Immunotope forms joint venture with Midatech

Jul 12, 2010, 11:00am EDT

Immunotope Inc. and Midatech Group Ltd. said Monday that they formed a joint venture to develop antigen-based immune therapies to treat chronic viral infections and cancers.

The venture's name is Syntara LLC. "The joint venture combines Midatech's expertise and [intellectual property] in the area of nanomedicine with Immunotope's experience in immunotherapeutic antigen discovery and validation," the companies said in a release.

Immunotope of Doylestown, Pa., is developing immune-based therapeutics for cancer and chronic viral infections. Midatech of England develops nanoparticles that can be used in life sciences, electronics and fine chemicals.

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Midatech Pharma plc

Annual Report

Year Ended

31 December 2014

Company Number 09216368

Midatech Pharma plc

Report and financial statements
for the year ended 31 December 2014

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Report and financial statements
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COMPANY INFORMATION

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ABOUT MIDATECH

What we do

Midatech is a nanomedicine group of companies ("Midatech" or the "Group") focused on the development and commercialisation of multiple therapeutic products to enhance the delivery of medicines in major diseases with high unmet medical needs. These diseases include diabetes, certain cancers such as liver, ovarian and brain (glioblastoma) and certain neurological/ophthalmologic conditions. Many of these therapeutic areas represent multi-$100 million or multi-$billion markets. The Group's two platform technologies are designed to enable targeted delivery and sustained release of existing therapeutic drugs to the 'right place' at the 'right time'. The Group is not engaged in the discovery of new drug compounds and hence does not carry the same risk usually associated with the development of new pharmaceuticals.

The Group's core technology platform is based on a patented form of gold nanoparticles ("GNPs") that are developed to improve key parameters of existing and new drugs, target individual cell types with specific targeting agents and deliver a therapeutic payload in the cell, while ensuring this can be achieved safely. The Directors believe that GNP technology represents the latest generation of nanomedicine and the fastest growing sector within the nanomedicine market. To date, studies have demonstrated safety in the clinic.

The Group's secondary platform of sustained release technology (acquired through the acquisition of Q Chip Limited) involves the consistent and precise encapsulation of active drug compounds within polymer microspheres. The microspheres are designed to release the active drug compound into the body in a highly controlled manner over a prolonged period of time, from a number of weeks to three months and potentially longer. The Directors believe that the Group's sustained release technology provides the capability to sustain the optimal range of drug concentrations, which has wide medical applicability utilising diverse pharmaceutically active molecules.

The Group is collaborating with various universities, speciality and major pharmaceutical companies to develop its platform technologies into a number of products in order to achieve a range of potential revenue opportunities within priority therapeutic areas. Collaboration partners include the major biotechnology arm of a top 10 global pharmaceutical company and the Dana-Faber Cancer Institute (an affiliate of Harvard Medical School), in addition to two US major pharmaceutical companies and one European speciality pharmaceutical company. Furthermore, the Group has a joint venture with MonoSol Rx LLC to develop and commercialise transbuccal delivery of insulin for diabetic patients, using insulin conjugated GNPs formulated into dissolvable, oral film strips.

The Group has developed a strong intellectual property base and has a wide IP portfolio of 53 granted patents, 96 applications in process and 30 patent families covering a range of technologies.

Strategy

Midatech has a three part strategy to drive early revenue growth through fee for service partnerships, whilst simultaneously developing its own oncology focussed programmes. The third aspect of the strategy involves the ongoing search for attractive acquisition targets which enable the Group to more rapidly build its revenues and presence in key geographies.

Operational highlights

- Acquisition of Q Chip Limited bringing complementary technology and products, enabling sustained release over extended periods of time – December 2014
- Positive results in proof-of-concept OpsiSporin study with sustained release treatment for uveitis (ocular inflammation) – February 2015
- Research collaboration signed with unnamed global pharmaceutical company in field of diabetes – March 2015
- Appointment of Nick Robbins-Cherry, Finance Director on 4 February 2014 and Dr Craig Cook, Chief Operating Officer – 1 January 2014

ABOUT MIDATECH *(continued)*

***Operational highlights** (continued)*

- Research collaboration with Dana-Farber Cancer Institute – April 2015
- Awarded a €7.9m Horizon 2020 European Union grant (€3.4m direct to the Group) to fund manufacturing scale-up – September 2014

Financial highlights:

- Oversubscribed flotation on the London Stock Exchange's AIM raising £32.00m (before expenses)
- Strong balance sheet with £30.33m cash and deposits at 31 December 2014 (2013: £2.39m)
- Net loss after tax of £7.38m (2013: £4.08m) with net cash inflow in the year of £27.94m (2013: £2.25m)
- Tax credit receivable of £0.84m (2013: £0.80m)

CHAIRMAN'S REVIEW

2014 was a transformational year for Midatech. Since the inception of Midatech Limited in 2000 the Company has tested its gold nano-particle technology in a broad range of therapeutic areas. In 2013 the Board decided that the Company would benefit from building on the significant experience gained and brought in Dr Jim Phillips to set the strategy going forward.

The first step was to strengthen the management team by bringing in a new Chief Operating Officer, Dr Craig Cook, and a new Finance Director, Nick Robbins-Cherry, both joining early in 2014. Jim had worked with both Craig and Nick in the past and knew they would help him execute on the new, commercially focussed strategy.

This strategy was developed during the course of the first quarter of 2014 and combined a focus on just three therapeutic areas, diabetes, oncology, and ophthalmology/neuroscience with a push to expand the Company's product pipeline through the acquisition of later stage assets.

At the beginning of 2014 the Company's most advanced programme was its trans-buccal insulin product, Midaform™, developed through a joint venture with the US pharmaceutical company MonoSol Rx LLC. The highly promising Phase 1 clinical data made continuation of this programme a lead focus and this is now ready to commence its Phase 2 development in patients in 2015.

The second area of focus is in the field of oncology. Earlier experimental data had indicated that Midatech's gold nanoparticles ("GNPs") had the potential to transport chemotherapeutics to tumour sites with a high degree of specificity. Pre-clinical studies further indicated that GNPs would also reach the brain, passing the blood brain barrier. The enormous benefits this would bring to cancer patients made this an obvious area to develop further. Midatech's oncology programme is working on using its GNP technology to transport active ingredients that already exist in the market, thereby benefitting the regulatory path and improving the risk profile of the projects.

The ever-increasing demand for highly specific drugs and the growth into personalised medicine are opening the market need for drug delivery that can be precisely targeted and released. The potential for Midatech in this market is clear, whether in diabetes, oncology or ophthalmology/neuroscience.

Right place and right time

Regardless of its huge potential, many of Midatech's nano-technology projects are at an early stage of development and are therefore still somewhat risky. The other arm of the strategy therefore is to lower the risk profile by acquiring later stage assets within the areas of therapeutic focus and that offer a good strategic fit.

Cardiff based Q Chip Limited ("Q Chip") had a number of later stage products in its pipeline built around that Company's controlled release technology platform. This product portfolio included a number that aligned with Midatech's chosen therapeutic focus areas.

The combination of Q Chip with Midatech has created a well-balanced and diverse product pipeline that gives the combined shareholder base multiple shots on goal and a reasonable expectation of having products in the market within the next five years.

IPO

Perhaps the most significant development in the year was the listing on AIM. The successful roadshow culminated in an oversubscribed IPO that allowed the Board to increase the size of the funds raised from the £30m targeted to £32m.

2014 has been a very successful year. Aside from the significant strategic and operational achievements, financial results have ended ahead of expectation in terms of revenue, loss before tax and cash expenditure. The Company's twin technology platforms offer a unique combination of highly targeted delivery and controlled release of existing therapeutics and looking forward, the highly significant product milestones on the near horizon have the potential to make 2015 a very exciting year for Midatech.

CHAIRMAN'S REVIEW *(continued)*

I would like to thank our shareholders for their support and the Board, management and staff for their continuing hard work and commitment to Midatech.

Rolf Stahel
Chairman

CHIEF EXECUTIVE'S STATEMENT

Dear Shareholder

The exciting year under review has seen Midatech make great strides in advancing the Group towards becoming a specialty pharmaceutical business, progressing a development portfolio of multiple programmes towards commercialisation. There has been a significant expansion of the Senior Management team's capabilities, the successful AIM IPO in December and the focussing of the Group's pipeline strategy into the three core areas of diabetes, oncology and neuroscience including ophthalmology. The Group has two routes to commercialisation: licensing out and own product sales, which offers multiple shots on goal, a de-risked strategy and a significant amount of value potential for shareholders and patients.

The year also saw the acquisition of Q Chip Limited, bringing a complementary technology and two advanced product candidates within two of the three core areas described above. This demonstrated Midatech's continuing hunger to enhance value and deliver results as a dynamic management team.

The Company ended 2014 with £30.33m of cash, having raised £32.00m in the IPO process where we were able to attract key new investors, resulting in an oversubscribed IPO and extension of funds raised.

2014 was also a good year for revenue, with our current service partnerships helping to generate £0.73m pro forma revenue in aggregate for the Midatech and Q Chip businesses for the year (£0.57m was pre acquisition), ahead of market expectations, as the Group booked more work through the second half of the year.

The Group's two technologies which enable the targeted delivery of currently marketed and approved drugs to "the right place at the right time" have the potential to transform many areas of medical treatment; by reducing toxic doses required to kill cancer cells, the ability to move drugs more efficiently into the brain and, via our diabetes joint venture MidaSol, enabling needle free insulin (or other hormone) delivery via a strip in the mouth (which is similar to a breath freshener strip). Our projects are, so far, all on track to potentially deliver substantial value over the coming years and they all use existing, well understood pharmaceutical ingredients – so reducing the risk of products failing.

The Group also completed a major upgrade to its manufacturing plant in Bilbao, Spain, on time and on budget, meaning we can now start to produce sterile products. In addition to this we were selected by the European Union's Horizon 20:20 programme to lead a consortium of our existing partners with €7.9m of European grant funding to develop the commercial scale manufacturing operations for our "nano" products.

Outlook

During 2015 we will continue to execute on our three-pronged strategy of driving early revenue growth through the service partnership model, whilst driving forward the clinical development of our own pipeline, further developing our technology and continuing to look for attractive acquisition targets to enable us to more rapidly build our revenues and presence in key geographies.

I believe that the prospects for our business are good for the coming year and I am grateful for the exceptional contribution of all our employees and international collaborators that has helped transform Midatech over the last 12 months into a leading, international, emerging specialty pharmaceutical business.

Dr. Jim Phillips
Chief Executive Officer

Date

STRATEGIC REPORT

Introduction

Midatech Pharma plc (the "Company") is a company domiciled in England. The Company was incorporated on 12 September 2014 and this is the first set of financial statements prepared by the Company.

The Midatech Group was formed on 31 October 2014 when Midatech Pharma plc acquired the entire issued share capital of Midatech Limited and its wholly owned subsidiaries.

The acquisitions of the Midatech subsidiaries was outside the scope of IFRS 3 "Business Combinations" and has been treated under the principles of merger accounting for group reconstructions as set out under UK GAAP. Further details can be found on pages 33 and 34.

