Vernalis Development Limited

Annual Report and Financial Statements

30 June 2018

Registered number **2600483**

Contents

Strategic Report

The directors present their strategic report and audited financial statements for the Company for the year ended 30 June 2018.

Principal Activities and Business Review

The principal activity of the Company is the licensing, production, distribution and sale of pharmaceutical products, together with any ancillary operations which enhance directly or indirectly such products and activities.

Review of business, future developments and post balance sheet events.

The Company's marketed acute oral treatment for migraine headache and associated symptoms, frovatriptan, is a selective 5-$HT_{1B/1D}$ receptor agonist and one of a number of approved acute migraine treatments in a class known as triptans. It is licensed to Menarini for Europe, Central America and certain other territories.

Under our licensing agreements, the Company receives royalties arising from sales by Menarini via the supply of API and bulk drug products.

Net sales of frovatriptan by Menarini in Europe and Central America were down 10 per cent in euro terms at €15.0 million for the year ended 30 June 2018 (2017: €16.7 million) due to a small amount of price and volume erosion with volumes of tablet sales for the year ended 30 June 2018 down at 7.9 million (2017: 8.2 million). Vernalis' revenue is based on shipments of API to Menarini, the value of which is initially based on anticipated Menarini revenues at a royalty rate of 25.25 per cent which is then trued up for actual sales values. As a result, the reported royalties do not necessarily track the underlying performance of Menarini in the market.

The reported frovatriptan royalties for the year ended 30 June 2018 were £2.8 million (2017: £4.3 million) and this £1.5 million decrease was mostly due to a volume decrease with two 12.5kg batches of API delivered to Menarini during the year ended 30 June 2018 (2017: three 12.5kg batches of API). In addition to this decrease in volume, there was also a 4 per cent price reduction during the year owing to continued competition from generic alternatives. The relative weakening of sterling against the euro also improved performance as this income stream is received in euros.

Since the end of the financial year, two further 12.5 kg batches of frovatriptan were delivered to Menarini, one in August and one in September, together with all remaining inventory, as part of the termination of the licensing agreements. Under the termination agreement with Menarini, the Company will no longer supply API to Menarini but will receive a 1% royalty on all future frovatriptan sales, in perpetuity.

The Company's parent company, Vernalis plc was acquired by Ligand Holdings UK Ltd on 10 October 2018. Ligand Holdings UK Ltd is a wholly owned subsidiary of Ligand Pharmaceuticals Inc., a US company listed on NASDAQ. On the 11 October 2018 Vernalis plc delisted from AIM, and re-registered as Vernalis Limited, a private company domiciled in the UK.

Key Performance Indicators (KPI's)

As a measure of liquidity the Company reviews its cash resources (which includes cash and cash equivalents and held-to-maturity financial assets). The objectives of the Company is to generate income from its frovatriptan asset which historically, and through to the termination of the license agreement in September 2018 was via the manufacture and sale of API, after which there is a perpetual royalty on Menarini's sales in Europe and Central America. At 30 June 2018, cash resources were £7,000 (2017: £188,000).

Principal risks and uncertainties

The principal risks and uncertainties of the Company relate to financial management and liquidity, success in the manufacture and supply of API.

Financial risk management

The Company has financial policies and procedures, which are reviewed as operations change in size and complexity and nature, to manage credit risk, foreign currency risk and liquidity risk.

Strategic Report (continued)

Credit risk

The Company's material receivables are due from large and mid-cap pharmaceutical companies. Appropriate diligence is performed on these organisations before agreements are entered into. The Company has had no credit issues with its customers in the past.

Foreign Currency Risk

The Company has income and makes purchases in foreign currencies. Where possible, in order to mitigate the exposure to foreign currency movements, the Group holds cash balances in the appropriate currencies to meet the obligations as they fall due and any excess income is usually hedged via the use of forward contracts.

Liquidity risk

The cash utilisation of the Company and the wider Group is constantly monitored to provide appropriate time for additional capital to be raised or for mitigating actions to be taken as necessary. Following the cessation of independent US sales and marketing operation in March 2018 and the restructuring of the Group referred to above, the cash burn of the Group has been significantly reduced and thus the cash resources of the Group of £27.3 million at 30 June 2018 is sufficient to support the existing business in its current form, for several years.

