

Registered number: 10753028

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**KANDY THERAPEUTICS LIMITED**

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**DIRECTORS' REPORT AND FINANCIAL STATEMENTS**

**FOR THE PERIOD ENDED 30 JUNE 2018**

THURSDAY



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COMPANIES HOUSE

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## KANDY THERAPEUTICS LIMITED

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### COMPANY INFORMATION

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<b>Directors</b>	Dr I D Dukes (appointed 14 September 2017) Mr A Kay (appointed 6 June 2018) Dr M Kerr (appointed 14 September 2017) Dr S K Mahmood (appointed 14 September 2017) Dr G J Mulder (appointed 14 September 2017) Dr E Prosser (appointed 14 September 2017) Dr M K Trower (appointed 3 May 2017, resigned 14 September 2017) Dr J Richardson (appointed 24 August 2018)
<b>Registered number</b>	10753028
<b>Registered office</b>	Stevenage Bioscience Catalyst Incubator Building, Gunnels Wood Road Stevenage Hertfordshire SG1 2FX
<b>Independent auditors</b>	Rawlinson & Hunter Audit LLP Statutory Auditor & Chartered Accountants Eighth Floor 6 New Street Square New Fetter Lane London EC4A 3AQ

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**KANDY THERAPEUTICS LIMITED**

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## KANDY THERAPEUTICS LIMITED

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### DIRECTORS' REPORT FOR THE PERIOD ENDED 30 JUNE 2018

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The directors present their report and the financial statements of KaNDy Therapeutics Limited ("the Company") from the date of incorporation on 3 May 2017 to 30 June 2018.

#### Directors' responsibilities statement

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and 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 for the Company's financial statements and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- 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 to 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.

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

#### Principal activity

The principal activity of the company during the period was that of carrying out pharmaceutical research, development and commercialisation.

#### Directors

The directors who served during the period were:

Dr I D Dukes (appointed 14 September 2017)  
Mr A Kay (appointed 6 June 2018)  
Dr M Kerr (appointed 14 September 2017)  
Dr S K Mahmood (appointed 14 September 2017)  
Dr G J Mulder (appointed 14 September 2017)  
Dr E Prosser (appointed 14 September 2017)  
Dr M K Trower (appointed 3 May 2017, resigned 14 September 2017)

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**KANDY THERAPEUTICS LIMITED**

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**DIRECTORS' REPORT (CONTINUED)  
FOR THE PERIOD ENDED 30 JUNE 2018**

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**Disclosure of information to auditors**

Each of the persons who are directors at the time when this Directors' report is approved has confirmed that:

- so far as the director is aware, there is no relevant audit information of which the Company's auditors are unaware, and
- the director has taken all the steps that ought to have been taken as a director in order to be aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

**Post balance sheet events**

On 24 August 2018 the directors of its related party, NeRRe Therapeutics Limited, agreed to terminate the repayment agreement with the company. Both parties were unconditionally and irrevocably released from all claims, liabilities and obligations to repay a loan totalling £2,410,000.

On 24 August 2018 the company designated 5,000 Ordinary £0.00005 shares to 5,000 Deferred £0.00005 shares.

On 24 August 2018 the company repurchased and cancelled 2,005,000 Deferred £0.00005 shares.

On 24 August 2018 the company completed its Series C funding round, which raised £25m and as such have issued 7,859,452 Series C Preferred £0.00005 shares at an amount of £3.18 per share.

Following the qualifying financing event on 24 August 2018 of the Series C funding round as described above and a change of articles of association on the same date, dividend liabilities previously accrued on Junior preferred, Series A Preferred and Series B Preferred shares have been removed. Instead dividends accrued at 8% per year will be accounted for as equity according to the shareholders' agreement.

**Auditors**

The auditors, Rawlinson & Hunter Audit LLP, will be proposed for reappointment in accordance with section 485 of the Companies Act 2006.

**Small companies note**

In preparing this report, the directors have taken advantage of the small companies exemptions provided by section 415A of the Companies Act 2006.

This report was approved by the board on

**20 NOV 2018**

and signed on its behalf.



