Registration Number SC 166791

PAION Holdings UK Limited

Annual Report and Financial Statements for the year ended 31 December 2018

PAION Holdings UK Limited

Company Information

Directors	Abdelghani Omari Dr. Jürgen Beck (appointed 25 January 2018) Dr. Oliver Kops (resigned 1 February 2018)
Secretary	CMS Cameron McKenna LLP
Company Number	SC 166791
Registered Office	Saltire Court 20 Castle Street Edinburgh EH1 2EN
Auditor	Ernst & Young LLP One Cambridge Business Park Cambridge CB4 0WZ
Business Address	Unit D1 Brookmount Court Kirkwood Road Cambridge CB4 2QH

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PAION Holdings UK Limited

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Directors' Report
for the year ended 31 December 2018

The directors present their annual report on the affairs of the company, together with the financial statements and auditor's report for the year ended 31 December 2018. This directors' report has been prepared in accordance with the small companies' regime.

Principal Activity, Review of the Business and Future Developments

The company acts as a holding company and holds all the shares of its subsidiaries PAION UK Ltd and TheraSci Limited, a dormant company. The directors expect this activity to continue for the foreseeable future.

Going concern

The financial statements have been prepared on a going concern basis which assumes that the company will continue in operational existence for the foreseeable future.

Results and Dividends

The audited financial statements for the year ended 31 December 2018 are set out on pages 6 to 16. The loss for the year after taxation was £53,885 (2017: loss of £287,520).

The directors do not recommend the payment of a dividend (2017: £nil).

Directors

The directors of the company who served during the year and up to the date of signing the financial statements are:

Abdelghani Omari
Dr. Jürgen Beck (appointed 25 January 2018)
Dr. Oliver Kops (resigned 1 February 2018)

The ultimate parent undertaking, PAION AG, provides Directors and Officers (D&O) liability insurance cover for the directors against liability in respect of proceedings brought by third parties, subject to the conditions set out in the Companies Act 2006. Such insurance cover remains in force as at the date of approving the directors' report.

Disclosure of information to auditor

In accordance with Section 418(2) of the Companies Act 2006, in the case of each of the persons who are directors at the time of when the report is approved, the following applies:

- so far as the directors are aware, there is no relevant audit information of which the company's auditor is unaware; and
- they have taken all the steps that they ought to have taken as directors in order to make themselves aware of any audit information and to establish that the company's auditor is aware of that information.

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Directors' Report
for the year ended 31 December 2018

Statement of Directors' Responsibilities

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 United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS 102 'The Financial Reporting Standard applicable to 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 year. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- 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.

Approved and signed by order of the Board

Abdelghani Omari **Director** **Date:** 19.03.2019	**Dr. Jürgen Beck** **Director** **Date:** 19.03.2019

PAION Holdings UK Limited

Independent Auditor's Report to the members of PAION Holdings UK Limited

Opinion

We have audited the financial statements of Paion Holdings UK Limited for the year ended 31 December 2018 which comprise the Statement of Income and Retained Earnings, the Balance Sheet, and the related notes 1 to 13, 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 FRS 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 company's affairs as at 31 December 2018 and of its loss for the year 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 Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC'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 other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this 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

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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 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 the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions 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 strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and directors' report have 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 strategic report or 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.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 2, 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.

Auditor's 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 auditor's 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

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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 https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's 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 auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed

Ernst & Young LLP

Fraser Bull
(Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Cambridge
Date: 22 March 2019

PAION Holdings UK Limited

Statement of Income and Retained Earnings
for the year ended 31 December 2018

	Note	2018	2017
		£	£
Turnover	2	**30,448**	16,094
Gross profit		**30,448**	16,094
Administrative expenses		**(185)**	(172)
Operating profit	3	**30,263**	15,922
Other finance gain / (cost)	4	**37,737**	(154,468)
Interest receivable		**24**	-
Interest payable	5	**(121,909)**	(148,974)
Loss on ordinary activities before taxation		**(53,885)**	(287,520)
Tax on loss on ordinary activities	6	**-**	-
Loss for the year	11	**(53,885)**	(287,520)
Retained earnings at beginning of year	11	**(22,876,368)**	(22,588,848)
Retained earnings at the end of year	11	**(22,930,253)**	(22,876,368)

All the above results relate to continuing operations.

