTERED OFFICE:	37 Queen Street Edinburgh EH2 1JX
REGISTERED NUMBER:	SC095705 (Scotland)
AUDITOR:	Deloitte LLP Chartered Accountants and Statutory Auditor Cambridge United Kingdom
SOLICITORS:	Bristows 100 Victoria Embankment London EC4Y 0DH
BANKERS:	Barclays Bank Plc 28 Chesterton Road 126 – 130 Hills Road Cambridge CB2 1RY

REPORT OF THE DIRECTORS
FOR THE YEAR ENDED 31 MARCH 2012

The directors present their report with the financial statements of the company for the year ended 31 March 2012.

PRINCIPAL ACTIVITY
The Company's principal activity is the research, development and commercialisation of pharmaceutical products and technologies. There have not been any significant changes in the Company's principal activity in the period under review. The Directors are not aware, at the date of this report, of any likely changes in the Company's activity in the forthcoming year.

REVIEW OF BUSINESS
Revenue has decreased by 86% to £310,000 (2011 - decrease by 44% to £2,274,000). This is as a result of a reduction in development fees of £1,241,000 and a £723,000 reduction in Clickhaler® sales. The current year revenue number includes device sales only.

Loss before tax has decreased by 73% from £6,065,000 in 2011 to £1,661,000 in the current year. This year on year movement has been driven by a reduction of £5,177,000 in research and development expenditure, partially offset by an increase in administrative expenses including (share based compensation) of £298,000.

Cash and cash equivalents at the year-end were £nil (2011 - £nil). This is due to all banking activities now being under the control of another Group company. As a result, the directors expect the company to maintain a small or £nil cash and cash equivalents balance for the foreseeable future.

DIVIDENDS
The loss on ordinary activities before taxation for the year amounted to £1,661,000 (2011 – loss of £6,065,000). The loss after taxation for the year was £923,000 (2011 – loss of £5,421,000).

The Directors do not recommend the payment of a dividend (2011 - £nil).

DIRECTORS
The directors shown below have held office during the year and to the date of this report, unless otherwise stated, were:

C P Blackwell
A P Hyland
C C Dalton – resigned 5 July 2011

PRINCIPAL RISKS AND UNCERTAINTIES
The Company's business involves exposure to a number of risks, many of which are inherent in pharmaceutical product development. Particular risks include the following:

Industry risk
The nature of pharmaceutical development is such that drug candidates may not be successful owing to an inability to demonstrate in a timely manner the necessary safety and efficacy in a clinical setting to the satisfaction of appropriate regulatory bodies, such as the European Medicines Agency (EMA) in Europe and the Food and Drug Administration (FDA) in the US. The Company may be unable to attract, by itself or from partners, the funding necessary to meet the high cost of developing its products through to successful commercialisation.

Clinical and regulatory risk
Drug substances may not be stable or economic to produce. Unacceptable toxicities or insufficient efficacy in the chosen indication may cause the medicine to fail or limit its applicability. Lack of performance by third-party clinical research organisations or an inability to recruit patients to clinical trials may cause undue delays in clinical trial results. Clinical and regulatory issues may arise or changes to the regulatory environment may occur that lead to delays, further costs, reduction in the commercial potential of a product in development, or the cessation of programmes. Ethical, regulatory or marketing approvals may be delayed or withheld or, if awarded, may carry unacceptable conditions to further development or commercial success. The Company's manufacturing facilities and those of its third-party manufacturers are subject to regulatory requirements and licensing and there can be no assurance that such facilities will continue to comply with such regulatory requirements.

PRINCIPAL RISKS AND UNCERTAINTIES - continued

Clinical and regulatory risk - continued
Given the cutting-edge nature of the technology, alternative manufacturing facilities may not be available. The Company manages its regulatory risk by working closely with its expert regulatory advisers and, where appropriate, by seeking advice from regulatory authorities on the design of key development plans for its pre-clinical and clinical programmes.

Counterparty risk
The Company relies on third party organisations to conduct its clinical trials and to manufacture certain of its products. If the relationship with or performance of any of these partners is adversely affected, the Company's operations may be adversely impacted. As part of the Company's routine vendor assessment, detailed due diligence is performed on all third party organisations to establish that such organisations have the required capability, expertise and financial stability to perform the relevant services for the Company. Where possible, alternative third party suppliers are identified to take over the performance of such services in the event difficulties are experienced with the original vendor.

Competition and intellectual property risk
Certain companies are developing medicines that may restrict the potential commercial success of the Company's products or render them obsolete. Third party companies may have intellectual property that restricts the Company's or the Company's partners' freedom to operate. Obtaining licences to intellectual property may not be possible or may be costly and may reduce net royalty income to the Company. The Company's intellectual property may become invalid or expire before its products are successfully commercialised. The Company works closely with its legal advisers and obtains where necessary opinions on the intellectual property landscape relevant to the Company's product development programmes and manufacturing activities and processes.