**Dr M Kerr**  
Director

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## KANDY THERAPEUTICS LIMITED

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### INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF KANDY THERAPEUTICS LIMITED

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#### Opinion

We have audited the financial statements of KaNDy Therapeutics Limited ("the Company") for the period ended 30 June 2018, which comprise the Statement of comprehensive income, the Balance sheet, the Statement of cash flows, the Statement of changes in equity and the related notes, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' (United Kingdom Generally Accepted Accounting Practice).

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 30 June 2018 and of its loss for the period then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

#### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the United Kingdom, including the Financial Reporting Council's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Conclusions relating to going concern

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

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

#### Other information

The directors are responsible for the other information. The other information comprises the information included in the Directors' Report and Financial Statements, other than the financial statements and our Auditors' report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material

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## KANDY THERAPEUTICS LIMITED

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### INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF KANDY THERAPEUTICS LIMITED (CONTINUED)

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misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

#### **Opinion on other matters prescribed by the Companies Act 2006**

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Directors' report for the financial period for which the financial statements are prepared is consistent with the financial statements; and
- the Directors' report has been prepared in accordance with applicable legal requirements.

#### **Matters on which we are required to report by exception**

In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Directors' report.

We have nothing to report in respect of the following matters in relation to which 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; or
- the directors were not entitled to prepare the financial statements in accordance with the small companies regime and take advantage of the small companies' exemptions in preparing the Directors' report and from the requirement to prepare a Strategic report.

#### **Responsibilities of directors**

As explained more fully in the Directors' responsibilities statement on page 1, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

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## KANDY THERAPEUTICS LIMITED

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### INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF KANDY THERAPEUTICS LIMITED (CONTINUED)

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#### Auditors' responsibilities for the audit of the financial statements

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

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our Auditors' report.

#### Use of our report

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an Auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.



David Davies (Senior statutory auditor)

for and on behalf of  
**Rawlinson & Hunter Audit LLP**

Statutory Auditor  
Chartered Accountants

Eighth Floor  
6 New Street Square  
New Fetter Lane  
London  
EC4A 3AQ

Date:

20 November 2018



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KANDY THERAPEUTICS LIMITED

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STATEMENT OF COMPREHENSIVE INCOME  
FOR THE PERIOD ENDED 30 JUNE 2018

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	Note	2018 £
Administrative and research & development costs		(4,072,936)
<b>Operating loss</b>	4	<b>(4,072,936)</b>
Interest payable and similar expenses	7	(432,831)
<b>Loss before tax</b>		<b>(4,505,767)</b>
Tax on loss	8	702,692
<b>Loss for the financial period</b>		<b>(3,803,075)</b>
<b>Other comprehensive income for the period</b>		
<b>Total comprehensive income for the period</b>		<b>(3,803,075)</b>

The notes on pages 10 to 23 form part of these financial statements.

2018 NOV 05

**KANDY THERAPEUTICS LIMITED**  
**REGISTERED NUMBER: 10753028**

**BALANCE SHEET**  
**AS AT 30 JUNE 2018**

	Note	2018 £
<b>Fixed assets</b>		
Intellectual property rights	9	4,597,106
		<u>4,597,106</u>
<b>Current assets</b>		
Debtors: amounts falling due within one year	10	884,563
Cash at bank and in hand	11	291,346
		<u>1,175,909</u>
Creditors: amounts falling due within one year	12	<u>(3,969,441)</u>
<b>Net current liabilities</b>		<u>(2,793,532)</u>
<b>Total assets less current liabilities</b>		<u>1,803,574</u>
Creditors: amounts falling due after more than one year	13	(5,605,143)
<b>Net liabilities</b>		<u><u>(3,801,569)</u></u>
<b>Capital and reserves</b>		
Called up share capital	15	1,506
Profit and loss account	16	(3,803,075)
		<u><u>(3,801,569)</u></u>

The financial statements were approved and authorised for issue by the board and were signed on its behalf on

**20 NOV 2018**



**Dr M Kerr**  
 Director

The notes on pages 10 to 23 form part of these financial statements.

