REGISTERED NUMBER: 08026888 (England and Wales)

NETSCIENTIFIC PLC

ANNUAL REPORT

AND

ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER 2018

CONTENTS

NETSCIENTIFIC PLC (REGISTERED NUMBER: 08026888)

CHAIRMAN'S AND CHIEF EXECUTIVE OFFICER'S STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2018

NetScientific PLC ("NetScientific", the "Group" or the "Company") is a transatlantic healthcare IP commercialisation Group focused on technologies and companies that have the potential to treat chronic disease and significantly improve the health and well-being of people.

As announced in November 2018, the Group conducted a strategic review to maximise value for Shareholders which included the potential sale of the Group or of a portfolio company. In early 2019 the Company had not received any offers for any of its portfolio companies nor was it in receipt of any approaches regarding a sale of the Company. The Board continued to assess all of its strategic options, including a potential delisting from admission to AIM in order to reduce the Company's costs to prolong the cash runway allowing for the maximum opportunity to realise cash from shareholdings in its investee companies. However, the general meeting to approve the delisting was indefinitely adjourned by shareholders.

Following this decision by shareholders, in line with the Circular sent to Shareholders on 15 February 2019, the Company's strategy remains to seek to maximise shareholder value from its portfolio companies based upon its remaining cash resources by:

a) reducing the Company's central functions and costs significantly such that as much of the remaining cash as possible can be allocated to the portfolio companies;
b) assessing the funding requirements of each portfolio Company against its prospects of generating a shareholder return within the anticipated lifespan of the company; and
c) subsequently allocating the remaining cash to manage those portfolio companies which the Board believes provide the most realistic prospects of delivering shareholder returns within the anticipated lifespan of the Company.

Glycotest and PDS do not require further funding from the company at this juncture given their available funds. ProAxsis requires a further short-term loan of £0.1 million which is repayable within 2019 for operational funding requirements as it nears cashflow breakeven.

In March 2019, the Company completed a £0.15m cash sale to Deeptech Disruptive Growth Investments Ltd "Deeptech", a SPV of EMV Capital Ltd of its interests in Vortex and Wanda, together with any outstanding loans and convertible loan notes owed to the Company by Wanda or Vortex. Immediately prior to completion, NetScientific was interested in approximately 95.0% and 70.8% of the issued shares of common stock of Vortex and Wanda, respectively, and 100% of the Preferred Shares of Wanda. The losses before tax of Vortex and Wanda included within the consolidated accounts of NetScientific amounted, to £4.0 million and £1.4 million, respectively and the net assets of Vortex and Wanda at the same date were £0.3 million and £0.1 million, respectively net of intercompany balances.

As part of the cash saving strategy the lease of the Company's headquarters at 6 Bevis Marks London EC3A 7BA was terminated on 29 March 2019. In addition, the Company will issue the Annual Report as a black and white pdf document to save costs. Following significant changes at the shareholder level Francois Martelet has resigned as a Director on 30 April 2019.

Portfolio Review

ProAxsis Ltd ("ProAxsis")
ProAxsis is a medical diagnostics company, based in Northern Ireland, developing a range of products for the capture, detection and measurement of active protease biomarkers of diseases.

ProAxsis made good operational progress during 2018 obtaining a CE Mark for its ProteaseTag® Active Plasmin Immunoassay, and it was awarded a European CE Mark for third respiratory immunoassay.

NEATstik®, the first test ever developed to enable measurement of active neutrophil elastase at point of care, was launched in 2018 and registered its first R&D sale to a research laboratory conducting a respiratory clinical trial for a pharmaceutical company early in the year. In May, NEATstik's clinical potential was validated by new data presented at the annual American Thoracic Society (ATS) conference, where it was shown that the technology can successfully identify patients with elevated concentrations of active neutrophil elastase, which may be a causative link to the development of bacterial infections which exacerbate lung disease. As announced on 20 September 2018, ProAxsis had two products selected for inclusion in the BRIDGE study, a major upcoming clinical trial funded by the European Respiratory Society (ERS).

The study will employ NEATstik® and the ProteaseTag® Active NE Immunoassay over three years in 1,000 patients suffering from bronchiectasis across Europe, with the purpose of stratifying the clinical population. Assessments will include microbiome, proteomics, detailed phenotyping, and imaging, in order to explore new biomarkers and determine their impact on clinical outcomes.

Furthermore, ProAxsis secured non-dilutive grant funding from Invest Northern Ireland to support further research and development of its ProteaseTag® technology to identify and quantify active protease biomarkers as part of a £0.2 million project. The project will have a particular research focus on the detection and quantification of deubiquitinases (DUBs), which play a pivotal role in protein degradation pathways through the ubiquitin-proteasome system, which are thought to be involved in the pathogenesis of neurodegenerative disorders as well as several types of oncological malignancies.

NetScientific's shareholding in ProAxsis is 56.5% (fully diluted being 54.0%) and as at 31 December 2018, the Group had invested £2.1 million (2017: £1.9 million). Grant funding received to develop both the underlying technology and new applications has exceeded £1.2 million (2017: £1.1 million).

Glycotest, Inc. ("Glycotest")
Glycotest is a US-based liver diagnostics start-up company seeking to commercialise new and unique blood tests for life threatening liver cancers and fibrosis-cirrhosis.

During the year, Glycotest successfully completed a clinical evaluation of its diagnostic panel to detect hepatocellular carcinoma (HCC), the most prevalent form of liver malignancy, in 149 patients in China. In a blind evaluation of 75 HCC positive patients and 74 control samples, Glycotest's HCC Panel achieved an AUROC score of 0.97 and exhibited 93% sensitivity at 92% specificity, which indicates a very high predictability on a statistical basis as to whether HCC is present in patients or not.

In the cohort of HCC patients whose tumours had not been detected by an alpha-fetoprotein (AFP) blood test, the most common blood test used for initial liver cancer diagnosis, the HCC Panel was able to identify 86% of patients with liver cancer. In an early-stage cohort of patients with HCC, the HCC Panel was able to identify 78% of patients with liver cancer undetected by AFP. HCC testing is a large and growing worldwide market estimated at over $2 billion annually.

In October 2018 Glycotest completed a $10.0 million series A funding round with Shanghai Fosun Pharmaceutical Co. Ltd, a leading healthcare group based in China. The transaction has been approved by the outbound direct investment (ODI) committee and the first tranche of $3.0 million was received on 14 February 2019. The proceeds will be used to advance Glycotest Inc.'s diagnostic HCC Panel towards commercialisation in the US and to advance pipeline assets in liver fibrosis and cholangiocinoma (bile duct cancer). Funding of the remaining $7.0 million is due on completion of certain milestones.

Glycotest holds exclusive world-wide rights to over 50 patent-protected serum protein biomarkers and during the year successfully expanded its IP portfolio. The Company now has 13 issued or allowed patents protecting multiple aspects of Glycotest's proprietary liver disease diagnostic platform.

NetScientific's shareholding in Glycotest is 87.5% (fully diluted being 51.5%) and as at 31 December 2018, the Group had invested £3.9 million (2017: £2.9 million). Grant funding received to develop the underlying technology, prior to Glycotest's formation, was £5.9 million.

PDS Biotechnology Corporation ("PDS")

PDS is a clinical stage immunotherapy company developing a next-generation of simpler, safer and more effective immunotherapies for cancer and infectious diseases. It continued to see strong progress with its T-cell activating technology platform, Versamune®, which combines three critical attributes for an effective immunotherapy: T-cell induction, reduced tumour suppression and priming of a potent anti-tumour response without the conventional associated toxicities.

PDS plans to advance its assets through the pipeline and is maintaining ownership and control of all its partnered trials. PDS's oncology pipeline includes compounds for prostate, ovarian, breast and colorectal cancers, in addition to its lead PDS0101 programme for several HPV-related cancers. PDS made some important advances through the year in progressing its lead Versamune® T-cell Activating platform.

In November 2018 PDS Biotechnology entered into merger agreement with Edge Therapeutics, which completed on 14 March 2019, to form a Nasdaq-Listed Clinical-Stage Cancer Immunotherapy company. The merger creates a publicly-traded immune-oncology biotechnology company developing novel products treating early-and late-stage cancer. This follows phase I & 2 clinical data on lead product candidate PDS0101 which suggested immunotherapeutic anti-cancer activity and favourable safety profile in early stage cervical cancer. The new Company plans to initiate multiple phase 2b & 3 clinical trials of PDS0101 in HPV-associated cancers.

The share price of the new company (now re-named PDS Biotechnology Corporation) has been used to re-value the Group's equity holding therein. The Company's ownership of the enlarged PDS Biotechnology Corporation, trading on Nasdaq under the ticker PDSB, on a fully-diluted basis is 8.15%, which at the latest listing price on 1 May 2019 of $5.93 values NetScientific's holding in PDS at £2.5 million. At year end PDS was valued at £2.4 million. It is the Company's intention to hold the shares and to make a decision on its position in due course. On 1 January 2018 the fair value of PDS increased by £3.5m as a result of the restatement due to the implementation of IFRS 9 and at year end decreased by £3.8m due to changes in the valuation methodology and macro-economic factors impacting the larger Pharmaceutical sector being the worst performing sector of the market.

During the year the valuation methodology changed for the following reasons. The opening value was based on the last price that large investors bought shares in the Company. At the year end the PDS investment was valued on new information available as a result of the merger with Edge Therapeutics. The newly merged Company is now listed on Nasdaq and the valuation will be based on prevailing market prices.

The Group has invested £2.7 million in PDS to date. On the balance sheet the investment in PDS is shown as equity investments classified as fair value through other comprehensive income (FVTOCI) as per note 16.

Vortex Biosciences, Inc. ("Vortex")

After the balance sheet date, Vortex Biosciences, Inc. was sold to Deeptech on the 22 March 2019, an SPV of EMV Capital Ltd for total consideration of £112,999, being £1 for the shares and £112,998 for the transfer of the debt.

Vortex Biosciences is a liquid biopsy company with a mission to revolutionize cancer diagnosis, monitoring and treatment by replacing tissue biopsies with simple blood tests. Vortex's VTX-1 instrument harvests intact circulating tumour cells (CTCs) from whole blood samples for use in downstream research and clinical applications such as patient stratification, monitoring of disease progression and drug treatment effectiveness.

In November 2018, Vortex announced a Global partnership with Stratec Consumables GmbH to scale-up manufacturing production of a customised chip, a crucial component of the liquid biopsy platform (VTX-1). This will assist with scale-up to commercialisation with a view to increasing the product's prominence in the clinical space as a diagnostic and monitoring tool.

During the year its operations were reviewed and streamlined, reducing costs significantly.

NetScientific shareholding in Vortex was 95.0%, fully diluted being 66.1% and as of 31 December 2018, the Group had invested £21.4 million (2017: £16.4 million).

Wanda, Inc. ("Wanda")

After the balance sheet date, Wanda, Inc. was sold to Deeptech an SPV of EMV Capital Ltd for total consideration of £37,001, being £1 for the shares and £37,000 for the preferred stock and debt.

Wanda is a San Francisco-based digital health company commercialising advanced clinical decision support software. Wanda aims to significantly reduce hospitalisation risk and re-hospitalisation risk post-discharge and improve the quality of life for people with chronic conditions, initially focused on congestive heart failure (CHF). During the year its operations were reviewed and streamlined, reducing costs significantly.

NetScientific's shareholding in Wanda was 70.8%, fully diluted being 61.8% and as at 31 December 2018, the Group had invested £11.6 million (2017: £9.5 million).

The results of ProAxsis, Glycotest, Vortex and Wanda are fully consolidated in the Groups consolidated financial statements on pages 31 to 69.

Early stage Investments Portfolio

Limited investment has been made to date in the Early Stage Portfolio, mostly in the form of convertible loans. Of the five early stage investments made only one loan is unprovided for. There are no plans to invest additional funds in the Early Stage Portfolio. On the balance sheet the investment in early stage investment portfolios is shown within trade and other receivables as convertible loans at a fair value of £0.3m which now relates to a single convertible loan following the fair value loss of £0.2m recognised in the year for the other loans in the portfolio per note 19.

Finance

For the year, the Group made a loss of £9.4 million (2017: £9.4 million), split between continuing and discontinued operations as follows:

- Continuing operations £4.0 million (2017: £4.2 million)
- Discontinued operations £5.4 million (2017: £5.2 million)

The loss reflects the business model, where the core portfolio companies are mainly subsidiaries. The core portfolio companies are commercialising their products, with the other two still developing their technologies; therefore, the portfolio companies are all currently loss making.

Currently, Glycotest and PDS are not expected to require further funding from the Company. ProAxsis requires further funding by way of a short-term loan of £0.1 million which is repayable within 2019 to meet operational requirements as ProAxsis nears cashflow breakeven.

Cash

The Group placed a further 9,523,809 shares in April 2018 raising net funds of £4.6 million (2017: 17,962,362 shares issued raising net funds of £7.5 million). Cash on the balance sheet as at 31 December 2018 was £2.9 million (2017: £6.9 million). Cash used in operations, was £8.4 million (2017: £10.7 million). Group cash at 30 April 2019 stood at £3.0m of which £1.7m was held in the Company, giving cash to operate until the end of 2020.

Going concern

The Directors have prepared and reviewed budget cashflows which were approved by the Board of Directors in the Board meeting of 11 December 2018, and further reviewed at the Board meetings on 10 January 2019 and 15 March 2019. These budgeted cash flows included a number of implemented cash saving initiatives, including:

a) Significantly reducing the Company's central cost base by reductions in headcount, closing the office at 6 Bevis Marks London at the end of March 2019, producing the Annual Report as a simple black and white pdf document and reviewing all expenditure commitments;
b) Sold Vortex and Wanda for net proceeds of £0.15 million on 22 March 2019 and consequently reducing the operational funding requirement of the Group; and
c) allocating the remaining cash to manage those portfolio companies which the board believes provide the most realistic prospects of delivering shareholder returns within the anticipated lifespan of the Company. Glycotest and PDS do not require any further funding form the Company. ProAxsis requires a short-term loan of £0.1 million repayable in 2019, to meet specific operational funding requirements as it nears cashflow break even by the end of 2019.

After due consideration of these forecasts and current cash resources, the Directors consider that the Company and Group do have adequate financial resources to continue in operational existence for the foreseeable future (being at least 12 months from the date of this report), and for this reason the financial statements have been prepared on a going concern basis.

Board changes

There was 1 Board change (2017: 1).

François R. Martelet, M.D has resigned as a Director on 30 April 2019; the Board would like to thank him for his contributions to the Group. Ian Postlethwaite was appointed Chief Executive Officer effective from 1 May 2019.

Summary and Outlook

The Company's strategy remains to maximise shareholder value from the portfolio companies using the remaining cash resources of the Company by:

a) Reducing the Company's central functions and costs significantly such that the Company can continue to operate for as long as is reasonably possible whilst it seeks to generate shareholder value from the portfolio companies. It is anticipated that the Company has sufficient cash to operate until the end of 2020.
b) Assessing the funding requirements of each portfolio company against its prospects of generating a Shareholder return within the anticipated lifespan of the Company. At this stage, Glycotest and PDS are not expected to require further funding from the Company. ProAxsis requires further funding by way of a short-term loan of £0.1 million which is repayable within 2019 to meet operational requirements as it nears cashflow breakeven.

Richard B Sykes

Sir Richard Sykes
Non-Executive Director and Chairman
21 May 2019

Ian Postlethwaite
Chief Executive Officer/Chief Financial Officer
21 May 2019

Strategy

The Company's strategy remains to seek to maximise shareholder value from the portfolio companies based upon the remaining cash resources of the Company

US presence		**UK presence**	
Core portfolio		**Core portfolio**	
Glycotest, Inc.	Philadelphia, PA	ProAxsis Ltd	Belfast
PDS Biotechnology Corporation	North Brunswick, NJ		
Non-core portfolio divested on 22 March 2019			
Vortex Biosciences, Inc.	Menlo Park, CA		
Wanda, Inc.	San Francisco, CA		
Early stage portfolio		**Head Office**	
Neumitra, Inc.	Boston, MA	NetScientific Plc	London
Epibone, Inc.	New York, NY		
CytoVale, Inc.	San Francisco, CA		
G-Tech, Inc.	Mountain View, CA		
Longevity Biotech, Inc.	Philadelphia, PA		

As at 31 December 2018, the Group had three core portfolio companies, two of which it has a controlling interest: Glycotest, Inc. and ProAxsis Ltd. It has a material investment in PDS Biotechnology Corporation which it classes as part of its core portfolio. It also had two non-core portfolio companies, in which it had a controlling interest: Vortex Biosciences, Inc., Wanda, Inc which were sold post balance sheet date on 22 March 2019. There are also five early stage Investments: Neumitra, Inc., EpiBone, Inc., CytoVale, Inc., G-Tech, Inc. and Longevity Biotech, Inc., which are reviewed periodically in tandem with the Group's business plans as all investments are still at early stages of commercialisation and maturity. The Group will continue to focus on the three core portfolio companies. However, there are no fixed targets for the length of time during which an investment may be held, as this will be dependent both on progress and the availability of funding.

Business Model

The Group aims to develop its portfolio companies through various key value inflection points such as clinical trials, regulatory approvals, collaborative funding arrangements, first revenues and follow-on growth and then seek to maximise shareholder value from the portfolio companies based upon the remaining cash resources of the Company by:

a) allocating the Company's remaining cash to manage the Company's stakes in the remaining portfolio companies which the Board believes provide the most realistic prospects of delivering Shareholder returns within the anticipated lifespan of the Company;
b) assessing the funding requirements of each portfolio company against its prospects of generating a Shareholder return within the anticipated lifespan of the Company. At this stage, Glycotest and PDS do not require further funding from the Company. ProAxsis requires further funding by way of a short-term loan of £0.1 million which is repayable within 2019 as nears cashflow breakeven; and
c) reducing the Company's central functions and costs significantly such that the Company can continue to operate for as long as is reasonably possible whilst it seeks to generate shareholder value from the portfolio companies.