The Company's treasury policy dictates how the cash resources are distributed across a range of counterparties with qualified credit ratings, together with maturity profiles that are appropriate for the cash requirements of the business.

Commercial risk

Following the termination of the Menarini license agreement and final sales of API the future revenues of the Company are dependent on a perpetual royalty on Menarini sales of frovatriptan in Europe and Central America. The future income is subject to the market risks of demand and price.

On behalf of the Board

Mr. D Mackney
Director
12 October 2018

Directors' report

The Directors' present their report and audited financial statements of the Company for the year ended 30 June 2018.

General Information

Vernalis Development Limited (the Company) is a company incorporated and domiciled in the UK. The registered office of the Company is: 100 Berkshire Place, Wharfedale Road, Winnersh, Berkshire RG41 5RD, UK.

This report and financial statements for the year ended 30 June 2018 has been prepared for the members of the Company, as a body, and no other persons. The Company, its directors, employees, agents or advisers, do not accept or assume responsibility to any person to whom this document is shown or into whose hands it may come and any such responsibility or liability is expressly disclaimed. By their nature, the risks facing the Company involve uncertainty since future events and circumstances can cause results and developments to differ materially from those anticipated.

Key Events

Key events during the year under review include the supply of two batches of API to Menarini.

Results and Dividends

The revenue of the Company for the year ended 30 June 2018 was £2.8 million (2017: £4.3 million). The profit for the Company for the year ended 30 June 2018 amounted to £2.4 million (2017: £3.8 million).

The directors do not recommend the payment of a dividend for the year ended 30 June 2018 (2017: £nil).

Future Developments

The future developments of the Company are described in the Strategic Report.

Important events since the end of the financial year

- In August 2018, the Board of Vernalis plc, the immediate parent company, announced a recommended cash offer for the Group from Ligand Holdings UK Ltd. The acquisition of the entire share capital of Vernalis plc completed on 10 October 2018
- In September 2018 the Company terminated the licensing agreement with Menarini
- Vernalis plc delisted from AIM on 11 October 2018
- Vernalis plc, the immediate parent company re-registered its name to Vernalis Limited on 11 October 2018

Directors

The directors of the Company who served during the year ended 30 June 2018 and up to the date of this report, were as follows:

Director's name	Capacity	Date of appointment
Mr. I R Garland	Director	15 June 2009
Mr. D Mackney	Director	15 June 2009
Mr. P.J. Fellner	Director	14 November 2008

Directors' Indemnities

The Company has entered into qualifying third-party indemnity arrangements for the benefit of all its directors in a form and scope which comply with the requirements of the Companies Act 2006, which continued in force during the year under review and continue to be enforceable

Directors' report (continued)

Going Concern

The directors have received written confirmation from the ultimate parent company, Ligand Pharmaceuticals Inc. of its ongoing intention to support the Company. At 30 June 2018, the ultimate parent company, Ligand Pharmaceuticals Inc., had net cash of $0.2 billion and concluded in their 10Q of 8 August 2018 that they have "sufficient funds to fund anticipated operating, capital and debt service requirements".

After making enquiries into the Ligand Pharmaceuticals Inc.'s cash position, the ultimate parent Company's intentions for ongoing support of the Vernalis Group, management's estimate of future revenues and expenditures for Vernalis Development Limited and the existing £27.3 million of unrestricted cash resources at 30 June 2018 of the Vernalis Group, the directors believe that there is sufficient finance for the foreseeable future. For further information regarding the ultimate parent Company please see the Consolidated Ligand Pharmaceuticals Inc. financial statements which are available from www.ligand.com.

Principal Risks and Uncertainties

The directors and senior management evaluate the risks faced by the business on a continual basis. The key business and financial risks affecting the Company are explained in the Strategic Report.

Statement of directors responsibilities in respect of the financial statements

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; 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 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 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.

Directors' confirmations

In the case of each director in office at the date the Directors' Report is approved:

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

On behalf of the Board

Mr D Mackney
Director
12 October 2018

Independent Auditors' report to the members of Vernalis Development Limited

Report on the audit of the financial statements

Opinion

In our opinion, Vernalis Development Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 30 June 2018 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the balance sheet as at 30 June 2018; the statement of comprehensive income, the cash flow statement, the statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

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

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- he 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.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance 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 an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of 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 based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Independent Auditors' report to the members of Vernalis Development Limited (continued)

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 30 June 2018 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of directors responsibilities in respect of the financial statements, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they 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.