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KANDY THERAPEUTICS LIMITED

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STATEMENT OF CHANGES IN EQUITY  
FOR THE PERIOD ENDED 30 JUNE 2018

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	Called up share capital £	Profit and loss account £	Total equity £
<b>Comprehensive income for the period</b>			
Loss for the period	-	(3,803,075)	(3,803,075)
<b>Total comprehensive income for the period</b>	-	(3,803,075)	(3,803,075)
Shares issued during the period	1,506	-	1,506
<b>Total transactions with owners</b>	1,506	-	1,506
<b>At 30 June 2018</b>	1,506	(3,803,075)	(3,801,569)

The notes on pages 10 to 23 form part of these financial statements.

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KANDY THERAPEUTICS LIMITED

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STATEMENT OF CASH FLOWS  
FOR THE PERIOD ENDED 30 JUNE 2018

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	2018 £
<b>Cash flows from operating activities</b>	
Loss for the financial period	(3,803,075)
<b>Adjustments for:</b>	
Amortisation of intangible assets	417,919
Taxation credit	(702,692)
Increase in debtors	(181,871)
Increase in creditors	1,768,376
Increase in amounts owed to related party	92,689
<b>Net cash used in operating activities</b>	<b>(2,408,654)</b>
<b>Cash flows from investing activities</b>	
Cash transferred on acquisition of business	2,700,000
<b>Net cash from investing activities</b>	<b>2,700,000</b>
<b>Net increase in cash and cash equivalents</b>	<b>291,346</b>
<b>Cash and cash equivalents at the end of period</b>	<b>291,346</b>
<b>Cash and cash equivalents at the end of period comprise:</b>	
Cash at bank and in hand	291,346
	<b>291,346</b>

The notes on pages 10 to 23 form part of these financial statements.

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## KANDY THERAPEUTICS LIMITED

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### NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2018

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#### 1. General information

KaNDy Therapeutics Limited is a private company limited by shares and is incorporated in England & Wales. The address of the registered office is Stevenage Bioscience Catalyst, Incubator Building, Gunnels Wood Road, Stevenage, Hertfordshire, SG1 2FX.

#### 2. Accounting policies

##### 2.1 Basis of preparation of financial statements

The financial statements have been prepared under the historical cost convention unless otherwise specified within these accounting policies and in accordance with Financial Reporting Standard 102, the Financial Reporting Standard applicable in the UK and the Republic of Ireland ("FRS 102") and the Companies Act 2006.

The preparation of financial statements in compliance with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies (see note 3).

The following principal accounting policies have been applied:

##### 2.2 Going concern

At the Balance Sheet date the company had net liabilities of £3,801,569 and had made a loss for the period to 30 June 2018 of £3,803,075.

On 24 August 2018 the company completed a Series C funding round and raised £25m. This funding is considered sufficient to meet the company's current research and development plans.

On the basis set out above, the Directors consider the going concern basis to be appropriate. The financial statements therefore, do not include any adjustments which would be necessary if the going concern basis was inappropriate.

##### 2.3 Intellectual property rights

Intellectual property rights include an exclusive licence and options to assign over certain patents. They are initially recognised at costs and amortised on a straight line basis over a 10 year period.

##### 2.4 Debtors

Short term debtors are measured at transaction price, less any impairment. Loans receivable are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest method, less any impairment.

##### 2.5 Cash and cash equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature in no more than three months from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

In the Statement of cash flows, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Company's cash management.

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## KANDY THERAPEUTICS LIMITED

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### NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2018

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#### 2. Accounting policies (continued)

##### 2.6 Financial instruments

The Company only enters into basic financial instrument transactions that result in the recognition of financial assets and liabilities like trade and other debtors and creditors, loans from banks and other third parties, loans to related parties and investments in non-puttable ordinary shares.

