Sinclair Pharmaceuticals Limited

Annual Report and Financial Statements

Year ended 31 December 2018

Company Registration no. 1007146

Principal activities
The Company's principal activities are the development and commercialisation of medical aesthetic products through the Company's own direct sales teams in the UK and France, through Sinclair affiliates in Spain, Germany, Brazil, South Korea and from mid 2018 the USA, and through marketing partners on an international basis.

Business review and future developments
On 28 August 2018, the ultimate parent company Sinclair Pharma Plc ('Sinclair') announced that it had entered into an offer agreement with Huadong Medicine Co Limited ('HMC') under which HMC would acquire the entire issued and to be issued share capital of Sinclair at a price of 32pence per share. Following the approval of shareholders at a general meeting on 24 October, the offer was implemented by a court-sanctioned Scheme of arrangement under Part 26 of the Companies Act on 5 November, Sinclair was delisted from AIM and became a wholly owned subsidiary of HMC.

The results from operations for the year ended 31 December 2018 show revenue of £29.8 million (2017: £31.9 million) and a loss on ordinary activities after tax of £26.4 million (2017: £7.1 million).

Silhouette Soft® sales of £9.4 million (2017: £9.4 million) remained stable. Sales to South Korea performed strongly offsetting a decline in sales due to partner issues in Russia, UAE and Indonesia and lower sales to Sinclair's affiliate in Brazil.

Revenues from Silhouette InstaLift® in the US declined to £0.8 million in 2018 from £5.2 million in the prior year reflecting the transition from distribution by ThermiGen LLC ('Thermi') to distribution by Sinclair's US affiliate and the resulting de-stocking of the market that followed.

Ellansé® sales grew strongly to £9.0 million (2017: £7.4 million). Growth remains broad-based across multiple markets notably in the UK and Asia. Ellansé® unched by Sinclair's affiliate in Brazil in March 2018 and has been well received, generating £0.5 million of revenue in the year.

In China, the Company expects Ellansé® regulatory approval to be granted in late 2020, now that the clinical study has completed. The Directors ecpect China to become a leading market for the Company in future years.

Perfectha sales increased to £5.8 million (2017: £5.7 million) following the reregistration of the product in Brazil in Q4 2017 enabling this important market to contribute for the full year. A number of partner orders were delayed into Q1 2019 reducing reported sales for the year. Underlying performance of the product in market indicates a stronger growth rate than reported here.

The Company also continues its development of an extended range of Perfectha® formulations, with Perfectha® Lips, specifically designed for use in the volumisation of lips expected to launch in 2021

Sinclair sells and markets Sculptra® and NewFill® (reimbursed prescription in France and the UK for facial lipodystrophy) in Western Europe, under a long-term distribution arrangement with Galderma. The product has a loyal physician following . Sales increased to £4.7 million in 2018 (2017: £4.2 million).

Gross profit reduced to £17.0 million (2017: £19.7 million) which represents a gross margin of 57.2% (2017: 62.0%). The fall in gross profit and margin is primarily due to the issues experienced with Silhouette InstaLift in the USA.

Administrative expenses increased to £31.8m (2017: £27.2m). This increase was driven by higher regulatory and development costs, depreciation and impairment charges, and share based payments.

Strategic report

For the year ended 31 December 2018

The Company also incurred £8.5 million of exceptional expenses during the year (2017: nil) as a result of the change of control of the ultimate parent company, the ending of the Silhouette InstaLift distribution agreement in the USA and certain ongoing legal disputes, see note 4. Operating loss for the year was £23.3 million (2017: 7.4 million).

In the future, the board expects launches of Perfectha ® Lidocaine, Ellansé® in the US and China, and Silhouette InstaLift® in China supported by robust aesthetic market fundamentals, to drive sustainable premium growth for the Company.

Principal risks and uncertainties

The Directors of Sinclair Pharma Limited (formerly Sinclair Pharma plc), the Company's intermediate parent undertaking, manage the Group's risks at a group level, rather than at an individual business unit level. For this reason, the Company's Directors believe that a discussion of the Group's risks would not be appropriate for an understanding of the development, performance or position of the Company's business. The principal risks and uncertainties of the Sinclair Pharma Limited Group, which include those of the Company, are discussed in the Directors' Report of the Group's annual report which does not form part of this report.

Key performance indicators ('KPIs')

The Directors of Sinclair Pharma Limited manage the Company's operations at a group level. For this reason, the Company's Directors believe that analysis using KPIs for the Company is not necessary or appropriate for an understanding of the development, performance or position of the Company's business. The development and performance of the Group's key products, which includes the business of Sinclair Pharmaceuticals Limited, is discussed in more detail in the Business Review of the Group's annual report which does not form part of this report.