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 FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Nigel Reynolds (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
12 October 2018

Statement of comprehensive income for the year ended 30 June 2018

	Note	**Year ended 30 June 2018 Total £000**	Year ended 30 June 2017 Total £000
Revenue	2	**2,789**	4,252
Cost of sales	3	**(223)**	(354)
Sales and marketing expenditure	3	**(115)**	(312)
General and administrative expenditure	3	**(177)**	(137)
Operating profit		**2,274**	3,449
Finance income	4	**50**	26
Finance expense	4	**(4)**	(1)
Profit before income tax		**2,320**	3,474
Income tax credit	5	**90**	343
Profit and total comprehensive income for the year		**2,410**	3,817

The notes on pages 11 to 23 are an integral part of these financial statements.

All activities relate to continuing operations.

Balance sheet as at 30 June 2018

	Note	As at 30 June 2018 £000	As at 30 June 2017 £000
Assets			
Intangible assets	6	-	-
Deferred tax	7	433	343
Non-current assets		433	343
Inventories	8	265	-
Trade and other receivables	9	1,337	1,422
Cash and cash equivalents		7	188
Current assets		1,609	1,610
Total assets		2,042	1,953
Liabilities			
Trade and other liabilities	10	(27,425)	(29,680)
Non-current liabilities		(27,425)	(29,680)
Trade and other liabilities	10	(75)	(141)
Current liabilities		(75)	(141)
Total liabilities		(27,500)	(29,821)
Net liabilities		(25,458)	(27,868)
Equity attributable to owners of the parent			
Share capital	11	1,419	1,419
Share premium	11	19,664	19,664
Other reserves	12	1,155	1,155
Accumulated losses		(47,696)	(50,106)
Total equity		(25,458)	(27,868)

The notes on pages 11 to 23 are an integral part of these financial statements.

The financial statements on pages 7 to 23 were approved by the Board of Directors on 12 October 2018 and were signed on its behalf by:

Mr. D Mackney
Director
12 October 2018

Statement of changes in equity for the year ended 30 June 2018

	Share capital £000	Share premium £000	Other reserves £000	Accumulated losses £000	Total equity £000
Balance at 1 July 2016	1,419	19,664	1,155	(53,923)	(31,685)
Profit and total comprehensive income for the year ended 30 June 2017	-	-	-	3,817	3,817
Balance at 30 June 2017	**1,419**	**19,664**	**1,155**	**(50,106)**	**(27,868)**
Profit and total comprehensive income for the year ended 30 June 2018	-	-	-	**2,410**	**2,410**
Balance at 30 June 2018	**1,419**	**19,664**	**1,155**	**(47,696)**	**(25,458)**

Cash flow statement for the year ended 30 June 2018

	Note	**Year ended 30 June 2018 £000**	Year ended 30 June 2017 £000
Cash flows from operating activities			
Profit for the year		**2,410**	3,817
Taxation	5	**(90)**	(343)
Liquidations – Impairment and other charges on corporate restructuring		**-**	1
Finance income	4	**(50)**	(26)
Finance expense	4	**4**	1
Exchange loss		**9**	44
		2,283	3,494
Changes in working capital			
Inventories		**(265)**	77
Trade and other receivables		**76**	(32)
Trade and other liabilities		**(15)**	(6)
Cash generated from operations		**2,079**	3,533
Interest paid		**(4)**	(1)
Net cash generated from operating activities		**2,075**	3,532
Cash flows from financing activities			
Repayment to Group undertakings		**(2,306)**	(3,451)
Net cash used in financing activities		**(2,306)**	(3,451)
Foreign exchange gain on cash and cash equivalents		**50**	26
Movements in cash and cash equivalents in the year		**(181)**	107
Cash and cash equivalents at the beginning of the year		**188**	81
Cash and cash equivalents at the end of the year		**7**	188

The notes on pages 11 to 23 are an integral part of these financial statements.