Economic risk
The successful development and commercialisation of medicines carries a high level of risk and the returns may be insufficient to cover the costs incurred. Restrictions on health budgets worldwide or on the prices that may be charged for new medicines through competitive or other pressures may limit a medicine's sales potential. The Company may not be able to attract partners on favourable terms or recruit the appropriate calibre of staff to develop or commercialise its products. Any partners may fail to perform or commit the resources necessary to commercialise the Company's products successfully.

Financial risk
The Company's activities expose it to a number of financial risks including price risk, credit risk, cash flow risk and liquidity risk. In accordance with policies approved by the Directors, the Company does not use financial derivatives to manage these risks. In addition, the Company does not use financial instruments for speculative purposes.

Cash flow risk
Cash is managed by another Group company. The Company's activities expose it to the financial risks of changes in foreign currency exchange rates. Some of the Company's revenues are in either euros or US dollars. Where known liabilities arise in these currencies the revenues are retained on deposit in the appropriate currency in order to off-set the exchange risk on these liabilities. As at 31 March 2012, the Group had euro and US dollar reserves to cover its immediate and short-term liabilities in respect of these currencies.

Credit risk
The Company's credit risk is primarily attributed to its cash and cash equivalents, which are held on the Company's behalf by Vectura Limited. This risk is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies. Deposits are made in accordance with the Vectura Group plc Treasury Policy approved by the Board which contains strict criteria on minimum credit ratings and maximum deposit size. However, the recent global credit problems could result in the failure of even high credit-rated banks where funds are deposited.

Liquidity risk
In order to maintain liquidity to ensure that sufficient funds are available for ongoing operations and future developments, the Company closely monitors the cash available to the Company, which is invested in a mixture of current accounts and short-term deposit accounts.

PRINCIPAL RISKS AND UNCERTAINTIES - continued

Price risk
The Company is exposed to pricing risk in respect of its income and expenditure. The Company manages its exposure to price risk through commercial negotiations with customers and suppliers, working closely with its legal advisers on negotiations that are of significant importance to the Company.

Risk management
The process seeks to identify material risks and to determine how best to manage them. Specific risk managing actions the Company has in place are set out against certain of the risks identified in this section.

GOING CONCERN

The company made a loss of £923,000 for the year ended 31 March 2012 (2011: loss of £5,421,000). The current economic slowdown and global recession has had limited impact on the Company as the ultimate parent company has sufficient resources to meet its on-going liabilities as they fall due. The company continues to receive the support of its ultimate parent company to allow it to meet its liabilities as they fall due.

The Company's Directors have reviewed the group's detailed cash flow forecast for the period ending 31 August 2013, made relevant enquiries and considered reasonably possible changes in trading activities, to satisfy themselves that the ultimate parent company is able to provide the necessary support to enable the company to meet its liabilities as they fall due, despite the current uncertain economic outlook. A legally binding letter of support has been obtained from Vectura Group plc. After making these enquiries, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future, being a period of at least 12 months from the date of signing the Annual Report. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts.

DIRECTORS' INDEMNITIES

The parent company has granted an indemnity to its directors against liability in respect of proceedings brought by third parties, which remains in force as at the date of approving the directors' report.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the Annual 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 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 these financial statements, International Accounting Standard 1 requires that directors:

- properly select and apply accounting policies
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRS are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and,
- make an assessment of the Company's ability to continue as a going concern.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

RESPONSIBILITY STATEMENT

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with International Financial Reporting Standards give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and
- the management report, which is incorporated in the Directors' report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

AUDITOR

Deloitte LLP have expressed their willingness to continue in office as auditor and a resolution to re-appoint them will be put to the members at the forthcoming Annual General Meeting. The Directors that were members of the Board at the time of approving the Directors' report are listed on page 2. Having made enquiries of fellow Directors and of the Company's auditor, each of the Directors confirms that:

- to the best of each Director's knowledge and belief, there is no information relevant to the preparation of their report of which the Company's auditor is unaware; and,
- each Director has taken all the steps a Director might reasonably be expected to have taken to be aware of relevant audit information and to establish that the Company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

ON BEHALF OF THE BOARD:

.....
A P Hyland - Director

Date: 17 AUGUST 2012

REPORT OF THE INDEPENDENT AUDITOR TO THE MEMBERS OF INNOVATA BIOMED LIMITED

We have audited the financial statements of Innovata Biomed Limited for the year ended 31 March 2012 which comprise the statement of comprehensive income, the balance sheet, the statement of changes in equity, the cash flow statement and the related notes 1 to 16. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

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 a Report of the Auditor 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 Statement of Directors' Responsibilities, 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
An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Report of the Directors to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

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 March 2012 and of its loss 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.

Opinion on other matter prescribed by the Companies Act 2006
In our opinion the information given in the Report of the Directors for the financial year for which the financial statements are prepared is consistent with the financial statements.

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.