On behalf of the board

A M Olby
Director

27 September 2019

Sinclair Pharmaceuticals Limited

Report of the Directors
For the year ended 31 December 2018

The Directors present their report and the financial statements of the Company for the year ended 31 December 2018.

Future developments
The Strategic Report on pages 1-2 includes information relating to future developments in the business of the Company.

Dividends
The Directors do not recommend the payment of any dividends (2017: £Nil).

Research and development
As part of its normal activities the Company carries out research and development. In accordance with the accounting policies, development costs are capitalised and research costs incurred are charged to the profit and loss account. Details of research and development expenditure are contained in note 5 to the financial statements.

Directors
The Directors who served the Company during the period and up to the date of signing the financial statements were as follows:

C P Spooner
A M Olby
J K Burrell

Directors' and officers' liability insurance
The Company had in place qualifying third party indemnity insurance for all Directors throughout the year and to the date of this report.

Financial risk management
The Company's operations expose it to a variety of financial risks that include the effects of changes in foreign exchange rates and credit risk. The Company has in place a risk management programme that seeks to limit the adverse effects of these risks on the financial performance of the Company as set out below. Price risk and liquidity risk are managed at a group level.

(a) Foreign exchange risk
The Company has transactional currency exposures as the majority of its revenues, and certain expenditures, are in currencies other than Sterling, mainly Euros and US dollars. The Company finances the majority of its foreign currency expenses in the local currency, out of revenue receipts and maintains bank balances in both Euros and US dollars, excess currency receipts are then translated into Sterling at the spot rate.

(b) Credit risk
The Company is dependent on a relatively small number of distributors/customers and marketing partners. As such there is a concentration of credit risk which could materially and adversely affect the Company's financial results. The Company has implemented a policy that requires appropriate credit checks on potential new distributors before any new distribution agreements are signed.

Overseas branches
The Company operates through branches established in France and Singapore as well as from its base in the UK.

Sinclair Pharmaceuticals Limited

Report of the Directors
For the year ended 31 December 2018

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

Company law requires the Directors to prepare financial statements for each financial period. Under that law the Directors have prepared the financial statements in accordance with United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law (United Kingdom Generally Accepted Accounting Practice). Under Company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable United Kingdom Accounting Standards, including FRS 101 have been followed, subject to any material departures disclosed and explained in the financial statements;
- notify its shareholders in writing about the use of disclosure exemptions, if any, of FRS 101 used in the preparation of 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 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.

On behalf of the Board

Amau

A M Olby
Director

27 September 2019

Sinclair Pharmaceuticals Limited

Income statement
For the year ended 31 December 2018

	Note	2018 Continuing operations £'000	2018 Discontinued operations £'000	2018 Total £'000	2017 Continuing operations £'000	2017 Discontinued operations £'000	2017 Total £'000
Revenue	3	**29,750**	-	**29,750**	31,869	-	31,869
Cost of sales		**(12,724)**	-	**(12,724)**	(12,123)	-	(12,123)
Gross profit		**17,026**	-	**17,026**	19,746	-	19,746
Administrative expenses		**(31,759)**	-	**(31,759)**	(27,064)	(124)	(27,188)
Exceptional administrative expenses	4	**(8,530)**	-	**(8,530)**	-	-	-
Operating loss	5	**(23,263)**	-	**(23,263)**	(7,318)	(124)	(7,442)
Finance expense	8	**(3,523)**	-	**(3,523)**	(101)	-	(101)
Loss before taxation		**(26,786)**	-	**(26,786)**	(7,419)	(124)	(7,543)
Taxation	9	**387**	-	**387**	436	-	436
Loss for the financial period		**(26,399)**	-	**(26,399)**	(6,983)	(124)	(7,107)

There is no difference between the loss on ordinary activities before taxation and the profit for the financial years stated above and their historical cost equivalents.

Statement of comprehensive income
For the year ended 31 December 2018

	2018 £'000	2017 £'000
Loss for the period	**(26,399)**	(7,107)
Other comprehensive expense (Items that may subsequently be reclassified to the income statement)		
Currency translation differences	**(84)**	(45)
Total comprehensive expense for the period attributable to the owners of the parent	**(26,483)**	(7,152)
Total comprehensive expense arises from:		
Discontinued operations	-	(124)
Continuing operations	**(26,483)**	(7,028)
	(26,483)	(7,152)

The notes on pages 8 to 22 form part of these financial statements.