Notes to the financial statements for the year ended 30 June 2018

1 Accounting policies and basis of preparation

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

The Company, a private company, is a wholly owned subsidiary, limited by shares. Ligand Pharmaceuticals Inc. is the ultimate parent company, a US company listed on NASDAQ.

Vernalis Limited is an intermediary parent company, incorporated and domiciled in the UK which traded on the LSE AIM as Vernalis plc until 11 October 2018 when it was delisted and re-registered as Vernalis Limited, following its acquisition by Ligand Pharmaceuticals Inc. The Company is incorporated and registered in the UK. Its registered office of the Company is: 100 Berkshire Place, Wharfedale Road, Winnersh, Berkshire RG41 5RD.

Basis of preparation
These financial statements have been prepared in accordance with EU endorsed International Financial Reporting Standards (IFRS), IFRS Interpretations Committee interpretations and the Companies Act 2006 applicable to companies reporting under IFRS. The financial statements have been prepared under the historical cost convention.

A summary of the significant company accounting policies are set out below.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or where assumptions and estimates are significant to the financial statements, are disclosed later in this note.

Going concern

The directors have received written confirmation from the ultimate parent company, Ligand Pharmaceuticals Inc. of its ongoing intention to support the Company. At 30 June 2018, the ultimate parent company, Ligand Pharmaceuticals Inc., had net cash of $0.2 billion and concluded in their 10Q of 8 August 2018 that they have "sufficient funds to fund anticipated operating, capital and debt service requirements".

After making enquiries into the Ligand Pharmaceuticals Inc.'s cash position, the ultimate parent Company's intentions for ongoing support of the Vernalis Group, management's estimate of future revenues and expenditures for Vernalis Development Limited and the existing £27.3 million of cash resources at 30 June 2018 of the Vernalis Group, the directors believe that there is sufficient finance for the foreseeable future. For further information regarding the ultimate parent Company please see the Consolidated Ligand Pharmaceutical Inc. financial statements which are available from www.ligand.com.

Accounting developments
The Company follows the accounting standards and policies adopted by Vernalis Limited group. It reviews all new accounting pronouncements issued by the International Accounting Standards Board ("IASB") for applicability. For the year ended 30 June 2018, there were no new or amended accounting standards adopted in the year by the Company that had a material impact on the Company's financial statements.

No other future or new amended standards are expected to have a material impact on the Company's financial statements.

Notes to the financial statements for the year ended 30 June 2018 (continued)

Accounting policies and basis of preparation (continued)

Intangible assets
Intangible assets are stated at cost less provision for amortisation and impairments.

Purchased intangibles
Intangibles are recognised when they have been acquired separately for cash or other monetary assets or as part of a business combination and are amortised through cost of sales over their estimated useful lives from the time they are available for use. Purchased intangibles typically include product rights, trademarks and licenses.

Loans and receivables
Loans and receivables are non-derivative financial assets or liabilities with fixed or determinable payments that are not quoted in an active market. Assets in this category are recognised at amortised cost and included in trade and other receivables, and borrowings in the balance sheet.

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables 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 receivables.

Cash and cash equivalents
Cash and cash equivalents include cash in hand, bank deposits repayable on demand and other short-term highly liquid investments with original maturities of 90 days or less.

Revenue recognition
Revenue, which excludes value added tax, provisions for returns, rebates, discounts and other similar allowances, represents the fair value of the consideration received or receivable for the goods and services supplied. Vernalis' revenue is recognised on shipment of API to Menarini, the value of which is initially based on anticipated Menarini revenues at a royalty rate of 25.25 per cent which is then trued up for actual sales values.

Sales and marketing expenditure
Sales and marketing expenditures are the operating expenditures related to the supply, quality control, regulatory, distribution and sales of the Company's products.

Inventories
Inventories are carried at the lower of cost and net realisable value. Cost is calculated on a first-in, first-out basis. The cost of finished goods and work in progress comprises raw materials, direct labour and other direct costs. Where the carrying value of inventories is higher than cost and net realisable value, a provision has been made

Notes to the financial statements for the year ended 30 June 2018 (continued)

1 Accounting policies and basis of preparation (continued)

Taxation
Current tax, including UK corporation tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted, or substantially enacted, by the balance sheet date.