Key Performance Indicators ('KPIs')

The Board considers that the most important KPIs are non-financial and relate to the progress of the development programmes in the subsidiaries, which are identified in the business model and discussed in the Chairman's and Chief Executive Officer's Statement.

The financial KPIs are the cash position and the operating loss of the Group. At 31 December 2018 cash and deposit balances amounted to £2.9 million (2017: £6.9 million). Loss for the year was £9.4 million (2017: loss £9.4 million).

Risks and Uncertainties

The Directors review the principal risks faced by the Company as part of the internal controls process.

Risk	Possible Consequence	How the Board guards against risk
Investments made at an early stage	To date the Group has invested in early-stage research and technologies that are generally regarded as higher risk than other forms of investment. In particular, early stage companies may not be able to secure later rounds of funding or achieve the required rate of growth to make significant returns for investors.	The Group is committed to managing the risk inherent within its investment model, as well as minimising it, to the extent possible. First and foremost, the Group principally invests in the "applied" phase of research projects, meaning that such projects have generally received significant prior investment from universities, foundations and governments and have reached a stage where there are well-defined goals and processes to achieving IP and patent generation, proof of concept, market testing and regulatory approvals, all of which significantly de-risk a project when achieved. The Group is also able to spread risk by adopting a portfolio investment approach in its chosen field of transformative biomedical and healthcare technology.
Clinical development risk	Potential clinical trials for the Group's subsidiaries' products may not begin on time, may not be completed on schedule, or at all, or may not be sufficient for registration of the products or result in products that can receive necessary clearances or approvals. Numerous unforeseen events during, or as a result of, clinical testing could delay or prevent commercialisation of such products.	The Group seeks to reduce this risk by drawing on the experience of its Executive Directors and senior management team to have input on the clinical trial design and closely monitor the progress of recruitment.

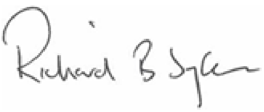
Risk	Possible Consequence	How the Board guards against risk
Regulatory risk	Potential regulatory approvals and clearances of the Group's subsidiaries' products may not be achieved on schedule, or at all. Failure to achieve regulatory approval or clearances could delay or prevent commercialisation of such products.	The Group seeks to reduce this risk by drawing on the experience of its Executive Directors and senior management team, seeking advice from regulatory advisors, and holding consultations with appropriate regulatory bodies.
Intellectual property risk	The commercial success of the Group depends on its ability to obtain patent protection for its own discoveries and for technology it has licensed from universities and research institutes. The intellectual property ("IP") licensed to the Group is protected by patent, trademark, copyright, as well as confidentiality procedures. These laws, procedures and restrictions provide only limited protection and any such intellectual property rights may be challenged, invalidated, circumvented, infringed or misappropriated. In particular, patents might not contain claims that are sufficiently broad to prevent others from utilising the covered IP. Third parties may independently develop similar or superior IP that does not infringe any protection afforded to the IP licensed to the Group. There can be no assurance that unauthorised use, disclosure or reverse engineering of the IP licensed to the Group will not take place.	The Group seeks to reduce this risk by using external patent attorneys to review the patent protection available before licensing in technology and by managing a policy of extensively patenting all new discoveries generated in the subsidiaries. In addition, the Group is prepared to defend itself vigorously against infringement of intellectual property, should it be required. Also, the Group undertakes a review of the IP in all potential new investments during the due diligence process.

Risk	Possible Consequence	How the Board guards against risk
Competition risk	There is intense competition among biomedical and healthcare technology companies. The Group is aware of competitors in both the US and abroad who have developed or are developing products that address the same applications that the Group's subsidiaries are targeting. These companies' products or services could be more effective and / or cost-effective than the products offered by the Group's subsidiaries. Also, although the market for software products that provide advanced clinical decision support is still developing, the Group faces increasing competition from other companies in the healthcare information technology market. There is no assurance that other intellectual property may not be developed in other institutions which could render the Group's products non-competitive or obsolete.	The Group seeks to minimise these risks by having the Group's Directors and senior management team focus a significant amount of their time on accelerating the development of those subsidiaries, which the Directors believe are capable of achieving the greatest value for the Group with their current products. In addition, risk is spread through strategic portfolio diversification within the targeted chronic disease areas.
Dependence on key executives and personnel	A significant part of the Group's value and the key to its future technology creation also lies with the scientists and engineers who partner with the Group. Retention of key executives and personnel, and the maintenance of such a qualified workforce, is a high priority for the Group. However, it is not possible to guarantee retention of the services of key personnel and a failure to attract or retain key executives could have an adverse effect on the Group's business.	The Group seeks to reduce this risk by a balanced compensation package consisting of salary, benefits, performance-related bonuses and equity incentive schemes. The equity incentive schemes are implemented at a Group level for NetScientific staff and in specific schemes for subsidiary employees.
Brexit	There are two possible areas of impact. The first being foreign exchange, as the Company raises money in sterling but most of its expenditure is in US dollars. The second impact is the increased difficulty in accessing EU research grants.	The Group seeks to reduce any foreign exchange risk by hedging its US dollar position.

Business Review

The business review has been covered in the Chairman's and Chief Executive Officer's Statement on pages 1 to 5 and in the Financial Review on pages 11 to 12.

The Strategic Report was approved by the Board of Directors and signed on its behalf by:



Sir Richard Sykes
Non-Executive Director and Chairman
21 May 2019

The Financial Review should be read in conjunction with the Consolidated Financial Statements of the Company and its subsidiaries (together the 'Group') and the notes thereto on pages 38 to 69. The Consolidated Financial Statements are presented under International Financial Reporting Standards as adopted by the European Union. The financial statements of the Company continue to be prepared in accordance with UK Generally Accepted Accounting Practice and are set out on pages 72 to 80.

Consolidated Income Statement and Other Comprehensive Income

Overall, the Group recorded a slightly increased loss for the year of £9,403k (2017: £9,378k). Research and development activity reduced, and a number of subsidiary assets were impaired during the year. A summary analysis of the Group's financial performance is provided below.

Continuing Operations
Revenue comprises sales made by the subsidiary companies, increased for the year to £245k (2017: £171k). The increase is due ProAxsis increasing kit sales by 50% and undertook an immunoassay development project together contributing 100% of the Group's sales.

Other income decreased to £101k (2017: £238k). The decrease is attributable to the prior year containing non-recurring income from Glycotest earning evaluation fees for a prototype and NetScientific UK selling its shares in an investment and partially recovering a previously fully provided for loan. This is partially offset by increases in ProAxsis clinical research services.

Research and development costs decreased to £524k (2017: £997k). The decrease in cost is primarily due to ProAxsis spending less as nears break even and more focus on commercial activities by continuing operations.

In addition to central costs incurred in managing the portfolio companies and corporate costs, general and administrative costs also include portfolio companies' management staff costs, sales and marketing and other operating expenses. The costs decreased to £2,821k (2017: £3,293k) consistent with the subsidiaries maturing to commercial stage and cost saving initiatives.

Other costs of £1,029k (2017: £472k) represent merger and acquisition costs (see note 6) of £667k (2017: £Nil), fair value movement against recoverability of derivative financial assets (convertible loans) of £230k (2017: £306k) and charges for share based payments £132k (2017: £166k); this cost reduced in the year as fewer options were issued to those receiving them and because of the lower headcount.

The Group has a controlling stake at the end of financial year in four out of five of its portfolio companies and consolidates their results.

Discontinued Operations
Two subsidiaries, Vortex and Wanda, have been classed as discontinued operations and are held for sale and were divested post balance sheet date on the 22 March 2019.

During the year the Group impaired property, plant and equipment by £555k (2017: £Nil), Inventory by £346k (2017: £Nil) and Trade receivables by £76k (2017: £Nil) due to non-recoverability within the discontinued subsidiaries Vortex and Wanda. Vortex and Wanda were sold post balance sheet date on the 22 March 2019. The loss for the year by discontinued operations was £5,405k (2017: £5,179k).

Consolidated
The average headcount across the Group reduced during the year reflecting the streamlining of the head office and a reduction in Wanda headcount. Headcount (excluding non-executive directors) in 2018 was 30 (2017: 41).

With most of the Group's activities in the US and the exchange rate weakened against the US at 31 December 2018 to £1: \$1.2769 (2017: £1: \$1.3579) the translation of foreign operations resulted in an exchange gain of £94k (2017: loss £374k).

FINANCIAL REVIEW

FOR THE YEAR ENDED 31 DECEMBER 2018

Statement of Financial Position and Cash Flows

The Group ended the year with net assets of £6,170k (2017: £10,798k), representing a decrease of £4,628k from the position at 1 January 2018. The decrease in net assets resulted from the £9,403k total loss in the year mitigated by a successful equity placing in April 2018 raising a total of £4,643k net of share issue costs.

Property, plant and equipment decreased to £169k (2017: £891k); due to an impairment charge of £555k was booked by Wanda and Vortex during the year as was non-recoverable.

Equity investments classified as fair value through other comprehensive income (FVTOCI) - The investments have been fair valued from 1 January 2018 when IFRS 9 came into force. On initial application of IFRS 9 Financial Instruments, a gain of £3,795k was recognised within other comprehensive income and the balance was restated at 1 January 2017 to £6,607k. There have been no further investments in available for sale investments, which originally cost £2,863k, the same as 2017. The value of PDS following the Edge merger has resulted in a decrease of £3,839k as at year end reducing Equity investments to £2,768k. The reduction in value was also taken to other comprehensive income, resulting in the equity investment reserve balance at year end of debit £68k (2017: £Nil).

The Group's current liabilities increased marginally to £966k (2017: 905k). This is due to increased accrued interest within loans and borrowings and marginally higher accruals.

Cash, cash equivalents and short-term deposits

In April 2018 the Group placed 9,523,809 shares raising net funds of £4,642k (2017: 17,962,362 shares issued raising net funds of £7,504k).

At 31 December 2018, the Group's cash totalled £2,911k, a decrease of £3,957k from a total of £6,868k at 31 December 2017. The cash outflow from continued development and operating expenses in the subsidiaries was mitigated by the share placement and proceeds from sale of investments. At 31 December 2018, the Group has a total of £2,284k (2017: £2,949k) held in US$ to meet the short-term requirements of its US operations. It remains the Group's policy to hedge its US$ position whilst most of the portfolio companies are US based.

Capital Structure and Funding

The Group is primarily funded by equity capital, reflecting the fact that its portfolio companies are just reaching commercialisation after a period of investment in development. The Group considers its capital to be its total equity before amounts attributable to minority shareholders, which at 31 December 2018 amounted to £12.1 million (2017: £15.4 million). The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns to equity holders of the Company and benefits to other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. The Group manages this objective through tight control of its cash resources.

Net funds held by the Group at 31 December 2018 amounted to £2.7 million (2017: £6.7 million) and comprised cash and cash equivalents as well as loans and borrowings as shown below:

	31 December	
	2018	2017
	£000's	£000's
Cash and cash equivalents (pages 36 to 37)	**2,911**	6,868
Loans and borrowings (note 21)	**(200)**	(198)
Net funds	**2,711**	6,670

Ian Postlethwaite
Chief Financial Officer
21 May 2019

Sir Richard Sykes, *Non-Executive Director and Chairman.*

Sir Richard has been Chairman since the Company was admitted to AIM in September 2013. He has spent thirty years working in the biotechnology and pharmaceutical industries, including at Glaxo plc (subsequently Glaxo Wellcome plc), where he served as Chairman and CEO from 1995 to 2000, and then GlaxoSmithKline plc, where he served as Chairman until 2002. Sir Richard was also a Senior Independent Director of Rio Tinto plc from 1997 to 2007, Rector of Imperial College from 2000 to 2008, Chairman of NHS London from December 2008 to 2010 and a Senior Independent Director of Eurasian Natural Resources Corporation from 2007 to 2011. He holds a BSc in Microbiology from the University of London, a PhD in Microbial Biochemistry from Bristol University and a DSc from the University of London.

In 1994, Sir Richard received a knighthood for services to the pharmaceutical industry. In 2004, he was awarded Honorary Citizenship of Singapore for his contribution to the development of the country's biomedical sciences industry.

Currently, Sir Richard is a Fellow of the Royal Society and Academy of Medical Sciences, Imperial College London, Imperial College School of Medicine and King's College London and an Honorary Fellow of the Royal Academy of Engineering, Royal Society of Chemistry, Royal Pharmaceutical Society, Royal College of Pathologists, Royal College of Physicians, the University of Wales and the University of Central Lancashire. Sir Richard is Chairman of The Royal Institution of Great Britain and Chairman of Imperial College Healthcare NHS Trust.

François R. Martelet, M.D., *Former Chief Executive Officer, resigned 30 April 2019.*

François joined the Company mid-2015 and brings over 20 years of biopharma experience and a proven track record of shaping and developing businesses to deliver returns. He has broad experience in both large and small companies, deep knowledge of commercialisation and has proven managerial capabilities.

Until mid-2014, Francois was Interim SVP, International Operations at Stallergenes SA, heading up its International Operations in the field of allergy therapeutics. He was previously CEO at Topotarget A/S, a publicly traded European biotech company specialized in oncology therapeutics successfully merged with BioAlliance SA. He is a Pharmaceutical Executive with large US and international experience at both corporate and operational level in blue chip pharma companies. He brings senior level experience in clinical development, business development, in-licensing and M&A, marketing, and sales experiences. His areas of expertise at general management level include mid/late stage development and commercialization of oncology/specialty medicines products and managing significant P&Ls ($1B+) across large country organizations. He held senior level regional/global roles with full accountability of multiple product lines in primary care and specialty markets in Europe and Emerging markets. He was part of the teams who introduced over 12 products in oncology to many markets across the world, and more than six of them have become worldwide blockbusters. He served as CEO of Avax Tech, Inc., a US biotech company specialized in therapeutic oncology vaccines.

Francois worked for Novartis Pharma AG as SVP and Region Head Europe, Vice President InterContinental Region Head-Oncology Division and Vice President & Global Oncology Franchise Head at Merck and Co., Inc. He is also Trade Advisor at Ministry of Foreign Trade, France since January 2011. He is also a Board Member at the European BioPharmaceutical Enterprises (EFPIA division) since June 2012.

François gained a Doctorate in Medicine and a Master's Degree in Business from Dijon University, and holds a Degree in Legal Medicine from R. Descartes University School of Medicine, Paris. He is also a graduate of the Advanced General Management Program at INSEAD and attended senior executive courses at Harvard Business School.

François awards include the Pasteur Institute medal (1989), Knight of the French National Order Merit (2011) and the Knight of the Legion d'Honneur (2017) which is the highest decoration in France.

Francois was a member of the Company's executive management team.

BOARD OF DIRECTORS

FOR THE YEAR ENDED 31 DECEMBER 2018

***Ian Postlethwaite**, Chief Executive Officer/Chief Financial Officer and Company Secretary.*

Ian joined the Board on 15 June 2016. Previously he had been the Finance Director of Allergy Therapeutics Plc for 14 years and was a significant contributor to the success of that company. He joined the board of Allergy as an executive director in April 2002, whilst it was a private company, performing a financial turnaround and listing it two years later in 2004 on the AIM of the London Stock Exchange. Revenue increased from £12m to £49m over his tenure and he raised £106m through equity issues and €40m through debt finance to fund 13 clinical studies, including two successful Phase III's in North America.

Until 31 December 2016 Ian was also Deputy Chairman of Shoreham Port. He was appointed as a non-executive director to the port in 2011 and during his six-year term he held the positions of Chairman of the Audit and the Remuneration Committees.

Prior to joining the Allergy board, he worked for Ellerman Investments (1997-2002), a UK private equity house, undertaking the roles of Chief Executive Officer with AFS, which was one of the largest independent finance houses in the UK, and Finance Director with a number of successful start-up technology companies. Previously he held senior finance positions with Ericsson and Philips Electronics. He is a qualified accountant and a Fellow of the Chartered Association of Certified Accountants. Ian has a BSc (Hons) in Geological Sciences from Aston University.

Ian is a member of the Company's executive management team.

***Barry W Wilson**, Non-Executive Director.*

Barry has been a Board member since September 2013 when the Company was admitted to AIM and is an international executive with more than 40 years of experience in both the pharmaceutical and medical device industries.

He has served as the President of Medtronic International (the world's leading medical device company), President of Lederle International prior to its merger with Wyeth, and President of Bristol-Myers Squibb Europe. Additionally, he has served as Chairman of Mindmaze and served on the board of Anecova, as well as nine international assignments with Pfizer (the world's largest drug company).

Barry was a member of the Thematic Advisory Board of Lombard Odier Private Bank (focusing on healthcare) and he worked with DLJ Credit-Suisse Alternative Investments as their Global Healthcare Advisor. He also served on the public boards of Mallinckrodt, Inc (NYSE), Bausch & Lomb (NYSE) and Rezidor Hotel Group AB (Swedish Stock Exchange). He is currently a board member of Caribbean Healthcare Partners, Chairman of the Advisory Board of the Marriott Group's 47 Park Street, London; and a member of the Advisory Board of the Wyss Center for Bio and Neuroengineering.

Professor Stephen Smith, *Non-Executive Director.*

Stephen joined the Board in February 2016 and has held senior leadership roles in the NHS and academia. He has had a long and distinguished career as a clinician scientist, Head of Department, Dean and CEO with the University of Cambridge, Imperial College, London and Imperial College Healthcare NHS Trust.

He was responsible with Sir Richard Sykes for creating the first Academic Health Science Centre in the United Kingdom, that involved the largest merger at the time in the NHS of three famous hospitals, St Marys Hospital, Charing Cross Hospital and the Hammersmith Hospital with Imperial College London, creating Imperial College Healthcare NHS Trust. He was the inaugural CEO of the Trust whilst retaining his position as Principal of the Faculty of Medicine.

During his career he has been a keen advocate of the commercialisation of ideas in Life Sciences and Healthcare and actively pursued this strategy in Cambridge and Imperial College. He “spun-out” two companies from the university of Cambridge, Metris Therapeutics and GNI Group Ltd, the later now being a successful Mid Cap, Sino-Japanese company, having completed its IPO on the Tokyo Stock Exchange in 2007 and on whose public board he served for four years in Tokyo.