Stuart Henderson (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
Cambridge, United Kingdom

Date: 17 August 2012

INNOVATA BIOMED LIMITED

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 MARCH 2012

	Notes	2012 £'000	2011 £'000
CONTINUING OPERATIONS			
Revenue	2	310	2,274
Cost of sales		(50)	(943)
GROSS PROFIT		260	1,331
Research and development expenditure		(1,575)	(6,752)
Administrative expenses		(138)	(287)
Share based compensation		(208)	(357)
OPERATING LOSS, BEING LOSS BEFORE TAXATION	4	(1,661)	(6,065)
Taxation	5	738	644
LOSS FOR THE YEAR, BEING TOTAL COMPREHENSIVE INCOME FOR THE YEAR		(923)	(5,421)

INNOVATA BIOMED LIMITED

BALANCE SHEET
31 MARCH 2012

	Notes	2012 £'000	2011 £'000
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	6	160	251
CURRENT ASSETS			
Inventories	7	514	148
Trade and other receivables	8	352	3,493
		866	3,641
TOTAL ASSETS		1,026	3,892
EQUITY			
SHAREHOLDERS' EQUITY			
Called up share capital	9	90	90
Share premium		41	41
Revaluation reserve		8	8
Retained earnings		(48,857)	(47,934)
TOTAL EQUITY		(48,718)	(47,795)
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables	10	49,744	51,687
TOTAL LIABILITIES		49,744	51,687
TOTAL EQUITY AND LIABILITIES		1,026	3,892

The financial statements on Innovata Biomed Limited, registered number SC095705 were approved by the Board of Directors on 17 August 2012 and were signed on its behalf by:

A P Hyland - Director

INNOVATA BIOMED LIMITED

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 MARCH 2012

	Called up share capital £'000	Retained earnings £'000	Share premium £'000	Revaluation reserve £'000	Total equity £'000
Balance at 1 April 2010	90	(42,513)	41	8	(42,374)
Changes in equity					
Total comprehensive income	-	(5,421)	-	-	(5,421)
Balance at 31 March 2011	90	(47,934)	41	8	(47,795)
Changes in equity					
Total comprehensive income	-	(923)	-	-	(923)
Balance at 31 March 2012	90	(48,857)	41	8	(48,718)

INNOVATA BIOMED LIMITED

CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 MARCH 2012

	Notes	2012 £'000	2011 £'000
Cash flows from operating activities			
Cash generated from operations	13	(870)	(1,939)
R&D tax credits received		870	1,992
Net cash from operating activities		-	53
Cash flows from investing activities			
Purchase of property, plant and equipment		-	(56)
Net cash from investing activities		-	(56)
Decrease in cash and cash equivalents		-	(3)
Cash and cash equivalents at the beginning of the year		-	3
Cash and cash equivalents at end the end of the year		-	-

1. ACCOUNTING POLICIES

General information
Innovata Biomed Limited is a limited company incorporated in the United Kingdom under the Companies Act 2006. The address of the registered office is 37 Queen Street, Edinburgh, EH2 1JX and its principal place of business 1 Prospect West, Chippenham, Wiltshire, SN14 6FH.

Basis of preparation
The financial statements have been prepared in accordance with the Companies Act 2006 and International Financial Reporting Standards (IFRS) and International Financial Reporting Interpretations Committee interpretations as adopted by the European Union.

The financial statements have been prepared on the historical cost basis, revised for use of fair values where required by applicable IFRS. The financial statements are presented in sterling and all values are recorded to the nearest thousand (£'000s), except where otherwise indicated. The principal accounting policies adopted are set out below.

The company is a wholly-owned subsidiary of another company incorporated in the EEC.

Revenue recognition
Revenue represents the amount receivable for goods and services provided and royalties earned, net of trade discounts, VAT and other sales-related taxes. Revenue is recognised as follows.

Pharmaceutical Development Services
Pharmaceutical Development Services revenues principally comprise contract product development and contract clinical trial manufacturing fees invoiced to third parties. Revenues are recognised upon the completion of agreed tasks or numbers of person days and in the period to which they relate.

Device sales
Device sales are recognised when goods are delivered to customers.

Interest income
Interest income is recognised on a time-proportion basis using the effective interest method.

Property, plant and equipment
Property, plant and equipment is carried at cost less accumulated depreciation and accumulated impairment losses.

Depreciation is provided on a straight line basis over the anticipated useful economic lives of the assets. The following rates apply for the Company.

Plant and machinery	20% to 33%
Computer and office equipment	33%

Financial instruments
Financial assets and financial liabilities are recognised on the Company's balance sheet when the Company becomes a party to the contractual provision of the instrument. The carrying amount of these assets approximates their fair value.

Trade and other receivables
Trade and other receivables do not carry interest and are stated at their nominal value as reduced by appropriate allowances for estimated irrecoverable amounts.

Trade and other payables
Trade payables are non-interest-bearing and are stated at their nominal value.

1. ACCOUNTING POLICIES - continued

Financial instruments - continued

Financial liabilities
Financial liabilities are initially measured at fair value and, if material, are subsequently measured at amortised cost using the effective interest method. The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments throughout the expected life of the financial liability.

Provisions
Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Company will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using cash flows estimated to settle the present obligation, its carrying amount is the value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Inventories
Inventories comprise goods held for resale and are stated at the lower of cost and net realisable value. Costs include the direct costs and an attributable proportion of distribution overheads incurred in bringing stocks to their current location and condition. Cost is determined on a first in, first out basis. Net realisable value is based on estimated selling price less any further costs expected to be incurred to completion and disposal.