Deferred tax is recognised in respect of all temporary differences identified at the balance sheet date, except to the extent that thee deferred tax arises from the initial recognition of goodwill (if amortisation of goodwill is not deductible for tax purposes) or the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither accounting profit nor taxable profit and loss. Temporary differences are differences between the carrying amount of the Company's assets and liabilities and their tax base.

Deferred tax liabilities may be offset against deferred tax assets within the same taxable entity or qualifying local tax group. Any remaining deferred tax asset is recognised only when, on the basis of all available evidence, it can be regarded as probable that there will be suitable taxable profits, within the same jurisdiction, in the foreseeable future against which the deductible temporary difference can be utilised.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the asset is realised or liability settled, based on tax rates and laws that have been enacted or substantially enacted by the balance sheet date. Measurement of deferred tax liabilities and assets reflects the tax consequence expected to fall from the manner in which the asset or liability is recovered or settled.

Trade payables
Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities.

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

Foreign currencies
Transactions in foreign currencies are translated into sterling at the rate of exchange ruling at the transaction date. Monetary assets and liabilities in foreign currencies are retranslated into sterling at the rates of exchange ruling at the balance sheet date. Differences arising due to exchange rate fluctuations are taken to the statement of comprehensive income in the period in which they arise.

Share capital
Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Accumulated losses
This represents the summation of each year's comprehensive income from its incorporation.

Notes to the financial statements for the year ended 30 June 2018 (continued)

1 Accounting policies and basis of preparation (continued)

Critical accounting policies and estimates
The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. There were no estimates or assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial period.

2 Revenue Analysis

The analysis of revenue in the table below is based on the country of registration of the fee paying party.

	Year ended 30 June 2018 £000	Year ended 30 June 2017 £000
United Kingdom	**9**	-
Rest of Europe	**2,780**	4,252
	2,789	4,252

An analysis of revenue by category is set out in the table below:

	Year ended 30 June 2018 £000	Year ended 30 June 2017 £000
Product sales*	**2,780**	4,252
Other	**9**	-
	2,789	4,252

* Frovatriptan royalty linked to the supply of API, received at 25.25 per cent of Menarini sales (note 1).

Notes to the financial statements for the year ended 30 June 2018 (continued)

3 Operating profit

Expenses by nature:	Year ended 30 June 2018 £000	Year ended 30 June 2017 £000
Cost of inventory sold and other cost of sales	**223**	354
Cost of sales	**223**	354
Internally funded sales and marketing expenditure	**115**	312
Net foreign exchange gain included within operating expenses	**(20)**	(50)
Other operating expenses including overheads, administration activities and staff costs	**197**	187
Total operating expenses	**515**	803

	Year ended 30 June 2018 £000	Year ended 30 June 2017 £000
Fees payable to the Company's auditors:		
Audit of the Company's financial statements	**38**	37
Tax advisory services	**-**	4
	38	41

4 Finance income/expense

	Year ended 30 June 2018 £000	Year ended 30 June 2017 £000
Finance income		
Exchange gain on cash	**50**	26
	50	26
Finance expense		
Interest expense	**4**	1
	4	1

Notes to the financial statements for the year ended 30 June 2018 (continued)

5 Income tax credit

	Year ended 30 June 2018 £000	Year ended 30 June 2017 £000
Origination of temporary differences	**90**	343
Total deferred tax	**90**	343
Total income tax credit	**90**	343

No liability to UK corporation tax arose during the year ended 30 June 2018 (2017: £nil). The Company had accumulated losses, as computed for taxation purposes, of approximately £39 million at 30 June 2018 (2017: £42 million) available to be carried forward to future years.

The tax credit for the year ended 30 June 2018 is lower (2017: lower) than the standard rate of corporation tax and the differences are reconciled below:

	Year ended 30 June 2018 £000	Year ended 30 June 2017 £000
Accounting profit before taxation	**2,320**	3,474
Factors affecting the tax credit for the year		
Profit on ordinary activities before income tax at 19 per cent (2017: 19.75 per cent)	**441**	686
Utilisation of tax losses not previously recognised	**(441)**	(686)
Origination of temporary differences	**(90)**	(343)
	(90)	(343)

6 Intangible assets

	Year ended 30 June 2018 Assets in use £000	Year ended 30 June 2017 Assets in use £000
Cost		
At 1 July and 30 June	**37,408**	37,408
Accumulated amortisation		
At 1 July and 30 June	**(37,408)**	(37,408)
Net book value at 30 June	**-**	-

Opening value of intangibles
Intangible assets in use represent the consideration paid to acquire rights to Frova® in May 2004. Frova® had a useful life to 2014. As profit continues to be generated from these assets in the form of royalties, these assets will remain on account at a net book value of £nil.