Stephen has extensive non-executive experience serving on the Boards of the National Healthcare Group Singapore which developed integrated care through nine polyclinics. In Australia, he was on the Board of the Royal Melbourne Hospital and the Victorian Comprehensive Cancer Centre, a $1.5billion project to create a fully integrated cancer care facility that brings together an integrated research, service and education offering to four million patients in Victoria.

Stephen is a non-executive director of the renowned Great Ormond Street Hospital, London.

The Directors present their report with the audited financial statements of NetScientific plc ("NetScientific") and its subsidiaries ("the Group") for the year ended 31 December 2018.

RESEARCH AND DEVELOPMENT

The Group incurred research and development expenditure on continuing operations of £524k in the year (2017 £997k). Commentary on the major activities is given in the Chairman's and Chief Executive Officer's Statement.

DIVIDEND

The Directors do not propose the payment of a dividend currently, however fully intend to review this policy in the future.

FUTURE DEVELOPMENTS

A review of anticipated future developments is included in the Chairman's and Chief Executive Officer's Statement.

POST BALANCE SHEET EVENTS

On the 15 January 2019 the Board formally closed the sales process that had commenced as part of the strategic review. The Board continues to assess all remaining open options.

On 11 February 2019 Wanda, Inc. a non-core portfolio company entered into a subscription and cancellation agreement to cancel the indebtedness and all obligations due under the Convertible Notes and the Intercompany debt for a total aggregate amount of indebtedness of $12.1m equivalent to £9.3m. NetScientific also subscribed under the agreement to purchase 14,609,538 shares of the Series A Preferred Stock for $2m equivalent to £1.5m.

On 14 February 2019 Glycotest Inc. a portfolio company received the initial $3m tranche of the $10m Series A financing round with Shanghai Fosun Pharmaceutical Co. Ltd., a leading healthcare group based in China.

On 1 March the General Meeting was adjourned as the special resolution to cancel the admission of the shares to trading on AIM, register the Company as a private limited company and amend the Company's Current Articles to reflect the Company's new status as a private limited company was likely to be defeated as the Company received proxy forms from shareholders representing 30.04% of the issued share capital of the Company instructing those shares to be voted against the proposed special resolution.

On the 18 March 2019 PDS Biotechnology Corp. announced the closing of its merger with Edge Therapeutics, Inc. following the approval of Edge stockholders on 14 March 2019. Following the merger, Edge will operate as PDS Biotechnology Corporation and the stock will trade on the Nasdaq Capital Market beginning on 18 March 2019 under the ticker "PDSB". The Companies ownership of the enlarged PDS Biotechnology Corp. on a fully-diluted basis is 8.15%, which at the latest listing price on 1 April 2019 of $7.82 values NetScientific's holding in PDS at £3,258k. At year end PDS was valued at £2,978k. It is the Company's intention to hold the shares and to make a decision on its position in due course.

On the 22 March 2019, after announcing on the 18 March 2019, it had resolved to effect the orderly wind up of Vortex Biosciences and Wanda Inc., the Company received a further approach from Deeptech Disruptive Growth Investments Ltd, an affiliated special purpose vehicle of EMV Capital Ltd, detailing revised terms regarding the potential disposal. Those revised terms addressed satisfactorily the Board's previous concerns regarding the timeline and execution risk relating to the potential disposal. As such, the Company completed the sale of its interests in Vortex and Wanda, together with outstanding loans and convertible loan notes owed by Wanda or Vortex to Deeptech for cash proceeds of £150k. £1 each was paid for the shares, £37k for the preferred stock and £113k for the transfer of debt. The Group carrying value for the investments/assets of Vortex and Wanda was £412k (2017: £632k) see note 11. The Company carrying value of the investments in Vortex and Wanda was £Nil (2017: £1,208k) see note 8 of the notes to Parent Company financial statements.

François R. Martelet, M.D has resigned as a Director on 30 April 2019. Ian Postlethwaite was appointed Chief Executive Officer effective from 1 May 2019.

DIRECTORS

The Directors shown below have held office during the period from 1 January 2018 to the date of this report:

Sir Richard Sykes
François R. Martelet, M.D. (resigned 30 April 2019) – Served as Chief Executive Officer for the whole of the year
Ian Postlethwaite
Barry W Wilson
Professor Stephen Smith

Directors' shareholdings and other interests

	No. of shares as at 31 December 2018	No. of shares as at 31 December 2017
Sir Richard Sykes	**93,452**	62,500
Barry W Wilson	**67,310**	36,358
Professor Stephen Smith	**28,571**	-

Between 31 December 2018 and the date of this report there has been no change in the interests of Directors in shares or share options as disclosed in this report.

Part of the shareholdings of Sir Richard Sykes is held by nominees.

DIRECTORS' REMUNERATION AND SHARE OPTIONS

Details of the Directors' remuneration and share options are given in the Directors' Remuneration Report on pages 23 to 25.

DIRECTORS' AND OFFICERS' LIABILITY INSURANCE

Qualifying indemnity insurance cover has been arranged in respect of the personal liabilities which may be incurred by Directors and Officers of the Group during the course of their service with the Group. This insurance has been in place during the year and up to the date of this report.

FINANCIAL RISK MANAGEMENT

The Group's use of financial instruments is discussed in note 24 to the financial statements.

SUBSTANTIAL HOLDINGS

As at 30 April 2019 the Directors were aware of the following interests of 3 per cent or more in the issued ordinary share capital of the Company and have not been notified, pursuant to the provisions of the Companies Act 2006, of any further such interests.

Name	No. of shares	Per cent. of voting rights
Woodford Investment Management LLP	36,787,187	46.83%
M A Lawson	23,549,386	29.98%
Cyrus Holdings Limited	9,910,453	12.61%
Hargreaves Lansdown Asset Management	4,823,620	6.14%

DIRECTORS' RESPONSIBILITIES

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and the company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). 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 for the Group and company and of the profit or loss of the Group for that period. The directors are also required to prepare financial statements in accordance with the rules of the London Stock Exchange for companies trading securities on the Alternative Investment Market.

In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether the group and company financial statements have been prepared in accordance with IFRSs as adopted by the European Union and FRS 102 respectively, 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 requirements of 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.

WEBSITE PUBLICATION

The Directors are responsible for ensuring the annual report and the financial statements are made available on a website. Financial statements are published on the Company's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the Company's website is the responsibility of the Directors. The Directors' responsibility also extends to the ongoing integrity of the financial statements contained therein.

GOING CONCERN

The Directors have prepared and reviewed Budget cashflows which were approved by the Board of Directors in the Board meeting of 11 December 2018, and further reviewed at the Board meeting on the 10 January 2019. After due consideration of these forecasts and current cash resources, the Directors consider that the Company and Group does have adequate financial resources to continue in operational existence for the foreseeable future (being at least 12 months from the date of this report), and for this reason the financial statements have been prepared on a going concern basis.

AUDITORS

All the current Directors have taken all the steps that they ought to have taken to make themselves aware of any information needed by the Company's auditors for the purpose of their audit and to establish that the auditors are aware of that information. The Directors are not aware of any relevant audit information of which the auditors are unaware.

The auditors, BDO LLP, will be proposed for re-appointment at the forthcoming Annual General Meeting.

BY ORDER OF THE BOARD:

Ian Postlethwaite
Company Secretary
21 May 2019

Board of Directors

The posts of Chairman and Chief Executive Officer are held by different Directors. The Board is balanced by there being an appropriate number of non-executives with at least two of the Directors at all times during the year being non-executive directors.

The Board meets regularly throughout the year (normally quarterly on a formal basis) and arrangements are made to enable information in a form and of a quality to be supplied to Directors on a timely basis to enable them to discharge their duties. Additionally, special meetings take place or other arrangements are made when Board decisions are required in advance of regular meetings. Certain matters are reserved for consideration by the Board (with other matters delegated to Board committees). The Board is responsible for leading and controlling the Group and in particular, setting the Group's strategy, its investment policy and approving its budget and major items of expenditure, acquisitions and disposals.

The Board of Directors has a procedure through which the Directors are able to take independent advice in the furtherance of their responsibilities. The Directors have access to the advice and services of the Company Secretary.

During the year ended 31 December 2018, the Board met 8 times, with each member attending as follows.

Director	Number of meetings held whilst a Board Member	Number of meetings attended
Sir Richard Sykes	8	8
François R. Martelet, M.D. (resigned 30 April 2019)	8	8
Ian Postlethwaite	8	8
Barry W Wilson	8	8
Professor Stephen Smith	8	8

Corporate Governance

The Board of Directors of the Company (the "Board") and the Chairman are responsible for the governance of the Company, governance being the systems and procedures by which the Company is directed and controlled. High standards of Corporate Governance are a key priority of the Board and the Directors believe that they govern the Company in the best interests of the shareholders.

The Board considers it appropriate to adopt the principles of the Quoted Companies Alliance Corporate Governance Code ("the QCA Code") published in April 2018, which is the standard deemed appropriate by independent bodies for small and mid-size quoted companies in the UK.

The corporate governance framework which NetScientific Plc operates under, including board leadership, effectiveness, remuneration and internal control, are based upon practices which the Board believes are proportionate to the risks inherent to the size and complexity of NetScientific's operations and are taken very seriously by the Board.

The extent of compliance with the ten principles that comprise the QCA Code, together with an explanation of any areas of non-compliance, and any steps taken or intended to move towards full compliance, are set out in full on the Company's website at https://www.netscientific.net/aim-rule-26/.

As appropriate, the Board has delegated certain responsibilities to Board committees.

Audit Committee

The Audit Committee is chaired by Barry W Wilson, and its other member has been Professor Stephen Smith. The Audit Committee has responsibility for considering all matters relating to financial controls, reporting and external audits, the scope and results of the audits, the independence and objectivity of the auditors and keeping under review the effectiveness of the Group's internal controls and risk management. The committee monitors the scope, results and cost-effectiveness of the audit. It has unrestricted access to the Group's auditors. In certain circumstances, it is permitted by the Board for the auditors to supply non-audit services (in the provision of tax advice, or non-specific projects where they can add value). The committee has approved and monitored the application of this policy in order to safeguard auditor objectivity and independence.

During the year ended 31 December 2018 the Audit Committee met 4 times with each member attending as follows.

Director	Number of meetings held whilst a Board member	Number of meetings attended
Barry W Wilson	4	4
Professor Stephen Smith	4	4

Remuneration Committee

The Remuneration Committee is chaired by Sir Richard Sykes and its other members have been Barry W Wilson and Professor Stephen Smith. The Directors consider that the composition of this committee is appropriate given the Company's size and circumstances.

The committee meets at least twice a year. The Remuneration Committee has responsibility for making recommendations to the Board on the Company's policy for remuneration of senior executives, for reviewing the performance of executive Directors and senior management and for determining, within agreed terms of reference, specific remuneration packages for each of the executive Directors and members of senior management, including pension rights, any compensation payments and the implementation of executive incentive schemes. The committee administers the Company's share option scheme and approves grants under the scheme. The committee is responsible for all senior appointments that are made within the Group. Non-executive Directors' fees will be determined by the full Board.

During the year ended 31 December 2018 the Remuneration Committee met 2 times with each member attending as follows.

Director	Number of meetings held whilst a Board member	Number of meetings attended
Sir Richard Sykes	2	2
Barry W Wilson	2	2
Professor Stephen Smith	2	2

Nomination Committee

The Nomination Committee is chaired by Sir Richard Sykes. Its other members have been Barry W Wilson and Professor Stephen Smith. The Directors consider that the composition of this committee is appropriate given the Company's size and circumstances.

The committee has responsibility, within its Terms of Reference approved by the Board on 9 May 2013, for identifying and nominating, for the approval of the Board, candidates to fill Board vacancies as and when they arise, save that appointments as Chairman or Chief Executive are be matters for the whole Board. During the year ended 31 December 2018, the Nomination Committee did not meet formally.

Investor relations

The Directors seek to build a mutual understanding of objectives between the Company and its shareholders by meeting with major institutional investors as required throughout the year and after the Company's preliminary announcement of its year end results and its interim results in order to provide dialogue and transparency. The Company maintains investor relations pages on its website (www.netscientific.net) to increase the amount of information available to investors in line with AIM Listing Rule 26. The management team also presents at a variety of investor conferences internationally.

There is an opportunity at the Annual General Meeting for individual shareholders to question the Chairman, and the Chairs of the Audit, Remuneration and Nomination Committees.

Internal control

The Directors are responsible for establishing and maintaining the Group's system of internal control and reviewing its effectiveness.

The system of internal control is designed to manage, rather than eliminate, the risk of failure to achieve business objectives and can only provide reasonable but not absolute assurance against material misstatement or loss.

The main features of the internal control system are as follows:

- a control environment exists through close management of the business by the executive Directors. The Group has a defined organisation structure with delineated approval limits. Controls are implemented and monitored by personnel with the necessary qualifications and experience
- a list of matters reserved for Board approval
- regular management reporting and analysis of variances
- standard financial controls operate to ensure that the assets of the Group are safeguarded and that proper accounting records are maintained.

BY ORDER OF THE BOARD:

Ian Postlethwaite
Company Secretary
21 May 2019

Remuneration Committee

The Company's remuneration policy is the responsibility of the Remuneration Committee (the "Committee") which was established in March 2013. The terms of reference and its membership are summarised in the Corporate Governance Report on pages 20 to 22.

The Committee, which is required to meet at least twice in the year, met twice during the year ended 31 December 2018.

Remuneration policy

The objective of the remuneration policy is to provide packages for executives that are designed to attract, retain and motivate people of high quality and experience.

The remuneration for the Chief Executive and Executive Directors consists of an annual salary, an annual performance-related bonus and private health cover. In addition, the Executive Directors have received grants from the Company's share option scheme.

The Committee believes that the base salary and benefits for the Executive Directors should represent a fair return for employment but that the maximum total potential remuneration may only be achieved in circumstances where the Executive has met challenging personal objectives that contribute to the Group's overall performance.

The basic salaries of the Chief Executive Officer and the Executive Directors are reviewed annually and take effect from 1 January each year. The basic salary is determined by reference to relevant market data and the individual's experience, responsibilities and performance.

Chairman and non-executive Directors' remuneration

The Chairman Sir Richard Sykes receives a fixed fee of £36,000 per annum. Barry W Wilson and Professor Stephen Smith receive a fixed fee of £24,000 per year, prorated for the period of service during the year. The fixed fee covers preparation for and attendance at meetings of the full Board and committees thereof. The Chairman and the executive Directors are responsible for setting the level of non-executive remuneration. The non-executive Directors are also reimbursed for all reasonable expenses incurred in attending meetings. Sir Richard Sykes and Barry W Wilson were granted options in the Company's share option scheme on the Company's admission to AIM in September 2013. Professor Stephen Smith was granted options in June 2016.

Equity based incentive schemes

The committee believes that equity-based incentive schemes increase the focus of employees in improving the Group's performance, whilst at the same time providing a strong incentive for retaining and attracting individuals of high calibre.

The NetScientific Plc Share Option Scheme (the "Scheme") was established on 9 May 2013 and is administered by the Remuneration Committee. The Committee decides to whom of the employees to grant options, the number, the exercise dates and the performance conditions. The option price is the greater of the average of the closing or middle market price over the five dealing days before the date the option is granted, or the amount specified by the Remuneration Committee to be the option price. Generally, options cannot be exercised unless the participant has been in employment with the Company for three years since the date of grant other than the options granted to Directors at the time of the admission to AIM, the vesting timing for which is detailed in the paragraph below. The Scheme limit is 10% of the number of Ordinary Shares in issue prior to such a grant.

Directors' interests in share options

The interests of Directors in The NetScientific Share Option Scheme over Ordinary Shares during the year were as follows.

	Option Price	**Options as at 31 December 2018**	Options as at 31 December 2017
Sir Richard Sykes	160.0p	359,020	359,020
François R. Martelet, M.D.	119.5p	359,020	359,020
François R. Martelet, M.D.	86.2p	200,000	200,000
François R. Martelet, M.D.	65.5p	200,000	200,000
François R. Martelet, M.D.	45.5p	300,000	-
Ian Postlethwaite	79.7p	180,000	180,000
Ian Postlethwaite	65.5p	180,000	180,000
Ian Postlethwaite	45.5p	200,000	-
Barry W Wilson	160.0p	179,510	179,510
Professor Stephen Smith	79.7p	30,000	30,000

Options were first granted on 16 September 2013, the date of the Company's Admission to AIM. The options price was 160p, the Placing Price. The vesting terms were that one third of the option became exercisable on the date of Admission, the next third on the first anniversary of the date of Admission and the final third on the second anniversary of the date of Admission. In the case of the Chairman and non-executive Directors any Ordinary Shares issued as a result of the exercise of their options must be held for three years from the date of vesting of the relevant options. François R. Martelet, M.D.'s options were granted on 9 November 2015, 4 February 2016, 27 January 2017 and 21 June 2018 and vest respectively on 8 June 2018, 4 February 2019, 27 January 2020 and 21 June 2021. Options were awarded to Ian Postlethwaite on 16 June 2016, 27 January 2017 and 21 June 2018 and vest on 13 June 2019, 27 January 2020 and 21 June 2021 respectively. Options were awarded to Professor Stephen Smith on 24 June 2016 vest on 17 February 2019.

Audited information

The following section (Directors' remuneration) contains the disclosures required by Schedule 5 to the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 and forms part of the financial statements for the year ended 31 December 2018 and has been audited by the Company's auditor, BDO LLP.

Directors' remuneration

The aggregate remuneration received by Directors who served during the year ended 31 December 2018 is set out below.