On 8 December 2014, Midatech was admitted to the London Stock Exchange's Alternative Investment Market ("AIM"), raising £32.00m, £29.8m net of costs, via the placing of 11,985,019 new ordinary shares at a price of £2.67.

Also on 8 December 2014 the Group acquired the entire issued share capital of Q-Chip Limited ("Q Chip") through the issue of 5,077,122 ordinary shares valued at £13.56m and a further 299,624 shares to be issued, valued at £800,000, representing total consideration of £14.36m. Q Chip provides the Group with a secondary platform of sustained release technology. Subsequent to the acquisition the name of Q Chip was changed to Midatech Pharma (Wales) Limited.

The acquisition of Q Chip included intangibles comprising £14.10m 'in-process research and development' and £2.90m of goodwill.

Principal activities and business review

The Group is principally engaged in the discovery and development of pharmaceutical products in the fields of nanomedicine and sustained release technology.

Our strategy and outlook

The Directors' business and commercialisation strategy is based on maturing the Group's technology platforms with a clear focus on the key therapeutic areas of oncology, endocrinology and neuroscience (including ophthalmology), along with strategic late stage product focused acquisitions. Together, these strategies are expected to drive a commercial pipeline of products with improved essential parameters over and above the currently marketed source compound, including safety, tolerability, efficacy and compliance profiles. The Directors are of the opinion that the team has significant industry and technical experience and is highly capable of and committed to building the value of the Group.

Midatech's business model has three components:

a. Own products: development and commercialisation of products is done in-house without engaging partners to support the product. This applies particularly to oncology applications.

b. Partner products: development and commercialisation of the Group's partner-supported and licensed products, principally in diabetes, ophthalmology and neuroscience.

c. Acquisitions: of later stage, strategic opportunities with complementary focused portfolios or complementary technologies that are synergistic to those of Midatech, that accelerate revenue and are value accretive.

The Group also aims to expand its vertical integration by leveraging its integrated manufacturing capabilities.

STRATEGIC REPORT *(continued)*

***Our strategy and outlook** (continued)*

The Directors' commercialisation strategy is intended to build a long term, profitable and commercially focused enterprise with revenues generated as follows:

a. Research and development collaborations: in the near term, revenues are anticipated to be driven by collaborations such as those that currently exist and by adding new customers using the Group's technologies to address their pharmaceutical challenges.

b. Partner licensing and royalty deals: in the period from 2015 to 2018, revenue growth is anticipated to be aligned to licensing transactions from those partnerships outlined in (a) above as well as new potential partnerships, with possible product royalties realised from 2016/17.

c. Own products commercialisation: in the third stage of the Group's evolution, expected to be from 2018/19, the Group's own products are anticipated to reach market in the specialised orphan sector and a commercial sales organisation to be deployed initially in the United States and then in Europe to drive sales and revenue growth from Midatech's own product launches.

d. Acquisition: in support of and in addition to the above, the Group will seek value accretive and synergistic target companies and portfolios that will accelerate 'own product' recurring revenues and profitability via products in market.

In diabetes, the Directors, alongside the Group's MidaSol Therapeutics ("MidaSol") joint venture partner MonoSol Rx LLC, intend to conduct a Phase 2a clinical trial with MidaForm™-Insulin-PharmFilm® in humans with type 1 diabetes in 2015. Pending successful completion thereof and positive results, the Group will prepare for Phase 2b and potential outlicensing deals. Midatech would seek revenues from an initial upfront payment, licence payments, manufacturing fees and royalties. A similar approach is anticipated with other Midatech diabetes products such as GLP-1 when appropriate.

In oncology, Midatech believes that it has the opportunity to roll out its own commercial capabilities in the US and Europe around the market entry of its orphan oncology programme products. These products require small dedicated medical liaison teams rather than full pharmaceutical sales forces. Midatech will also look for further in-licensing acquisition opportunities to grow revenues in this sector.

In neuroscience (including ophthalmology), commercialisation will focus on products for the treatment of uveitis and other conditions of the eye, Parkinson's, Alzheimer's and Multiple Sclerosis, in partnerships with leading speciality pharmaceutical companies, where Midatech will seek to earn licence payments, manufacturing revenue and royalties.

Key strengths

The Directors believe that Midatech's key strengths include:

- a rich science base having developed two platform technologies with broad application in healthcare that the Directors believe create value from multiple potential revenue opportunities within priority therapeutic areas;

- first mover advantage in GNPs and highly novel sustained release technology which has enabled the Group to focus on a number of therapeutic areas primarily through the use of GNP carriers and sustained release formulations for existing medications;

- a strong intellectual property base comprising patents, 'know-how' and trade secrets, to maximise innovation, protection and commercial success. The Group has an IP portfolio of 53 granted patents, 96 applications in process and 30 patent families covering major geographic regions, owned solely by the Group, co-owned with others or in-licensed;

STRATEGIC REPORT *(continued)*

***Key strengths** (continued)*

- in-house nanoparticle manufacturing facility which the Directors believe is the first licensed nanoconjugate cGMP facility of its kind in Europe. This state-of-the-art facility, based in Bilbao, Spain, aids in the rapid execution of projects, control of manufacturing quality and supply of all aspects of Midatech's GNP platform, thus avoiding reliance on external manufacturing partners;

- innovative therapies utilising its broadly applicable drug conjugate platforms for significant medical disorders with few or no existing clinical therapeutic options. As such the Directors believe that the Group's therapies have the potential to be transformative for patients and their families as first or second therapies for disease treatment and can yield high returns for these poorly treated indications;

- the management team's significant experience in the speciality pharmaceutical industry and of managing high growth companies. The Group's management team comprises seasoned industry entrepreneurs, executives and scientists, and the Directors believe that the team is capable of executing a major value proposition in the speciality pharma field.

Key performance indicators

	2014	2013	Change
Turnover	**£0.16m**	£0.15m	7%
Operating loss	**(£7.89m)**	(£4.50m)	75%
Net cash inflow/(outflow)	**£27.94m**	£2.25m	1141%
Average headcount	**38**	29	31%

Given Midatech's stage of development, KPIs are focussed on the key areas of cash management and operating results. Non-financial KPIs, including KPIs in respect of the research and development programmes, will be formalised as the business moves forward.

Financial review

For the year ended 31 December 2014, Midatech generated consolidated revenues of £0.16m (2013: £0.15m) however the newly acquired Q Chip Limited (now Midatech Pharma (Wales) Limited ("MPW")) generated revenue for the full year of £0.57m giving a pro forma figure of £0.73m for the Group. This was ahead of expectation and represents a very encouraging outcome for the year and a good platform moving into 2015.

Excluding proceeds from share issues, net cash outflows for the year were £5.91m (2013: £3.54m) which was less than forecast. This was in part due to careful management of costs, including the R&D programmes, during the significant organisational changes that took place in the year.

Administrative costs

Midatech's administrative costs of £4.41m increased on the prior year as a result of:

- The Group incurred significant professional fees in respect of the IPO process and admission onto AIM. Costs directly attributable to the issue of new shares of £1.35m were debited to the share premium account.
- MPW was acquired resulting in professional fees of £0.17m.
- During the year the average number of staff employed grew by 9 to 38 (2013: 29) and the payroll cost increased by £0.47m to £2.81m (2013: £2.34m) which includes 23 days of MPW's payroll cost since becoming part of the Group.

STRATEGIC REPORT *(continued)*

Research and development expenditure

Research and development activities undertaken during the year were largely focussed on the development of our oral insulin therapy enabling needle-free insulin delivery (developed via our diabetes joint venture MidaSol). Costs of £3.64m were incurred in the year by Midatech on its programmes.

Capital expenditure

The total cash expenditure on fixed assets in 2014 was £1.03m (2013: £0.05m) as Midatech continued to invest in its R&D and manufacturing capabilities. Of this amount, £0.79m was spent upgrading the Group's manufacturing facility in Bilbao, Spain, to enable the production of sterile material. This is a critical stage in the Group's development as it allows our oncology programmes to move into human trials.

Cash flow

Net cash outflow from operating activities was £7.60m in 2014 (2013: £4.25m). As previously noted the Group raised £29.8m (net of costs) following the placing of shares through an initial public offering and admission to AIM resulting in an overall net cash inflow for the year of £27.94m (2013: outflow of £2.25m). This is the primary reason for the year end cash balance of £30.33m (2013: £2.39m).

Capital structure

Midatech Pharma plc made a number of significant changes to its capital structure during 2014 all related to the IPO process and acquisition of Q Chip. The Company was incorporated as Midatech Pharma Limited on 12 September 2014 with share capital comprising a single Subscriber Share of £1. On 31 October 2014 under a Share Exchange Agreement it acquired the issued share capital of Midatech Limited. This transaction mirrored the shareholding of Midatech Limited in Midatech Pharma Limited such that shareholders of Midatech Limited were given identical shares in Midatech Pharma Limited. As a result, on 13 November 2014 new shares were issued in Midatech Pharma Limited as follows: 3,287,527 Ordinary Shares of 0.01 pence each, 1,076,802 C Preference Shares of 0.01 pence each and 1,000,000 A Preference Shares of £1 each. Also on 13 November 2014 the Subscriber Share was subdivided into 10,000 Ordinary Shares of 0.01 pence each.

Midatech Pharma Limited was re-registered as Midatech Pharma plc on 27 November 2014.

On 28 November 2014 a number of transactions took place. The Company allotted 628,356 Ordinary Shares of 0.01 pence each to holders of warrants to subscribe for a total of 1,471,527 Ordinary Shares of 0.01 pence each in Midatech Limited in consideration for the cancellation of those warrants. Secondly, the 1,076,802 C Preference Shares were converted into 1,076,802 Ordinary Shares of 0.01p each and the 10,000 Ordinary "Subscriber" Shares referred to above were converted into one Deferred Share. Finally, a written ordinary resolution of the Company's members was passed whereby each of the Ordinary Shares in the capital of the Company was sub-divided into two Ordinary Shares of 0.005 pence each. At this point the Company had issued shares of 9,985,370 Ordinary Shares of 0.005 pence each as well as the 1,000,000 A Preference Shares of £1 each and a single Deferred Share of £1.

On 8 December 2014 and on admission to AIM a further 5,077,122 Ordinary Shares of 0.005 pence each were issued to the shareholders of Q Chip Limited (now Midatech Pharma (Wales) Limited) as the initial share consideration for the acquisition of the entire issued share capital of that company. A further 299,624 Deferred Consideration Shares will be issued in two tranches; 75% on 9 December 2015 and 25% on 30 June 2016 subject to there not being any successful warranty claims against the sellers of Q Chip. Any warranty claims will result in the downward adjustment of the deferred consideration shares issued using the issue price of £2.67 per share.

Finally, also on 8 December 2014, 11,985,019 Ordinary Shares of 0.005 pence each were issued to subscribers in the IPO and the 1,000,000 A Preference Shares of £1 each, together with the accrued interest liability were settled by the issue of 746,747 Ordinary Shares of 0.005 pence each. Following this, the A Preference shares were converted into Deferred Shares which the company has the authority to purchase for a price not exceeding 1p for all the Deferred Shares.