Notes to the financial statements for the year ended 30 June 2018 (continued)

7 Deferred taxation

Unrecognised deferred tax asset

	Year ended 30 June 2018 £000	Year ended 30 June 2017 £000
Tax effect of timing differences		
Losses	**6,680**	7,151
Excess of depreciation over tax allowances	**133**	133
Potential deferred tax asset	**6,813**	7,284

Note 5 gives details of the tax losses available to be carried forward by the Company.

Recognised deferred tax asset

	Year ended 30 June 2018 £000	Year ended 30 June 2017 £000
Tax effect of timing differences		
Tax losses	**433**	343
Recognised deferred tax asset	**433**	343

The Company had £433,000 of deferred tax assets recognised at 30 June 2018 (2017: £343,000), and the £90,000 increase in the deferred tax asset has been recognised in the income statement during the year. The recognised deferred tax asset is expected to be utilised within the next 12 months.

Factors that may affect future tax charges
The current UK main corporation tax rate used in determining the unprovided deferred tax balance is 17 per cent. This is the rate that has been substantively enacted under the Finance Act 2016, to take effect from 1 April 2020.

Deferred tax assets are recognised for tax loss carry-forwards to the extent that the realisation of the related tax benefit through future taxable profits is probable.

8 Inventories

	30 June 2018 £000	30 June 2017 £000
Finished goods	**265**	-
	265	-

The cost of inventories recognised as an expense and included in costs of sales for the year ending 30 June 2018 amounted to £166,000 (2017: £231,000).

Included in the cost of inventories for the year ended 30 June 2018 is an obsolescence provision of £nil (2017: £nil).

Notes to the financial statements for the year ended 30 June 2018 (continued)

9 Trade and other receivables

The fair value of trade and other receivables are the current book values.

	30 June 2018 £000	30 June 2017 £000
Trade receivables	**1,337**	1,381
Prepayments and accrued income	**-**	41
Total trade and other receivables	**1,337**	1,422

As of 30 June 2018, trade receivables of £11,000 (2017: £1,000) were past due but not impaired. The past due receivables relate to an independent customer for whom there is no recent history of default. The aging analysis of these trade receivables is up to 24 months (2017: up to 12 months). £10,000 of the past due receivables were received in August 2018.

The carrying amounts of the Company's trade and other receivables are denominated in the following currencies:

	30 June 2018 £000	30 June 2017 £000
Pounds	**11**	1
Euro	**1,326**	1,421
	1,337	1,422

The maximum exposure to credit risk at the reporting date is the fair value of each class of receivable above. The Company does not hold any collateral as security.

10 Trade and other liabilities

	30 June 2018 £000	30 June 2017 £000
Amounts due to group and subsidiary undertakings	**27,425**	29,680
Non-current trade and other liabilities	**27,425**	29,680
Amounts due to group and subsidiary undertakings	**54**	105
Trade payables	**2**	6
Accruals	**19**	30
Current trade and other liabilities	**75**	141
Total trade and other liabilities	**27,500**	29,821

Amounts due to group undertakings included in non-current trade and other liabilities are unsecured, interest free and have no stated repayment date. Although technically repayable on demand, they have been classified as non-current payables because the parent company has stated that it will not seek repayment within 12 months of the date of the financial statements. All non-current amounts due to group undertakings are payable to Vernalis Limited.

Amounts due to group undertakings included in current trade and other liabilities relate to amounts due to Vernalis Therapeutics, Inc. for the provision of regulatory, quality and supply chain services.