Year ended 31 December 2018	**Salaries and fees £000's**	**Benefits £000's**	**Bonus £000's**	**Pension £000's**	**Total £000's**
Executive Directors					
François R. Martelet, M.D.	247	7	50	19	323
Ian Postlethwaite	206	5	31	15	257
Non-Executive Directors					
Sir Richard Sykes	36	-	-	-	36
Barry W Wilson	24	-	-	-	24
Professor Stephen Smith	24	-	-	-	24
Total	**537**	**12**	**81**	**34**	**664**

Directors' remuneration continued

Year ended 31 December 2017	**Salaries and fees £000's**	**Benefits £000's**	**Bonus £000's**	**Pension £000's**	**Total £000's**
Executive Directors					
François R. Martelet, M.D.	240	4	59	18	321
Ian Postlethwaite	200	3	37	15	255
Non-Executive Directors					
Sir Richard Sykes	36	-	-	-	36
Barry W Wilson	24	-	-	-	24
Professor Stephen Smith	24	-	-	-	24
Jonathan Paisner – resigned 25 October 2017	20	-	-	-	20
Total	**544**	**7**	**96**	**33**	**680**

In addition to the amounts shown above, the share-based payment charge for the year was:

	Year ended 31 December 2018 £000's	Year ended 31 December 2017 £000's
Executive Directors		
François R. Martelet, M.D.	**68**	96
Ian Postlethwaite	**31**	25
Non-Executive Directors		
Professor Stephen Smith	**3**	2
Total	**102**	123

BY ORDER OF THE BOARD:

Sir Richard Sykes
Chairman of Remuneration Committee
21 May 2019

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF NETSCIENTIFIC PLC

Opinion

We have audited the financial statements of NetScientific Plc ("the parent company") and its subsidiaries ("the group") for the year ended 31 December 2018 which comprise the Consolidated Income Statement, the Consolidated Income Statement and Other Comprehensive Income, the Consolidated and Parent Company Statement of Financial Position, the Consolidated and Parent Company Statement of Changes in Equity, the Consolidated Statement of Cash Flows and notes to the financial statements, including a summary of significant accounting policies.

The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 The Financial Reporting Standard in the United Kingdom 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 group's and the parent company's affairs as at 31 December 2018 and of the group's loss for the year then ended;

- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;

- the parent company financial statements 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. We are independent of the group and the parent 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 group or the parent 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.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, including those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters relating to the group financial statements

Going concern

As set out in note 2, the group is loss generating and has historically been reliant upon fundraising in order to obtain the resources necessary to continue research. Management have prepared cashflow forecasts which include a number of cash saving initiatives and based on these have had to make judgements on the sufficiency of current cash reserves.

Because of the judgements involved, we have determined going concern to be a key audit matter.

How We Addressed the Key Audit Matter

We have obtained and reviewed the latest cash flow forecasts prepared by management to check the group has adequate financial resources to continue as a going concern for at least 12 months from the date of this report. Our work on this included checking that the assumptions used in the cashflows were in line with our knowledge of the business, and incorporated management's cash saving initiatives. We also considered the accuracy of management's forecasting in light of previous results.

As each of the remaining significant investments are largely self-sustaining, we have looked at the forecasted cash flows of each entity individually to check that they would not have an adverse effect on the cash flow of the group as a whole, and we have vouched key items in these forecasts to supporting documentation.

Key audit matters impacting the parent company financial statements

Investments in/loans to subsidiaries: impairment review

As at 31 December 2018, the Company holds investments and loans owing from its subsidiaries as set out in note 8 and note 10 respectively of the parent company financial statements. As set out in note 3 of the parent company financial statements, at each reporting date, management carries out an impairment review that involves assessing the recoverable amount of the investment by estimating future cash flows and discounting to present value. There is inherent uncertainty in estimating the timing and extent of future cash flows as well as probability of success of these subsidiaries in respect of commercialising its technology for a favourable return which can then allow the Company to recover its investment.

The degree of estimation and complexity involved in the impairment review, for example in determining the appropriate discount rate and clinical commercial risk weighting to be applied to the cash flows, causes us to consider this a significant audit risk given the newly adopted strategy of the group to divest certain subsidiaries post year end and the impact this may have upon the recoverability of balances owed by these entities.

How We Addressed the Key Audit Matter

We reviewed management's assessment of the recoverable amount for each subsidiary. This included corroborating the key assumptions and discount rates used in deriving each investment's net present value to available market information when they are fully commercialised. We also re-performed the calculation of management's discounted cash flow workings as well as scrutinising the timing of cash flows in order to check that they appear reasonable. In addition, in respect of the subsidiaries disposed of post year end, we checked that the balances owed by these subsidiaries had been appropriately written down at the year end.

Our application of materiality

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements. We consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonable users that are taken on the basis of the financial statements.

In order to reduce to an appropriately low level the probability that any misstatements exceed materiality, we use a lower materiality level, performance materiality, to determine the extent of testing needed. Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as a whole.

Group Materiality: £416,000 (2017: £460,000)

Parent Company Materiality: £32,000 (2017: £345,000)

Our group materiality, for both current and prior year, has been based upon 5% of the loss for the year. We consider this to be one of the principal considerations for users of the financial statements in assessing the financial performance of the group, since the group's activities are currently principally in relation to expenditure on developing forms of intellectual property which can be exploited commercially to generate income and growth in the future.

Materiality levels used for each component ranged from £5,000 to £236,000. Materiality levels are not significantly different from those applied in the previous year.

In considering individual account balances and classes of transactions we apply a lower level of materiality (performance materiality) in order reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

Performance materiality was set at 75% of the above materiality levels.

Group Performance Materiality: £312,000 (2017: £345,000)

Parent Company Performance Materiality: £24,000 (2017: £258,750)

We agreed with the audit committee that we would report to the committee all individual audit differences in excess of £17,000 (2017: £18,000). We also agreed to report differences below this threshold that, in our view, warranted reporting on qualitative grounds.

An overview of the scope of our audit

During the year, the Group comprised of the parent company and two subsidiaries in the UK and four subsidiaries in the US. A full scope audit was carried out on the parent company and the two UK subsidiaries. A full scope audit was performed by BDO LLP on two out of four US entities which were considered to be are significant components. As part of this we had regular communication with the central management of the NetScientific Group. The remaining two components of the group were considered non-significant and such components were subject to analytical review procedures together with substantive testing on group audit risk areas applicable to that component, performed by BDO LLP.

Our audit approach was risk based, and the scope of our work was established by obtaining an understanding of the group, including its control environment and assessing the risks of material misstatements.

Other information

The directors are responsible for the other information. The other information comprises the information included in the Annual Report and Accounts, other than the financial statements and our auditor's 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 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.

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 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 group and the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report and 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 by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company 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, 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 group’s and the parent 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 group or the parent 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 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 at 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 parent 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 parent 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 parent company and the parent company’s members as a body, for our audit work, for this report, or for the opinions we have formed.

BDO LLP

Malcolm Thixton (Senior Statutory Auditor)
For and on behalf of BDO LLP, Statutory Auditor
Southampton, UK

Date: 21 May 2019

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

NETSCIENTIFIC PLC (REGISTERED NUMBER: 08026888)

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2018

Continuing Operations	Notes	**2018 £000's**	Restated* 2017 £000's
Revenue		**245**	171
Cost of sales		**(78)**	(80)
Gross profit		**167**	91
Other operating income		**101**	238
Research and development costs		**(524)**	(997)
General and administrative costs		**(2,821)**	(3,293)
Other costs	6	**(1,029)**	(472)
Loss from operations	9	**(4,106)**	(4,433)
Finance income	7	**47**	43
Finance expense	8	**(12)**	(11)
Loss before taxation		**(4,071)**	(4,401)
Income tax credit	10	**73**	202
Loss for the year from continuing operations		**(3,998)**	(4,199)
Discontinued Operations			
Loss for the year from discontinued operations	11	**(5,405)**	(5,179)
Total loss for the year		**(9,403)**	(9,378)
Owners of the parent		**(8,328)**	(8,318)
Non-controlling interests		**(1,075)**	(1,060)
		(9,403)	(9,378)
Basic and diluted loss per share from continuing and discontinued operations attributable to owners of the parent during the year:	12		
Continuing operations		**(4.8p)**	(6.2p)
Discontinued operations		**(6.2p)**	(7.4p)
From loss for the year		**(11.0p)**	(13.6p)

** See note 11 for explanation on why 2017 comparatives have been restated*

The notes form part of these financial statements

CONSOLIDATED INCOME STATEMENT AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2018

	Notes	2018 £000's	2017 £000's
Loss for the year		**(9,403)**	(9,378)
Items that may be subsequently reclassified to profit or loss:			
Exchange differences on translation of foreign operations		**94**	(374)
Change in fair value IFRS 9 Financial Instruments		**(3,863)**	-
Total comprehensive loss for the year		**(13,172)**	(9,752)
Attributable to:			
Owners of the parent		**(11,810)**	(9,057)
Non-controlling interests		**(1,362)**	(695)
		(13,172)	(9,752)

All other comprehensive income will be reclassified to retained earnings on the ultimate sale of any relevant subsidiary or investment company.

NETSCIENTIFIC PLC (REGISTERED NUMBER: 08026888)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2018 (Continued)

	Notes	**2018 £000's**	2017 £000's
Assets			
Non-current assets			
Property, plant and equipment	13	**169**	891
Investments in equity accounted associates	15	**-**	-
Equity investments classified as FVTOCI*	16	**2,768**	2,863
Derivative financial assets	17	**44**	18
Other receivables	19	**-**	33
Total non-current assets		**2,981**	3,805
Current assets			
Inventory	18	**37**	86
Trade and other receivables	19	**698**	1,014
Cash and cash equivalents		**2,911**	6,868
		3,646	7,968
Assets in disposal groups classified as held for sale	11	**569**	-
Total current assets		**4,215**	7,968
Total assets		**7,196**	11,773
Liabilities			
Current liabilities			
Trade and other payables	20	**(668)**	(777)
Loans and borrowings	21	**(140)**	(128)
		(808)	(905)
Liabilities directly associated with assets in disposal groups classified as held for sale	11	**(158)**	-
Total current liabilities		**(966)**	(905)
Non-current liabilities			
Loans and borrowings	21	**(60)**	(70)
Total non-current liabilities		**(60)**	(70)
Total liabilities		**(1,026)**	(975)
Net assets		**6,170**	10,798

**Fair value through other comprehensive income*

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2018 (Continued)

	Notes	**2018**	2017
		£000's	£000's
Issued capital and reserves			
Attributable to the parent			
Called up share capital	22	**3,928**	3,452
Share premium account	23	**58,006**	53,839
Capital reserve account	23	**237**	237
Equity investment reserve	23	**(68)**	-
Foreign exchange reserve	23	**1,444**	1,063
Retained earnings	23	**(51,442)**	(43,220)
Equity attributable to the owners of the parent		**12,105**	15,371
Non-controlling interests	14	**(5,935)**	(4,573)
Total equity		**6,170**	10,798

The financial statements on pages 33 to 69 were approved and authorised for issue by the Board of Directors on 21 May 2019 and were signed on its behalf by:

Sir Richard Sykes
Chairman

Ian Postlethwaite
Chief Executive Officer

The notes form part of these financial statements

NETSCIENTIFIC PLC (REGISTERED NUMBER: 08026888)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2018

	Shareholders' equity								
	Share capital £000's	**Share premium £000's**	**Capital reserve £000's**	**Equity investment reserve £000's**	**Retained earnings £000's**	**Foreign exchange and capital reserve £000's**	**Total £000's**	**Non-controlling interests £000's**	**Total equity £000's**
1 January 2017	2,554	47,233	237	-	(35,115)	1,802	16,711	(3,875)	12,836
Loss for the period	-	-	-	-	(8,318)	-	(8,318)	(1,060)	(9,378)
Other comprehensive income – foreign exchange differences	-	-	-	-	-	(739)	(739)	365	(374)
Total comprehensive income	-	-	-	-	(8,318)	(739)	(9,057)	(695)	(9,752)
Share capital issued	898	7,185	-	-	-	-	8,083	-	8,083
Cost of share capital issue	-	(579)	-	-	-	-	(579)	-	(579)
Issue of shares to a non-controlling interest	-	-	-	-	5	-	5	(3)	2
Share-based payments	-	-	-	-	208	-	208	-	208
31 December 2017	**3,452**	**53,839**	**237**	**-**	**(43,220)**	**1,063**	**15,371**	**(4,573)**	**10,798**
Change on initial application of IFRS 9 Financial Instruments (see note 1)	-	-	-	3,795	-	-	3,795	-	3,795
Balance at 1 January 2018 (as restated)	**3,452**	**53,839**	**237**	**3,795**	**(43,220)**	**1,063**	**19,166**	**(4,573)**	**14,593**
Loss for the period	-	-	-		(8,328)	-	(8,328)	(1,075)	(9,403)
Other comprehensive income - Foreign exchange differences	-	-	-	-	-	381	381	(287)	94
Change in fair value during the year	-	-	-	(3,863)	-	-	(3,863)	-	(3,863)
Total comprehensive income	-	-	-	(3,863)	(8,328)	381	(11,810)	(1,362)	(13,172)
Share capital issued	476	4,524	-	-	-	-	5,000	-	5,000
Cost of share capital issue	-	(357)	-	-	-	-	(357)	-	(357)
Share-based payments	-	-	-	-	106	-	106	-	106
31 December 2018	**3,928**	**58,006**	**237**	**(68)**	**(51,442)**	**1,444**	**12,105**	**(5,935)**	**6,170**

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2018 (Continued)

	Notes	**2018**	2017
		£000's	£000's
Cash flows from operating activities			
Loss after income tax including discontinued operations		**(9,403)**	(9,378)
Adjustments for:			
Depreciation of property, plant and equipment	13	**262**	221
Impairment of Property, Plant & Equipment and Inventories		**977**	-
Share of loss of associate	15	**-**	45
Gain on sale of associate	15	**-**	(1,026)
Loss on disposal of subsidiaries	11	**-**	-
Fair value movement during the year on convertible debt	6	**230**	-
Impairment charge on convertible debt	6	**-**	306
Release of loan provision		**(40)**	-
Share-based payments	6	**132**	166
Foreign exchange gains		**(65)**	145
Finance income	7	**(47)**	(43)
Finance costs	8	**12**	11
Tax credit	10	**(73)**	(202)
		(8,015)	(9,755)
Changes in working capital			
(Increase) in inventory		**(296)**	(87)
(Increase)/decrease in trade and other receivables		**(136)**	308
Increase/(decrease) in trade and other payables		**24**	(1,158)
Cash used in operations		**(8,423)**	(10,692)
Income tax received		**142**	71
Net cash used in operating activities		**(8,281)**	(10,621)
Cash flows from investing activities			
Proceeds from sale of associate	15	**-**	1,477
Costs on sale of associate	15	**-**	(167)
Purchase of property, plant and equipment	13	**(112)**	(399)
Proceeds from sale of property, plant and equipment		**1**	2
Interest received		**23**	21
Net cash (used in)/from investing activities		**(88)**	934

NETSCIENTIFIC PLC (REGISTERED NUMBER: 08026888)

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2018 (Continued)

	Notes	2018 £000's	2017 £000's
Cash flows from financing activities			
Repayment from borrowings		**(10)**	(20)
Proceeds from loans		**39**	-
Proceeds on change in subsidiary shareholding		**-**	2
Proceeds from share issue		**5,000**	8,083
Share issue cost		**(357)**	(579)
Net cash from financing activities		**4,672**	7,486
Decrease in cash and cash equivalents		**(3,697)**	(2,201)
Cash and cash equivalents at beginning of year		**6,868**	9,456
Cash in disposal groups classified as held for sale	11	**(405)**	-
Exchange differences on cash and cash equivalents		**145**	(387)
Cash and cash equivalents at end of year		**2,911**	6,868

1. GENERAL INFORMATION

The Company is a public limited company incorporated on 12 April 2012 and domiciled in England with registered number 08026888 and its shares are listed on the Alternative Investment Market (AIM) of the London Stock Exchange. The address of the registered office is Anglo House, Bell Lane Office Village, Bell Lane, Amersham, Buckinghamshire HP6 6FA.

2. ACCOUNTING POLICIES

Basis of preparation

The Group financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union as they apply to the financial statements of the Group for the year ended 31 December 2018. The principal accounting policies adopted in the preparation of the financial information are set out below. Policies have been consistently applied to all the years presented apart from where new standards have been adopted during the year, see below for changes in accounting policies.

Basis of consolidation

The Consolidated Financial Statements incorporate the financial statements of the Company and its subsidiaries made up to the reporting date. Investees are classified as subsidiaries where the Company has control, which is achieved where the Company has the power to govern the financial and operating policies of an investee entity, exposure to variable returns from the investee and the ability to use its power to affect those variable returns. All intra-group transactions, balances, income and expenses are eliminated on consolidation.

The Consolidated Financial Statements incorporate the results of business combinations using the acquisition method. In the statement of financial position, the acquiree's identifiable assets and liabilities are initially recognised at their fair values at acquisition date. The results of acquired entities are included in the consolidated statement of comprehensive income from the date at which control is obtained until the date control ceases.

The total comprehensive income of non-wholly owned subsidiaries is attributed to owners of the parent and to the non-controlling interest in proportion to their relative ownership interests.

Going concern

The group made a loss in the financial year of £9,403k (2017: £9,378k) and has been reliant on the continued financial support of its existing institutional investors.

The Directors have prepared and reviewed budget cashflows which were approved by the Board of Directors in the Board meeting of 11 December 2018, and further reviewed at the Board meetings on 10 January 2019 and 15 March 2019. These budgeted cash flows included a number of implemented cash saving initiatives, including:

a) Significantly reducing the Company's central cost base by reductions in headcount, closing the office at 6 Bevis Marks London at the of March 2019, producing the Annual Report as a simple black and white pdf document and reviewing all expenditure commitments;
b) Sold Vortex and Wanda post year end for net proceeds of £150k on 22 March 2019 and consequently reducing the operational funding requirement of the Group; and
c) allocating the remaining cash to manage those portfolio companies which the Board believes provide the most realistic prospects of delivering shareholder returns within the anticipated lifespan of the Company. Glycotest and PDS do not require any further funding form the Company. ProAxsis requires a short-term loan of £100k repayable in 2019, to meet specific operational funding requirements as it nears cashflow break even by the end of 2019.