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PAION Holdings UK Limited

Balance Sheet
as at 31 December 2018

	Note	2018 £	2017 £
Fixed Assets			
Investments	7	75,948,903	7,901,818
		75,948,903	7,901,818
Current Assets			
Cash at bank and in hand		18,341	32,149
		18,341	32,149
Creditors: amounts falling due within one year	8	-	(4,132,273)
Net Current Liabilities		-	(4,100,124)
Total Assets less Current Liabilities		**75,967,244**	3,801,694
Net Assets		**75,967,244**	3,801,694
Capital and Reserves			
Called up share capital	10	6,688,077	6,688,076
Share premium account	11	76,486,734	4,267,300
Share option reserve	11	25,519	25,519
Capital redemption reserve	11	15,697,167	15,697,167
Profit and loss account	11	(22,930,253)	(22,876,368)
Total Equity		**75,967,244**	**3,801,694**

The financial statements on pages 6 to 16 were approved by the Board of Directors on 19 March 2019 and were signed and on its behalf by:

Abdelghani Omari
Director
Date: 19.03.2019

Dr. Jürgen Beck
Director
Date: 19.03.2019

1. Accounting policies

Statement of compliance

PAION Holdings UK Limited is a limited liability company incorporated in Scotland. The Registered Office is Satire Court, 20 Castle Street, Edinburgh EHI 2EN. These financial statements have been prepared in accordance with applicable United Kingdom accounting standards, including Financial Reporting Standard 102 – 'The Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland' ('FRS 102'), and with the Companies Act 2006.

Basis of accounting

The financial statements are prepared in accordance with the historical cost convention. The company has taken advantage of the following disclosure exemptions under FRS 102 reduced disclosure framework:

(a) The requirements of Section 4 Statement of Financial Position paragraph 4.12(a)(iv).

(b) The requirements of Section 7 Statement of Cash Flows and Section 3 Financial Statement Presentation paragraph 3.17(d).

(c) The requirements of Section 11 Basic Financial Instruments paragraphs 11.39 to 11.48A.

(d) The requirements of Section 26 Share-based Payment paragraphs 26.19 to 26.21 and 26.23.

(e) The requirement of Section 33 Related Party Disclosures paragraph 33.7.

(f) The requirements of Section 12 Other Financial Instruments Issues paragraphs 12.26 to 12.29A.

Functional currency

The financial statements have been prepared based on GBP being the functional currency. The management considers this to be most appropriate at this time based on the following:

- Revenues have arisen in different currencies to date and currently no one currency has impacted the actual, or impacts the potential revenue streams. This will be reassessed as the company's strategy evolves and sustainable revenue streams commence.
- The company's fixed cost base is denominated in GBP. Management will continue to monitor and assess its functional currency as the business evolves.

Basis of consolidation

In accordance with the exemption granted by Section 401 of the Companies Act 2006 the company has not prepared group financial statements. The group accounts of the parent company, PAION AG, have been prepared under International Financial Reporting Standards and include the results of the company and its group. These financial statements therefore present information about the company as an individual undertaking and not about its group.

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1. Accounting policies (continued)

Going concern
The financial statements have been prepared on a going concern basis which assumes that the company will continue in operational existence for the foreseeable future.

Investments
Investments are accounted for at cost less any provision for impairments.

Share based payments
Until 2007 the company issued equity share-based payments to employees and directors. The company considers these to be equity-settled share based payments in its individual financial statements and these payments were measured at fair value at the date of grant. Fair value was measured by use of the Black-Scholes pricing model. The fair value determined at the grant date of the equity-settled share-based payments was expensed on a straight-line basis over the vesting period, based on the company's estimate of the number of shares that will eventually vest. The corresponding credit was recognised in equity.

Interest-bearing loans and borrowings
All interest-bearing loans and borrowings which are basic financial instruments are initially recognised at the present value of cash payable to the lender (including interest). After initial recognition they are measured at amortised cost using the effective interest rate method, less impairment. The effective interest rate amortisation is included in finance revenue in the income statement.