Debt instruments (other than those wholly repayable or receivable within one year), including loans and other accounts receivable and payable, are initially measured at present value of the future cash flows and subsequently at amortised cost using the effective interest method. Debt instruments that are payable or receivable within one year, typically trade debtors and creditors, are measured, initially and subsequently, at the undiscounted amount of the cash or other consideration expected to be paid or received. However, if the arrangements of a short-term instrument constitute a financing transaction, like the payment of a trade debt deferred beyond normal business terms or financed at a rate of interest that is not a market rate or in the case of an out-right short-term loan not at market rate, the financial asset or liability is measured, initially, at the present value of the future cash flow discounted at a market rate of interest for a similar debt instrument and subsequently at amortised cost.

Investments in non-convertible preference shares and in non-puttable ordinary and preference shares are measured:

- at fair value with changes recognised in the Statement of comprehensive income if the shares are publicly traded or their fair value can otherwise be measured reliably;
- at cost less impairment for all other investments.

Financial assets that are measured at cost and amortised cost are assessed at the end of each reporting period for objective evidence of impairment. If objective evidence of impairment is found, an impairment loss is recognised in the Statement of comprehensive income.

For financial assets measured at amortised cost, the impairment loss is measured as the difference between an asset's carrying amount and the present value of estimated cash flows discounted at the asset's original effective interest rate. If a financial asset has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

For financial assets measured at cost less impairment, the impairment loss is measured as the difference between an asset's carrying amount and best estimate of the recoverable amount, which is an approximation of the amount that the Company would receive for the asset if it were to be sold at the balance sheet date.

Financial assets and liabilities are offset and the net amount reported in the Balance sheet when there is an enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

Compound financial instruments issued by the company comprise convertible loan notes that can be converted into share capital and the number of shares to be issued does not vary with changes in their fair value, and preferred shares with fixed annual dividends.

The liability component of a compound financial instrument is initially recognised at the fair value of a similar liability that does not have an equity conversion option. The equity component is initially recognised at the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any direct attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

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## KANDY THERAPEUTICS LIMITED

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### NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2018

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## 2. Accounting policies (continued)

### 2.6 Financial instruments (continued)

Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortised cost using the effective interest rate method. The equity component of a compound financial instrument is not re-measured subsequent to initial recognition except on conversion or expiry.

When a financial liability is extinguished, that is when the obligation is discharged, cancelled or expired, it is removed from the balance sheet. Any difference arising between the carrying amount of the financial liability extinguished and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

### 2.7 Creditors

Short term creditors are measured at the transaction price. Other financial liabilities, including bank loans, are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest method.

### 2.8 Foreign currency translation

#### Functional and presentation currency

The Company's functional and presentational currency is GBP.

#### Transactions and balances

Foreign currency transactions are translated into the functional currency using the spot exchange rates at the dates of the transactions.

At each period end foreign currency monetary items are translated using the closing rate. Non-monetary items measured at historical cost are translated using the exchange rate at the date of the transaction and non-monetary items measured at fair value are measured using the exchange rate when fair value was determined.

Foreign exchange gains and losses resulting from the settlement of transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Statement of comprehensive income except when deferred in other comprehensive income as qualifying cash flow hedges.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the Statement of comprehensive income within 'finance income or costs'. All other foreign exchange gains and losses are presented in the Statement of comprehensive income within 'other operating income'.

### 2.9 Dividends

Equity dividends are recognised when they become legally payable. Interim equity dividends are recognised when paid. Final equity dividends are recognised when approved by the shareholders at an annual general meeting. Dividends on shares recognised as liabilities are recognised as expenses and classified within interest payable.

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## KANDY THERAPEUTICS LIMITED

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### NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2018

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#### 2. Accounting policies (continued)

##### 2.10 Taxation

Tax is recognised in the Statement of comprehensive income, except that a charge attributable to an item of income and expense recognised as other comprehensive income or to an item recognised directly in equity is also recognised in other comprehensive income or directly in equity respectively.

The current income tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the balance sheet date in the countries where the Company operates and generates income.

##### 2.11 Research and development

In the research phase of an internal project it is not possible to demonstrate that the project will generate future economic benefits and hence all expenditure on research shall be recognised as an expense when it is incurred. Intangible assets are recognised from the development phase of a project if and only if certain specific criteria are met in order to demonstrate the asset will generate probable future economic benefits and that its cost can be reliably measured. The capitalised development costs are subsequently amortised on a straight line basis over their useful economic lives, which range from 3 to 6 years.