STRATEGIC REPORT *(continued)*

***Capital structure** (continued)*

As a result of the above transactions, as at 31 December 2014 Midatech Pharma plc had in issue 27,794,258 Ordinary Shares of 0.005 pence each.

Principal risks and uncertainties

The Directors consider the principal risks facing the business to be as follows:

Regulation

Midatech operates in a regulated sector where a number of regulations need to be adhered to.

The GNP manufacturing facility in Bilbao operates under the cGMP guidelines for Investigational Medicinal Products and has been licensed to manufacture non-sterile investigational medicinal products since March 2011, with indefinite validity (subject to passing regular inspections). The facility underwent a c€0.8m refurbishment in 2014 to enable the manufacture of sterile injectables and the amended certification of the facility is subject to an inspection in 2015. Midatech performs its investigational work in accordance with the European Commission recommendation on a Code of Conduct for responsible nanosciences and nanotechnologies research.

The Group's health and safety control is subcontracted to a specialist provider and complies with all Spanish employee and work regulations.

Waste solutions and products are suitably disposed of under contract with a licensed provider for this purpose. Prior to disposal, hazardous waste materials are stored under appropriate conditions. Solvents and other inflammable reagents are stored in appropriate fire containment storage cabinets.

The Group's polymer microsphere manufacturing activities in the UK is outsourced to a contract manufacturing organisation based in Leicester, UK. This facility is MHRA approved and product is manufactured to cGMP standards at an appropriate level for the Group's needs. Polymer manufacturing is compliant with all health and safety regulations. Waste handling is undertaken by a contract firm specialising in removal and disposal of hazardous waste.

Competition and Technological Advances

The Group's drug conjugate platform is among the latest generation of nanomedicine technology. Liposomes followed by various polymeric nanoparticles were the first nanotechnologies and now inorganic nanoparticles like Midatech GNPs are a rapidly emerging technology within the nanomedicine market.

The speed and nature of technological change means that physical science is always evolving and new competition and alternatives are always a possibility, however the Directors believe that Midatech has established competitive advantage over its peers. As a result of the combination of its platform technology, intellectual property and proprietary know-how, the Group has a protected position in the nanoparticle and sustained release spaces which allows the potential for highly differentiated drugs serving high unmet needs, such as orphan oncology, to be rapidly and independently manufactured and scaled.

Clinical development and regulatory risk

There can be no guarantee that any of the Group's products will be able to obtain or maintain the necessary regulatory approvals in any or all of the territories in respect of which applications for such approvals are made. Where regulatory approvals are obtained, there can be no guarantee that the conditions attached to such approvals will not be considered too onerous by the Group or its distribution partners in order to be able to market its products effectively.

STRATEGIC REPORT *(continued)*

Principal risks and uncertainties *(continued)*

Clinical development and regulatory risk (continued)

The Group seeks to reduce this risk by developing products using safe, well-characterised active compounds, by seeking advice from regulatory advisers, consulting with regulatory approval bodies and by working with experienced distribution partners.

Financial risk management objectives and polices

The Group is exposed to a variety of financial risks which result from both its operating and investing activities. The Board is responsible for coordinating the Group's risk management and focuses on actively securing the Group's short to medium term cash flows.

Finance risk

The Group enters into very few transactions involving significant complexity, potential material financial exposure or atypical risk. The Group does not actively engage in the trading of financial assets and has no financial derivatives.

Funding risk

The Group continues to incur substantial operating expenses. The recent IPO generated sufficient cash to take the Group toward break even and becoming cash flow positive however until the Group generates positive net cash inflows from the commercialisation of its products it may be required to seek additional funding through the injection of equity capital from share issues. The Group may not be able to generate positive net cash inflows in the future or be able to attract such additional funding as may be required, either at all, or on suitable terms. In such circumstances the development programmes may be delayed or cancelled and business operations cut back.

The Group seeks to reduce this risk by keeping a tight control on expenditure, avoiding long-term supplier contracts (other than for clinical trials), prioritising development spend on products closest to potential revenue generation, obtaining government grants (where applicable), maintaining a focused portfolio of products under development and by keeping shareholders informed of progress.

This report was approved by the Board on 16 April 2015 and signed on its behalf.

Dr Jim Phillips
Chief Executive Officer

BOARD OF DIRECTORS

As at 31 December 2014 the Board consisted of two Executive Directors and seven Non-Executive Directors however since the year end and following the successful IPO one Non-Executive Director, Jeffrey Brown, has stood down. Brief biographies of the current Directors are set out below. The Directors believe that Midatech Pharma plc benefits from a strong, stable and proven Executive and Senior Management team.

Executive

James (Jim) Phillips
Chief Executive Officer (52)

Jim is a physician by training and has a strong background in company leadership and business development. Jim founded Talisker Pharma in 2004, which was the first and cornerstone acquisition of EUSA Pharma Inc. in 2006. As president of Europe and senior vice president, corporate development, of EUSA Pharma, Jim led the strategy resulting in the acquisition of OPi S.A. and which in turn lead to its ultimate acquisition by Jazz Pharmaceuticals Inc. in 2012. Jim is currently a non-executive director of Herantis Pharma plc, listed in Helsinki, Insense Limited, a private spin-out from Unilever, and, until joining Midatech, was chairman of Prosonix Limited, guiding its successful transformation into a respiratory-focused business. Jim initially held senior positions at Johnson & Johnson and Novartis Pharmaceuticals. At Novartis, Jim was in Clinical and Business Development and was a board director of the $1.3 billion arthritis, bone, gastrointestinal, haematology and infectious diseases business unit and a member of the company's Clinical Leadership Team.

Nicholas (Nick) Robbins-Cherry
Finance Director (45)

Nick is a Chartered Accountant and MBA with extensive commercial and finance experience gained in the life sciences, technology and consulting sectors, including roles at CACI Limited, Johnson & Johnson and ICI plc. Nick has a strong track record in mergers and acquisitions and of managing complex multi-national businesses. Nick qualified with Coopers & Lybrand (now PricewaterhouseCoopers) and also has a BSc in Pharmacology.

***BOARD OF DIRECTORS** (continued)*

Non-executive

Rolf Stahel
Non-Executive Chairman (age 70)

Mr Stahel has approximately 40 years of experience in the pharmaceutical industry, of which around 20 years were spent at chief executive and board level in public companies listed in the United Kingdom, Switzerland and the United States and private life science companies registered in Europe, the United States and Asia. Mr Stahel joined Shire as chief executive in 1994 following a 27-year career at Wellcome plc (now GlaxoSmithKline plc). Mr Stahel is currently the non-executive chairman of Connexios Life Sciences Pvt Limited and Ergomed plc, and was previously the non-executive chairman of EUSA Pharma Inc., Cosmo Pharmaceuticals SpA, PowderMed Limited and Newron Pharmaceuticals SpA.

John Johnston
Non-Executive Director (55)

Mr Johnston is currently non-executive Chairman of Constellation Healthcare Technologies, non-executive director of Flowgroup plc, Action Hotels and prior to this, was managing director of Institutional Sales at Nomura Code. He was previously director of Sales and Trading at Seymour Pierce from 2008 to 2011. In 2003, Mr Johnston founded Revera Asset Management, where he oversaw an investment trust, a unit trust and a hedge fund, which he ran until 2007. From 1992 to 1997, Mr Johnston was Head of Small Companies at Scottish Amicable, before spending a year at Ivory and Sime, again as Head of Small Companies from 1997 to 1998. He joined Legg Mason Investors for three years as Director of Small Companies Technology and Venture Capital Trusts, from 2000 to 2003 having previously spent two years as Head of Small Companies with Murray Johnstone. Mr Johnston began his investment career at the Royal Bank of Scotland in 1981, working in the Trustee and Investment department, before moving to General Accident in 1985, holding the position of Head of Retail Funds before his move to Scottish Amicable.

Simon Turton
Senior Non-Executive Director (47)

Dr Turton previously headed Warburg Pincus' healthcare investing activities in Europe and was a principal at Index Ventures in Geneva. He has over 10 years of experience investing in biopharma companies following a ten year career in the international pharmaceutical industry incorporating roles in research, business development and general management. Dr Turton has an MBA from INSEAD and a Ph.D. in pharmacy from the University of London. He has been a board director of Archimedes Pharma, Eurand, ProStrakan and Tornier. Dr Turton was most recently chairman of Q Chip prior to its acquisition by the Group.

Sijmen de Vries
Non-Executive Director (55)

Dr de Vries has extensive senior level experience in both the pharmaceutical and biotechnology industries. He is currently chief executive officer and chief financial officer of Pharming Group N.V., the Euronext-listed pharmaceutical company. Dr de Vries was previously chief executive officer of Switzerland-based 4-Antibody and Morphochem AG, and prior to this he worked at Novartis Pharma, Novartis Ophthalmics and at SmithKline Beecham Pharmaceuticals plc, where he held senior business and commercial positions. Dr de Vries holds an MD degree from the University of Amsterdam and a MBA in General Management from Ashridge Management College (UK).

***BOARD OF DIRECTORS** (continued)*

***Non-executive** (continued)*

Pavlo Protopapa
Non-Executive Director (48)

Mr Protopapa is the founder and managing partner of Ippon Capital, a private equity company based in Geneva, Switzerland. He is the chairman and chief executive officer of Spacecode Holdings, a technology provider in healthcare and luxury goods, which he founded in 2005. He also serves as a non-executive director and lead investor of Socure Inc, a SaaS-based internet security company. Mr Protopapa has a Bachelor of Commerce (accounting, economics and commercial law) and Bachelor of Accounting Science (accounting) from the University of the Witwatersrand and the University of South Africa, respectively. He completed his articles at KPMG in Johannesburg, South Africa and has more than 15 years of experience in international commerce as chief financial officer of the Steinmetz Diamond Group from 1997 to 2012.

Michele Luzi
Non-Executive Director (57)

Mr Luzi is a partner in Bain & Company, based in the London office. He has recently led Bain's EMEA Telecommunications Technology Media Practice for seven years and he was a board director of Bain & Company Global between 2006 and 2009. He has been a member of the World Economic Forum Global Agenda Council and of the Web Foundation Advisory Board. Prior to joining Bain & Company, Mr Luzi worked in international management positions with Pirelli and also worked in Agusta and with the Italian Trade Commission. Mr Luzi earned his MBA from INSEAD and graduated in Economics, with Honours, from the University of Rome.

REMUNERATION REPORT

The Remuneration Committee

The Remuneration Committee assists the Board in determining its responsibilities in relation to remuneration, including making recommendations to the Board on the Group's policy on executive remuneration, setting the over-arching principles, parameters and governance framework of the Group's remuneration policy and determining the individual remuneration and benefits package of each of the Executive Directors and the Group Secretary.

The Remuneration Committee ensures compliance with the UK Corporate Governance Code in relation to remuneration wherever possible.

The Remuneration Committee is chaired by Sijmen de Vries, and its other members are Simon Turton, Rolf Stahel and Michele Luzi. The Remuneration Committee meet not less than twice a year. Since incorporation the Remuneration Committee has met twice.