Sinclair Pharmaceuticals Limited

Balance sheet
at 31 December 2018

	Notes	2018	2017
		£'000	£'000
Fixed assets			
Intangible assets	10	**24,667**	25,932
Tangible assets	11	**617**	595
		25,284	26,527
Current assets			
Stocks	12	**3,147**	1,482
Debtors	13	**9,396**	15,031
Cash at bank in hand		**1,595**	72
		14,138	16,585
Creditors: amounts falling due within one year	14	**(44,877)**	(23,804)
Provisions	16	**(2,520)**	(283)
		(47,397)	(24,087)
Net current liabilities		**(33,259)**	(7,502)
Total assets less current liabilities		**(7,975)**	19,025
Creditors: amounts falling due after more than one year	15	**(2,289)**	(3,180)
Deferred tax liability	17	**(1,968)**	(2,186)
Net (liabilities)/assets		**(12,232)**	13,659
Capital and reserves			
Share capital	18	**32,234**	32,234
Capital contribution		**3,157**	2,565
Currency translation reserve		**(103)**	(19)
Accumulated losses		**(47,520)**	(21,121)
Total shareholders' (deficit)/funds		**(12,232)**	13,659

The notes on pages 8 to 22 form part of these financial statements

The Company's registered number is: 1007146

Audit exemption statement
For the period ending 31 December 2018, the Company was entitled to exemption from audit under section 479A of the Companies Act 2006 relating to subsidiary companies.

Directors' responsibilities:
- the members have not required the Company to obtain an audit of its accounts for the period in question in accordance with section 476
- the Directors acknowledge their responsibilities for complying with the requirements of the Act with respect to accounting records and the preparation of accounts

The financial statements were approved by the Board of Directors on 27 September 2019 and signed on its behalf by:

A M Olby
Director

Sinclair Pharmaceuticals Limited

Statement of changes in equity

For the year ended 31 December 2018

	Share capital £'000	Capital contribution £'000	Currency translation reserve £'000	Accumulated losses £'000	Total equity £'000
At 1 January 2017	**32,234**	**2,304**	**26**	**(14,014)**	**20,550**
Exchange differences arising on translation of overseas branches	-	-	(45)	-	(45)
Profit for the period	-	-	-	(7,107)	(7,107)
Total comprehensive income for the period	-	-	(45)	(7,107)	(7,152)
Capital contribution	-	261	-	-	261
Total transactions with owners recognised directly in equity	-	261	-	-	261
Balance at 31 December 2017	**32,234**	**2,565**	**(19)**	**(21,121)**	**13,659**
Exchange differences arising on translation of overseas branches	-	-	(84)	-	(84)
Profit for the period	-	-	-	(26,399)	(26,399)
Total comprehensive income for the period	-	-	(84)	(26,399)	(26,483)
Capital contribution	-	592	-	-	592
Total transactions with owners recognised directly in equity	-	592	-	-	592
Balance at 31 December 2018	**32,234**	**3,157**	**(103)**	**(47,520)**	**(12,232)**

The notes on pages 8 to 22 form part of these financial statements.

1. Company information

Sinclair Pharmaceuticals Limited is a private company limited by shares, incorporated in the United Kingdom. The address of its registered office is Eden House, Lakeside, Chester Business Park, Chester, CH4 9QT, England.

2. Accounting policies

Basis of preparation

These financial statements have been prepared in accordance with applicable accounting standards and in accordance with Financial Reporting Standard 101 – 'The Reduced Disclosure Framework (FRS 101). The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have all been applied consistently throughout the period unless otherwise stated.

The financial statements have been prepared on a historical cost basis, as modified by certain assets and liabilities measured at fair value.The financial statements are presented in Sterling (£) and have been presented in round thousands (£'000).

Disclosure exemptions adopted

The following disclosure exemptions from the requirements of IFRS have been applied in the preparation of these financial statements, in accordance with FRS 101:

- Paragraph 38 of IAS 1 'Presentation of Financial Statements' to present comparative information in respect of:
  - Paragraph 79(a)(iv) of IAS1
- The following paragraphs of IAS 1 'Presentation of Financial Statements'
  - 10(d) (statement of cash flows)
  - 16 (statement of compliance with all IFRS)
  - 38A (requirement for minimum of two primary statements, including cash flow statements)
  - 38B-D (additional comparative information)
  - 111 (cash flow statement information), and
  - 134 – 146 (capital management disclosures)
- IFRS 7, 'Financial Instruments: Disclosures'
- Paragraphs 91 to 99 of IFRS 13 'Fair value measurement' (disclosure of valuation techniques and inputs used for fair value measurement of assets and liabilities)
- IAS 7, 'Statement of cash flows'
- Paragraphs 30 and 31 of IAS 8 'Accounting policies, changes in accounting estimates and errors' (requirement for the disclosure of information when an entity has not applied a new IFRS that has been issued but is not yet effective)
- The requirements in IAS 24, 'Related party disclosures' to disclose related party transactions entered into between two or more members of a group.