Notes to the financial statements for the year ended 30 June 2018 (continued)

11 Share capital and share premium

	30 June 2018 Number	**30 June 2018 £000**	30 June 2017 Number	30 June 2017 £000
Authorised				
Ordinary shares of 10p each	**20,300,000**	**2,030**	20,300,000	2,030
Preference shares of 10p each	**16,200,000**	**1,620**	16,200,000	1,620
	36,500,000	**3,650**	36,500,000	3,650
Issued, called up and fully paid				
Ordinary shares of 10p each	**923,153**	**92**	923,153	92
Preference shares of 10p each	**13,271,496**	**1,327**	13,271,496	1,327
	14,194,649	**1,419**	14,194,649	1,419

Ordinary and preference shares rank pari passu in respect of dividends and voting rights. On a winding up, preference shares have a preferential right to return of share capital and share premium but rank pari passu with respect to further distributions.

The share premium account is a non-distributable reserve.

12 Other reserves

The other reserves represents a capital contribution reserve which arose during the year ended 31 December 2010 from the fair value of the warrants issued to Paul Capital Healthcare on termination of the Paul Capital Healthcare Agreement by the parent company, Vernalis Limited.

13 Directors, key management and employees

The remuneration of three directors, the Company's key management, has been borne by a fellow group company in the year ended 30 June 2018 (2017: three). The Company is recharged an allocation of their remuneration within the corporate services recharge detailed in note 16.

No retirement benefits are accruing to the directors (2017: none) under money purchase schemes.

No directors (2017: none) exercised any share options in the Company during the year. The share options are in the parent company and full disclosure is made in the Group annual report and accounts.

Employee information
The Company employed no employees in the year ended 30 June 2018 (2017: none) and incurred no staff costs (2017: none)

14 Financial commitments

At 30 June 2018 and 30 June 2017 the Company had no commitments under non-cancellable operating lease agreements.

There are no other financial commitments.

Notes to the financial statements for the year ended 30 June 2018 (continued)

15 Ultimate parent company and controlling party

The Company is a wholly owned subsidiary of Vernalis Group Ltd.

Ligand Pharmaceuticals Inc. is the ultimate parent company, a US company listed on NASDAQ.

The intermediary parent undertaking and controlling party is Vernalis Limited, a company incorporated in the United Kingdom.

Vernalis Limited, incorporated and domiciled in the UK, was traded on the LSE AIM as Vernalis plc until 11 October 2018, when it was delisted and re-registered as Vernalis Limited, following its acquisition by Ligand Pharmaceuticals Inc.

Vernalis Limited is the intermediary parent undertaking of the largest and smallest group of undertakings to consolidate these financial statements at 30 June 2018. The consolidated financial statements of Vernalis Limited are available from the Company Secretary of Vernalis Limited, 100 Berkshire Place, Wharfedale Road, Winnersh, Berkshire, RG41 5RD.

16 Related party transactions

The Company has been charged £193,000 (2017: £179,000) by a fellow group company for the provision of corporate services, out of which £27,000 (2017: £33,000) relates to recharges of director's emoluments for Mr I Garland and £19,000 (2017: £23,000) relating to the recharges of director's emoluments for Mr D Mackney. No charge has been made in relation to Mr PJ Fellner. The Company was also charged £115,000 by a fellow group company for the provision of regulatory, quality and supply chain services (2017: £312,000), which is included within sales and marketing expense in the Company income statement. No other group charges for services rendered were made in the year ended 30 June 2018 (2017: £nil). The Company receives financing from Vernalis Limited. Details of the intercompany loan can be found in note 10.

17 Financial risk management

Financial risk factors
Monitoring of financial risk is managed on a group basis and is part of the Vernalis Limited Board's on-going risk management, the effectiveness of which is reviewed annually. The agreed policies are implemented by the Chief Financial Officer, who submits reports at each Board meeting.

The main risks arising from the Company's financial instruments are foreign currency, cash flow and liquidity, interest rate risk and credit risk. The Board reviews and agrees group wide policies for managing each of these risks and they are summarised as follows.

Foreign currency risk
The Company has transactional currency exposures. Such exposures arise from sales or purchases in currencies other than the Company's functional currency, which include royalty and product sale receipts in euros from Menarini, the Company's European licensee for Frova®.

The following table summarises the impact on revenues if, the euro had weakened/strengthened by 5 per cent against the UK pound with all other variables held constant; a sensitivity has been performed at 5 per cent as this quantum of change is considered reasonably possible.