Policy on Executive Directors' remuneration

Executive remuneration packages are designed to attract and retain executives of the necessary skill and calibre to run the Group with reference to benchmarking comparable groups. The Remuneration Committee recommends remuneration packages to the Board by reference to individual performance and uses the knowledge and experience of the Committee members, published surveys relating to AIM companies, the nanomedicine industry and market changes generally. The Remuneration Committee has responsibility for recommending any long-term incentive schemes.

The Board determines whether or not Executive Directors are permitted to serve in roles with other companies. Such permission is only granted where a role is on a strictly limited basis, where there are no conflicts of interest or competing activities and providing there is no adverse impact on the commitments required to the Group. Earnings from such roles are not disclosed to the Group.

There are four main elements of the remuneration package for Executive Directors and staff:

(i) *Basic salaries and benefits in kind*
Basic salaries are recommended to the Board by the Remuneration Committee, taking into account the performance of the individual and the rates for similar positions in comparable companies. Benefits in kind comprising death in service cover and private medical insurance are available to staff and Executive Directors. Benefits in kind are non-pensionable.

(ii) *Share options and other share-based incentives*
The Group currently operates approved share option schemes for the Executive Directors and other employees to motivate those individuals through equity participation. Historically some unapproved share options have been granted to staff and key consultants however the Board and Remuneration Committee does not plan on issuing further unapproved share options. Exercise of share options under the schemes is subject to specified exercise periods and compliance with the AIM Rules.

The schemes are overseen by the Remuneration Committee which recommends all grants of share options to the Board based on the Remuneration Committee's assessment of personal performance and specifying the terms under which eligible individuals may be invited to participate.

The UK Corporate Governance Code ("the Code") requires a significant proportion of the total remuneration package of Executive Directors to comprise performance related elements of remuneration and should be designed to align Executive Directors' interests with those of the shareholders. The Remuneration Committee currently considers that the best alignment of these interests is through the continued use of performance-based incentives through the award of share options or other share-based arrangements.

(iii) *Bonus scheme*
The Group has a discretionary bonus scheme for staff and Executive Directors.

REMUNERATION REPORT *(continued)*

Policy on Executive Directors' remuneration *(continued)*

(iv) Pension contributions
The Group pays a defined contribution to the pension schemes of Executive Directors and other employees. The individual pension schemes are private and their assets are held separately from the Group.

Service contracts

Set out below are summary details of the service agreements and letters of appointment entered into between the Company and the Directors:

Executive Directors

Dr Jim Phillips (*Chief Executive Officer*)
Dr Phillips entered into a service agreement with the Company to act as Chief Executive Officer on 2 December 2014. Dr Phillips's continuous employment with the Group commenced 1 May 2013. His appointment is terminable upon one year's notice.

Nick Robbins-Cherry (*Finance Director*)
Mr Robbins-Cherry entered into a service agreement with the Company to act as Finance Director on 2 December 2014. Mr Robbins-Cherry's continuous employment with the Group commenced 4 February 2014. His appointment is terminable upon six months' notice.

Non-Executive Directors

The service contracts of the Non-Executive Directors are made available for inspection at the AGM.

Rolf Stahel (*Non-Executive Chairman*)
Mr Stahel entered into an agreement with Midatech Limited on 15 April 2014 and was subsequently appointed Chairman with effect from 1 March 2014. Mr Stahel subsequently entered into a revised appointment agreement with the Company on 2 December 2014. With effect from 1 March 2015, the appointment became terminable upon the election of the Board.

John Johnston (*Non-Executive Director*)
Mr Johnston entered into a non-executive director appointment letter with the Company on 2 December 2014. The appointment is terminable upon the election of the Board.

Michele Luzi (*Non-Executive Director*)
Mr Luzi entered into a non-executive director appointment letter with the Company on 2 December 2014. Mr Luzi was originally appointed as a non-executive director of Midatech Limited on 20 August 2010 (subsequently terminated on 2 December 2014). The appointment is terminable upon the election of the Board.

Pavlo Protopapa *(Non-Executive Director)*
Mr Protopapa entered into a non-executive director appointment letter with the Company on 2 December 2014. Mr Protopapa was originally appointed as a non-executive director of Midatech Limited on 5 December 2013 (subsequently terminated on 2 December 2014). The appointment is terminable upon the election of the Board.

Simon Turton (*Senior Independent Non-Executive Director*)
Dr Turton entered into a non-executive director appointment letter with Midatech Limited on 2 December 2014. Dr Turton was originally appointed as chairman of Q Chip Limited on 24 March 2014 (subsequently terminated on 2 December 2014). The appointment is terminable upon the election of the Board.

REMUNERATION REPORT *(continued)*

Service contracts *(continued)*

Non-Executive Directors (continued)

Sijmen de Vries (*Non-Executive Director*)
Dr de Vries entered into a non-executive director appointment letter with the Company on 2 December 2014. Dr de Vries was originally appointed as a non-executive director of Midatech Limited on 29 October 2004 (subsequently terminated on 2 December 2014). The appointment is terminable upon the election of the Board.

Policy on Non-Executive Directors' remuneration

The Non-Executive Directors receive a fee for their services as a director, which is approved by the Board, giving due consideration to the time commitment and responsibilities of their roles and of current market rates for comparable organisations and appointments. Non-Executive Directors are reimbursed for travelling and other incidental expenses incurred on Group business in accordance with the Group expenses policy.

The Board encourages the ownership of Midatech shares by Executives and in normal circumstances does not expect Directors to undertake dealings of a short-term nature.

Non-Executive Directors are preferred to remain independent to the extent that they do not trade in the Company's shares themselves.

The emoluments of the Directors of Midatech Pharma plc included within the consolidated financial statements are their emoluments from all Group companies for the year. This includes emoluments earned in their capacity as directors of Midatech Limited prior to their appointment as directors of Midatech Pharma plc. Where they were not directors of Midatech Limited their emoluments commence from the date of appointment as a Midatech Pharma plc director:

	Salary £	Bonus £	Fees £	Benefits £	2014 £
Non-Executive Directors					
Rolf Stahel	41,667	-	134,300	-	175,967
Jeff Brown	-	-	12,000	-	12,000
John Johnston	-	-	2,781	-	2,781
Michele Luzi	-	-	-	-	-
Pavlo Protopapa	-	-	-	-	-
Simon Turton	-	-	-	-	-
Sijmen de Vries	-	-	12,000	-	12,000
Executive Directors					
Jim Phillips	216,943	106,775	-	21,738	345,456
Nick Robbins-Cherry	9,821	40,755	-	4,417	54,993
Directors' remuneration	268,431	147,530	161,081	26,155	603,197
NIC					69,390
Total					**672,587**

Details of the payments to other related parties are disclosed in Note 28.

REMUNERATION REPORT (continued)

Directors' interests in shares

	31 December 2014 Beneficial Interests	Non Beneficial Interests
Non-Executive Directors		
Rolf Stahel[1]	527,215	-
Jeff Brown	-	-
John Johnston	14,981	-
Michele Luzi	121,344	69,328
Pavlo Protopapa	-	1,649,334
Simon Turton[2]	215,328	-
Sijmen de Vries	8,802	65,014
Executive Directors		
Jim Phillips	31,339	-
Nick Robbins-Cherry	-	-

(1) At 31 December 2014 489,762 of Rolf Stahel's shares were subject to restrictions preventing their disposal or transfer to another party. These restrictions fall away on the following events:
   a. 61,220 shares become unrestricted on each of 1 March 2015 and 1 March 2016
   b. 61,221 shares become unrestricted on each of and 1 March 2017 and 1 March 2018
   c. 122,440 shares become unrestricted when the market capitalisation of the Company achieves £155m
   d. 122,440 shares become unrestricted when the market capitalisation of the Company achieves £213m

(2) Simon Turton is entitled to receive 35,086 Deferred Consideration Shares to be converted into Ordinary Shares up to 30 June 2016 subject to there not being any successful warranty claims against the sellers of Q Chip Limited.

Other than as shown in the table and note above no Director had any interest in the shares of the Company or in any subsidiary company.

Directors' interests in share options

The Board uses share options to align Directors' and employees' interests with those of shareholders in order to provide incentives and reward them based on improvements in Group performance.

	31 December 2014 Options Held over Ordinary shares
Non-Executive Directors	
Rolf Stahel	-
Jeff Brown	-
John Johnston	-
Michele Luzi	36,696
Pavlo Protopapa	-
Simon Turton	-
Sijmen de Vries	17,000
Executive Directors	
Jim Phillips	600,000
Nick Robbins-Cherry	60,000

REMUNERATION REPORT *(continued)*

Directors' interests in share options *(continued)*

All share options were granted with an exercise price at or above market value on the date of grant. The majority of share options only vest when the Company's share price achieves certain targets. Otherwise the main vesting condition of all share options is that the Director or employee remain employed with the Group as at the date of exercise or continues to provide consultancy services as at the date of exercise. The share options of the Directors under the Midatech Pharma plc Enterprise Management Incentive Scheme (included in totals on page 19) are set out below:

	Grant Date	Number Awarded	Exercise Price/ Share £	Vesting Criteria	Expiry Date £
Non-Executive Directors					
Micholo Luzi [1]	20/00/2010	17,900	4.19	Fully vested	20/08/2015
	20/04/2012	18,796	4.19	Fully vested	20/04/2022
Sijmen de Vries	31/12/2008	3,000	1.425	Fully vested	31/12/2018
	20/04/2012	4,000	4.19	Fully vested	20/04/2022
	30/06/2014	10,000	0.075	Share price[1]	30/06/2024
Executive Directors					
Jim Phillips	09/05/2014	200,000	0.075	Fully vested	01/05/2023
	30/06/2014	400,000	0.075	Share price[2]	30/06/2024
Nick Robbins-Cherry	30/06/2014	60,000	0.075	Share price[2]	30/06/2024

(1) Share options held by Michele Luzi were granted as part of a 2011 investment round in Midatech Limited.
(2) For those options noted as vesting based on share price 50% vest when the share price reaches £5.31 per share, a further 25% vests when the share price reaches £13.72 and the remaining 25% when the share price reaches £18.86.

Sijmen de Vries
Chairman of the Remuneration Committee

CORPORATE GOVERNANCE

Board of Directors

As at 31 December 2014 the Board comprised nine Directors, two of whom are Executive Directors and seven Non-Executive Directors, reflecting a blend of different experience and backgrounds. Subsequent to the year-end one Non-Executive Director, Jeff Brown, resigned as a director following the successful IPO. Of the current Non-Executive Directors, the Group regards Rolf Stahel, Simon Turton, John Johnston, Michele Luzi and Sijmen de Vries as Independent Non-Executive Directors. With a view towards maintaining the independence of the Board no remuneration is paid to either the Chairman or Non-Executive Directors in the form of shares.

Although adherence to the UK Corporate Governance Code is not compulsory, the Directors apply certain aspects of the UK Corporate Governance Code to the extent appropriate to the Group's size, resources and stage of development.