Going concern

The Company's ultimate controlling party, Sinclair Pharma Limited (formerly Sinclair Pharma plc), has confirmed they will continue to provide financial support to the Company for a period of at least 12 months from the date these financial statements are approved by the Board. As such these financial statements have been prepared on a going concern basis.

2 Accounting policies (continued)

New standards, amendments and IFRC interpretations
The following standards, amendments, or interpretations, effective for the first time for the financial year beginning on 1 January 2018, have been adopted for the first time in these financial statements.

IFRS 9 Financial instruments. This addresses the classification, measurement and recognition of financial assets and financial liabilities. An expected credit losses model replaces the incurred loss impairment model used in IAS39. The group implemented IFRS9 on 1 January 2018. The classification and measurement basis for its financial assets and liabilities have not been materially changed by adoption of IFRS9. The impact at 1 January 2018 is not material, and therefore retained earnings has not been increased.

IFRS 15 Revenue from contracts with customers, deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. The Company implemented IFRS15 on 1 January 2018 and has carried out a review of existing contractual arrangements as part of this process. The impact at 1 January 2018 is not material, and therefore retained earnings has not been increased.

The following standards and interpretations were issued by the IASB and IFRS IC, but have not been adopted either because they were not endorsed by the EU at 1 January 2017 or they are not yet mandatory and the company has not chosen to early-adopt them.

- IFRS 16 Leases (effective 1 January 2019)

IFRS 16 addresses the definition of a lease, recognition and measurement of leases, and it establishes principles for reporting useful information to users of financial statements about the leasing activities of both lessees and lessors. A key change arising from IFRS 16 is that most operating leases will be accounted for on balance sheet since the distinction between operating and finance leases is removed. Under the new standard, an asset (that is, the right to use the leased item) and a financial liability to pay rentals are recognised. Based on existing operating leases under IAS 17, the directors expect to recognise right-of-use assets of approximately £969,000 on 1 January 2019, lease liabilities of £1,358,000 and a reduction in accruals of £112,000. Overall net assets will be approximately £389,000 lower and net current assets will be £252,000 lower due to the presentation of a portion of the liability as a current liability.

The company expects that the net profit after tax will increase by approximately £57,000 for 2019 as a result of adopting the new rules. Operating cash flows will increase and financing cash flows will decrease by approximately £350,000, because repayment of the principal portion of the lease liabiities will be classified as cash flows from financing activities.

There are no other standards that are not yet effective and that would be expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

Critical accounting estimates and judgements
Preparation of the Company's financial statements requires the use of estimates and judgements that affect the reported amounts of assets, liabilities, revenues and expenses and related disclosures. The Board bases its estimates and judgements on historic experience and on various other assumptions that it considers reasonable. Actual results may differ from these estimates under different assumptions and conditions.

2 Accounting policies (continued)

Estimates
Impairment of intangible assets
Determining whether goodwill and other intangibles are impaired requires an estimation of the value in use of the CGUs to which goodwill or other intangible assets have been allocated. The value in use calculation requires estimation of future cash flows expected to arise from the underlying asset and a suitable discount rate in order to calculate present value. There is a risk of a material adverse impact on the income statement should an impairment adjustment be required.

Judgements
Recoverable amounts of accounts receivable
Judgements have been made taking into account the age of overdue debt, order patterns, forecast trade, and the credit-worthiness of specific customers in order to assess the recoverable amount of accounts receivable balances.

Foreign currency translation
Items included in the financial statements of each of the Company's branches are measured using the functional currency of the primary economic environment in which the entity operates (the functional currency). Transactions in foreign currencies are translated into the functional currency at the rate of exchange ruling at the date of transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the rates of exchange prevailing at that date. Gains and losses arising on translation are included in the income statement. The results of operations that have a functional currency different from the presentation currency are translated at the average rate of exchange during the period and their balance sheets at the rates ruling at the date of the balance sheet. Exchange differences arising on translation from 1 July 2005 are taken directly to a separate component of equity, the cumulative translation reserve included within 'Other Reserves'. There is no tax impact on these transactions. Exchange differences on intra-group loan balances are taken to the income statement, unless they are considered long-term equity investments.

Discontinued operations
A discontinued operation is a component of business that represents a separate major line of business or major geographical area of operations that has been disposed of or is held for sale. Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. When an operation is classified as a discontinued operation, the comparative statement of income statement is reclassified as if the operation had been discontinued from the start of the comparative period.

Revenue
Revenue from product sales is recognised upon shipment to customers. Provisions for rebates, product returns and discounts to customers are provided for as reductions to revenue in the same period as the related sales occurred. Royalties receivable under licensing agreements are recognised as they are earned and are recorded within revenue. The recognition of other payments received and receivable, such as licence fees, upfront payments and milestones, is dependent on the terms of the related arrangement, having regard to the ongoing risks and rewards of the arrangement, and the existence of any performance or repayment obligations, if any, with the third party. These payments are recognised as revenue in the period in which they are earned. Amounts received and receivable are recognised immediately as revenue where there are no substantial remaining risks, no ongoing performance obligations and amounts received are not refundable. Amounts are deferred over an appropriate period where these conditions are not met.