After due consideration of these forecasts and current cash resources, the Directors consider that the Company and Group does have adequate financial resources to continue in operational existence for the foreseeable future (being at least 12 months from the date of this report), and for this reason the financial statements have been prepared on a going concern basis.

2. ACCOUNTING POLICIES continued

Discontinued operations / Non-current assets held for sale

A discontinued operation is a component of the Group's business that represents a separate line of business or area of operation that has been disposed of or is held for sale at balance sheet date. The results of operations disposed during the year or are held for sale (management has a committed plan to sell and that it is available for immediate sale) are included in the consolidated income statement and are presented in the consolidated income statement as a single line which comprises the post-tax profit or loss of the discontinued operations along with the post-tax gain or loss recognised on disposal of the operations. When an operation is classified as a discontinued operation, the comparative consolidated income statement is presented as if the operations operation had discontinued from the start of the comparative period.

Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the Group's share of the profit or loss of the investee after the date of acquisition.

The Group's share of post-acquisition profit or loss is recognised in the income statement and is recognised in other comprehensive income with a corresponding adjustment to the carrying amount of the investment.

The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount adjacent to 'share of profit / (loss) of associates' in the income statement.

Revenue

Revenue represents amounts receivable for goods or services provided in the normal course of business, net of trade discounts, VAT and other sales-related taxes. Revenue from the supply of products is recognised when the Group has transferred control of goods to customers and it is probable that the Group will receive the previously agreed upon payment. These criteria are considered to be met when the goods are delivered to the buyer or the services provided. Revenue is recognised at the fair value of consideration received or receivable. A portion of the Group's revenue is derived from service provision, but the contracts stipulate the work in clearly defined sub projects. The service revenue is immaterial and is recognised as and when each of these projects are completed and has not changed under IFRS 15.

Grants

Grants for research and development activities are recognised as income over the periods in which the relevant research and development costs are to be incurred and expensed to the income statement. Grants for future research and development costs are recorded as deferred income. Grant income is included in other operating income. Grants where the Group purchase, construct or otherwise acquire capital expenditure are recognised as deferred revenue in the consolidated statements of financial position and credited to profit or loss on a systematic and rational basis over the useful lives of the related assets.

2. ACCOUNTING POLICIES continued

Research and development
All on-going research expenditure is currently expensed in the period in which it is incurred. Due to the uncertainties inherent in the development of the Group's products, the criteria for development costs to be recognised as an asset, are not met until it is probable that future economic benefit will flow to the Group. The Group currently has no such qualifying expenditure. Property, plant and equipment used for research and development is capitalised and depreciated in accordance with the Group's policy.

Property, plant and machinery, furniture, fittings and equipment
Property, plant and machinery, furniture, fittings and equipment are stated at cost net of depreciation and provision for impairment. Depreciation is provided at the following annual rates in order to write off the cost of each asset, less its estimated residual value, over its estimated useful life.

The principal depreciation rates are:

	Straight line basis	Reducing balance basis
Furniture, fittings and equipment	20% or 33.3%	33.3%
Plant and machinery	20%	33.3%
Leasehold improvements	10%	

The carrying values of property, plant and machinery, furniture, fittings and equipment are reviewed for impairment if events or changes in circumstances indicate that the carrying value may not be recoverable.

Inventory
Inventory is initially recognised at cost, and subsequently at the lower of cost and net realisable value. Cost comprised all cost of purchase, cost of conversion and other costs (materials and consumables) incurred in bringing the inventories to their present condition.

Cash and cash equivalents
The consolidated statements of cash flows and financial position, cash and cash equivalents includes cash in hand, deposits at call with banks and other short-term highly liquid investments with original maturities of three months or less.

2. ACCOUNTING POLICIES continued

Financial instruments
Financial assets and financial liabilities are recognised in the Group's consolidated statement of financial position when the Group becomes a party to the contractual provisions of the instrument. IFRS 9 has replaced IAS 39 Financial Instruments: Recognition and Measurement.

Financial assets
The Group classifies its financial assets into one of the categories discussed below, depending on the purpose for which the asset was acquired. The Group's accounting policy for each category is as follows:

Amortised cost
These assets arise principally from the provision of goods and services to customers (e.g. trade receivables), but also incorporate other types of financial assets where the objective is to hold these assets in order to collect contractual cash flows and the contractual cash flows are solely payments of principal and interest. They are initially recognised at fair value plus transaction costs that are directly attributable to their acquisition or issue and are subsequently carried at amortised cost using the effective interest rate method, less provision for impairment. Impairment provisions for current and non-current trade receivables are recognised based on the simplified approach within IFRS 9 using a provision matrix in the determination of the lifetime expected credit losses. During this process the probability of the non-payment of the trade receivables is assessed. This probability is then multiplied by the amount of the expected loss arising from default to determine the lifetime expected credit loss for the trade receivables. For trade receivables, which are reported net, such provisions are recorded in a separate provision account with the loss being recognised within cost of sales in the consolidated statement of comprehensive income. On confirmation that the trade receivable will not be collectable, the gross carrying value of the asset is written off against the associated provision.

The Group's loans and receivables comprise trade and other receivables, other financial assets and cash and cash equivalents in the consolidated statement of financial position. The impairment provision on financial assets measured at amortised costs (such as trade and other receivables) have been reviewed in accordance with IFRS 9's expected loss model. There is no material increase in provision which would result in an adjustment to be raised upon transition.

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short term highly liquid investments with original maturities of three months or less, and – for the purpose of the statement of cash flows – bank overdrafts. Bank overdrafts are shown within loans and borrowings in current liabilities on the consolidated statement of financial position.

Fair value measurement
A number of assets and liabilities included in the Group's financial statements require measurement at, and/or disclosure of, fair value. The fair value measurement of the Group's financial and non-financial assets and liabilities utilises market observable inputs and data as far as possible. Inputs used in determining fair value measurements are categorised into different levels based on how observable the inputs used in the valuation technique utilised are (the 'fair value hierarchy'):

- Level 1: Quoted prices in active markets for identical items (unadjusted)
- Level 2: Observable direct or indirect inputs other than Level 1 inputs
- Level 3: Unobservable inputs (i.e. not derived from market data).

The classification of an item into the above levels is based on the lowest level of the inputs used that has a significant effect on the fair value measurement of the item. Transfers of items between levels are recognised in the period they occur.

2. ACCOUNTING POLICIES continued

Financial Instruments continued

Fair value through other comprehensive income
The Group has a number of strategic investments in listed and unlisted entities which are not accounted for as subsidiaries, associates or jointly controlled entities. For those investments, the Group has made an irrevocable election to classify the investments at fair value through other comprehensive income rather than through profit or loss as the Group considers this measurement to be the most representative of the business model for these assets. They are carried at fair value with changes in fair value recognised in other comprehensive income and accumulated in the fair value through other comprehensive income reserve. Upon disposal any balance within fair value through other comprehensive income reserve is reclassified directly to retained earnings and is not reclassified to profit or loss.

Dividends are recognised in profit or loss, unless the dividend clearly represents a recovery of part of the cost of the investment, in which case the full or partial amount of the dividend is recorded against the associated investments carrying amount.

Previously, under IAS 39, if there is a significant range of possible fair value estimates and the probabilities of the various estimates cannot be reliably measured, then the investments are measured at cost less accumulated impairment.

Derivative financial instruments - Warrants
These are carried in the statement of financial position at fair value through other comprehensive income rather than through profit or loss as the Group considers this measurement to be the most representative of the business model for these assets. They are carried at fair value with changes in fair value recognised in other comprehensive income and accumulated in the fair value through other comprehensive income reserve. Upon disposal any balance within fair value through other comprehensive income reserve is reclassified directly to retained earnings and is not reclassified to profit or loss.

Fair value through profit or loss
The Group has a number of strategic seed investments in unlisted entities by way of convertible loan notes which are not accounted for as subsidiaries, associates or jointly controlled entities. It considers this measurement to be the most representative of the business model for these financial assets. They are carried at fair value with changes in fair value recognised in profit or loss during the year and accumulated in retained earnings.

Previously, under IAS 39, if there is a significant range of possible fair value estimates and the probabilities of the various estimates cannot be reliably measured, then the investments are measured at cost less accumulated impairment or at fair value through profit or loss.

Financial liabilities
The Group classifies its financial liabilities as financial liabilities held at amortised cost. Trade and other payables are initially recognised at fair value and subsequently carried at amortised cost using the effective interest rate method.

2. ACCOUNTING POLICIES continued

Financial Instruments continued

The table below shows reclassification of assets and liabilities due to the transition to IFRS 9 and the initial effect on equity at 1 January 2018.

	IAS 39 Classification at 31 December 2017	**IFRS 9 Classification at 1 January 2018**	**IAS 39 Carrying amount 31 December 2017**	**IFRS 9 Carrying amount 1 January 2018**	**Effect on equity 1 January 2018**	**Of which remeasurement due to new rules for classification and measurement**
Financial assets						
Equity investments	Available for sale	Fair value through other comprehensive income	2,863	6,607	3,744	3,744
Derivative financial assets (warrants)	Fair value through Profit or loss	Fair value through other comprehensive income	18	69	51	51
Other receivables (non-current)	Loans and receivables	Amortised cost	33	33	-	
Trade receivables	Loans and receivables	Amortised cost	73	73	-	-
Other receivables (current)	Loans and receivables	Amortised cost	142	142	-	-
Convertible debt	Loans and receivables	Fair value through Profit or loss	442	442	-	-
Accrued income	Loans and receivables	Amortised cost	42	42	-	-
Cash and cash equivalents	Loans and receivables	Amortised cost	6,868	6,868	-	-
Total financial assets			**10,481**	**14,276**	**3,795**	**3,795**
Non-financial assets			1,292	1,292	-	-
Total assets			**11,773**	**15,568**	**3,795**	**3,795**
Financial liabilities						
Trade payables	Amortised cost	Amortised cost	(233)	(233)	-	-
Other payables	Amortised cost	Amortised cost	(21)	(21)	-	-
Accruals	Amortised cost	Amortised cost	(490)	(490)		
Loans and borrowings	Amortised cost	Amortised cost	(198)	(198)	-	-
Total financial liabilities			**(942)**	**(942)**	**-**	**-**
Other non-financial liabilities			(33)	(33)	-	-
Total liabilities			**(975)**	**(975)**	**-**	**-**

2. ACCOUNTING POLICIES continued

Taxation
Income tax is recognised or provided at amounts expected to be recovered or to be paid using the tax rates and tax laws that have been enacted or substantively enacted at the reporting date. Research and development tax credits are included as an income tax credit under current assets.

Deferred tax balances are recognised in respect of all temporary differences that have originated but not reversed by the reporting date except for differences arising on:

- investments in subsidiaries where the Group is able to control the timing of the reversal of the difference and it is probable that the difference could not reverse in the foreseeable future; and

- 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 nor taxable profit.

The amount of the asset or liability is determined using tax rates that have been enacted or substantively enacted by the reporting date and are expected to apply when the deferred tax liabilities / (assets) are settled / (recovered).

Recognition of deferred tax assets is restricted to those instances where it is probable that a taxable profit will be available against which the temporary difference can be utilised. Deferred tax balances are not discounted.

R&D tax credit is recognised when it is considered probable that it will be recoverable based on experience of previous claims, and such credit has been recognised as a tax credit within tax expense in the income statement.

Leases
Leases in which a significant portion of the risk and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease. The Group does not have any finance leases.

Foreign currencies
Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities are denominated in foreign currencies at the Statement of Financial Position date are translated at the foreign exchange rate ruling at that date.

On consolidation, the results of overseas operations are translated into sterling at rates approximating to those ruling when the transactions took place. All assets and liabilities of overseas operations are translated at the rate ruling at the reporting date. Exchange differences arising on translating the opening net assets at opening rate and the results of overseas operations at actual rate are recognised in other comprehensive income and accumulated in the foreign exchange reserve.

Share-based payment
For all grants of share options, the fair value as at the date of the grant is calculated using an appropriate option pricing model, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of share options that are likely to vest, except for options with market-based conditions where the likelihood of vesting is factored into the fair value attributed to those options. The expense is recognised over the vesting period of the option. The credit for any charge is taken to equity.

2. ACCOUNTING POLICIES continued

Changes in accounting policies
The Group has applied the same accounting policies and methods of computation in its consolidated financial statements as in its 2017 annual financial statements, except for those that relate to new standards and interpretations effective for the first time for period beginning on (or after) 1 January 2018 and have been adopted in the 2018 annual financial statements. New standards impacting the Group that have been adopted in the annual financial statements for the year ended 31 December 2018, and which have given rise to changes in the Group's accounting policies are:

- IFRS 9 Financial Instruments
- IFRS 15 Revenue from Contracts with Customers

Details of the impact these standards have had are given below. Other new and amended standards and interpretations issued by the IASB that apply for the first time from 1 January 2018 have not affected the Group as they are either not relevant to the Group's activities or require accounting that is consistent with the Group's current accounting policies.

IFRS 9 Financial Instruments

IFRS 9 has replaced IAS 39 Financial Instruments: Recognition and Measurement, and has had a significant effect on the Group in the following areas:

Equity investments classified as available for sale financial assets under IAS 39 Financial Instruments: Recognition and Measurement have been classified as being at Fair Value through Other Comprehensive Income (FVTOCI) under IFRS 9. All fair value gains in respect of those assets are recognised in other comprehensive income and accumulated in the equity investment reserve, and these are not recycled to profit or loss. Previously, under IAS 39, impairments of such assets were recognised in profit or loss, and gains and losses accumulated in reserves were recycled to profit or loss on disposal. There have been no historic impairments which need transferring to the equity investment reserve.

Historically, the equity investments were reported at cost as they were not quoted in an active market and that there was a significant range of possible fair value estimates and the possibilities of the various estimates could not be reliably measured. Upon transition to IFRS 9, the fair value gain of £3,795k has been attributed to the effective date of transition and presented in the statement of changes in equity. No historic revaluation gains have required transfer either.

The impairment provision on financial assets measured at amortised costs (such as trade and other receivables) have been reviewed in accordance with IFRS 9's expected loss model. There is no material increase in provision which would result in an adjustment to be raised upon transition.

The Group has chosen not to restate comparatives on the adoption of IFRS 9 and, therefore, the change on equity investments has been processed at the date of initial application (i.e. 1 January 2018), and presented in the statement of changes in equity for the year ended 31 December 2018. The Group's opening retained earnings increased by £3,795k due to transition to IFRS 9, all of which is due to new rules for classification and measurement.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 has replaced IAS 18 Revenue and IAS 11 Construction Contracts as well as various interpretations previously issued by the IFRS Interpretations Committee.

A portion of the Group's revenue is derived from service provision, but the contracts stipulate the work in clearly defined sub projects. The service revenue is immaterial and point of recognition did not change under IFRS 15.

2. ACCOUNTING POLICIES continued

Accounting developments

Management are currently assessing the impact of the new standards, interpretations and amendments, which are effective for periods beginning after 1 January 2019 and which have not been adopted early.

IFRS 16 (Leases) – IFRS 16 is effective for annual periods beginning on or after 1 January 2019. The standard establishes principles for the recognition, measurement, presentation and disclosure of leases and expands the use of the right-of-use asset and corresponding lease liability.

For leases currently classified as operating leases, under current accounting requirements the group does not recognise related assets or liabilities, and instead spreads the lease payments on a straight-line basis over the lease term, disclosing in its annual financial statements the total commitment.

As there is only one long term lease expected from 1 January 2019, the Group has decided it will apply the modified retrospective approach in IFRS 16, and therefore will only recognise leases on balance sheet as at 1 January 2019. In addition, it has decided to measure right-of-use assets by reference to the measurement of the lease liability on that date. This will ensure there is no immediate impact to net assets on that date. At 31 December 2018 operating lease commitments amounted to £521k, which is not expected to be materially different to the anticipated position on 31 December 2019. Assuming the Group's lease commitments remain at this level, the effect of discounting those commitments is anticipated to result in right-of-use assets and lease liabilities of approximately £395k being recognised on 1 January 2019.

Instead of recognising an operating expense for its operating lease payments, the Group will instead recognise interest on its lease liabilities and amortisation on its right-of-use assets. This will increase the reported total loss for the year by the amount of its current operating lease cost, which for the year ended 31 December 2018 was £521k. Due to the short terms of the Group's leases, approximately there will only be a nominal charge to interest of approximately £31k with the rest of the charge being recognised as amortisation.

The Group does not expect any other standards issued by the IASB, but not yet effective, to have a material impact on the group.

3. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

The Directors make judgements and estimates concerning the future. Estimates and judgements are continually evaluated and are based on historical experience and other factors, such as expectations of future events, and are believed to be reasonable under the circumstances. Actual results could differ from these estimates.

The most significant judgements related to the going concern assumption (see note 2).

The estimates and assumptions that have the most significant effects on the carrying amounts of the assets and liabilities in the financial statements are discussed below.

Valuation of unquoted equity investments
The fair value of unlisted securities is established using International Private Equity and Venture Capital Valuation Guidelines (IPEVCVG). Given the nature of the Group's investments in seed, start-up and early-stage companies, where there are often no current and no short-term future earnings or positive cash flows, it can be difficult to gauge the probability and financial impact of the success or failure of development or research activities and to make reliable cash flow forecasts.

The Group considers that fair value estimates that are based entirely on observable market data will be of greater reliability than those based on assumptions and accordingly where there has been any recent investment by third parties, the price of that investment will generally provide a basis of the valuation. Consequently, the most appropriate approach to determine fair value is a methodology that is based on market data.

The equity investments were not quoted in an active market at year end and fair value had been established initially at transition using inputs from other than quoted prices that are observable; i.e. the price of recent investments by third parties during February and August 2018. PDS raised over a number of separate share issues $1.2m all at the same valuation per share, the fundraise was restricted to a small group of sophisticated investors. At the time this was the only observable valuation on which to value PDS.