The Board is responsible for *inter alia*, approving interim and annual financial statements, formulating and monitoring Group strategy, approving financial plans and reviewing performance, as well as complying with legal, regulatory and corporate governance matters. There is a schedule of matters reserved for the Board.

The Board meet regularly to consider strategy, performance and the framework of internal controls. To enable the Board to discharge its duties, all Directors receive appropriate and timely information. Briefing papers are distributed to all Directors in advance of Board meetings.

The Company has established audit, nomination, remuneration and disclosure committees of the Board with formally delegated duties and responsibilities.

The Audit Committee

The Audit Committee assists the Board in discharging its responsibilities with regard to financial reporting, external and internal audits and controls, including reviewing and monitoring the integrity of the Group's annual and interim financial statements, advising on the appointment of external auditors, reviewing and monitoring the extent of the non-audit work undertaken by external auditors, overseeing the Group's relationship with its external auditors, reviewing the effectiveness of the external audit process and reviewing the effectiveness of the Group's internal control review function. The ultimate responsibility for reviewing and approving the annual report and accounts and the half-yearly reports remains with the Board.

The Audit Committee is chaired by Pavlo Protopapa and its other members are Simon Turton and John Johnston. The Audit Committee meet not less than twice a year. Since incorporation the Audit Committee has met twice.

The Nomination Committee

The Nomination Committee assist the Board in discharging its responsibilities relating to the composition and make-up of the Board and any committees of the Board. It is responsible for periodically reviewing the Board's structure and identifying potential candidates to be appointed as Directors or committee members as the need may arise. The Nomination Committee is responsible for evaluating the balance of skills, knowledge and experience and the size, structure and composition of the Board and committees of the Board, retirements and appointments of additional and replacement Directors and committee members and will make appropriate recommendations to the Board on such matters.

The Nomination Committee is chaired by Rolf Stahel and its other members are all other members of the Board. The Nomination Committee meet not less than once a year. Since incorporation the Nomination Committee has not yet been formally convened.

CORPORATE GOVERNANCE (continued)

Internal control

The Board is responsible for establishing and maintaining the Group's system of internal control and for reviewing its effectiveness. The system of internal control is designed to manage, rather than eliminate, the risk of failure of the achievement of business objectives and can only provide reasonable but not absolute assurance against material misstatement or loss.

The Audit Committee continues to monitor and review the effectiveness of the system of internal control and report to the Board when appropriate with recommendations.

The annual review of internal control and financial reporting procedures did not highlight any issues warranting the introduction of an internal audit function. It was concluded, given the current size and transparency of the operations of the Group that an internal audit function was not required however this remains a matter for ongoing review.

The main features of the internal control system are outlined below:

- A control environment exists through the close management of the business by the Executive Directors. The Group has a defined organisational structure with delineated approval limits. Controls are implemented and monitored by the Executive Directors.

- The Board has a schedule of matters expressly reserved for its consideration and this schedule includes acquisitions and disposals, major capital projects, treasury and risk management policies and approval of budgets.

- The Group utilises a detailed budgeting and forecasting process. Detailed budgets are prepared annually by the Executive Directors before submission to the Board for approval. Forecasts are updated at least quarterly to reflect changes in the business and are monitored by the Board including future cash flow projections. Actual results are monitored against annual budgets in detail on a monthly basis, with variances highlighted to the Board.

Financial risks are identified and evaluated for each major transaction for consideration by the Board and senior management.

- Standard financial control procedures are operated throughout the Group to ensure that the assets of the Group are safeguarded and that proper accounting records are maintained.

- A risk review process is in development whereby the Chief Executive Officer and Finance Director will present a report to the Board each year on the key business risks.

Going concern

As disclosed in the Directors' Report on page 24 the Group financial statements have been prepared on the going concern basis as the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future.

Relationship with shareholders

The Directors seek to build a mutual understanding of objectives between the Company and its shareholders. The Company reports formally to shareholders in its Annual Report and Interim Statements setting out details of the Group's activities. In addition, the Company keeps shareholders informed of events and progress through the issue of regulatory news in accordance with the AIM Rules for Companies ("AIM Rules") of the London Stock Exchange. The Chief Executive and Finance Director meet with institutional shareholders following interim and final results. The Company also maintains investor relations pages and other information regarding the business, the Group's products and activities on its website at www.midatechpharma.com.

***CORPORATE GOVERNANCE** (continued)*

***Relationship with shareholders** (continued)*

The Annual Report is made available to shareholders at least 21 days before the Annual General Meeting ("AGM") along with notice of the AGM. Directors are required to attend the AGM, unless unable to do so for personal reasons or due to pressing commercial commitments, and shareholders are given the opportunity to vote on each separate resolution proposed at the AGM. The Company counts all proxy votes and will indicate the level of proxies lodged for each resolution after it has first been dealt with by a show of hands.

Nick Robbins-Cherry
Company Secretary

DIRECTORS' REPORT

The Directors present their report and the consolidated financial statements of the Group for the year ended 31 December 2014.

Directors

The Directors during the period were:

Rolf Stahel	(appointed 13 November 2014)
Jeff Brown	(appointed 13 November 2014) *
John Johnston	(appointed 13 November 2014)
Michele Luzi	(appointed 13 November 2014)
Pavlo Protopapa	(appointed 13 November 2014)
Simon Turton	(appointed 2 December 2014)
Sijmen de Vries	(appointed 13 November 2014)
Jim Phillips	(appointed 12 September 2014)
Nick Robbins-Cherry	(appointed 12 September 2014)

*Jeff Brown will be stepping down as a director of the company with effect from 30 April 2015.

Research and development

The Group is continuing to develop products within its chosen areas of therapeutic focus.

Matters covered in the Strategic Report

Details of the Group's financial risk management objectives and policies are given in the Strategic Report.

Dividend

The Directors are not recommending the payment of a dividend at this time due to the level of maturity of the Group. The Directors intend implementing a dividend policy of progressive payments when the Group reaches the right stage of development.

Directors' and officers' liability insurance

The Company has, as permitted by s234 and 235 of the Companies Act 2006, maintained insurance cover on behalf of the Directors and Company Secretary indemnifying them against certain liabilities which may be incurred by them in relation to the Company.

Employees

Midatech recognises the essential importance of employees to the success of the business and ensures that they are fully informed of events that directly affect them and their working conditions. Information on matters of concern to employees is given in briefings that seek to provide a common awareness on the part of all employees of the financial and economic factors affecting the Group's performance.

Disabled employees

Applications for employment by disabled persons are given full and fair consideration for all vacancies in accordance with their particular aptitudes and abilities. It is the policy of the Group that training and promotion opportunities should be available to all employees.

Directors' responsibilities

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

DIRECTORS' REPORT *(continued)*

***Directors' responsibilities** (continued)*

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 of 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 they have been prepared in accordance with IFRSs as adopted by the European Union, 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 Group will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the financial position of the Group 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 Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Directors' statement as to the disclosure of information to auditors.

All of the current directors have taken all the steps that they ought to have taken to make themselves aware of any information needed by the Group's auditors for the purposes 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.

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 Group'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 Group's website is the responsibility of the Directors. The Directors' responsibility also extends to the ongoing integrity of the financial statements contained therein.

By order of the Board

Nick Robbins-Cherry
Finance Director
16 April 2015

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MIDATECH PHARMA PLC

We have audited the financial statements of Midatech Pharma plc for the year ended 31 December 2014 which comprise the consolidated statement of comprehensive income, the consolidated statement of financial position, the consolidated statement of cash flows, the consolidated statement of changes in equity, the company balance sheet and the related notes. 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 preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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

Respective responsibilities of directors and auditors

As explained more fully in the statement of directors' responsibilities, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Financial Reporting Council's (FRC's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the FRC's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

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 2014 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's financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion 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.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where 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.

Christopher Pooles (senior statutory auditor)
For and on behalf of BDO LLP, statutory auditor
Reading
Date

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

Midatech Pharma plc

Consolidated statement of comprehensive income for the year ended 31 December 2014

	Note	2014 £'000	2013 £'000
Revenue	3	157	147
Research and development costs		(3,639)	(1,925)
Administrative costs		(4,405)	(2,721)
Loss from operations		(7,887)	(4,499)
Finance income	7	8	1
Finance expense	7	(161)	(385)
Loss before tax		(8,040)	(4,883)
Taxation	8	658	799
Loss after tax attributable to the owners of the parent		(7,382)	(4,084)
Other comprehensive income:			
Items that will or may be reclassified subsequently to profit or loss when specific conditions are met:			
Exchange (losses)/gains arising on translation of foreign operations		(151)	5
Total other comprehensive income, net of tax		(151)	5
Total comprehensive loss attributable to the owners of the parent		(7,533)	(4,079)
Loss per share	9		
Basic and diluted loss per ordinary share - pence		**(82p)**	(71p)

The notes on pages 33 to 66 form part of these financial statements.

Midatech Pharma plc

Consolidated statement of financial position
at 31 December 2014

	Note	2014 £'000	2013 £'000
Assets			
Non-current assets			
Property, plant and equipment	10	1,516	684
Intangible assets	11	17,000	4
Investment in equity accounted joint venture		-	12
Other receivables due in greater than one year	16	425	379
		18,941	1,079
Current assets			
Taxation		841	799
Trade and other receivables	16	462	909
Cash and cash equivalents	17	30,325	2,387
		31,628	4,095
Total assets		50,569	5,174
Liabilities			
Non-current liabilities			
Borrowings	19	1,488	2,119
Deferred tax liability	21	2,820	-
		4,308	2,119
Current liabilities			
Trade and other payables	18	2,341	1,047
Borrowings	19	491	1,248
		2,832	2,295
Total liabilities		7,140	4,414
Issued capital and reserves attributable to owners of the parent			
Share capital	22	1,001	-
Share premium	23	31,643	21,018
Merger reserve	23	37,776	-
Shares to be issued	23	800	-
Foreign exchange reserve	23	(9)	142
Retained deficit	23	(27,782)	(20,400)
Total equity		43,429	760
Total equity and liabilities		50,569	5,174

The financial statements on pages 28 to 66 were approved and authorised for issue by the Board of Directors on 16 April 2015 and were signed on its behalf by:

Nick Robbins-Cherry
Director

The notes on pages 33 to 66 form part of these financial statements.

Midatech Pharma plc

Consolidated statement of cash flows
for the year ended 31 December 2014

	Note	2014 £'000	2013 £'000
Cash flows from operating activities			
Loss for the year before tax		(8,040)	(4,883)
Adjustments for:			
Depreciation of property, plant and equipment	10	321	246
Amortisation of intangible fixed assets	11	1	1
Loss on disposal of fixed assets		89	
Foreign exchange loss		(119)	
Net Interest expense/(income)		153	384
Cash flows from operating activities before changes in working capital		(7,595)	(4,252)
Decrease/(Increase) in trade and other receivables		547	(442)
Increase/(decrease) in trade and other payables		799	(330)
Cash generated from/(used in) operations		1,346	(772)
Taxes received		794	588
Net cash used in operating activities		(5,455)	(4,436)
Investing activities			
Purchases of property, plant and equipment		(1,030)	(47)
Purchase of intangibles		-	(3)
Cash equivalents acquired with subsidiary		115	-
Interest received		8	-
Net cash used in investing activities		(907)	(50)
Financing activities			
Interest paid		(48)	(15)
Payments to finance lease creditors		(48)	(93)
Repayment of borrowings		(346)	(200)
Issue of convertible debt		-	1,251
Loan finance raised		890	-
Share issues net of costs		33,852	5,797
Net cash generated/ (used in) financing activities		34,300	6,740
Net increase in cash and cash equivalents		27,938	2,254
Cash and cash equivalents at beginning of year		2,387	133
Cash and cash equivalents at end of year	17	30,325	2,387

The notes on pages 33 to 66 form part of these financial statements.