Cash and cash equivalents
Cash and cash equivalents in the balance sheet comprise cash at bank and in hand and short term deposits with an original maturity date of three months or less.

Debtors
Debtors are included in current assets. A provision for impairment of debtors is established when there is objective evidence that the company will not be able to collect all amounts due according to the original terms of the debtor.

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1. Accounting policies (continued)

Deferred taxation
Deferred tax is recognised in respect of all timing differences which are differences between taxable profits and total comprehensive income that arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in the financial statements, except that unrelieved tax losses and other deferred tax assets are recognised only to the extent that the directors consider that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

Revenue Recognition
Revenues are recognised as realised during the fiscal year. Income is realised upon performance of the service owed and transfer of the risk and when the amount of anticipated consideration can be reliably estimated. Payments relating to the sale or out-licensing of substances or technological expertise are recognised in profit or loss when the performance obligations pursuant to the underlying contractual agreements have been completely fulfilled for the period.

Foreign currencies
Trading transactions denominated in foreign currencies are translated into sterling at the exchange rate ruling when the transactions were entered into. Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the exchange rates ruling at the balance sheet date. Exchange gains or losses from trading are included in the operating result for the period. Exchange gains or losses on loans are recorded as finance income or expense.

Judgements and key sources of estimation uncertainty
The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for revenues and expenses during the year. However, the nature of estimation means that the actual outcomes could differ from those estimates.

Impairment of investments
Where there are indicators of impairment management performs impairment tests based on the higher of fair value less costs to sell and value in use. Such tests involve judgements as to the inputs in any valuation model.

2. Turnover

The company has only one class of business, being the research and development and commercialisation of innovative drugs for the hospital-based treatment in indications for which there is a substantial unmet medical need. The turnover was £30,448 (2017: £16,094).

3. Operating profit/(loss)

There were no directors' emoluments in the year ended 31 December 2018 (2017: £nil). No director received shares for qualifying services in either the current or prior year. In addition no director was accruing benefits under a defined benefit or defined contribution pension scheme in either the current or prior year. No director exercised share options in the year (2017: £nil).

The directors of the company are employees of other group undertakings. The directors received total remuneration for the year of £462,787 (2017: £371,619); thereof £nil (2017: £nil) through PAION Holdings UK Limited and the remainder through other group undertakings. The directors do not believe that it is practicable to apportion this amount between their qualifying services to the UK companies and qualifying services to other group undertakings.

Of the total directors' remuneration, the highest paid director received £232,972 (2017: £226,448). The highest paid director did not receive any shares for qualifying services or exercise any share options in either the current or prior year.

There were no employees of the company in the year and in the previous year.

The audit fee for the financial statements for the company is €4,500 (2017: €4,500). This is borne by the company's subsidiary undertaking.

4. Other finance gain / (cost)

	2018	2017
	£	£
Net exchange gain / (loss) on Intercompany loan	**37,737**	(154,468)
	37,737	(154,468)

5. Interest payable

	2018	2017
	£	£
Intercompany loan interest payable	**121,909**	148,974
	121,909	148,974

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6. Tax on loss on ordinary activities

	2018	2017
	£	£
Current tax	**-**	-
Deferred tax	**-**	-
Tax charge for the year	**-**	-

The tax assessed on the loss on ordinary activities for the year is higher (2017: higher) than the standard rate of corporation tax in the UK of 19% (2017: 19.25%). The differences are reconciled below:

	2018	2017
	£	£
Loss on ordinary activities before tax	**(53,885)**	(287,520)
Tax thereon at the standard corporation tax rate of 19% (2017: 19.25%)	**(10,238)**	(55,348)
Effect of:		
Movement in unrealised tax losses carried forward	**9,160**	48,878
Effect of change in tax rate	**1,078**	6,470
Total tax charge for the year	**-**	-

The standard rate of UK Corporation tax for the year is 19%.

The Chancellor of the Exchequer announced a reduction in the corporation tax rate to 17% for the financial year beginning 1 April 2020. This change was enacted on 15 September 2016.