2 Accounting policies (continued)

Research and development
Research expenditure is recognised as an expense as incurred. Costs incurred on development activities are recognised as intangible assets when it is probable that the project will be a success, considering its commercial and technological feasibility, status of regulatory approval, and costs can be measured reliably. Other development expenditure is recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Development costs that have a finite useful life and that have been capitalised are amortised from the date of regulatory approval of the product on a straight-line basis over the period of its expected benefit, not exceeding 10 years.

Intangible assets
Licences and product rights, including product distribution rights and technical dossiers, are initially recorded at cost and are carried at cost less accumulated amortisation. Amortisation is calculated on a straight-line basis over 10 years to allocate cost over the estimated useful economic lives. Intangible assets are reviewed for impairment by the Directors if events or changes in circumstances indicate that the carrying value may not be recoverable.

Goodwill
Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the identifiable net assets of the acquired subsidiary at the date of acquisition. Goodwill is tested annually for impairment, or more frequently if events or changes in circumstances indicate that the carrying value may be impaired, and is carried at cost less accumulated impairment losses.

Other intangible assets are tested where there is an indication of impairment. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any).

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Tangible Fixed assets
Tangible fixed assets are initially recognised at acquisition cost, including any expenditure that is directly attributable to the acquisition. Tangible fixed assets are subsequently measured at cost less accumulated depreciation.

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

Leasehold improvements are depreciated over period of lease on a straight-line basis; and

Office and laboratory equipment is depreciated at 15% to 50% per year on a straight-line basis

Material residual value estimates and estimates of useful life are updated as required, but at least annually.

2 Accounting policies (continued)

Stocks
Stocks are stated at the lower of cost and net realisable value. Cost includes all costs incurred in bringing each product to its present location and condition, as follows:

Raw materials and finished goods – purchase cost on a first-in, first-out basis; and

Net realisable value is based on estimated selling price less any further costs expected to be incurred to completion. Provision is made for slow moving, obsolete and defective stock.

Financial instruments
Non-derivative financial instruments comprise trade and other debtors, cash at bank and in hand 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.

Cash at bank and in hand
Cash at bank and in hand comprise cash, bank balances net of bank overdrafts and short term deposits held with banks by the Company, and are subject to insignificant risk of changes in value.

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.

Taxation
The tax expense represents the sum of the tax currently payable and deferred tax. The tax currently payable is based on taxable profit for the period. Taxable profit differs from net profit as reported in the income statement because it excludes items of income and expenses that are taxable and deductible in other periods and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or the initial recognition (other than a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising from investments in subsidiaries except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. The carrying amount of deferred tax assets are reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

2 Accounting policies (continued)

Exceptional items
Exceptional items represent significant items of income and expense which due to their nature, size, or the expected infrequency of the events giving rise to them, are presented separately on the face of the income statements to give a better understanding to shareholders of the elements of the financial performance in the year, so as to facilitate comparison with prior periods and to better assess trends in financial performance.

Leases
Leases, including hire purchase contracts, are classified as a finance lease whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases. Assets held under finance leases and hire purchase contracts are capitalised and included in property, plant and equipment at fair value. Each asset is depreciated over the shorter of the lease term or its useful life. The obligations related to finance leases, net of finance charges in respect of future periods, are included, as appropriate, under current, or non-current liabilities. The interest element of a rental obligation charged to the income statement is allocated to accounting periods during the lease term to reflect a constant rate of interest on the remaining balance of the obligation for each accounting period. Rentals under operating leases are charged to the income statement on a straight-line basis over the term of the relevant lease.

Pension costs
The Company operates a defined contribution pension scheme. Contributions are charged in the profit and loss account as they become payable in accordance with the rules of the scheme. The scheme's assets are held in separately administered funds.

Share-based payments
i) Value Creation Plan
The Group operates a Value Creation Plan ('VCP') which grants VCP units to Executive Directors and certain employees of the Group. These VCP units are convertible into nil-cost options over Ordinary shares of the ultimate parent company subject to the Group's share price reaching certain targets over a five year measurement period. Half the units vest after five years from grant and the remaining half vest after six years from grant. The fair value of the VCP units granted is recognised as an expense over the vesting period with a corresponding increase in equity. The fair value of the VCP units is determined using a Monte Carlo valuation model taking into account the terms and conditions upon which the grants are made.