Midatech Pharma plc

Consolidated statement of changes in equity
for the year ended 31 December 2014

	Share capital	Share premium	Merger reserve	Shares to be issued	Foreign exchange reserve	Retained deficit	Total equity
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
At 1 January 2014	**-**	**21,018**	**-**	**-**	**142**	**(20,400)**	**760**
Loss for the year	-	-	-	-	-	(7,382)	(7,382)
Foreign exchange translation	-	-	-	-	(151)	-	(151)
Total comprehensive loss	**-**	**-**	**-**	**-**	**(151)**	**(7,382)**	**(7,533)**
Transactions with owners							
Issue of Midatech Limited shares - pre-share for share exchange	-	3,202	-	-	-	-	3,202
Transfer to merger reserve on the merger of Midatech Pharma plc and Midatech Limited – 31 October 2014	-	(24,220)	24,220	-	-	-	-
Transfer of A Preference shares from liability to equity (28 October 2014) and subsequent conversion to Deferred shares – 8 December 2014	1,000	-	-	-	-	-	1,000
Issue of shares to settle A Preference share accrued dividend – 8 December 2014	-	994	-	-	-	-	994
Shares issued as consideration for a business combination – 8 December 2014	-	-	13,556	-	-	-	13,556
Shares to be issued as consideration for a business combination – 8 December 2014	-	-	-	800	-	-	800
Issue of shares on placing – 8 December 2014	1	32,000	-	-	-	-	32,001
Costs associated with share placing	-	(1,351)	-	-	-	-	(1,351)
Total contribution by and distributions to owners	**1,001**	**10,625**	**37,776**	**800**	**-**	**-**	**50,202**
At 31 December 2014	**1,001**	**31,643**	**37,776**	**800**	**(9)**	**(27,782)**	**43,429**

Midatech Pharma plc

Consolidated statement of changes in equity
for the year ended 31 December 2014

	Share capital	Share premium	Merger reserve	Shares to be issued	Foreign exchange reserve	Retained deficit	Total equity
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
1 January 2013	**-**	**11,966**	**-**	**-**	**137**	**(17,194)**	**(5,091)**
Loss for the year	-	-	-	-	-	(4,084)	(4,084)
Foreign exchange translation	-	-	-	-	5	-	5
Total comprehensive income/(loss)	**-**	**-**	**-**	**-**	**5**	**(4,084)**	**(4,079)**
Transaction with owners							
Conversion of convertible loan notes	-	-	-	-	-	584	584
Issue of shares	-	9,093	-	-	-	-	9,093
Cost of share issues	-	(41)	-	-	-	-	(41)
Capital contribution	-	-	-	-	-	294	294
Contributions by and distributions to owners	**-**	**9,052**	**-**	**-**	**-**	**878**	**9,930**
31 December 2013	**-**	**21,018**	**-**	**-**	**142**	**(20,400)**	**760**

The notes on pages 33 to 66 form part of these financial statements.

1 Accounting policies

Basis of preparation

Midatech Pharma plc (the "Company") is a company domiciled in England. The Company was incorporated on 12 September 2014 and this is the first set of financial information prepared by the Company.

The Group was formed on 31 October 2014 when Midatech Pharma plc entered into an agreement to acquire the entire share capital of Midatech Limited and its wholly owned subsidiaries through the issue equivalent of shares in the Company which took place on 13 November 2014.

The acquisition of the Midatech subsidiaries is outside the scope of IFRS 3 "Business combinations" and has been treated under the principles of merger accounting as set out under UK GAAP. The capital structure for the comparative year reflects the former holding company, Midatech Limited. Following the group reconstruction the capital structure reflects that of Midatech Pharma plc.

Accordingly, although the units which comprise the Group did not form a legal group for the entire period, the current period and comparative results comprise the results of the subsidiary companies as if the Group had been in existence throughout the entire period.

These financial statements have been prepared in accordance with International Financial Reporting Standards, International Accounting Standards and Interpretations (collectively IFRS) issued by the International Accounting Standards Board (IASB) as adopted by European Union ("adopted IFRSs") and are presented in £'000's Sterling.

The former group, Midatech Limited, adopted IFRS for the first time in its Historical Financial Information for the 3 years ended 31 December 2013 as presented in the Placing and Admission to AIM document dated 3 December 2014. Midatech Pharma plc is a continuation of Midatech Limited as reflected in the merger accounting principle adopted and therefore the group is not considered to be a first time adopter of IFRS in these financial statements.

The principal accounting policies adopted in the preparation of the financial statements are set out below. The policies have been consistently applied to all the periods presented.

The following new standards have been adopted during the period:

- IFRS 10 Consolidated Financial Statements
- IFRS 11 Joint Arrangements
- IFRS 12 Disclosure of Interests in Other Entities
- IAS 27 Separate Financial Statements
- IAS 28 Investments in Associates and Joint Ventures
- Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32)
- Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27)
- Recoverable amounts disclosures for non-financial assets (Amendments to IAS 36)
- Novation of Derivatives and Continuation of Hedge Accounting (Amendments to IAS 39)

The adoption of the above new standards has not had a material impact on the financial statements during the year ended 31 December 2014.

New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not effective for 2014 and therefore have not been applied in preparing these accounts. The effective dates shown are for periods commencing on the date quoted.

- Defined Benefit Plans: Employee Contributions: Amendments to IAS 19 (effective for periods beginning on or after 1 July 2014)

1 **Accounting policies** *(continued)*

Basis of preparation *(continued)*

- Accounting for Acquisitions of Interests in Joint Operations: Amendments to IFRS 11 (effective 1 January 2016)
- Clarification of Acceptable Methods of Depreciation and Amortisation: Amendments to IAS 16 and IAS 38 (effective 1 January 2016)
- Equity Method in Separate Financial Statements (Amendments to IAS 27) (effective 1 January 2016)
- Sale or contribution of assets between an investor and its associate or joint venture (Amendments to IFRS 10 and IAS 28) (effective 1 January 2016)
- IFRS 15 Revenue from Contracts with Customers (effective 1 January 2017)
- IFRS 9 Financial Instruments (effective 1 January 2018)
- Disclosure Initiative: Amendments to IAS 1 (effective 1 January 2016)
- Annual improvements to IFRSs

The Group has considered the above new standards, interpretations and amendments to published standards that are not yet effective and concluded that they are either not relevant to the Group or that they would not have a significant impact on the Group's financial statements, apart from additional disclosures.

Basis of consolidation

The Group financial statements consolidate those of the parent company and all of its subsidiaries. The parent controls a subsidiary if it has power over the investee to significantly direct the activities, exposure, or rights, to variable returns from its involvement with the investee, and the ability to use its power over the investee to affect the amount of the investor's returns. All subsidiaries have a reporting date of 31 December.

All transactions and balances between Group companies are eliminated on consolidation, including unrealised gains and losses on transactions between Group companies. Where unrealised losses on intra-Group asset sales are reversed on consolidation, the underlying asset is also tested for impairment from a Group perspective. Amounts reported in the financial statements of subsidiaries have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Group.

The loss and other comprehensive income of the Midatech Pharma (Wales) Limited (formerly Q-Chip) group acquired during the year are recognised from the effective date of acquisition, i.e. 8 December 2014.

The consolidated financial statements consist of the results of the following entities:

Entity	Summary description
Midatech Pharma plc	Ultimate holding company
Midatech Limited	Trading company
Midatech Biogune SL	Trading company
Midatech Andalucia SL	Dormant
Cura Vaccines Limited	Dormant
PharMida AG	Trading company
Midatech Pharma (Wales) Limited (formerly Q Chip Limited)	Trading company
Q Chip BV	Trading company
OpsiRx Pharmaceuticals Limited	Non-trading company
OpsiRx Holdings Limited	Non-trading company

1 **Accounting policies** *(continued)*

Revenue

The Group's income stream comprises milestone income from research and development contracts. Milestone income is recognised as revenue in the accounting period in which the milestones are achieved. Milestones are agreed on a project by project basis and will be evidenced by set deliverables.

Research and development contracts

Amounts received under collaborative joint agreements, representing contributions to the Group's research and development programmes, are recognised as a credit against research and development expense in the period over which the related costs are incurred. All costs related to these collaborative agreements are recorded as research and development expenditure.

Government grants and government loans

Government grants are credited to research and development expense in the same period as the expenditure towards which they are intended to contribute.

The group receives government loans that have a below-market rate of interest of 0%. These loans are recognised and measured in accordance with IAS 39. The benefit of the below-market rate of interest is measured as the difference between the initial carrying value of the loan discounted at a market rate of interest and the proceeds received.

The difference is held within deferred revenue as a government grant and is released as a credit to research and development expense in line with the expenditure to which it relates. In a situation where the proceeds were invested in plant and equipment, the deferred revenue is credited to research and development within the income statement in line with the depreciation of the acquired asset.

Externally acquired intangible assets and goodwill

Goodwill represents amounts arising on acquisition, being the difference between the cost of the acquisition and the net fair value of the identifiable assets and liabilities acquired on a business combination. Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units for the purposes of impairment testing and is not amortised. It is tested annually for impairment.

An intangible asset, which is an identifiable non-monetary asset without physical substance, is recognised to the extent that it is probable that the expected future economic benefits attributable to the asset will flow to the Group and that its cost can be measured reliably. The asset is deemed to be identifiable when it is separable or when it arises from contractual or other legal rights.

Externally acquired intangible assets are initially recognised at cost and subsequently amortised on a straight line basis over their useful economic lives where they are in use.

The amounts ascribed to intangibles recognised on business combinations are arrived at by using appropriate valuation techniques (see section related to critical estimates and judgements below).

In-process research and development (IPRD) programmes acquired in business combinations are recognised as an asset even if subsequent expenditure is written off because the criteria specified in the policy for development costs below are not met. IPRD is subject to annual impairment testing until the completion or abandonment of the related project. No further costs will be capitalised in respect of this IPRD unless it meets the criteria for research and development capitalisation as set out below. As per IFRS 3, once the incremental research and development is completed, the carrying value of the acquired IPRD is reclassified as a finite-lived asset and amortised over its useful life.