The above change to the rate of corporation tax will impact the amount of future cash tax payments to be made by the company.

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7. Investments

Cost and net book value	2018	2017
	£	£
At the start of the year:	**7,901,818**	7,901,818
Additions	**68,047,085**	-
At the end of the year:	**75,948,903**	7,901,818

In 2018, PAION AG transferred part of the claim from the intercompany loan granted to PAION UK Ltd, equalling an amount of £68,047,085, to PAION Holdings UK Ltd in exchange for a capital increase in PAION Holdings UK Ltd. PAION Holdings UK Ltd subsequently exchanged the debt for a capital increase in PAION UK Ltd.

The following are the subsidiary undertakings of the company:

	Class of shares	Holding	Country of incorporation	Nature of business
PAION UK Limited	Ordinary	100%	England	Research and development, and licensing of central nervous system (CNS) drugs
TheraSci Limited	Ordinary	100%	England	Dormant entity

The registered office of the two companies is Unit D1, Brookmount Court, Kirkwood Road, Cambridge CB4 2QH.

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8. Creditors: amounts falling due within one year

	2018	2017
	£	£
Intercompany creditor	-	13,148
Intercompany loan	-	4,119,125
	-	4,132,273

In 2018, PAION AG released the debt from the intercompany loan granted to PAION Holdings UK Ltd, equalling an amount of £4,172,350, in exchange for a capital increase in PAION Holdings UK Ltd.

Interest on the intercompany loan agreement was charged at an annual rate equivalent to EONIA (Euro Over Night Index Average) plus 410 basis points and is calculated on an exact daily basis in line with the international method for calculating interest (actual/360 interest days per year) until the date of the release of the debt.

9. Deferred taxation

A deferred tax asset has not been recognised as the directors consider that this would be inappropriate as there is insufficient certainty over its recoverability. This will be reassessed at such time as the company expects to make a profit. The asset unprovided is as follows:

	2018		2017	
	Amount provided	Amount unprovided	Amount provided	Amount unprovided
	£	£	£	£
Tax effect of losses carried forward	-	(1,449,186)	-	(1,440,025)
	-	(1,449,186)	-	(1,440,025)

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10. Share capital

	2018	2017
	£	£
Authorised		
33,776,318 (2017: 33,776,318) ordinary shares of 30p each	**10,133,000**	10,133,000
Allotted, issued and fully paid		
22,293,590 (2017: 22,293,588) ordinary shares of 30p each	**6,688,077**	6,688,076

In 2018, PAION AG transferred part of the claim from the intercompany loan granted to PAION UK Ltd, equalling an amount of £68,047,085, to PAION Holdings UK Ltd and released the debt from the intercompany loan granted to PAION Holdings UK Limited, equalling an amount of £4,172,350, in exchange for a capital increase in PAION Holdings UK Ltd in the same total gross amount. In the course of this capital increase, the share capital was increased by £1 and the share premium account was increased by £72,219,434. Sole shareholder remains PAION AG.

11. Reserves

	Share premium account £	Share option reserve account £	Capital redemption reserve £	Profit and loss account £
At 1 January 2018	4,267,300	25,519	15,697,167	(22,876,368)
Capital increase	72,219,434	-	-	-
Loss for the year	-	-	-	(53,885)
At 31 December 2018	**76,486,734**	**25,519**	**15,697,167**	**(22,930,253)**

The share premium account refects the amount above the nominal value received for shares sold, less transaction costs. For the change in 2018, see note 10. The capital redemption reserve reflects the nominal value of preference shares previously redeemed. The share option reserve records the credit entry relating to the equity settled share based payment charge.

12. Ultimate parent undertaking

The company's ultimate parent undertaking and controlling party is PAION AG, a company registered in Germany.

The results of the company have been consolidated in the financial statements of PAION AG, the controlling party, for the year to 31 December 2018. Copies of the PAION AG financial statements are available from the German "Bundesanzeiger".

13. Related party transactions

The company has taken advantage of the exemption under FRS 102 from disclosing transactions with other group undertakings that are wholly owned within the PAION AG group.

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