The fair value at year end was based on new information that came available as part of the merger discussions with Edge Therapeutics which was first announced to the market on 26 November 2018. Under the exchange ratio formula in the merger agreement, immediately following the merger the former PDS shareholders will own 70% of the combined company and existing Edge shareholders will own 30% of the combined company. Given the likelihood that the merger would go through this was deemed the best and most reliable manner and methodology by which to derive the value of the investment in the unlisted PDS, by using the listed share price of Edge Therapeutics, Inc. as at balance sheet date as a proxy to value PDS. On the 18th March 2019 PDS announced the closing of its merger with Edge Therapeutics, Inc. following the approval of Edge stockholders on 14th March 2019. Going forward the fair value of the merged PDS which is now listed on the Nasdaq will be more reliable as will be based on Class 1 information.

If the fair value of the equity investment were to decrease by 50%, the net assets figure would decrease by £1,190k with a corresponding increase if the inputs were to increase by 50%.

4. SEGMENTAL REPORTING

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, for which separate financial information is available and whose operating results are evaluated by the Chief Operating Decision Maker to assess performance and determine the allocation of resources. The Chief Operating Decision Maker has been identified as the Board of Directors.

The Directors are of the opinion that, whilst each subsidiary (the operations of which are described in the Portfolio Companies section of the Strategic Report) meets the definition of an operating segment, they can be aggregated into one single reportable segment as they share similar economic characteristics. Each subsidiary is engaged in the development of intellectual property and are largely pre-revenue. The Board of Directors assess the performance of the operating segment using financial information which is measured and presented in a manner consistent with that in the financial statements.

5. EMPLOYEES AND DIRECTORS

The average number of persons (including executive Directors) employed by the Group during the year was:

	2018 Number	2017 Number
Central Group functions *	**6**	8
Research and development and Engineering	**17**	23
Sales and other	**7**	10
	30	41

* Central Group functions comprise general management, investment, finance, human resources and marketing.

Their aggregate remuneration (including non-executive Directors) comprised:

	2018 £000's	2017 £000's
Wages and salaries	**3,350**	4,468
Social security costs	**308**	360
Share-based payment charge	**106**	208
Pension costs	**63**	110
	3,827	5,146

The Group makes pension contributions for certain employees into money purchase schemes. The total expense relating to these plans in current year was £63k (2017: £110k). There were outstanding contributions at the end of the financial year of £1k (2017: £Nil).

The aggregate remuneration of key management comprised:

	2018 £000's	2017 £000's
Wages and salaries	**534**	536
Social security costs	**71**	72
Share-based payment charge	**99**	121
Pension costs	**34**	33
Benefits in kind	**12**	7
	750	769

6. OTHER COSTS

	2018 £000's	2017 £000's
Fair value movement on convertible debt in the current year	**230**	-
Impairment charge on convertible debt	**-**	306
Merger and acquisition costs	**667**	-
Share-based payments (note 27)	**132**	166
	1,029	472

During the year, the Group incurred transaction fees of £667k (2017: £nil) payable to lawyers and brokers for exploring potential merger and acquisition opportunities.

7. FINANCE INCOME

	2018 £000's	2017 £000's
Interest income arising from:		
Cash and cash equivalents	**23**	12
Loans	**24**	31
	47	43

8. FINANCE EXPENSE

	2018 £000's	2017 £000's
Interest payable on loans	**12**	11

9. LOSS FROM CONTINUING OPERATIONS

The loss before income tax is stated after charging:

	2018 £000's	2017 £000's
Depreciation of property, plant and equipment (see note 13)	**262**	221
Loss on disposal of plant, property and equipment	**24**	3
Fair value movement during the year on convertible debts (see note 6)	**230**	306
Operating lease charges:		
- land and buildings	**702**	684
Net foreign exchange losses	**5**	4
Fees payable to the Company's auditor for the audit of the Company's financial statements	**8**	8
Audit of the Company's subsidiaries pursuant to legislation	**57**	39
Fees payable to the Company's auditors for other services:		
- Tax compliance services	**-**	-
- Tax advisory services	**-**	-
- Audit related services	**21**	14

10. TAXATION

Analysis of tax credit / (charge)	**2018 £000's**	2017 £000's
Current tax:		
UK research and development tax credit	**73**	96
UK research and development tax credit in respect of prior years	**-**	88
UK tax credit in respect of prior year	**-**	18
Income tax credit on current year loss	**73**	202
Total income tax credit in the Consolidated Income Statement	**73**	202

Factors affecting the tax expense

The tax credit on the Group's loss before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to the losses of the consolidated entities as follows:

	2018 £000's	2017 £000's
Loss before taxation from continuing operations	**(4,071)**	(3,420)
Tax at domestic rates applicable to losses in the respective countries 33.24% (2017: 28.32%)	**1,353**	969
Effects of:		
Expenses not deductible for tax purposes	**(875)**	(335)
Additional deduction for R&D expenditure	**45**	-
Adjustments in respect of prior period	**(13)**	106
Capitalisation and amortisation of R&D in US – Timing difference	**(43)**	(207)
Loan interest tax deductible upon payment – Timing difference	**(26)**	(27)
Loan provision – Timing difference	**(80)**	-
Unutilised tax losses arising in the period	**(559)**	(304)
Rate change on deferred tax	**33**	-
Utilisation of unrecognised tax losses	**238**	-
Deferred tax not recognised	**-**	-
Income tax credit / (charge)	**73**	202
Total income tax credit / (charge) in the Consolidated Income Statement	**73**	202

Tax effects relating to effects of other comprehensive income

There are tax losses available to carry forward against future trading profits from continuing operations of approximately £11,322k (2017: £32,997k). A deferred tax asset in respect of these losses of approximately £1,925k (2017: £8,492k) has not been recognised in the accounts, as the utilisation of these losses in the foreseeable future is uncertain. Deferred tax assets of approximately £4,366k and £1,019k relating to R&D costs capitalised for tax purposes and accrued loan interest respectively have not been recognised in the accounts as the utilisation of these assets in the foreseeable future is uncertain. The R&D capitalised cost will transfer to unutilised tax losses over a period of 15 years and the loan interest will transfer to unutilised tax losses upon settlement of the accrued interest.

11. DISCONTINUED OPERATIONS

In the current year subsidiaries Vortex Biosciences, Inc. and Wanda, Inc. have been classified as held for sale, and classed as discontinued operations. The results of the discontinued operations, which have been included in the consolidated income statement, were as follows. 2017 comparatives numbers have been restated for consistency to classify Vortex and Wanda as discontinued operations

Post balance sheet date on the 22 March 2019 the Company completed the sale of its interests in Vortex and Wanda, together with outstanding loans and convertible loan notes owed by Wanda or Vortex to Deeptech for cash proceeds of £150k.

	Year ended 2018 £000's	Year ended 2017 £000's
Revenue	**95**	215
Cost of sales	**(45)**	(166)
Gross profit	**50**	49
Other Income	**108**	-
Research and development costs	**(2,326)**	(4,179)
General and administrative costs	**(2,286)**	(1,986)
Other costs	**26**	(44)
Impairment charges	**(977)**	-
Loss from operations	**(5,405)**	(6,160)
Share of loss of associate	**-**	(45)
Gain on sale of associate	**-**	1,026
Loss before taxation	**(5,405)**	(5,179)
Attributable tax credit	**-**	-
Loss after tax	**(5,405)**	(5,179)
Loss from sale of discontinued operations after tax	**-**	-
Loss for the year	**(5,405)**	(5,179)

The major classes of assets and liabilities comprising the operations of subsidiaries held for sale in the current year:

	2018 £000's	**2017 £000's**
Net assets/(liabilities) held for sale		
Property, plant and equipment	-	687
Trade and other receivables	164	222
Cash and cash equivalents	405	160
Total assets	569	1,069
Trade and other payables	(158)	(437)
Total liabilities	(158)	(437)
Net assets / (liabilities)	**412**	**632**

11. DISCONTINUED OPERATIONS continued

Cash flows from subsidiaries held for sale	**31 December 2018 £000's**	31 December 2017 £000's
Net cash used in operating activities	**(5,103)**	(6,944)
Net cash used on investing activities	**(98)**	922
Net decrease in cash and cash equivalents	**(5,201)**	(6,022)
Cash and cash equivalents at beginning of year	**160**	141
Payments to subsidiaries by Group companies	**5,423**	6,057
Exchange gains on cash and cash equivalents	**23**	(16)
Cash and cash equivalents at end of year	**405**	160

12. LOSS PER SHARE

The basic and diluted loss per share is calculated by dividing the loss for the financial year by the weighted average number of ordinary shares in issue during the year. Potential ordinary shares from outstanding options at 31 December 2018 of 2,287,550 (2017: 1,812,257) (see note 27) are not treated as dilutive as the entity is loss making.

	2018 £000's	2017 £000's
Loss attributable to equity holders of the Company		
Continuing operations	**3,648**	3,832
Discontinued operations	**4,680**	4,486
Total	**8,328**	8,318
Number of shares		
Weighted average number of ordinary shares in issue	**75,796,048**	61,016,509

13. PROPERTY, PLANT AND EQUIPMENT

	Leasehold Improvement £000's	Furniture, fittings and equipment £000's	Plant and machinery £000's	Totals £000's
Cost				
At 1 January 2017	100	176	773	1,049
Exchange adjustments	-	(15)	(81)	(96)
Additions	-	37	362	399
Disposals	-	(8)	-	(8)
At 31 December 2017	100	190	1,054	1,344
Exchange adjustments	-	10	61	71
Additions	-	24	88	112
Disposals	-	(50)	(4)	(54)
At 31 December 2018	100	174	1,199	1,473
Depreciation				
At 1 January 2017	3	57	210	270
Exchange adjustments	-	(7)	(28)	(35)
Charge for the year	9	39	173	221
Disposals	-	(3)	-	(3)
At 31 December 2017	12	86	355	453
Exchange adjustments	-	9	55	64
Charge for the year	10	44	208	262
Impairment charge during the year	-	51	504	555
Disposals	-	(27)	(3)	(30)
At 31 December 2018	22	163	1,119	1304
Net book value				
At 31 December 2018	**78**	**11**	**80**	**169**
At 31 December 2017	88	104	699	891

(i) Leasehold improvements of £100k are funded by a loan.

(ii) During the year the property plant and equipment of Vortex and Wanda were impaired down to £nil due to non-recoverability. The impairment charge totalled £555k (2017: £Nil). This was made up of furniture, fittings and equipment £51k (2017: £Nil) and plant and machinery £504k (2017: £Nil).

14. INVESTMENTS IN SUBSIDIARY UNDERTAKINGS

14(a) Subsidiaries

The Group had the following subsidiaries at 31 December 2018:

Name	Primary trading address	Country of incorporation or registration	**Proportion of ownership interest at 31 December 2018**	Proportion of ownership interest at 31 December 2017	**Proportion of ownership interest held by non-controlling interests at 31 December 2018**	Proportion of ownership interest held by non-controlling Interests at 31 December 2017
NetScientific UK Limited	(a)	UK	**100%**	100%	**-**	-
ProAxsis Ltd *	(b)	UK	**56.5%**	56.5%	**43.5%**	43.5%
Healthbox Israel LLP * (ii)	(g)	UK	**-**	50%	**-**	50%
IsraelScientific Ltd * (iii)	(a)	UK	**-**	100%	**-**	-
NetScientific America, Inc.	I	USA	**100%**	100%	**-**	-
Vortex BioSciences, Inc. (i)	(d)	USA	**95%**	95%	**5%**	5%
Wanda, Inc. ** (i), (iv)	(e)	USA	**70.8%**	70.8%	**29.2%**	29.2%
Glycotest, Inc. ** (i)	(f)	USA	**87.5%**	87.5%	**12.5%**	12.5%

For all undertakings listed above, the country of operation is the same as its country of incorporation or registration.

* Held via an intermediate holding company.
** Sold to Deeptech in March 2019, a SPV of EMV Capita Ltd for total consideration of £150k.

All of the ownerships shown above relate to ordinary shareholdings.

(i) Options have been issued by ProAxsis Ltd, Vortex BioSciences, Inc., Wanda, Inc. and Glycotest, Inc. which if exercised would dilute the Company’s shareholding by 3%, 29%, 16% and 21% respectively.
(ii) A Deed of Termination was entered into as of 14 November 2017, with the company dissolved on 13 August 2018.
(iii) A Deed of Termination was entered into as of 7 August 2018, with the company dissolved two months later in 2018.
(iv) Following issue of further shares during the year the Group’s interest was reduced to 70.8% on 1 May 2017.

(a) Anglo House, Bell Lane Office Village, Bell Lane, Amersham, Buckinghamshire, HP6 6FA.
(b) Unit 1B, Concourse Building, 3, Catalyst Inc, Titanic Quarter, 6 Queens Road, Belfast, BT3 9DT, Northern Ireland.
(c) 1650 Market Street, Suite 4900, Philadelphia, Pennsylvania, 19103-7300, United States of America.
(d) 1505 O’Brien Drive, Suite C, Menlo Park, CA 94025, United States of America.
(e) 350 Sansome Street, Unit 800, San Francisco, CA 94104, United States of America.
(f) 77 Water Street, Suite 817, New York, NY 10005, United States of America.
(g) Ground Floor, Bury House, 31 Bury Street, London, England, EC3A 5AR

The addresses listed above are also the registered offices of the relevant entities.

14. INVESTMENTS IN SUBSIDIARY UNDERTAKINGS continued

14(b) Non-controlling interests

The total non-controlling interest at 31 December 2018 is £5,935k (2017: £4,573k), of which £3,299k (2017: £2,608k) is for Wanda, Inc., £1,123k (2017: £831k) for Vortex BioSciences, Inc., £993k (2017: £741k) for ProAxsis, and £520k (2017: 393k) for Glycotest, Inc.

Set out below is the summarised financial information for Wanda, Inc. and Vortex BioSciences, Inc. which have non-controlling interests that are material to the Group:

Summarised balance sheet

	Wanda, Inc. As at 31 December		**Vortex BioSciences, Inc. As at 31 December**	
	2018	2017	**2018**	2017
	£000's	£000's	**£000's**	£000's
Assets				
Non-current assets	**-**	27	**-**	660
Current assets	**200**	72	**370**	310
Total assets	**200**	99	**370**	970
Liabilities				
Current liabilities	**(11,414)**	(9,045)	**(22,824)**	(17,594)
Total liabilities	**(11,414)**	(9,045)	**(22,824)**	(17,594)
Net liabilities	**(11,214)**	(8,946)	**(22,454)**	(16,624)
Non-controlling interests	**(3,299)**	(2,608)	**(1,123)**	(831)

Summarised statement of comprehensive income

	Wanda, Inc. For the year ended 31 December		**Vortex BioSciences, Inc. For the year ended 31 December**	
	2018	2017	**2018**	2017
	£000's	£000's	**£000's**	£000's
Revenue	**81**	110	**14**	105
Loss for the year before and after taxation	**(1,713)**	(1,303)	**(4,511)**	(4,960)
Total comprehensive loss for the year	**(1,713)**	(1,303)	**(4,511)**	(4,960)
Total comprehensive loss attributable to non-controlling interests	**(499)**	(379)	**(227)**	(246)

14. INVESTMENTS IN SUBSIDIARY UNDERTAKINGS continued

14(b) Non-controlling interests continued

Summarised cash flows

		Wanda, Inc.		Vortex BioSciences, Inc.
	31 December 2018 £000's	31 December 2017 £000's	**31 December 2018 £000's**	31 December 2017 £000's
Net cash used in operating activities	**(1,494)**	(2,128)	**(3,609)**	(4,816)
Net cash received in investing activities	**(19)**	1,313	**(79)**	(391)
Net cash inflows from financing activities	**1,610**	743	**3,813**	5,314
Net decrease in cash and cash equivalents	**97**	(72)	**125**	107
Cash and cash equivalents at beginning of year	**14**	92	**146**	49
Exchange gain/(losses) on cash and cash equivalents	**6**	(6)	**17**	(10)
Cash and cash equivalents at end of year	**117**	14	**288**	146

The information above is the amount before inter-company eliminations.

15. INVESTMENTS IN ASSOCIATE

The losses recognised in the income statement in respect of associate are as follows:

	2018 £000's	2017 £000's
Associate	-	45
	-	45

15(a) Investments in Associate

	2018 OncoVerse LLC £000's	2017 OncoVerse LLC £000's
At 1 January	-	357
Exchange movement	-	(20)
Loss after tax recognised in the consolidated income statement	-	(45)
	-	292
Consideration on disposal of interest	-	(1,477)
Cost incurred on disposal of interest	-	167
Exchange movement	-	(8)
Gain on disposal after tax recognised in the consolidated income statement	-	1,026
At 31 December	-	-

On 20 April 2017, the Groups subsidiary company Wanda, Inc. disposed of its entire holding of 35.9% in OncoVerse LLC, a San Francisco based digital health company.

15. INVESTMENTS IN ASSOCIATE continued

15(a) Investments in Associate continued

Set out below is the summarised financial information of OncoVerse LLC which has been accounted for using the equity method.

Summarised statement of comprehensive income	OncoVerse LLC 2018 £000's	OncoVerse LLC 1 January to 20 April 2017 (i) £000's
Loss for the period before and after taxation	-	(130)
Total comprehensive loss for the period	-	(130)

(i) For the period to 20 April 2017, when the Group disposed of its interest.

16. EQUITY INVESTMENTS CLASSIFIED AS FVTOCI

Represent unquoted equity securities classified as FVTOCI

	2018	2017
	£000's	£000's
At 1 January under IAS 39	**2,863**	2,863
Change in fair value on initial application of IFRS 9	**3,744**	-
Change in fair value during the year	**(3,839)**	-
At 31 December	**2,768**	2,863

Name	Country of incorporation	% of issued share capital	Currency denomination	£000's
PDS Biotechnology Corporation	USA	9.12%	US$	2,380
CytoVale, Inc.	USA	1.41%	US$	388
Other				-
				2,768

Historically, the equity investments were reported at cost as they were not quoted in an active market and that there was a significant range of possible fair value estimates and the possibilities of the various estimates could not be reliably measured. Upon transition to IFRS 9, the fair value gain of £3,744k has been attributed to the effective date of transition and presented in the statement of changes in equity. Of the £3,744k increase in fair value, £3,518k is represented by PDS. Between February and August 2018, PDS raised $1,150k over a number of separate share issues and at the same valuation per share. The fundraise was restricted to a small group of sophisticated investors.