If it is not possible to distinguish between the research phase and the development phase of an internal project, the expenditure is treated as if it were all incurred in the research phase only.



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## KANDY THERAPEUTICS LIMITED

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### NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2018

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#### 3. Judgments in applying accounting policies and key sources of estimation uncertainty

In preparing the financial statements, management has to make judgments on how to apply the company's accounting policies and make estimates about the future. The critical judgments that have been made at arriving at the amounts recognised in the financial statements and the key areas of estimation uncertainty that have a significant risk of causing a material adjustment to the carrying value of assets and liabilities in the next financial year, are discussed below:

##### (a) Useful economic lives and impairment of intellectual property rights ("the rights")

The annual amortisation charge for the rights is sensitive to changes in the estimated useful economic lives of the rights. The useful economic lives and impairment provision is reassessed annually. They are amended when necessary to reflect current estimates based on economic utilisation and success of the trials. See Note 9 for the carrying amount of the rights, and Note 2.3 for the useful economic lives for each rights.

##### (b) Applicable discount rate

The directors have assumed an applicable discount rate (interest rate) of 10% per annum at 30 June 2018 to discount the future cash flow relating to the future dividends and interest to the present value based upon current external loan finance terms available to the company. A higher discount rate would result in a lower discounted liability value being presented as a liability. A lower discount rate would result in a higher discounted liability value being presented as a liability in these financial statements.

##### (c) Conversion period

The directors have assumed a conversion period to Quarter 2 2020 based upon an estimate of the likely period over which conversion conditions for the preferred shares could be met. A longer conversion period would result in a higher dividend and interest value being presented as a liability in these financial statements.

#### 4. Operating loss

The operating loss is stated after charging:

	2018 £
Research & development charged as an expense	1,908,371
Exchange differences	10,246
Amortisation	417,919
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KANDY THERAPEUTICS LIMITED

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NOTES TO THE FINANCIAL STATEMENTS  
FOR THE PERIOD ENDED 30 JUNE 2018

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5. Auditors' remuneration

	2018 £
Fees payable to the Company's auditor for the audit of the Company's annual financial statements	7,000
<b>Fees payable to the Company's auditor and its associates in respect of:</b>	
All other services	2,250
	<u>2,250</u>

6. Employees

The Company has no employees other than the directors. The highest paid director received a gross salary of £2,500 during the period.

7. Interest payable and similar expenses

	2018 £
Preference share dividends	432,831
	<u>432,831</u>

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**KANDY THERAPEUTICS LIMITED**

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**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE PERIOD ENDED 30 JUNE 2018**

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**8. Taxation**

	2018 £
<b>Corporation tax</b>	
Current tax credit on loss for the period	(702,692)
	<u>(702,692)</u>
<b>Total current tax</b>	<u>(702,692)</u>
<b>Deferred tax</b>	
<b>Total deferred tax</b>	<u>-</u>
<b>Taxation on loss on ordinary activities</b>	<u>(702,692)</u>

**Factors affecting tax credit for the period**

The tax credit assessed for the period is lower than the standard rate of corporation tax in the UK of 19%. The differences are explained below:

	2018 £
Loss on ordinary activities before tax	(4,505,767)
Loss on ordinary activities multiplied by standard rate of corporation tax in the UK of 19%	(856,096)
<b>Effects of:</b>	
Expenses not deductible for tax purposes	164,182
Trade losses transferred in	(48,597)
Additional deduction for R&D expenditure	(520,435)
Surrender of tax losses for R&D tax credit refund	218,077
Adjust closing deferred tax to average rate of 19%	35,808
Deferred tax not recognised	304,369
<b>Total tax credit for the period</b>	<u>(702,692)</u>

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**KANDY THERAPEUTICS LIMITED**

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**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE PERIOD ENDED 30 JUNE 2018**

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**9. Intellectual property rights**