Taxation
Current taxes are based on the results shown in the financial statements and are calculated according to local tax rules, using tax rates enacted or substantially enacted by the balance sheet date.

Deferred tax is recognised on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements, with the following exceptions:

- where the temporary difference arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss;

- in respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future; and

- deferred tax assets are recognised only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carried forward tax credits or tax losses can be utilised.

Deferred tax assets and liabilities are measured on an undiscounted basis at the tax rates that are expected to apply when the related asset is realised or liability is settled, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

Deferred tax is charged or credited directly to equity if it relates to items that are credited or charged to equity. Otherwise, deferred tax is recognised in the statement of comprehensive income.

Research and development tax credits are recognised on an accruals basis.

1. ACCOUNTING POLICIES - continued

Research and development
Expenditure on internally developed intangible assets, including development costs, is taken to the statement of comprehensive income in the year in which it is incurred. Expenditure relating to clearly defined and identifiable development projects is recognised as an intangible asset only after the following criteria are met:

- The project's technical feasibility and commercial viability can be demonstrated;
- The availability of adequate technical and financial resources and an intention to complete the project have been confirmed; and
- The correlation between development costs and future revenues has been established.

Foreign currencies
Transactions in currencies other than pounds sterling are recorded at the rate of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary assets and liabilities carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Gains and losses arising on retranslation are included in net profit or loss for the period, except for exchange differences arising on non-monetary assets and liabilities where the changes in fair value are recognised directly in equity.

Leases
Operating lease payments are recognised as an expense in the statement of comprehensive income on a straight line basis over the lease term.

Post-retirement benefits
The Company contributes a set proportion of employees' gross salary to defined contribution personal pension plans. The amount charged to the statement of comprehensive income in respect of pension costs is the contribution payable in the year. Differences between contributions payable in the year and contributions actually paid are shown either as prepayments or payables in the balance sheet.

Going concern
The accounts have been prepared under the going concern basis.

The company made a loss of £923,000 for the year ended 31 March 2012 (2011: loss of £5,421,000). The current economic slowdown and global recession has had limited impact on the Company as the ultimate parent company has sufficient resources to meet its on-going liabilities as they fall due. The company continues to receive the support of its ultimate parent company to allow it to meet its liabilities as they fall due.

The Company's Directors have reviewed the group's detailed cash flow forecast for the period ending 31 August 2013, made relevant enquiries and considered reasonably possible changes in trading activities, to satisfy themselves that the ultimate parent company is able to provide the necessary support to enable the company to meet its liabilities as they fall due, despite the current uncertain economic outlook. A legally binding letter of support has been obtained from Vectura Group plc. After making these enquiries, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future, being a period of at least 12 months from the date of signing the Annual Report. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts.

Share-based payments
The ultimate parent company, Vectura Group plc, operates a number of executive and employee share option schemes, as well as a Long-Term Incentive Plan (LTIP) under which Executive Directors and certain senior staff members may be granted nil-cost options under certain conditions. The level of grant under the LTIP is dependent upon the total shareholder return of Vectura (a market condition) compared to a peer group of UK pharmaceutical and biotechnology companies. In accordance with IFRS 2, for all grants of share options and awards, the cost of equity-settled transactions is measured by reference to their fair value as at the date on which they are granted. The Black-Scholes model is used to determine fair value for options, and the Monte Carlo binomial model for LTIP awards.

1. ACCOUNTING POLICIES - continued

Share-based payments – continued
The cost of equity-settled share transactions is recognised, together with a corresponding increase in equity, over the period until the award vests. No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied. At each reporting date, the cumulative expense recognised for equity-based transactions reflects the extent to which the vesting period has expired and the number of awards that, in the opinion of the Directors at that date, will ultimately vest. The parent company has applied IFRS 2 only to equity-settled awards granted after 7 November 2002 and not vested at 1 January 2005.

Critical accounting judgements
In preparing the financial statements, management is required to make estimates and assumptions, in accordance with IFRS, that affect the amounts of assets, liabilities, revenues and expenses reported in the financial statements. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual amounts and results could differ from those estimates.

The critical accounting judgements and key sources of estimation uncertainty that have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year are the measurement of provisions, the estimation of share-based payment costs, revenue recognition and the treatment of research and development expenditure in line with the relevant accounting policy.

The measurement of provisions involves estimation of future cash flows and the associated level of liabilities expected to arise as a result of these cash flows.

The estimation of share-based payment costs requires the selection of an appropriate valuation model, consideration as to the inputs necessary for the valuation model chosen and the estimation of the number of awards that will ultimately vest, inputs for which arise from judgements relating to the probability of meeting non-market conditions and the continuing participation of employees.

The treatment of research and development expenditure requires an assessment of the expenditure in order to determine whether or not it is appropriate to capitalise onto the balance sheet in accordance with IAS 38.