Notes to the financial statements for the year ended 30 June 2018 (continued)

17 Financial risk management (continued)

	Year ended 30 June 2018 £000	Year ended 30 June 2017 £000
Euro		
Revenue impact - if euro strengthened by 5 per cent	**132**	224
Revenue impact - if euro weakened by 5 per cent	**(146)**	(202)

The Company has translational currency exposures arising on translation of cash, receivables and payables held in foreign currencies to sterling at reporting dates, most notably euros.

The table below summarises the impact on net assets the euro had weakened/strengthened by 5 per cent against the UK pound with all other variables held constant. The euro movements principally relate to financial assets and liabilities that will be settled at a future date.

	30 June 2018 £000	30 June 2017 £000
Euro		
Net Assets impact - if euro strengthened by 5 per cent	**63**	82
Net Assets impact- if euro weakened by 5 per cent	**(69)**	(74)

Cash flow and liquidity risk
Cash flow and liquidity risk is managed at a group level. The Group produces rolling forecasts of the Group's liquidity requirements to ensure it has sufficient cash to meet operational needs.

Where market values are not available, fair values of financial assets and financial liabilities have been calculated by discounting expected future cash flows at prevailing interest rates and by applying year end exchange rates.

The table below analyses the Company's third party financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows, ie including financing costs.

At 30 June 2018	**Less than 1 year £000**	**Between 1 and 2 years £000**	**Between 2 and 5 years £000**	**Over 5 years £000**
Trade and other liabilities (note 10)	**21**	**-**	**-**	**-**

At 30 June 2017	Less than 1 year £000	Between 1 and 2 years £000	Between 2 and 5 years £000	Over 5 years £000
Trade and other liabilities (note 10)	36	-	-	-

Interest rate risk
The Group finances the Company's operations through reserves of cash and liquid resources. The Company's funds are held in instant access currency accounts.

The Company's financial assets and liabilities are non-interest bearing and are thus not exposed to interest rate risk.

Notes to the financial statements for the year ended 30 June 2018 (continued)

17 Financial risk management (continued)

Credit risk
Credit risk is managed on a group basis. The Company is exposed to a concentration of credit risk in respect of certain pharmaceutical companies such that if one or more of them is affected by financial difficulty it could materially and adversely affect the Company's financial results.

The below table shows the top three trade receivables at the year-end.

	30 June 2018 £000	30 June 2017 £000
Company X	**1,326**	1,380
Company Y	**10**	-
Company Z	**1**	1

The Company does not believe it is exposed to major concentrations of credit risk on other classes of financial instruments. The Company is exposed to credit related losses in the event of non-performance by counter parties to financial instruments, but does not expect any counter parties to fail to meet their obligations.

Price risk
The Company is not exposed to market price risk at the year end because it holds no available-for-sale financial assets.

Capital risk management
Capital risk is managed on a group basis. The objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders. In order to maintain or adjust the capital structure, the Company may enter into intercompany financing arrangements with the Groups' other subsidiary undertakings.

Notes to the financial statements for the year ended 30 June 2018 (continued)

18 Financial Instruments by category

The Company holds the following financial instruments:

		30 June 2018			30 June 2017		
		Cash, Loans and receivables	**Financial liabilities at amortised cost**	**Total**	Cash, Loans and receivables	Financial liabilities at amortised cost	Total
	Note	**£000**	**£000**	**£000**	£000	£000	£000
Assets							
Trade and other receivables*	9	**1,337**	**-**	**1,337**	1,381	-	1,381
Cash and cash equivalents		**7**	**-**	**7**	188	-	188
Current assets		**1,344**	**-**	**1,344**	1,569	-	1,569
Total assets		**1,344**	**-**	**1,344**	1,569	-	1,569
Liabilities							
Trade and other liabilities	10	**-**	**27,425**	**27,425**	-	29,680	29,680
Non-current liabilities		**-**	**27,425**	**27,425**	-	29,680	29,680
Trade and other liabilities	10	**-**	**75**	**75**	-	141	141
Current liabilities		**-**	**75**	**75**	-	141	141
Total liabilities		**-**	**27,500**	**27,500**	-	29,821	29,821

* Excluding amounts that relate to non-financial instruments of prepayments.