1 **Accounting policies** *(continued)*

Externally acquired intangible assets and goodwill *(continued)*

The significant intangibles recognised by the Group and their useful economic lives are as follows:

Goodwill	-	Indefinite life
IPRD	-	to be determined when research complete
IT and Website costs	-	4 years

Internally generated intangible assets (development costs)

Expenditure on the research phase of an internal project is recognised as an expense in the period in which it is incurred. Development costs incurred on specific projects are capitalised when all the following conditions are satisfied:

- Completion of the asset is technically feasible so that it will be available for use or sale
- The Group intends to complete the asset and use or sell it
- The Group has the ability to use or sell the asset and the asset will generate probable future economic benefits (over and above cost)
- There are adequate technical, financial and other resources to complete the development and to use or sell the asset, and
- The expenditure attributable to the asset during its development can be measured reliably.

Judgement is applied when deciding whether the recognition criteria are met. Judgements are based on the information available at each statement of financial position date. In addition, all internal activities related to the research and development of new projects are continuously monitored by the Directors. The Directors consider that the criteria to capitalise development expenditure are not met for a product prior to that product receiving regulatory approval in at least one country.

Development expenditure not satisfying the above criteria, and expenditure on the research phase of internal projects, are included in R&D costs recognised in the Consolidated Statement of Comprehensive Income as incurred. No projects have yet reached the point of capitalisation.

Impairment of non-financial assets

Assets that have an indefinite useful life, for example goodwill, or intangible assets not ready for use, such as in-process research and development, are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of impairment at each reporting date.

Patents and trademarks

The costs incurred in establishing patents and trademarks are either expensed or capitalised in accordance with the corresponding treatment of the development expenditure for the product to which they relate.

1 **Accounting policies** *(continued)*

Joint arrangements

The Group is a party to a joint arrangement when there is a contractual arrangement that confers joint control over the relevant activities of the arrangement to the Group and at least one other party. Joint control is assessed under the same principles as control over subsidiaries.

The Group classifies its interests in joint arrangements as either:

- Joint ventures: where the Group has rights to only the net assets of the joint arrangement
- Joint operations: where the Group has both the rights to assets and obligations for the liabilities of the joint arrangement.

In assessing the classification of interests in joint arrangements, the Group considers:

- The structure of the joint arrangement
- The legal form of joint arrangements structured through a separate vehicle
- The contractual terms of the joint arrangement agreement
- Any other facts and circumstances (including any other contractual arrangements).

The Group accounts for its interests in joint ventures using the equity method.

Any premium paid for an investment in a joint venture above the fair value of the Group's share of the identifiable assets, liabilities and contingent liabilities acquired is capitalised and included in the carrying amount of the investment in joint venture. Where there is objective evidence that the investment in a joint venture has been impaired the carrying amount of the investment is tested for impairment in the same way as other non-financial assets.

The Group accounts for its interests in joint operations by recognising its share of assets, liabilities, revenues and expenses in accordance with its contractually conferred rights and obligations.

Foreign currency

Transactions entered into by Group entities in a currency other than the currency of the primary economic environment in which they operate are recorded at the rates ruling when the transactions occur. Foreign currency monetary assets and liabilities are translated at the rates ruling at the reporting date. Exchange differences arising on the retranslation of unsettled monetary assets and liabilities are recognised immediately in profit or loss.

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, including goodwill arising on the acquisition of those 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.

Exchange differences recognised in the profit or loss of Group entities on the translation of long-term monetary items forming part of the Group's net investment in the overseas operation concerned are reclassified to other comprehensive income and accumulated in the foreign exchange reserve on consolidation.

On disposal of a foreign operation, the cumulative exchange differences recognised in the foreign exchange reserve relating to that operation up to the date of disposal are transferred to the consolidated statement of comprehensive income as part of the profit or loss on disposal.

1 **Accounting policies** *(continued)*

Financial assets

The Group does not have any financial assets which it would classify as fair value through profit or loss, available for sale or held to maturity. Therefore all financial assets are classed as loans and receivables as defined below.

Loans and receivables

These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of goods and services to customers (e.g. trade receivables), but also incorporate other types of contractual monetary asset. 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 are recognised when there is objective evidence (such as significant financial difficulties on the part of the counterparty or default or significant delay in payment) that the Group will be unable to collect all of the amounts due under the terms, the amount of such a provision being the difference between the net carrying amount and the present value of the future expected cash flows associated with the impaired receivable. For trade receivables, which are reported net, such provisions are recorded in a separate allowance account with the loss being recognised within administrative expenses 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 and cash and cash equivalents in the consolidated statement of financial position.

Cash and cash equivalents includes cash in hand, deposits held at call with original maturities of three months or less.

Financial liabilities

The Group classifies its financial liabilities into one of two categories, depending on the purpose for which the liability was acquired.

Fair value through profit and loss

The Group had convertible loans where the conversion price was not fixed on inception of the instrument. Therefore the derivative element of the instrument is fair valued on inception using an option pricing model and held at fair value through profit and loss as either a current or non-current liability depending on the expiration of the instrument at the date of financial position. The instrument was re-measured at each period end and immediately before conversion. The balance of the financial instrument is held at amortised cost.

Other financial liabilities include the following items:

- Borrowings are initially recognised at fair value net of any transaction costs directly attributable to the issue of the instrument. Such interest bearing liabilities are subsequently measured at amortised cost using the effective interest rate method, which ensures that any interest expense over the period to repayment is at a constant rate on the balance of the liability carried in the consolidated statement of financial position. Interest expense in this context includes initial transaction costs and premium payable on redemption, as well as any interest or coupon payable while the liability is outstanding.
- Convertible loan notes, have been split between debt and fair value through profit and loss derivative. The debt element is recognised initially at fair value and subsequently carried at amortised cost.

1 **Accounting policies** *(continued)*

***Financial liabilities** (continued)*

- Government loans received on favourable terms below market rate are discounted at a market rate of interest. The difference between the present value of the loan and the proceeds is held as a government grant within deferred revenue and is released to research and development expenditure in line with when the asset or expenditure is recognised in the income statement.
- Redeemable preference shares are classified as liabilities as they accrued fixed interest payable in cash when distributable profits are available and confer no right to assets or equity distributions of the Company.
- Trade payables and other short-term monetary liabilities are initially recognised at fair value and subsequently carried at amortised cost using the effective interest method.

Share capital

Financial instruments issued by the Group are classified as equity only to the extent that they do not meet the definition of a financial liability or financial asset. The Group has two classes of share in existence:

- Ordinary shares of £0.00005 each are classified as equity instruments;
- Deferred shares of £1 each are classified as equity instruments.

Retirement benefits: defined contribution schemes

Contributions to defined contribution pension schemes are charged to the consolidated statement of comprehensive income in the year to which they relate.

Share-based payments

The share based payment charge is immaterial to the financial statements and has therefore not been recorded.

Leased assets

Where substantially all of the risks and rewards incidental to ownership of a leased asset have been transferred to the Group (a "finance lease"), the asset is treated as if it had been purchased outright. The amount initially recognised as an asset is the lower of the fair value of the leased property and the present value of the minimum lease payments payable over the term of the lease. The corresponding lease commitment is shown as a liability. Lease payments are analysed between capital and interest. The interest element is charged to the consolidated statement of comprehensive income over the period of the lease and is calculated so that it represents a constant proportion of the lease liability. The capital element reduces the balance owed to the lessor.

Where substantially all of the risks and rewards incidental to ownership are not transferred to the Group (an "operating lease"), the total rentals payable under the lease are charged to the consolidated statement of comprehensive income on a straight-line basis over the lease term. The aggregate benefit of lease incentives is recognised as a reduction of the rental expense over the lease term on a straight-line basis.

Dividends

Dividends are recognised when they become legally payable. In the case of interim dividends to equity shareholders, this is when declared by the Directors. In the case of final dividends, this is when approved by the shareholders at the AGM. There have been no dividends paid since the formation of the Group.

1 **Accounting policies** *(continued)*

Deferred taxation

Deferred tax assets and liabilities are recognised where the carrying amount of an asset or liability in the consolidated statement of financial position differs from its tax base, except for differences arising on:

- the initial recognition of goodwill;
- 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 or taxable profit; and
- investments in subsidiaries and jointly controlled entities where the Group is able to control the timing of the reversal of the difference and it is probable that the difference will not reverse in the foreseeable future.

Recognition of deferred tax assets is restricted to those instances where it is probable that taxable profit will be available against which the difference can be utilised.

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 assets or liabilities are recovered or settled.

Shares to be issued

Deferred consideration shares of 299,624 Ordinary Shares will be issued to the sellers of Midatech Pharma (Wales) Limited in two tranches; 224,718 on 8 December 2015 and 74,906 on 30 June 2016 as part consideration for the acquisition of 100% of the share capital. The number of shares will be revised downwards following any warranty claims not considered as part of the purchase price.

Property, plant and equipment

Items of property, plant and equipment are initially recognised at cost. As well as the purchase price, cost includes directly attributable costs.

Depreciation is provided on all items of property, plant and equipment so as to write off their carrying value over their expected useful economic lives. It is provided at the following rates:

Fixtures and fittings	-	25% per annum straight line
Leasehold improvements	-	10% per annum straight line
Computer equipment	-	25% per annum straight line
Laboratory equipment	-	15% per annum straight line

2 Critical accounting estimates and judgements

The Group makes certain estimates and assumptions regarding the future. Estimates and judgements are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may differ from these estimates and assumptions. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(i) Revenue recognition
Fees invoiced in respect of milestones have been recognised as revenue in the Consolidated Statement of Comprehensive Income in the period as all criteria for revenue recognition have been met. Milestones are agreed on a project by project basis and will be evidenced by set deliverables.

(ii) Intangible asset recognition
The Directors consider that the criteria to capitalise development expenditure are not met for a product prior to receipt of regulatory approval as this is the point at which technical feasibility can be demonstrated.

(iii) Calculation and impairment of goodwill
The amount of goodwill initially recognised is dependent on the allocation of the purchase price to the fair value of the identifiable assets acquired and the liabilities assumed. The determination of the fair value of the assets and liabilities is based to a considerable extent on the use of professional advisors in conjunction with management's judgement. Allocation of the purchase price affects the result of the Group as finite lived intangible assets are amortised whereas indefinite lived intangible assets including goodwill are not amortised and could result in differing amortisation charges based on the allocation to indefinite lived and finite lived intangible assets.

(iv) Intangible assets
Acquired in-process research and development (IPRD) is not amortised until research is complete and the product is revenue generating and is therefore subject to annual impairment reviews. The value of such acquired assets is based to a considerable extent on the use of professional advisors in conjunction with management judgement and is the subject of impairment reviews until the completion or abandonment of the related project. Management takes into consideration the requirements of IFRS 3, once the incremental research and development is completed, the carrying value of the acquired IPRD will be required to be reclassified as a finite-lived asset and amortised over its useful life.

(v) Determination of fair values of intangible assets acquired in business combinations
The fair value of intangible assets acquired in business combinations is based on a method appropriate to the specific intangible asset. The fair value of the in-process research and development acquired in the Q Chip acquisition, was based on discounted cash flows over the expected life of the relevant patents.

(vi) Deferred tax asset recognition
The Directors consider that, given the current stage of development of the business, deferred tax assets should not be recognised before the Group is generating recurring profits.