New accounting standards and interpretations
The following new and revised Standards and Interpretations have been adopted in the current year. Their adoption has not had any significant impact on the amounts reported in these financial statements, but with the exception of the amendment to IFRS 1, may impact the accounting for future transactions and arrangements.

Amendment to IFRS 1 - Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters The amendment provides a limited exemption for first-time adopters from providing comparative fair-value hierarchy disclosures under IFRS 7.

IAS 24 (2009) Related Party Disclosures The revised Standard has a new, clearer definition of a related party, with inconsistencies under the previous definition having been removed.

Amendment to IAS 32 - Classification of Rights Issues Under the amendment, rights issues of instruments issued to acquire a fixed number of an entity's own non-derivative equity instruments for a fixed amount in any currency and which otherwise meet the definition of equity are classified as equity.

Amendments to IFRIC 14: Prepayments of a Minimum Funding Requirement - The amendments now enable recognition of an asset in the form of prepaid minimum funding contributions.
Improvements to IFRSs 2010 Aside from those items already identified above, the amendments made to standards under the 2010 improvements to IFRSs have had no impact on the Group.

1. ACCOUNTING POLICIES - continued

New accounting standards and interpretations - continued
At the date of authorisation of these financial statements, the following Standards and Interpretations which have not been applied in these financial statements were in issue but not yet effective (and in some cases had not yet been adopted by the EU):
IFRS 1 (amended) Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters
IFRS 7 (amended) Disclosures - Transfers of Financial Assets
IFRS 9 Financial Instruments
IFRS 10 Consolidated Financial Statements
IFRS 11 Joint Arrangements
IFRS 12 Disclosure of Interests in other Entities
IFRS 13 Fair Value Measurement
IAS 1 (amended) Presentation of Items of Other Comprehensive Income
IAS 12 (amended) Deferred Tax: Recovery of Underlying Assets
IAS 19 (revised) Employee Benefits
IAS 27 (revised) Separate Financial Statements
IAS 28 (revised) Investments in Associates and Joint Ventures
IAS 32 (amended) Offsetting Financial Assets and Financial Liabilities
IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine

The adoption of IFRS 9 which the Group plans to adopt for the year beginning on 1 April 2013 will impact both the measurement and disclosures of Financial Instruments. The Directors do not expect that the adoption of the other standards listed above will have a material impact on the financial statements of the Group in future periods.

2. REVENUE

Revenue by Category:

	2012 £'000	2011 £'000
Development fees	-	1,241
Product sales	310	1,033
	310	2,274

Geographical analysis of revenue by customer location:

	2012 £'000	2011 £'000
United Kingdom	310	1,033
Rest of the world	-	1,241
	310	2,274

Segmental information
For management purposes the Company is currently organised into one business segment, which is the development of pharmaceutical products. Since this is the only primary reporting segment no further information has been shown. All of the Company's operations and assets are located in the United Kingdom.

3. EMPLOYEES AND DIRECTORS

	2012 £'000	2011 £'000
Wages and salaries	805	2,929
Social security costs	123	248
Other pension costs	35	86
	963	3,263

The average monthly number of employees during the year was as follows:

	2012 No.	2011 No.
Research and development	15	41
Administration and marketing	2	9
	17	50

The Directors' remuneration was borne by other Group companies for their services during the year and for the preceding year.

4. LOSS BEFORE TAXATION

The loss before tax is stated after charging:

	2012 £'000	2011 £'000
Other operating leases	-	11
Depreciation - owned assets	85	113
Loss on disposal of fixed assets	6	23

Fees payable to the Company's auditor for the audit of the Company's annual accounts of £20,000 (2011: £20,000) were borne by Vectura Limited.

Auditor's remuneration

The analysis of the auditor's remuneration is as follows:

	2012 £'000	2011 £'000
Fees payable to the company's auditor and their associates for the audit of the Company's annual accounts	20	20
Total audit fees	20	20

5. TAXATION

Analysis of tax credit

	2012 £'000	2011 £'000
R&D tax credits:		
- Receipt in respect of prior year	(386)	(160)
- Current year	(352)	(484)
Total tax credit in statement of comprehensive income	(738)	(644)

5. **TAXATION – continued**

Factors affecting the tax credit
The tax assessed for the year differs from the standard rate of corporation tax in the UK. The difference is explained below:

	2012 £'000	2011 £'000
Loss on ordinary activities before tax	(1,661)	(6,065)
Loss on ordinary activities multiplied by the standard rate of corporation tax in the UK of 26% (2011 - 28%)	(432)	(1,698)
Effects of:		
Expenses not deductible for tax purposes	54	100
Unrecognised losses carried forwards	378	1,598
Research and development tax credits:		
- Receipt in respect of prior year	(386)	(160)
- Current year	(352)	(484)
Tax credit	(738)	(644)

The tax credit for the year to 31 March 2012 represents research & development tax credits received.