	<b>Intellectual property rights £</b>
<b>Cost</b>	
Additions	5,015,025
At 30 June 2018	<u>5,015,025</u>
<b>Amortisation</b>	
Charge for the year	417,919
At 30 June 2018	<u>417,919</u>
<b>Net book value</b>	
At 30 June 2018	<u><u>4,597,106</u></u>

The company acquired the women's health business from NeRRe Therapeutics Holdings Limited on 14 September 2017. This included intellectual property rights together with an ongoing research and development programme. The majority of the value of the women's health business has been attributed to the intellectual property which includes an exclusive licence and option to assign over certain patents. The excess of the purchase consideration over the tangible assets and liabilities acquired has been capitalised as an intangible asset and depreciated over a useful life of 10 years from 14 September 2017. As at the 30 June 2018 the remaining asset had a carrying amount of £4,597,106 and a remaining useful life of 9 years and 2 months.

**10. Debtors**

	<b>2018 £</b>
Other debtors	165,292
Prepayments and accrued income	16,579
Tax recoverable	702,692
	<u><u>884,563</u></u>

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**KANDY THERAPEUTICS LIMITED**

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**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE PERIOD ENDED 30 JUNE 2018**

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**11. Cash and cash equivalents**

	2018 £
Cash at bank and in hand	291,346
	<u>291,346</u>

**12. Creditors: Amounts falling due within one year**

	2018 £
Trade creditors	730,540
Amounts owed to connected undertakings	2,502,689
Accruals and deferred income	736,212
	<u>3,969,441</u>

On acquisition of the women's health business on 14 September 2017, the company assumed responsibility for the payment of £2,410,000 to NeRRe Therapeutics Limited. This liability is included in amounts owed to connected undertakings.

On 24 August 2018 the directors agreed to terminate the Repayment Agreement with NeRRe Therapeutics Limited, a company with common directors and shareholders at that time, and the debt of £2,410,000 was waived.

**13. Creditors: Amounts falling due after more than one year**

	2018 £
Share premium treated as debt	5,605,143
	<u>5,605,143</u>

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KANDY THERAPEUTICS LIMITED

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NOTES TO THE FINANCIAL STATEMENTS  
FOR THE PERIOD ENDED 30 JUNE 2018

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14. Financial instruments

	2018 £
<b>Financial assets</b>	
Financial assets measured at fair value through profit or loss	<u>291,346</u>
<b>Financial liabilities</b>	
Financial liabilities measured at amortised cost	<u>9,574,584</u>

Financial assets measured at fair value through profit or loss comprise cash and cash at bank.

Financial assets measured at amortised cost comprise other debtors.

Financial liabilities measured at amortised cost comprise trade creditors, accruals and share premium treated as debt.

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KANDY THERAPEUTICS LIMITED

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NOTES TO THE FINANCIAL STATEMENTS  
FOR THE PERIOD ENDED 30 JUNE 2018

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15. Share capital

	2018 £
<b>Shares classified as equity</b>	
<b>Allotted, called up and fully paid</b>	
3,521,779 Ordinary shares of £0.00005 each	176
993,581 Junior Preferred shares of £0.00005 each	50
3,250,000 Series A Preferred shares of £0.00005 each	163
20,344,826 Series B Preferred shares of £0.00005 each	1,017
2,000,000 Deferred shares of £0.00005 each	100
	<hr/> 1,506 <hr/>

**Rights attached to shares**

Each Ordinary share is entitled to one vote.

Each A Preferred, B Preferred and Junior Preferred share shall, on a poll, carry one vote per share (on an as converted basis) and is entitled to an annual 8% dividend to be paid in cash on a share sale, liquidation event, listing or conversion.

Deferred shares have no voting rights, nor do they have any rights to income and capital distributions.

**Share allotments, subdivisions and cancellations**

On incorporation of the Company, being 3 May 2017, the Company issued one Ordinary £0.0001 share at par value.

On 8 September 2017 the Company subdivided 1 Ordinary £0.0001 share into 2 Ordinary £0.00005 shares.