In the event that the conditions covering the VCP units are amended, the fair value is re-measured at the date of the amendment. Any incremental increase in the fair value of the amended VCP units is recognised as an expense over the remaining vesting period with a corresponding increase in equity.

ii) 2013 Bonus Plan
The Group also operates a bonus plan which requires 50% of the annual bonus awarded to Executives and certain employees to be deferred into a plan account. The deferred element of the annual contribution is carried forward in notional shares, the number of which will be calculated based on the 30 day average share price at the end of the plan year and added to the deferred balance in the participant's account.

Participants are entitled to an annual payment of upto 50% of the balance of their plan account at the end of each financial year. This continues for three years with the remaining balance paid out in shares in year four when the bonus plan ends. The value held in a participant's plan account may be reduced by 50% if certain Forfeiture Thresholds are not met.

2 Accounting policies (continued)

The fair value of each notional share is initially measured at the date of the award. As the timing of the allocations of notional shares into the bank and the payments to participants vary, each tranche is recognised as an expense on a straight line basis over the period during which employees provide services for the awards (i.e. from the beginning of the year in which bonus is earned to the point it is paid from the bank).The fair value of the element of the award which is settled in cash is re measured annually. The fair value of the notional shares is determined using the 30 day average share price at the end of the plan year in which the awards are banked and each year subsequently if the deferred element is to be settled in cash. Any incremental increase in the fair value is recognised immediately as an expense As the timing of the allocations of notional shares into the bank and the payments to participants vary, each tranche is recognised as an expense on a straight line basis over the period during which employees provide services for the awards (i.e. from the beginning of the year in which bonus is earned to the point it is paid from the bank).

Equity-settled share-based payments granted by the Company to employees of subsidiaries are recognised as an expense charged to the relevant subsidiary with an equal increase in the investment in the subsidiary undertaking.

3. Revenue

Revenue relates solely to the principal activity of the Company. An analysis of revenue by geographical market by destination is given below:

	2018	2017
	£'000	£'000
United Kingdom	3,185	2,519
Rest of Europe	8,225	7,568
USA	800	5,210
Rest of World	17,540	16,572
	29,750	31,869

4. Exceptional administrative expenses

	2018	2017
	£'000	£'000
Charges arising on change of control	225	-
Legal costs	2,459	-
Contract termination costs	3,179	-
Impairment	2,667	-
	8,530	-

The change of control of the ultimate parent company on 5 November 2018 triggered various charges including certain contract termination fees.

Legal costs of £2,459,000 (2017: £Nil) relate to provisions made during the year in relation to various ongoing legal disputes (note 16).

The change of control of the Group (note 21), triggered an accelerated payment of £2,667,000 to the former owners of Refine. The Refine Support System is in the early stages of development, therefore the related intangible asset was immediately impaired.

In March 2018, the Company terminated its US distrubition agreement for Silhouette InstaLift with ThermiGen LLC and consequently incurred a termination payment of $2,000,000 (£1,423,000), and associated professional fees. Also included within contract termination is an inventory provision of £1,656,00 which relates to the write off of excess inventory acquired from ThermiGen LLC, following termination of the distribution agreement.

5. Operating loss

Operating loss from continuing operations is stated after charging/(crediting):

	2018 £'000	2017 £'000
Cost of stock recognised as an expense	**11,992**	11,443
Depreciation of owned tangible assets	**389**	125
Amortisation of intangible assets	**2,137**	2,002
Impairment charges recognised in administrative expenses	**395**	-
Operating lease payments – land and buildings	**333**	240
Research and development (excluding salary costs)	**457**	396
Net (gain)/loss on foreign currency translation	**(31)**	334

6. Wages and salaries

	2018 £'000	2017 £'000
Wages and salaries	**6,609**	5,264
Social security costs	**1,207**	1,103
Other pension costs	**457**	435
Share-based payments (note 19)	**592**	261
	8,865	7,063

The Company operates a defined contribution pension scheme, the cost of contributions to the scheme in the period amounted to £457,000 (2017: £435,000). Unpaid pension contributions outstanding at the period end amounted to £52,000 (2017: £47,000).

The monthly average number of employees (including Executive Directors) during the period was as follows:

	2018 Number	2017 Number
Sales and marketing	**42**	31
Logistics	**7**	5
Regulatory and quality	**16**	10
Administration	**28**	38
	93	84

7. Directors' emoluments

During the period the Directors did not receive any emoluments in respect of their services to the Company (2017: £Nil). The Directors are remunerated by other Group Companies and £1,844,000 (2017: £Nil), has been apportioned to the Company and is included within administrative expenses. All Directors (2017: all) held VCP units received in 2013 under a long-term incentive plan, (note 19).