Cumulative tax losses of approximately £26,077,000 (subject to agreement by HMRC) are available to carry forward against future taxable profits, or surrender in return for research and development tax credits (2011 - £25,607,000). There is an unrecognised deferred tax asset of £6,258,000 (2011 - £6,658,000) relating to the above tax losses, and a deferred tax asset of £58,000 arising as a result of unclaimed capital allowances (2011 - £100,000). The total deferred tax asset of £6,316,000 (2011 - £6,758,000) has not been recognised since it is uncertain that there will be suitable future taxable profits against which the deferred tax asset can be offset.

In March 2012, the UK Government announced a reduction in the standard rate of UK corporation tax to 24% effective from 1 April 2012 and to 23% effective 1 April 2013. These rate reductions became substantively enacted in March 2012 and July 2012, respectively.

The UK Government also proposed to further reduce the standard rate of UK corporation tax by 1% per annum to 22% effective 1 April 2014, but this change has not been substantively enacted.

The effect of these tax rate reductions on the deferred tax balance will be accounted for in the period in which the tax rate reductions are substantively enacted.

6. PROPERTY, PLANT AND EQUIPMENT

	Plant and machinery £'000	Computer and office equipment £'000	Totals £'000
COST			
As at 1 April 2010	485	95	580
Additions	53	-	53
Disposals	(62)	(69)	(131)
At 1 April 2011	476	26	502
Disposals	(31)	(7)	(38)
As at 31 March 2012	445	19	464
DEPRECIATION			
At 1 April 2010	172	74	246
Charge for the year	102	11	113
Disposals	(41)	(67)	(108)
As at 1 April 2011	233	18	251
Charge for year	82	3	85
Disposals	(25)	(7)	(32)
As at 31 March 2012	290	14	304
NET BOOK VALUE			
As at March 2012	**155**	**5**	**160**
As at March 2011	243	8	251
As at March 2010	313	21	334

7. INVENTORIES

	2012 £'000	2011 £'000
Raw materials	514	148

8. TRADE AND OTHER RECEIVABLES

	2012 £'000	2011 £'000
Amounts owed by group undertakings	-	3,009
R&D tax credits receivable	352	484
	352	3,493

The Directors consider that the carrying amount of trade and other receivables approximates their fair value.

9. CALLED UP SHARE CAPITAL

Allotted, issued and fully paid:

Number:	Class:	Nominal value:	2012 £'000	2011 £'000
40,002	Ordinary	£1	40	40
50,000	Preference	£1	50	50
			90	90

The preference shares have no right to participate in dividends but are entitled, on a return of assets on a winding up, to a repayment of paid-up capital before any assets are distributed or returned to the ordinary shareholders.

10. TRADE AND OTHER PAYABLES

	2012 £'000	2011 £'000
Amounts owed to parent undertakings	2,232	2,674
Amounts owed to group undertakings	47,456	46,475
Accruals and deferred income	56	2,538
	49,744	51,687

The Directors consider that the carrying amount of trade and other payables approximates their fair value.

11. ULTIMATE PARENT COMPANY

The Company's immediate and ultimate parent undertaking and ultimate controlling party is Vectura Group plc, a company incorporated in England and Wales. This represents the smallest and largest group into which the results of the Company are consolidated. The consolidated financial statements are available from Vectura Group plc, One Prospect West, Chippenham, Wiltshire, SN14 6FH.

12. RELATED PARTY DISCLOSURES

Details of trading with other Group companies during the year are disclosed in accordance with IAS 24:

	Recharge from related parties for services £'000	Recharge to related parties for services £'000	Amounts due by related parties £'000	Amounts due to related parties £'000
Vectura Group plc				
2012	345	-	-	2,232
2011	474	-	-	2,675
Vectura Limited				
2012	1,063	-	-	18,484
2011	1,076	-	-	17,997
Vectura Delivery Devices Limited				
2012	-	-	-	-
2011	-	-	2,978	-
Innovata Limited				
2012	-	-	-	26,297
2011	467	-	-	25,707
Quadrant Drug Delivery Limited				
2012	-	189	-	2,675
2011	16	758	-	2,598
Quadrant Technologies Limited				
2012	-	-	-	-
2011	-	-	31	-
Quadrant Healthcare Limited				
2012	-	-	-	-
2011	-	-	-	172

The amounts outstanding are unsecured and will be settled in cash. No guarantees have been given or received. No provisions have been made for doubtful debts in respect of the amounts owed by related parties.

13. RECONCILIATION OF LOSS BEFORE TAX TO CASH GENERATED FROM OPERATIONS

	2012 £'000	2011 £'000
Loss before tax	(1,661)	(6,065)
Depreciation charges	85	113
Loss on disposal of fixed assets	6	23
	(1,570)	(5,929)
Increase in inventories	(366)	(148)
Decrease in trade and other receivables	3,009	1,058
Increase in trade and other payables	(1,943)	3,080
Cash generated from operations	(870)	(1,939)

14. PENSIONS

The Company participates in a defined-contribution pension scheme. The assets of the scheme are held separately from those of the Company and are independently administered. The pension cost charge represents contributions payable by the Company under the scheme and amounted to £35,000 (2011 - £86,000). Contributions totalling £nil (2011: £nil) were payable at the year-end.