On 14 September 2017 the Company issued 699,712 Ordinary £0.00005 shares, 993,581 Junior Preferred £0.00005 shares, 3,250,000 Series A Preferred £0.00005 shares, 20,344,826 B Preferred £0.00005 shares and 2,000,000 Deferred £0.00005 shares. All classes were issued at par value.

Between 23 October 2017 and 16 November 2017 the Company issued 2,822,065 Ordinary £0.00005 shares at par value.

16. Reserves

**Profit and loss account**

The profit and loss account represents accumulated comprehensive losses for the period.

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**KANDY THERAPEUTICS LIMITED**

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**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE PERIOD ENDED 30 JUNE 2018**

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**17. Related party transactions**

During the period ended 30 June 2018 the Company accrued dividends on the issued preference shares detailed in Note 15 to the following related party undertakings, all of which are shareholders in the Company.

	<b>2018 £</b>
Glaxo Group Limited	<b>25,316</b>
Novo A/S	<b>17,020</b>
Advent Life Sciences Fund I LP	<b>151,507</b>
Advent Life Sciences LLP	<b>6,391</b>
Fountain Healthcare Partners II	<b>68,411</b>
Forbion Capital Fund II	<b>82,093</b>
Orbimed Private Investments VI, LP	<b>82,093</b>
	<hr/> <b>432,831</b> <hr/>



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## KANDY THERAPEUTICS LIMITED

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### NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2018

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The accrued balances owed to each party as at 30 June 2018 were as follows:

	2018 £
Glaxo Group Limited	382,847
Novo A/S	224,670
Advent Life Sciences Fund I LP	1,871,449
Advent Life Sciences LLP	78,939
Fountain Healthcare Partners II	896,246
Forbion Capital Fund II	1,075,496
Orbimed Private Investments VI, LP	1,075,496
	<u>5,605,143</u>

The Company has also incurred costs of £99,662 on behalf of Fountain Healthcare ("Fountain"), a major shareholder.

During the period the Company incurred costs of £7,767 from Amulet Consulting Ltd, a company in which a director, A Kay, is also a director.

The Company acquired the women's health business from NeRRe Therapeutics Holdings Limited, a Company with common shareholders and directors at that time, on 14 September 2017. As part of the transaction, the Company assumed responsibility for the payment of £2,410,000 to a subsidiary of NeRRe Therapeutics Holdings Limited, NeRRe Therapeutics Limited ("NTL").

During the period the Company incurred expenditure from NTL for which the Company was charged services fees of £722,381 and recharged expenditure of £111,981 in accordance with the Business Services and Development Services Agreements between the two companies. At the balance sheet date the Company owed £2,502,689 to NTL. The loan was unsecured and repayable on demand. As per note 18, on 24 August 2018 the company was released by NTL from a loan totalling £2,410,000.

During the period the Company granted 211,317 Ordinary £0.00005 shares to the director, Dr I D Dukes.

During the period the Company granted 1,268,597 Ordinary £0.00005 shares to the director, Dr M Kerr.

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## KANDY THERAPEUTICS LIMITED

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### NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2018

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#### **18. Post balance sheet events**

On 24 August 2018, the directors of NeRRe Therapeutics Limited, a related undertaking, agreed to terminate the repayment agreement with the Company. Both parties were unconditionally and irrevocably released from all claims, liabilities and obligations to repay a loan totalling £2,410,000.

On 24 August 2018, the Company designated 5,000 Ordinary £0.00005 shares to 5,000 Deferred £0.00005 shares.

On 24 August 2018, the Company repurchased and cancelled 2,005,000 Deferred £0.00005 shares.

On 24 August 2018, the Company completed its Series C funding round, which raised £25m and as such have issued 7,859,452 Series C Preferred £0.00005 shares at an amount of £3.18 per share.

Following the qualifying financing event on 24 August 2018 of the Series C funding round as described above and a change of articles of association on the same date, dividend liabilities previously accrued on Junior preferred, Series A Preferred and Series B Preferred shares have been removed. Instead dividends accrued at 8% per year will be accounted for as equity according to the shareholders' agreement.

#### **19. Controlling party**

The directors consider that there is no ultimate controlling party.