8. Finance expense

	2018 £'000	2017 £'000
Other finance income/(expense)	**3**	(17)
Interest payable and finance fees on loans from other group undertakings	**(3,271)**	-
Discount unwind on deferred consideration	**(255)**	(84)
	(3,523)	(101)

9. *Taxation*

	2018 £'000	2017 £'000
Current tax		
UK corporation tax credit	**(256)**	(326)
Overseas corporation tax arising in foreign branches	**87**	108
Current tax on loss for the year	**(169)**	(218)
Deferred tax		
Reversal of timing differences	**(218)**	(218)
Total tax credit on profit on ordinary activities	**(387)**	(436)

Factors affecting the tax credit

The tax assessed on the loss on ordinary activities differs from the standard rate of corporation tax in the UK of 19.00% (2017: 19.25%). The differences are reconciled below:

	2018 £'000	2017 £'000
Loss on ordinary activities before taxation	**(26,786)**	(7,543)
Loss on ordinary activities multiplied by the average standard rate of corporation tax in the UK of 19.00% (2017: 19.25%)	**(5,089)**	(1,452)
Effects of:		
Expenses not deductible for tax purposes	**1,431**	685
Research and development tax credits	**(256)**	(326)
Reinvestment relief	**(218)**	(218)
Tax rate difference on overseas branches	**51**	40
Group relief	**130**	-
Unrelieved UK tax losses net of group relief	**3,564**	835
Total current tax credit	**(387)**	(382)

Deferred tax

Deferred tax assets have not been recognised, in the current or prior period, in respect of tax losses carried forward as there is insufficient evidence that these assets will be recovered. These assets will be recognised when there is sufficient likelihood of suitable profits arising in the future.

At 31 December 2018, the Company has tax losses of £41.7 million (2017: £24.6 million) available to relieve against future profits.

10. Intangible assets

	Licences and product rights £'000	Other £'000	Goodwill £'000	Total £'000
Cost				
At 1 January 2018	34,128	1,245	722	36,095
Additions	3,564	370	-	3,934
At 31 December 2018	**37,692**	**1,615**	**722**	**40,029**
Accumulated amortisation and impairment				
At 1 January 2018	9,101	1,062	-	10,163
Charge for the period	2,101	36	-	2,137
Impairment	3,008	54	-	3,062
At 31 December 2018	**14,210**	**1,152**	**-**	**15,362**
Net book value				
At 31 December 2018	**23,482**	**463**	**722**	**24,667**
At 31 December 2017	25,027	183	722	25,932

Additions to licences and product rights include accelerated payments for the Refine Support System (note 21) and capitalised development costs in relation to obtaining regulatory approval for Ellansé in the US. The Refine Support system is in the early stages of development, therefore the asset recognised in 2018 was immediately impaired (note 4).

11. Tangible fixed assets

	Leasehold Improvements £'000	Office and laboratory equipment £'000	Total £'000
Cost			
At 1 January 2018	167	1,013	1,180
Additions	205	211	416
Disposals	-	(133)	(133)
At 31 December 2018	**372**	**1,091**	**1,463**
Accumulated depreciation and impairment			
At 1 January 2018	167	418	585
Charge for the year	16	373	389
Eliminated on disposal	-	(128)	(128)
At 31 December 2018	**183**	**663**	**846**
Net book value			
At 31 December 2018	**189**	**428**	**617**
At 31 December 2017	-	595	595

12. Stocks

	2018 £'000	2017 £'000
Finished goods	**3,147**	1,482

13. Debtors

	2018 £'000	2017 £'000
Trade debtors	**3,050**	7,649
Amounts owed by group undertakings	**4,820**	6,004
Current tax receivable	**251**	326
Other debtors	**373**	252
Prepayments and accrued income	**902**	800
	9,396	15,031

Amounts owed by group undertakings are unsecured, and have no fixed repayment dates.

14. Creditors: amounts falling due within one year

	2018 £'000	2017 £'000
Trade creditors	**3,698**	4,105
Amounts owed to group undertakings	**32,143**	15,103
Taxation	**40**	-
Other taxation and social security	**1,263**	232
Other creditors	**1,171**	463
Accruals and deferred income	**6,562**	3,901
	44,877	23,804

Amounts owed to group undertakings are unsecured, and have no fixed repayment dates.

15. Creditors: amounts falling due after more than one year

	2018 £'000	2017 £'000
Other creditors	**1,530**	2,186
Accruals and deferred income	**759**	884
	2,289	3,180

Other creditors represent discounted estimated amounts due for the acquisition of the direct distribution rights for Silhouette and Ellansé in South Korea which are payable annually based on actual earnings achieved.

16. Provisions

	2018 £'000	2017 £'000
At start of the year	**283**	-
Charged to the income statement	**2,380**	283
Utilised	**(143)**	-
At end of year	**2,520**	283

Provisions relate to ongoing legal disputes and are expected to be utilised within the next year.