15. FINANCIAL INSTRUMENTS

Categories of financial instruments
Under IFRS 7, and for the purposes of risk management, the following classes of financial assets and their carrying values have been identified:

	2012 £'000	2011 £000
Loans and receivables	-	3,641

All financial assets fall due within one year. There were no provisions against impaired assets at 31 March 2012 (2011: £nil). There are no amounts past due but not impaired (2011: £nil).

Under IFRS 7, and for the purposes of risk management, the following classes of financial liabilities and their carrying values (at amortised cost) have been identified:

	2012 £'000	2011 £'000
Trade and other payables	(49,744)	(51,687)

All financial liabilities fall due within one year.

Fair value of financial assets and liabilities
The Directors consider there to be no material difference between the book value and the fair value of the Company's financial assets and liabilities at the balance sheet date.

Capital risk management
The Company manages its capital to ensure that it is able to continue as a going concern while maximising the return to stakeholders. The capital structure of the Company consists of amounts due from, and to, other Vectura Group plc companies and equity attributable to equity holders of the Company, comprising issued share capital, reserves and retained earnings as disclosed in the statement of changes in equity.

Externally imposed capital requirement
The Company is not subject to externally imposed capital requirements.

Significant accounting policies
Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised in respect of each class of financial assets, financial liability and equity instruments are disclosed in note 1 to the financial statements.

Financial risk management
The Company follows Vectura Group plc policies on interest rate risk, credit risk and the investment of excess liquidity.

It is, and has been throughout the year, the Company's policy that no speculative trading in financial instruments is undertaken.

15. FINANCIAL INSTRUMENTS - continued

Foreign currency risk management
The Company's principal functional currency is sterling. However, the Company undertakes certain transactions denominated in foreign currencies. The Company's policy is to offset its currency exposure by matching foreign currency revenues with expenditure in the same foreign currency. Where there are no imminent foreign exchange transactions, the balances are exchanged for sterling at spot rate.

As the timing and amount of foreign currency demonstrated income is uncertain, it is not possible to estimate the impact of a change in the foreign currency exchange rate on the Company.

Interest rate risk management
The Company has no external borrowings and is not exposed to interest rate risk through intercompany transactions.

Liquidity risk management
The Company manages liquidity risk by maintaining adequate reserves and by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

Credit risk management
The Company's credit risk is primarily attributed to its cash and cash equivalents. Another Group company controls the banking activities of the company and the risk is limited because the Group primarily deposits its cash with banks that have strong credit ratings.

Market risk management
The Company's exposure to market risk primarily comprises interest rate exposure. Funds are invested in cash deposits with the objective of maintaining a balance between accessibility of funds and competitive rates of return.

16. EQUITY-SETTLED SHARE OPTION SCHEMES AND LONG-TERM INCENTIVE PLAN

The below disclosures have been taken from the Vectura Group plc accounts for the year ended 31 March 2012. They have been included here on the basis that part of the Group share-based compensation charge has been recharged to this company.

Innovata Biomed Limited's ("the Company") Directors, officers and employees hold options under the Vectura Unapproved Share Option Plan (the "Unapproved Plan"), under Enterprise Management Incentive arrangements (the "EMI Plan") and under the Vectura Approved Share Option Plan. Options are granted to acquire shares in Vectura Group plc at the opening market price ruling on the date of grant. In general, options vest after three years and are exercisable during a period ending ten years after the date of grant.

On 18 January 2007, upon the acquisition of Innovata plc and in accordance with a scheme of arrangement, options over Innovata shares issued and outstanding at that date under the ML Laboratories plc 1989 Executive Option Scheme and the ML Laboratories plc 1999 Executive Option Scheme were exchanged for options over Vectura shares in accordance with the rules of the relevant Innovata Option Scheme. The exchange was on the basis that the option holders received new options representing 0.2858 Vectura shares for every one Innovata share.

The parent company operates a Sharesave Scheme. All employees and Executive Directors are invited to subscribe for options to acquire shares in the parent company, which may be granted at a discount of up to 20% of the market value on the offer date. The options granted vest after three years and are exercisable during a period of six months following the vesting date.

The parent company also operates a Long-Term Incentive Plan (LTIP) under which Executive Directors and certain senior managers are granted conditional rights in the form of nil-cost options to receive a maximum

16. EQUITY-SETTLED SHARE OPTION SCHEMES AND LONG-TERM INCENTIVE PLAN - continued

number of shares at the beginning of a three-year period, a proportion of which they will be entitled to receive at the end of that period, depending on the extent to which the challenging performance conditions set by the Remuneration Committee at the time the allocation was made are satisfied. The nil-cost option entitlement is exercisable from the beginning of the fourth year to the end of the tenth year following the date of grant.