The fair value at year end was derived from the listed entity Edge Therapeutics, Inc. and using its share price as a proxy to value PDS. On the 18 March 2019 PDS announced the closing of its merger with Edge Therapeutics, Inc. following the approval of Edge stockholders on 14 March 2019.

In November 2018 PDS Biotechnology entered into merger agreement with Edge Therapeutics, which completed on 14 March 2019, to form a Nasdaq-Listed Clinical-Stage Cancer Immunotherapy company. The merger creates a publicly-traded immune-oncology biotechnology company developing novel products treating early-and late-stage cancer. This follows phase I & 2 clinical data on lead product candidate PDS0101 which suggested immunotherapeutic anti-cancer activity and favourable safety profile in early stage cervical cancer. The new Company plans to initiate multiple phase 2b & 3 clinical trials of PDS0101 in HPV-associated cancers.

The share price of Edge Therapeutics as at balance sheet date has been used to re-value the Group's equity holding in PDS Biotechnology. The Company's ownership of the enlarged PDS Biotechnology Corporation, trading on Nasdaq under the ticker PDSB, on a fully-diluted basis is 8.15%, which at the latest listing price on 1 May 2019 of $5.93 values NetScientific's holding in PDS at £2,460k. At year end PDS the Group's interest on a fully diluted basis was 9.12% (2017: 17.1%) and was valued at £2,380k. It is the Company's intention to hold the shares and to make a decision on its position in due course. The Group's interest in PDS Biotechnology is non-controlling.

If the fair value of the investment and derivative financial assets were to decrease by 50%, the net assets figure would decrease by £1.2m with a corresponding increase if the inputs were to increase by 50%.

17. DERIVATIVE FINANCIAL ASSETS

Warrants classified as FVTOCI	2018 £000's	2017 £000's
Balance at 1 January under IAS 39	**18**	18
Change in fair value on initial application of IFRS 9	**51**	-
Change in fair value during the year	**(25)**	-
Balance at 31 December	**44**	18

The warrant has been previously valued using the Black-Scholes Model and a level 3 fair value hierarchy, given the unobservable data for volatility and its fair value. These warrants may be exercised at any time prior to May 2021.

18. INVENTORY

	2018 £000's	2017 £000's
Raw materials and consumables	**37**	26
Finished products	**-**	60
	37	86

Inventories are held at net realisable value. Finished products constitute VTX-1 machines and ProteaseTag active neutrophil elastase immunoassay kits.

During the year the Inventory of Vortex was impaired down to £nil. The impairment charge totalled £346k (2017: £Nil).

19. TRADE AND OTHER RECEIVABLES

	2018 £000's	2017 £000's
Current:		
Trade receivables	**88**	73
Taxation	**73**	207
Other receivables	**182**	142
Convertible debt - FVTPL	**253**	442
Prepayments	**242**	108
Accrued income	**24**	42
Re-classified to current assets held for sale (note 11)	**(164)**	-
	698	1,014
Non-current: other receivables	**-**	33
Aggregate amounts	**698**	1,047

The carrying value of trade and other receivables classified at amortised cost approximates fair value.

The Group does not hold any collateral as security against any trade and other receivables.

The Group applies the IFRS 9 simplified approach to measuring expected credit losses using a lifetime expected credit loss provision for trade receivables. To measure expected credit losses on a collective basis, trade receivables are grouped based on similar credit risk and aging. The expected loss rates are based on the Group's forward-looking information as well as historical credit losses experienced over the three-year period prior to the period end.

The main factors considered by the Risk Management Committee in determining the lifetime expected credit losses are that the customers are unlikely to be able to recommence trading for some time, the debts are two months or more past due.

At 31 December 2018 a breakdown of the gross carrying amounts and the impairments charge is as follows:

£000's	Current	More than 30 days past due	More than 60 days past due	Total
Gross carrying amount	72	35	57	164
Loss rate	10%	33%	100%	46%
Impairment charge	(7)	(12)	(57)	76
Trade Receivables	65	23	-	88

There has been no material movement in the provision.

20. TRADE AND OTHER PAYABLES

	2018 **£000's**	2017 £000's
Current:		
Trade payables	**198**	233
Other payables	**22**	21
Accruals	**606**	490
Deferred income	**-**	33
Re-classified to current liabilities held for sale (note 11)	**(158)**	-
	668	777

The carrying value of trade and other payables classified as financial liabilities measured at amortised cost approximates fair value.

21. LOANS AND BORROWINGS

	2018 **£000's**	2017 £000's
Total falling due within one year	**140**	128
Total falling due after more than one year	**60**	70
Total	**200**	198
The maturity of the loans are as follows:		
Amounts falling due within one year on demand	**140**	128
Amounts falling due between one and two years	**10**	10
Amounts falling due between two and five years	**40**	40
Amounts falling due over five years	**10**	20

Loans and borrowings represent:

An unsecured loan note of £100k has been issued by a UK subsidiary, of which £70k is outstanding as at 31 December 2018 (2017: £80k). There is no interest charged and is payable in equal instalments of £10k. First instalment upon signing of document and then equally over nine years.

An unsecured convertible loan note for £100k plus accrued interest of £30k has been issued by a UK subsidiary. The loan note carries an interest rate of 10% per annum, which is compounded annually. The loan note is able to be repaid at any time by the UK subsidiary and is repayable on demand by the noteholder. The loan note is convertible to equity upon certain events taking place at the election of the noteholder.

In the opinion of the Directors, it is materially correct to recognise these instruments at amortised cost based on their nominal value and therefore no element has been reallocated as equity.

22. CALLED UP SHARE CAPITAL

Authorised, issued and fully paid:	**2018** **£000's**	2017 £000's
78,561,866 ordinary shares of 5p each (2017: 69,038,057 of 5p each)	**3,928**	3,452

On 17 April 2018, the Company issued 9,523,809 of 5p ordinary shares at 52.5p per share respectively, raising net funds of £4,643k. On 12 June 2017, the Company issued 17,962,362 of 5p ordinary shares at 45p per share respectively, raising net funds of £7,504k.

Details of share options can be found in note 27. The Group has no legal or constructive obligation to repurchase or settle the options in cash.

23. CAPITAL AND RESERVES

Share capital
Share capital represents the nominal value of shares issued.

Share premium account
Share premium represents amounts subscribed for share capital in excess of nominal value less the related costs of shares issued.

Capital reserve account
Capital reserve represents the waiver of loan interest on conversion of the loans provided by the Group into ordinary shares.

Equity investment reserve account
Equity investment reserve is used to record the cumulative net gains and losses in fair value of unquoted equity securities classified as fair value through other comprehensive income under IFRS 9.

Foreign exchange reserve
The foreign exchange reserve is used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries of the Group.

Retained earnings
Retained earnings are in deficit and represent cumulative net gains and losses recognised in the consolidated statement of comprehensive income adjusted for cumulative share-based payments.

24. FINANCIAL INSTRUMENTS

	2018 £000's	2017 £000's
Financial assets measured at amortised cost	**293**	290
Financial assets measured at fair value through profit or loss (note 19)	**253**	442
Financial assets measured at fair value through other comprehensive income (note 16 and 17)	**2,812**	2,881
Financial liabilities measured at amortised cost	**(1,026)**	(942)

Financial assets measured at amortised cost comprise trade receivables, other receivables and accrued income.

Financial assets measured at fair value through profit or loss comprises of convertible debt.

Financial liabilities measured at amortised cost comprise trade payables, other payables, accruals and loans and borrowings.

The carrying values of the assets and liabilities detailed above are considered to represent a reasonable approximation of their fair value.

Currency risk
During the year under review, the Group was exposed to US dollar exposure as a significant amount of its research and development expenditure is denominated in this currency. The Group holds some of its cash in US dollars to reduce its exposure to movements in exchange rates.

The currency and interest rate exposure of the Group's borrowings is shown below.

	Total £000's	Floating borrowings £000's	Fixed borrowings £000's	Weighted average interest rate %
As at 31 December 2018				
Sterling	130	-	130	10%
Sterling	70	-	70	0%
	200	**-**	**200**	**7%**
As at 31 December 2017				
Sterling	118	-	118	10%
Sterling	80	-	80	0%
	198	-	198	6%

The interest rate is fixed for the duration of the loans.

Interest rate and currency of cash balances
Floating rate financial assets of £3,316k (2017: £6,868k) comprises sterling £1,030k (2017: £3,882k) and US dollar US$2,917k (2017: US$4,054k) cash deposits with the banks current accounts. Interest receivable for the year ended 31 December 2018 was £23k (2017: £12k).

Interest rate and currency of loans
The Group has purchased loan notes totalling US$1,100k (2017: US$1,100k) which have accrued interest of US$211k (2017: US$178k). The interest rate on loan notes totalling US$850k is fixed at 6% and on loan notes for US$250k the rate is 7%. The loan notes are not part of Cash and Cash Equivalents.

24. FINANCIAL INSTRUMENTS continued

Currency exposure
The exposures comprise the monetary assets and liabilities of the Group that are not denominated in the operating or 'functional' currency of the operating unit involved.

If GBP weakened by 10% against USD, with all other variables held constant, the following movements would be seen in balances:

	2018	2017
	£000's	£000's
Cash balances	208	271
Trade receivables	1	1
Other receivables	32	51
Trade payables	(7)	(18)
Other payables	(2)	(2)
Accruals	(26)	(32)

Undrawn bank facilities
The Group does not have in place any undrawn committed bank borrowing facilities available to it.

Credit risk
The Group follows a risk-averse policy of treasury management. Sterling and US dollar cash balances are held with reputable financial institutions to minimise credit risk. The Group's primary treasury objective is to minimise exposure to potential capital losses whilst at the same time securing prevailing market rates. Additionally, the Group has borrowings in Sterling. Credit risk attributable to trade and other receivables is detailed below. The carrying amount of these assets represents the maximum credit exposure:

	2018	2017
	£000's	£000's
Trade receivables	**88**	73
Other receivables	**182**	142
Derivative financial assets (convertible loans)	**253**	442
	523	657

The derivative financial assets are all net settled; therefore, the maximum exposure to credit risk at the reporting date is the fair value of the derivative assets which are included in the consolidated statement of financial position.

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Group is mainly exposed to credit risk from credit sales. It is Group policy, implemented locally, to assess the credit risk of new customers before entering contracts. Such credit ratings are taken into account by local business practices.

Each business establishes a credit policy under which each new customer is analysed individually for creditworthiness before standard payment and delivery terms and conditions are offered. The Group's review includes external ratings, when available, and in some cases bank references. Purchase limits are established for each customer.

The Risk Management Committee determines concentrations of credit risk by monitoring the creditworthiness rating of existing customers and through a monthly review of the trade receivables' ageing analysis. In monitoring the customers' credit risk, customers are grouped according to their credit characteristics. Customers that are graded as "high risk" are placed on a restricted customer list, and future credit sales are made only with approval of the Risk Management Committee, otherwise payment in advance is required.

24. FINANCIAL INSTRUMENTS continued

Interest rate risk
The Group's cash held at bank is subject to the risk of fluctuating base rates. The interest rate on US dollar purchase loan notes is fixed. The Group has sterling fixed rate borrowings, see note 21 and below for profile of maturities.

Capital risk management
The Group is funded primarily by equity finance and has some short-term borrowings. Management regard the capital structure of the Company to consist of all elements of invested capital and non-controlling interests.

Liquidity Risk
The Group's policy is to maintain adequate cash resources to meet liabilities as they fall due. Cash balances are placed on deposit for varying periods with reputable banking institutions to ensure there is limited risk of capital loss. The Group does not maintain an overdraft facility. Cash flow forecasts are used to facilitate the management of cash resources. The following table shows the contractual maturities of the Group's financial liabilities, all of which are measured at amortised cost:

	2018 £000's	2017 £000's
1 year or less		
Trade payables	**198**	186
Other payables	**22**	21
Accruals	**606**	537
Loans and borrowings	**140**	128
Total	**966**	872
1-2 years		
Loans and borrowings	**10**	10
Total	**10**	10
2-5 years		
Loans and borrowings	**40**	40
Total	**40**	40
Over 5 years		
Loans and borrowings	**10**	20
Total	**10**	20

25. CONTINGENT LIABILITIES

There are no contingent liabilities in the current and prior year.

26. COMMITMENTS

Operating lease commitments
At 31 December 2018, the Group had the following future value of minimum lease payments due as set out below:

	Land and buildings	
	2018	2017
	£000's	£000's
Within one year	**144**	368
In the second to fifth years inclusive	**274**	166
In the sixth to tenth year inclusive	**104**	142

27. SHARE-BASED PAYMENTS

The Group operates an equity settled share option scheme for certain Directors and employees of the Group. Options are exercisable at a price defined by the individual option agreement. The vesting period varies according to the individual employment contract. If the options remain unexercised during the specified period from the date of grant, the options expire. Options are generally forfeited if the employee leaves the Group before the options vest; however, this is at the discretion of the Board.

Total options existing over 5p ordinary shares in the Company as of 31 December 2018 are summarised below:

Date of Grant	Restated Number of shares at 1 January 2018	Granted during the year	Lapsed during the year	**Number of shares as at 31 December 2018**	Note	Exercise price	Date of expiry *
September 2013	2,373,631	-	-	**2,373,631**	1	£1.60	September 2023
January 2014	-	-	-	**-**	2	£1.60	January 2024
November 2015	424,847	-	(15,827)	**409,020**	4	£1.195	November 2025
February 2016	208,880	-	(8,880)	**200,000**	3	£0.862	February 2026
June 2016	260,000	-	-	**260,000**	3	£0.797	June 2026
January 2017	380,000	-	-	**380,000**	3	£0.655	January 2027
June 2018	-	500,000	-	**500,000**	5	£0.455	June 2028
	3,647,358	500,000	(24,707)	**4,122,651**			

* All options lapse in full if they are not exercised by the date of expiry.

1. Options were granted on 16 September 2013, the date of the Company's Admission to AIM. The vesting terms were one third on date of grant, the next third on the first anniversary of the date of Admission and the final third on the second anniversary of the date of Admission.
2. Options vest at the rate of one third per year commencing one year after the date of grant.
3. Options vest in three years after the date of grant.
4. 50,000 options vested on 30 January 2018 and 359,020 options vest on 8 June 2018.
5. Options vest in three years after the date of grant.

27. SHARE-BASED PAYMENTS continued

Movement in the number of share options outstanding are as follows:

	2018 Weighted average exercise price £	**2018 Number**	2017 Weighted average exercise price £	2017 Number
Outstanding at 1 January	**1.35**	**3,647,358**	1.44	3,412,324
Granted during the year	**0.46**	**500,000**	0.66	380,000
Lapsed during the year	**1.08**	**(24,707)**	1.50	(144,966)
Outstanding at 31 December	**1.25**	**4,122,651**	1.35	3,647,358

	2018 Weighted average exercise price £	**2018 Number**	2017 Weighted average exercise price £	2017 Number
Amounts exercisable at 31 December	**1.54**	**2,782,651**	1.598	2,389,458

Fair value charge

The fair value charge for the share options have been based on the Black-Scholes model with the following key assumptions:

Date of Grant	**Exercise price £**	**Share price at date of grant £**	**Risk free rate %**	**Assumed time to exercise Years**	**Assumed volatility %**	**Fair value per option £**
2018						
June 2018	0.455	0.455	0.87	4	40%	0.15
2017						
January 2017	0.665	0.665	0.54	4	40%	0.21

No dividends are assumed. The risk-free rate is taken from the yield on zero coupon UK government bonds on a term consistent with the expected life. Assumed volatility is based on a review of comparators and analysis of movements to the share price since the Company's listing.

The Group did not enter into any share-based payment transactions with parties other than Directors or employees during the current or previous year.

The total charge for the year in respect of continuing operations share-based payments for share options granted to Directors and employees was £132k (2017: £166k) (see note 6). £(2)k (2017: £72k) of this sum represents the share-based charge on options granted by subsidiary entities. The charge in respect of discontinued operations held for sale was £26k (2017: £42k).

28. RELATED PARTY DISCLOSURES

An interest free loan of £10k has been extended to Francois Martelet, the Chief Executive Officer of the Group of which £5k has been repaid during the year. The balance outstanding as at 31 December 2018 is £5k.

Melvin Lawson, who is interested in 29.98% of the issued share capital of NetScientific, is also the principal provider of finance to the EMV Capital Ltd SPV Deeptech. Accordingly, the sale of subsidiaries Vortex and Wanda represents a related party transaction in accordance with AIM rule 13. The Company will utilise the proceeds of the sale towards its ongoing working capital requirements.

Except as noted above, there are no additional related party transactions that could have a material effect on the financial position or performance of the Group and of the Company during this financial period under review.

29. EVENTS AFTER THE REPORTING PERIOD

On the 15 January 2019 the Board formally closed the sales process that had commenced as part of the strategic review. The Board continues to assess all remaining open options.

On 11 February 2019 Wanda, Inc. a non-core portfolio company entered into a subscription and cancellation agreement to cancel the indebtedness and all obligations due under the Convertible Notes and the Intercompany debt for a total aggregate amount of indebtedness of $12.1m equivalent to £9.3m. NetScientific also subscribed under the agreement to purchase 14,609,538 shares of the Series A Preferred Stock for $2m equivalent to £1.5m.

On 14 February 2019 Glycotest Inc. a portfolio company received the initial $3m tranche of the $10m Series A financing round with Shanghai Fosun Pharmaceutical Co. Ltd., a leading healthcare group based in China.

On 1 March the General Meeting was adjourned as the special resolution to cancel the admission of the shares to trading on AIM, register the Company as a private limited company and amend the Company's Current Articles to reflect the Company's new status as a private limited company was likely to be defeated as the Company received proxy forms from shareholders representing 30.04% of the issued share capital of the Company instructing those shares to be voted against the proposed special resolution.