17. Deferred tax liability

	2018 £'000	2017 £'000
At start of period	**2,186**	2,404
Amortisation of deferred tax liability	**(218)**	(218)
At end of period	**1,968**	2,186

18. Called-up share capital

	2018		2017	
	Number	**£'000**	Number	£'000
Allotted, issued and fully paid:				
Ordinary shares of £1 each	**32,233,700**	**32,234**	32,233,700	32,234

19. Share options over shares in Sinclair Pharma plc

Value Creation Plan

The Sinclair Pharma Plc 2011, VCP was approved by shareholders at a General Meeting held on 13 January 2011. Awards granted under the VCP have no value at grant but subject to satisfaction of the performance conditions can convert into nil-cost options at each measurement date. Following the change of control of the Group in November 2018, the VCP scheme was closed and outstanding awards settled.

Out of a total pot of 10,000 VCP units, 2,100 were granted to Directors and senior management of the Company on 12 May 2011 of which nil (2017: 450) remained outstanding at 31 December 2018. Of these units, nil lapsed during the period (2017: 2,100).

The charge to the income statement for the year in relation to these VCP awards amounted to £304,000 (2017: £113,000).

2013 Bonus Plan

Certain employees of the Company are eligible to participate in the 2013 Bonus Plan as described in note 2. The charge to the income statement in the year was £288,000 (2017: £148,000) of which £141,000 (2017: £Nil) was an accelerated charge resulting from the closure of the plan following the change of control of the Group in November 2018, at which time all deferredawards were settled in cash in accordance with the rules of the Plan.

At 31 December 2018, bonus awards with a value of £Nil (2017: £373,000) were deferred under the 2013 Bonus Plan.

19 Share options (continued)

Options

A reconciliation of the movements in share options outstanding is set out below:

	2018		2017	
	Number	Weighted average exercise price (pence)	Number	Weighted average exercise price (pence)
Outstanding at start of period	**917,592**		917,592	0.0p
Exercised	**(917,592)**	**0.0p**	-	-
Outstanding at period end	-	-	917,592	0.0p

The total charge for the 12 month period relating to employee share options and performance share awards was £592,000 (2017: £261,000) all of which related to the above equity based transactions.

20. Financial commitments

At 31 December 2018 the Company had annual commitments under non-cancellable operating leases as follows:

	2018			2017		
	Land & Buildings £'000	**Plant & Machinery £'000**	**Total £'000**	Land & Buildings £'000	Plant & Machinery £'000	Total £'000
Within one year	**334**	**11**	**345**	277	5	282
Within one to two years	**357**	-	**357**	240	-	240
Within two to five years	**388**	-	**388**	308	-	308
Over five years	**488**	-	**488**	-	-	-
	1,567	**11**	**1,578**	825	5	830

21. Contingent Liabilities

On 30 April 2018, the Company's immediate parent, Sinclair Pharma Holdings Limited, entered into a five year credit facilities agreement for €23.0 million with Hayfin Capital Management LLP ('Hayfin'). The Company is a party to the facility agreement under which Hayfin holds a fixed and floating charge over all assets of the Company.

The Hayfin borrowings were fully repaid on 26 March 2019, at which time all charges over the Company's assets were released.

22. Related party transactions

On 19 June 2017, the company acquired the Refine Support System, a patented and FDA cleared, suture based product primarily used in breast cosmetic and reconstructive procedures, from Refine LLC. Jeff Thompson, who was non-executive Director of Sinclair Pharma Limited (formerly Sinclair Pharma plc) until 5 November 2018, has a beneficial interest of 52% in Refine LLC. The acquisition of the Group on 5 November 2018, triggered an accelerated payment of £2,667,000 to the former owners of Refine arising on change of control of the Group.

The Company is a wholly owned subsidiary of Sinclair Pharma Limited (formerly Sinclair Pharma plc), the consolidated financial statements of which are publically available. As permitted by paragraph 8(k) of FRS101 related party transactions with wholly owned members of Sinclair Pharma Ltd have not been disclosed.

There were no other related party transactions in the period ended 31 December 2018.

23. Controlling parties

The immediate parent undertaking is Sinclair Pharma Holdings Ltd, a company incorporated in England.

The consolidated financial statements of Sinclair Pharma Ltd (formerly Sinclair Pharma plc) are the smallest group for which financial statements are drawn up and of which the Company is a member. Copies of its Group financial statements, which include the Company, are available from the Company Secretary at Whitfield Court, 30-32 Whitfield Street, London, W1T 2RQ

Sinclair Pharma Limited is owned by Huadong Medicine Aesthetics Investment (Hongkong) Limited, a subsidiary of Huadong Medicine Co., Ltd ('HMC'). Both companies are registered in China. HMC is publicly traded on the Shenzhen stock exchange.