At 31 March 2012, Executive Directors and eligible senior managers hold rights to ordinary shares awarded under the LTIP, as follows:

Date of vesting	Ordinary shares vesting
12 September 2008	584,615
22 November 2009	501,242
2 March 2010	314,274
25 May 2010	446,636
23 May 2011 (1)	1,630,705
21 May 2012 (1)	2,405,654
7 June 2013 (1)	2,511,192
7 June 2014 (1)	2,511,192

(1) Maximum number of shares, subject to performance conditions

On 31 October 2008, the shareholders of Vectura Group plc approved a Value Realisation Plan (VRP). The VRP runs in parallel to the LTIP and provides participants with a share of a pre-determined percentage of the total consideration paid for the Company in the event of a change in control within five years of the date of approval of the Plan. In this event, under the VRP members of the Executive Committee of the parent company will be granted a one-off entitlement in the form of units, which convert into ordinary shares in the parent company, the actual number of shares that convert being linked to the offer price per share achieved. The VRP is triggered upon achievement of a minimum bid price of £1.27 per share, with a maximum number of shares available to participants if the bid price reaches £1.77 per share, or greater.

Fair value calculations

The Company has taken advantage of the exemption in IFRS 1 and has applied IFRS 2 only to options granted after 7 November 2002 and not vested at 1 January 2005. At 31 March 2012 there were 2,255,995 options outstanding that were granted before this date (2011: 2,255,995).

With the exception of the LTIP awards and the potential awards under the VRP, the fair value of the options was determined using the Black-Scholes pricing model. The fair value of the LTIP and VRP awards have been estimated using the Monte Carlo model, using the same basis for the assumptions for volatility, option life, expected dividend yield and risk-free rate of return as used for the Black-Scholes model. For the purposes of calculating the fair value of the LTIP, it was considered equally probable that the Company's performance would be such that it would perform in each of the quartiles established under the LTIP scheme.

The assumptions input in to the Black-Scholes pricing model were as follows:

Year of grant	2012	2011
Weighted average share price of grants during the year	69.22p	59.53p
Weighted average exercise price of grants during the year	60.61p	56.88p
Expected volatility (1)	46% - 49%	46% - 48%
Expected life	3-5 years	3-5 years
Expected dividends	Nil	Nil
Risk-free interest rate (2)	0.5 - 1.0%	1.4% - 2.7%

16. EQUITY-SETTLED SHARE OPTION SCHEMES AND LONG-TERM INCENTIVE PLAN - continued

The assumptions input into the Monte Carlo model were as follows:	2012	2011
Weighted average share price of grants during the year	N/A	38p
Weighted average exercise price of grants during the year	N/A	0.025p
Expected volatility (1)	N/A	46%
Expected life	N/A	3 years
Expected dividends	N/A	Nil
Risk-free interest rate (2)	N/A	1.4%

(1) Expected volatility has been calculated by reference to the Company's historic share price since the IPO in July 2004, considered alongside the volatility of similar companies. The expectation of the cancellation of options has been considered in determining the fair value expense charged in the statement of comprehensive income.

(2) The risk-free interest rate is the UK Gilt Rate at the date of grant, commensurate with the expected term.

The charge is spread over the expected vesting period, utilising the fair value calculated by using the two models above, and after adjusting for the likelihood of cancellation of options when employees leave.

The Group share-based compensation charge for the year ended 31 March 2012, including the LTIP, was £1,040,000 (2011: £1,785,000), of which £208,000 (2011: £357,000) has been charged to the company.

The aggregate of the estimated fair value of options granted under share option schemes and Share Incentive Plan during the year ended 31 March 2012 was £426,000 (2011: £492,000) and under the SAYE Scheme £232,000 (2011: £143,000). There were no awards under the LTIP during the year ended 31 March 2012 (the estimated fair value of LTIP awards during the year ended 31 March 2011 was £444,000)

	Share Option Schemes		SAYE Scheme		LTIP	
Options Outstanding	**Number of Options**	**WAEP***	**Number of Options**	**WAEP***	**Number of Options**	**WAEP***
At 1 April 2010	19,028,332	60.50	2,115,313	41.20	6,560,356	0.025
Options granted	314,696	43.60	490,430	65.40	5,681,638	0.025
Options exercised	(777,323)	31.45	(11,852)	48.40	(421,153)	0.025
Options cancelled	(311,305)	112.41	(227,298)	55.21	-	-
At 31 March 2011	18,254,400	62.37	2,366,593	44.83	11,820,841	0.025
Options granted	414,375	95.75	1,101,966	47.40	-	-
Options exercised	(3,474,463)	57.04	(1,465,608)	36.14	(86,209)	0.025
Options cancelled	(1,458,839)	100.48	(346,433)	62.75	(829,122)	0.025
At 31 March 2012	13,735,473	79.97	1,656,518	50.43	10,905,510	0.025
Range of exercise prices	36.00p – 104.00p		47.40p -65.40p		0.025p	
Weighted average remaining contractual life (years)	3.42 (2011: 3.76)		2.82 (2011: 1.37)		7.02 (2011: 7.57)	
Options Vested						
At 31 March 2011	16,628,383	63.64	-	-	1,932,967	0.025
At 31 March 2012	12,950,364	59.87	-	-	3,477,472	0.025
Weighted average remaining contractual life (years)	3.11 (2011: 3.37)				5.24 (2011: 5.47)	

* Weighted average exercise price (p)