On the 18 March 2019 PDS Biotechnology Corp. announced the closing of its merger with Edge Therapeutics, Inc. following the approval of Edge stockholders on 14 March 2019. Following the merger, PDS Biotechnology Corporation trades on the Nasdaq Capital Market under the ticker "PDSB". The Company's ownership of the enlarged PDS Biotechnology Corp. on a fully-diluted basis is 8.15%, which at the listing price on 18 March 2019 of $10 values our holding in PDS at £4.1m. It is the Company's intention to hold the shares and to make a decision on its position in due course to maximise the return to shareholders.

On the 22 March 2019 after announcing on the 18 March it had resolved to effect the orderly wind up of Vortex Biosciences and Wanda Inc., it received a further approach from Deeptech Disruptive Growth Investments Ltd, an affiliated special purpose vehicle of EMV Capital Ltd, detailing revised terms regarding the potential disposal. Those revised terms addressed satisfactorily the Board's previous concerns regarding the timeline and execution risk relating to the potential disposal. As such, the Company completed the sale of its interests in Vortex and Wanda, together with outstanding loans and convertible loan notes owed by Wanda or Vortex to Deeptech for cash proceeds of £150k. Melvin Lawson, who is interested in 29.98% of the issued share capital of NetScientific, is also the principal provider of finance to the EMV Capital Ltd SPV Deeptech. Accordingly, the sale represents a related party transaction in accordance with AIM rule 13. The Company will utilise the proceeds of the sale towards its ongoing working capital requirements.

François R. Martelet, M.D has resigned as a Director on 30 April 2019. Ian Postlethwaite was appointed Chief Executive Officer effective from 1 May 2019.

30. ULTIMATE CONTROLLING PARTY

The Directors believe there to be no ultimate controlling party.

NETSCIENTIFIC PLC (REGISTERED NUMBER: 08026888)

PARENT COMPANY STATEMENT OF FINANCIAL POSITION

FOR THE YEAR ENDED 31 DECEMBER 2018

	Notes	**2018 £000's**	2017 £000's
Fixed assets			
Tangible assets	7	**8**	14
Investment in subsidiary undertakings	8	**-**	1,208
Other investments FVTOCI	9	**2,812**	2,880
Loans to subsidiary undertakings	10	**7,693**	29,461
Total non-current assets		**10,513**	33,563
Current assets			
Debtors: amounts falling due within one year	11	**164**	211
Cash at bank		**1,021**	3,779
Total current assets		**1,185**	3,990
Creditors			
Amounts falling due within one year	12	**(346)**	(138)
Net current assets		**839**	3,852
Net assets		**11,352**	37,415
Capital and reserves			
Called up share capital	13	**3,928**	3,452
Share premium account	14	**58,006**	53,839
Capital redemption account	14	**237**	237
Equity Investment account	14	**(68)**	-
Retained earnings	14	**(50,751)**	(20,113)
Total equity		**11,352**	37,415

The notes on pages 72 to 80 are an integral part of these financial statements.

As permitted by Section 408 of the Companies Act 2006, the Company's profit and loss account has not been included in these financial statements. The loss dealt with in the financial statements of the Parent Company for the year ended 31 December 2018 was £30,812k (2017: loss of £4,687k).

The financial statements on pages 70 to 80 were approved by the Board of Directors on 21 May 2019 and signed on its behalf by:

Ian Postlethwaite
Chief Executive Officer

NETSCIENTIFIC PLC (REGISTERED NUMBER: 08026888)

PARENT COMPANY STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2018

	Share capital £000's	Share premium £000's	Capital redemption reserve £000's	Equity investment reserve £000's	Retained earnings £000's	**Total equity £000's**
Balance at 1 January 2017	2,554	47,233	237	-	(15,562)	34,462
Issue of share capital	898	7,185	-	-	-	8,083
Costs of share issue	-	(579)	-	-	-	(579)
Loss and total comprehensive loss for the year	-	-	-	-	(4,687)	(4,687)
Share-based payments	-	-	-	-	136	136
Balance at 31 December 2017	**3,452**	**53,839**	**237**	**-**	**(20,113)**	**37,415**
Issue of share capital	476	4,524	-	-	-	5,000
Costs of share issue	-	(357)	-	-	-	(357)
Loss and total comprehensive loss for the year	-	-	-	(68)	(30,744)	(30,812)
Share-based payments	-	-	-	-	106	106
Balance at 31 December 2018	**3,928**	**58,006**	**237**	**(68)**	**(50,751)**	**11,352**

1. GENERAL INFORMATION

NetScientific Plc is a public limited company incorporated in England and Wales. The address of the registered office is Anglo House, Bell Lane Office Village, Bell Lane, Amersham, Buckinghamshire HP6 6FA.

Basis of preparation
The financial statements have been prepared under the historical cost convention in accordance with the FRS 102 "The Financial Reporting Standards applicable in the UK and Republic of Ireland".

Exemptions
The parent company has taken advantage of the following exemptions available under FRS 102:

- the exemption from preparing a statement of cash flows;
- the exemption from disclosing key management personnel compensation; and
- reduced disclosures for share-based payments (as equivalent disclosures have been given in the Consolidated Financial Statements presented alongside the parent company's own financial statements).

2. ACCOUNTING POLICIES

The following accounting policies have been applied consistently in dealing with items which are considered material to the Company's financial statements.

Investment in subsidiary undertakings
Investments in subsidiary undertakings where the Company has control are stated at cost less any provisions for impairment. Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities. Provisions are based upon an assessment of events or changes in circumstances that indicate that an impairment has occurred such as the performance and/or prospects (including the financial prospects) of the investee company being significantly below the expectations on which the investment was based, a significant adverse change in the markets in which the investee company operates or a deterioration in general market conditions.

Intercompany loans
All intercompany loans are initially recognised at fair value and subsequently measured at amortised cost. Where intercompany loans are intended for use on a continuing basis in the Company's activities and there is no intention of their settlement in the foreseeable future, they are presented as fixed assets.

Tangible fixed assets
Depreciation is provided at the following annual rates in order to write off each asset over its estimated useful life:

Fixtures, fitting and equipment - 33.3% reducing balance

2. ACCOUNTING POLICIES continued

Valuation of unquoted fair value equity investments "other investments"
Financial assets measured at fair value through profit and loss include the Companies unquoted equity investments not held for trading. The current portion relates to those assets the Company expects to sell within the next 12 months.

Investments in unlisted company shares, which have been classified as other investments as the Group intends to hold them on a continuing basis, are remeasured to fair value at each balance sheet date. Movements in fair value on remeasurement are recognised through profit and loss for the period.

The Company considers that fair value estimates that are based entirely on observable market data will be of greater reliability than those based on assumptions and accordingly where there have been any recent investments by third parties, the price of that investment will generally provide a basis of the valuation. Consequently, the most appropriate approach to determine fair value is a methodology that is based on market data.

Share-based payments
For all grants of share options, the fair value as at the date of the grant is calculated using an appropriate option pricing model, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of share options that are likely to vest, except for options with market-based conditions where the likelihood of vesting is factored into the fair value attributed to those options. The expense is recognised over the vesting period of the option. The credit for any charge is taken to equity. The details are disclosed in note 27 of the Consolidated Financial Statements.

Financial instruments
Basic financial assets, including other debtors, cash and bank balances and investments, are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the transaction is measured at the present value of the future receipts discounted at a market rate of interest.

Such assets are subsequently carried at amortised cost using the effective interest method. A provision is established when there is objective evidence that the Company will not be able to collect all amounts due.

Cash and cash equivalents are classified as basic financial instruments and comprise cash in hand and at bank, short-term bank deposits with an original maturity of three months or less and bank overdrafts which are an integral part of the Company's cash management.

The Company's investments in entities not qualifying as subsidiaries, associates or jointly controlled entities are carried at fair value with changes in fair value, other than those arising due to exchange rate fluctuations and interest calculated using the effective interest rate, recognised through profit and loss and accumulated in reserves.

If there is a significant range of possible fair value estimates and the probabilities of the various estimates cannot be reliably measured, then the investments are measured at cost less accumulated impairment.

Basic financial liabilities, including trade and other payables and loans from fellow Group companies, are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the debt instrument is measured at the present value of the future receipts discounted at a market rate of interest.

Financial liabilities and equity instruments issued by the Company are classified in accordance with the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities. Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

3. KEY SOURCES OF ESTIMATION UNCERTAINTY AND JUDGEMENTS

The Directors make judgements and estimates concerning the future. Estimates and judgements are continually evaluated and are based on historical experience and other factors, such as expectations of future events, and are believed to be reasonable under the circumstances. Actual results could differ from these estimates.

The most significant judgements related to the going concern assumption (see note 2).

The estimates and assumptions that have the most significant effects on the carrying value of the assets and liabilities in the financial statements are discussed below.

Valuation of unquoted fair value equity investments
The fair value of unlisted securities is established using International Private Equity and Venture Capital Valuation Guidelines (IPEVCVG). Given the nature of the Company's investments in seed, start-up and early-stage companies, where there are often no current and no short-term future earnings or positive cash flows, it can be difficult to gauge the probability and financial impact of the success or failure of development or research activities and to make reliable cash flow forecasts.

The Company considers that fair value estimates that are based entirely on observable market data will be of greater reliability than those based on assumptions and accordingly where there have been any recent investments by third parties, the price of that investment will generally provide a basis of the valuation. Consequently, the most appropriate approach to determine fair value is a methodology that is based on market data.

The equity investments were not quoted in an active market at year end and fair value has been established initially using inputs from other than quoted prices that are observable; i.e. the price of recent investments by third parties during February and August 2018. PDS raised over a number of separate share issues $1.2m all at the same valuation per share, the fundraise was restricted to a small group of sophisticated investors. At the time this was the only observable valuation on which to value PDS.

The fair value at year end was based on new information that came available as part of the merger discussions with Edge Therapeutics which was first announced to the market on 26 November 2018. Under the exchange ratio formula in the merger agreement, immediately following the merger the former PDS shareholders will own 70% of the combined company and existing Edge shareholders will own 30% of the combined company. Given the likelihood that the merger would go through this was deemed the best and most reliable manner and methodology by which to derive the value of the investment in the unlisted PDS, by using the listed share price of Edge Therapeutics, Inc. as at balance sheet date as a proxy to value PDS. On the 18 March 2019 PDS announced the closing of its merger with Edge Therapeutics, Inc. following the approval of Edge stockholders on 14 March 2019. Going forward the fair value of the merged PDS which is now listed on the Nasdaq.

Valuation of investments in, and loans to subsidiary undertakings
The Company assesses at the end of each reporting period whether there is objective evidence that the investment in, and loans to, subsidiary undertakings are impaired. Given the pre-revenue nature of the investments the assessment is based on the carrying value of each subsidiary companies' assets and the progress of their scientific programmes. Management has stress tested its fundamental investment valuation models for each of the investee companies and management have reviewed that any changes to the fundamentals would give rise to a material impact to the Company financial statements. During the year, a provision of £1,208k (2017: £nil) was made against the investment in subsidiary undertakings and £30,257k (2017: £137k released) against the loans to subsidiary undertakings. This has no impact to the Group financials.

4. PROFIT OF THE PARENT COMPANY

Auditors' remuneration
The remuneration of the auditors is disclosed in note 9 to the Consolidated Financial Statements.

Share-based payments
Full details of the Company's share-based payments are set out in note 27 of the Consolidated Financial Statements.

5. DIRECTORS' REMUNERATION

The remuneration of the Directors is disclosed in the Directors' Remuneration Report on pages 23 to 25 of the Consolidated Financial Statements.

6. EMPLOYEES AND DIRECTORS

The average number of persons (including executive Directors) employed by the Company during the year was:

	2018 Number	2017 Number
Central Group functions *	**6**	8
	6	8

* Central Group functions comprise general management, investment, finance, human resources and marketing.

Their aggregate remuneration (including non-executive Directors) comprised:

	2018 £000's	2017 £000's
Wages and salaries	**1,004**	1,011
Social security costs	**134**	129
Share-based payment charge	**106**	136
Pension costs	**52**	60
	1,296	1,336

The Company makes defined pension contributions for certain employees into money purchase schemes. The total expense relating to these plans in the current year was £52k (2017: £60k). There were outstanding contributions of £1k (2017: £nil) and no prepaid contributions (2017: £nil) at the end of the financial year.

7. TANGIBLE ASSETS

	Fixtures, fittings and equipment £000's
COST	
At 1 January 2018	26
Additions	2
Disposals	(1)
At 31 December 2018	**27**
DEPRECIATION	
At 1 January 2018	12
Charge for the year	9
Disposals	(2)
At 31 December 2018	**19**
NET BOOK VALUE	
At 31 December 2018	**8**
At 31 December 2017	14

8. INVESTMENTS IN SUBSIDIARY UNDERTAKINGS

	£000's
At 1 January 2018	1,208
Impairment	(1,208)
At 31 December 2018	**-**

Details of the Company's subsidiary undertakings at 31 December 2018 are included in note 14 to the Consolidated Financial Statements on page 54.

Shares in subsidiary Wanda Inc. were impaired down to £nil in 2018. Post balance sheet date on the 22 March 2019 the shares in Wanda Inc were sold for £1 as part of the total consideration of £37,001 to Deeptech a SPV of EMV Capital Ltd.

9. OTHER INVESTMENTS FVTOCI

	2018 £000's	2017 £000's
At 1 January	**2,880**	2,880
Change in fair value during the year	**(68)**	-
At 31 December	**2,812**	2,880

Name	Country of incorporation	% of issued share capital	Currency denomination	Fair value £000's
PDS Biotechnology Corporation	USA	17.1%	US$	2,424
CytoVale, Inc.	USA	2.15%	US$	388
				2,812

The Company considers that fair value estimates that are based entirely on observable market data will be of greater reliability than those based on assumptions and accordingly where there have been any recent investments by third parties, the price of that investment will generally provide a basis of the valuation. Consequently, the most appropriate approach to determine fair value is a methodology that is based on market data.

The equity investments were not quoted in an active market at year end and fair value has been established initially using inputs from other than quoted prices that are observable; i.e. the price of recent investments by third parties during February and August 2018. PDS raised over a number of separate share issues $1.2m all at the same valuation per share, the fundraise was restricted to a small group of sophisticated investors. At the time this was the only observable valuation on which to value PDS.

The fair value at year end was based on new information that came available as part of the merger discussions with Edge Therapeutics which was first announced to the market on 26 November 2018. Under the exchange ratio formula in the merger agreement, immediately following the merger the former PDS shareholders will own 70% of the combined company and existing Edge shareholders will own 30% of the combined company. Given the likelihood that the merger would go through this was deemed the best and most reliable manner and methodology by which to derive the value of the investment in the unlisted PDS, by using the listed share price of Edge Therapeutics, Inc. as a proxy to value PDS. On the 18 March 2019 PDS announced the closing of its merger with Edge Therapeutics, Inc. following the approval of Edge stockholders on 14 March 2019.

10. LOANS TO SUBSIDIARY UNDERTAKINGS

	2018 £000's	2017 £000's
At 1 January	**29,461**	26,406
Additions	**11,038**	6,377
Provisions	**(30,257)**	137
Exchange movement	**(2,549)**	(3,459)
At 31 December	**7,693**	29,461

The amounts due from subsidiary undertakings are unsecured and repayable on demand. Interest has been charged on certain loans. A provision in the year was made for Vortex Biosciences, Inc. £18,876k (2017: £nil), Wanda, Inc. £4,011k (2017: £nil), NetScientific UK Ltd £nil (2017: £137k release) and NetScientific America, Inc. £7,370 (2017: £nil).

11. DEBTORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2018 £000's	2017 £000's
Other receivables	**22**	49
Prepayments	**90**	61
Accrued income	**-**	1
Other taxes and social security	**52**	100
	164	211

Financial assets measured at amortised costs comprise other receivables.

12. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2018 £000's	2017 £000's
Trade creditors	**103**	27
Accruals	**243**	111
	346	138

Financial liabilities measured at amortised costs comprise trade creditors and accruals.

13. CALLED UP SHARE CAPITAL

	2018	2017
	£000's	£000's
Issued and fully paid:		
78,561,866 ordinary shares of 5p each (2017: 69,038,057)	**3,928**	3,452

Details of new ordinary shares issued during the year are shown in note 22 of the Consolidated Financial Statements.

Share options
Details of outstanding share options over ordinary shares of 5p each at 31 December 2018 are shown in note 27 of the Consolidated Financial Statements.

14. RESERVES

A description of each reserve is set out below.

Share premium
The share premium account is used to record the aggregate amount or value of premiums paid when the Company's shares are issued at an amount in excess of nominal value.

Capital redemption reserve
This reserve relates to the nominal value and share premium amounts for shares repurchased or cancelled, as required under the Companies Act 2006.

Equity investment reserve account
Equity investment reserve is used to record the cumulative net gains and losses in fair value of unquoted equity securities classified as fair value through other comprehensive income.

Retained earnings
This reserve relates to the cumulative retained earnings less amounts distributed to shareholders.

15. RELATED PARTY TRANSACTIONS

The following balances are due to NetScientific plc from fellow non-wholly owned subsidiary undertakings:

	Amount due from as at 2018 £000's	Amount due from as at 2017 £000's
Vortex BioSciences, Inc.	**-**	17,278
Wanda, Inc.	**-**	8,134
Glycotest, Inc.	**3,442**	3,066

The following management fees were charged by NetScientific plc to fellow non-wholly owned subsidiary undertakings:

	2018 £000's	2017 £000's
Vortex BioSciences, Inc.	**152**	195
Wanda, Inc.	**112**	196
Glycotest, Inc.	**104**	77

Interest was charged by NetScientific plc to the following non-wholly owned subsidiary undertakings:

	2018 £000's	2017 £000's
Vortex BioSciences, Inc.	**335**	350
Wanda, Inc.	**246**	257
Glycotest, Inc.	**74**	77

Other related parties have been disclosed in note 28 to the Consolidated Financial Statements.

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