2 Critical accounting estimates and judgements *(continued)*

(vii) Classification of joint arrangements
For all joint arrangements structured in separate vehicles the Group must assess the substance of the joint arrangement in determining whether it is classified as a joint venture or joint operation. This assessment requires the Group to consider whether it has rights to the joint arrangement's net assets (in which case it is classified as a joint venture), or rights to and obligations for specific assets, liabilities, expenses, and revenues (in which case it is classified as a joint operation). Factors the group must consider include:

- Structure
- Legal form
- Contractual agreement
- Other facts and circumstances.

Upon consideration of these factors, the Group has determined that the Syntara LLC arrangement is a joint venture and the MidaSol Therapeutics arrangement is a joint operation. MidaSol Therapeutics is a collaborative agreement to share 50% of the development expenditure of a project where both parties have joint control but transactions are not recorded in a separate vehicle. As up to 90% of the costs can initially pass through the Group and periodically, including the year end, a true up invoice is credited to research and development and settled in cash by their collaborations partner.

(viii) Convertible loan notes
The convertible loan notes have been split between the debt held under amortised cost and a derivative element held at fair value through profit and loss. This requires calculating the fair value of the derivative instrument using an option pricing model and recognising separately as a liability at fair value through profit and loss. The derivative is re-measured at each period end and immediately before conversion. The loan element is held at amortised cost.

(ix) Useful lives of plant and equipment
Plant and equipment is amortised or depreciated over its useful life. Useful lives are based on the Directors' estimates of the periods over which the assets will be used in developing revenue generating products and the estimates are reviewed annually for continued appropriateness. The estimated useful lives are set out in Note 1. Changes to estimates can result in significant variations in the carrying value and amounts charged to the Consolidated Statement of Comprehensive Income in specific periods.

(x) Research and development tax credit
Research and development tax credits are recognised on an accruals basis and are included as an income tax credit under current assets. The Group has a history of successfully estimating research and development tax credits as set out by applicable tax legislation.

3 Revenue

Fees invoiced in respect of milestones have been recognised as revenue in the Consolidated Statement of Comprehensive Income in the period as all criteria for revenue recognition have been met. Milestones are agreed on a project by project basis and will be evidenced by set deliverables.

4 Segment information

The Group contains two operating segments following the acquisition of Midatech Pharma (Wales) Limited. These entities meet the aggregation criteria and have therefore been presented as a single reportable segment. The research and development activities involve the discovery and development of pharmaceutical products in the field of nanomedicine and sustained release technology.

Information about major customers
To date, modest sales have meant that no meaningful analysis can be drawn from the customer profile of the revenues achieved during each period under review.

Non-current assets by location of assets
Non-current assets of £1.15m (2013: £0.95m) reside in Spain. The remainder of the Group's non-current assets reside in the United Kingdom.

5 Loss from operations

Loss from operations is stated after charging/(crediting):	2014 £'000	2013 £'000
Depreciation of property, plant and equipment	321	246
Amortisation of intangible assets	1	1
Fees payable to the Company's auditor for the audit of the parent Company	21	6
Fees payable to the Company's subsidiary auditors for the audits of the subsidiary accounts	31	25
Fees payable to the Company's auditor for:		
- Corporate finance services	281	-
- Tax compliance	14	1
- Tax advisory	14	1
- Other services	6	1
Operating lease expense:		
- Property	97	194
- Plant and machinery	57	
Foreign exchange (gain)/loss	(37)	28
IPO costs (in addition to fees payable to the Company's auditor)	763	-
Acquisition costs	172	-
Loss on disposal of property, plant and equipment	89	-

IPO costs primarily relate to the professional fees incurred on the admission of the Group to AIM.

Acquisition costs relate to professional fees and stamp duty incurred on the acquisition of Midatech Pharma (Wales) Limited.

6 Staff costs

	2014 £'000	2013 £'000
Staff costs (including directors) comprise:		
Wages and salaries	2,322	1,866
Defined contribution pension cost (note 25)	169	177
Social security contributions and similar taxes	322	295
	2,813	2,338

Employee numbers

The average number of staff employed by the Group during the financial year amounted to:

	2014 £'000	2013 £'000
Research and development	28	22
General and administration	10	7
	38	29

Key management personnel compensation

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, including the directors of the company listed on page 18, and the Chief Operating Officer. Below includes the compensation for the Finance Director from the 4 February 2014 who was not a director of Midatech Limited or Midatech Pharma plc until 2 September 2014.

	2014 £'000	2013 £'000
Wages and salaries	546	561
Defined contribution pension cost	36	55
Payments made to third parties	184	-
Social security contributions and similar taxes	78	72
Benefits in kind	36	7
	880	695

Emoluments disclosed above include the following amounts in respect of the highest paid Director. Directors emoluments are disclosed on page 18.

	2014 £'000	2013 £'000
Salary	323	192
Total pension and other post-employment benefit costs	22	19
Benefits in kind	-	2
	345	213

None of the Directors has exercised share options during the period.

During the year, 2 Directors (2013: 2) participated in a defined contribution pension scheme.

7 Finance income and expense

Finance income	2014 £'000	2013 £'000
Interest received on bank deposits	8	1
Total finance income	8	1

Finance expense	2014 £'000	2013 £'000
Bank loans	126	3
Other loans	-	50
Interest on convertible loans	35	195
Non-equity preference shares	-	137
Total finance expense	161	385

8 Taxation

	2014 £'000	2013 £'000
Current tax credit		
Current tax credited to the income statement	663	799
Taxation payable in respect of foreign subsidiary	(5)	-
Total current tax and tax credit	658	799

8 Taxation *(continued)*

The reasons for the difference between the actual tax charge for the year and the standard rate of corporation tax in the United Kingdom applied to losses for the year are as follows:

	2014 £'000	2013 £'000
Loss before income tax	(8,040)	(4,883)
Expected tax credit based on the standard rate of United Kingdom corporation tax at the domestic rate of 21.49% (2013: 20%)	(1,723)	(977)
Fixed asset differences	12	4
Expenses not deductible for tax purposes	385	67
Adjustments to brought forward values	33	-
Additional deduction for R&D expenditure	(566)	(811)
Surrender of tax losses for R&D tax refund	419	653
Adjust deferred tax opening/closing rate	59	-
Income not taxable	(44)	-
Difference in capital allowances and depreciation/amortisation	-	5
Other short term timing differences	-	23
Unrelieved tax losses and other deductions arising in the period	(35)	237
Deferred tax not recognised	802	-
Total tax credited to the income statement	(658)	(799)

The taxation credit arises on the enhanced research and development tax credits accrued for the respective periods.

The Finance Act 2013 includes provision for the main rate of corporation tax to reduce from 23% to 21% from 1 April 2014 and to 20% from 1 April 2015.

9 Loss per share

Numerator	Total 2014 £'000	Total 2013 £'000
Loss used in basic EPS and diluted EPS	**(7,382)**	(4,084)
Denominator		
Weighted average number of ordinary shares used in basic EPS	**9,026,347**	5,715,576
Basic and diluted loss per share - pence	**(82p)**	(71p)

The 2013 loss per share is based on the Midatech Limited weighted average number of shares in issue which has been restated to take account of the share division that took place on 28 November 2014 whereby each 0.001p Ordinary Share was sub divided into two 0.0005p Ordinary Shares.

10 Property, plant and equipment

	Fixtures and fittings	Leasehold improve-ments	Computer equipment	Laboratory equipment	Total
	£'000	£'000	£'000	£'000	£'000
Cost					
At 1 January 2013	716	746	147	161	1,770
Additions	16	15	15	1	47
Exchange differences	16	6	3	-	25
At 31 December 2013	748	767	165	162	1,842
At 1 January 2014	748	767	165	162	1,842
Additions	524	259	18	229	1,030
Acquired through acquisition of subsidiary	56	19	112	596	783
Exchange differences	(42)	(41)	(3)	-	(86)
Disposals	(31)	(124)	-	(15)	(170)
At 31 December 2014	**1,255**	**880**	**292**	**972**	**3,399**
Accumulated depreciation					
At 1 January 2013	321	400	94	79	894
Charge for the year	102	86	22	36	246
Exchange differences	7	9	2	-	18
At 31 December 2013	430	495	118	115	1,158
At 1 January 2014	430	495	118	115	1,158
Charge for the year	102	67	24	128	321
Acquired through acquisition of subsidiary	53	-	97	389	539
Exchange differences	(22)	(33)	(2)	3	(54)
Disposals	(31)	(50)	-	-	(81)
At 31 December 2014	**532**	**479**	**237**	**635**	**1,883**
Net book value					
At 31 December 2014	**723**	**401**	**55**	**337**	**1,516**
At 31 December 2013	318	272	47	47	684
At 1 January 2013	395	346	53	82	876

10 Property, plant and equipment *(continued)*

Included within the total net book value of tangible fixed assets is £224k (2013: £346k) in respect of assets held under finance leases and similar hire purchase contracts. The depreciation charge for the year on these assets was £79k (2013: £90k). These assets were held as security in respect of their finance lease obligations.

No other assets were held as security other than those on finance lease.

11 Intangible assets

	In-process research and Development £'000	Goodwill £'000	IT/Website Costs £'000	Total £'000
Cost				
At 1 January 2013	-	-	9	9
Additions	-	-	3	3
At 31 December 2013	-	-	12	12
At 1 January 2014	-	-	12	12
Acquired in business combinations	14,100	2,897	-	16,997
At 31 December 2014	**14,100**	**2,897**	**12**	**17,009**
Accumulated amortisation				
At 1 January 2013	-	-	7	7
Amortisation charge for the year	-	-	1	1
At 31 December 2013	-	-	8	8
At 1 January 2014	-	-	8	8
Amortisation charge for the year	-	-	1	1
At 31 December 2014	-	-	9	9
Net book value				
At 31 December 2014	**14,100**	**2,897**	**3**	**17,000**
At 31 December 2013	-	-	4	4
At 1 January 2013	-	-	2	2

12 Acquisition of Q Chip Limited

On 8 December 2014, the group acquired 100% of the voting equity of Q Chip Limited and its subsidiaries, a UK company principally involved in design and development of the Q-Sphera TM drug encapsulation and delivery system and underpinning microsphere manufacturing technology. On 20 January 2015 Q Chip Limited changed its name to Midatech Pharma (Wales) Limited. The principal reason for this acquisition was to strengthen the Group's technology and product portfolios, and thereby diversify risk through the following:

a) Add controlled-release technology to Midatech gold nano-particle and portfolio
b) Expand the number of development projects
c) Q-Chip's product portfolio offered Midatech a lower risk profile than Midatech's own technology thereby mitigating against potential future failure

The revenue included in the Consolidated Statement of Comprehensive Income since 8 December 2014 contributed by Q Chip Limited was £nil. Q Chip Limited contributed a net loss of £0.3m over the same period.

If the acquisition had occurred on 1 January 2014, group revenue would have been £0.73m and group loss for the period would have been £9.41m.

Acquisition related costs of £0.17m were incurred in relation to this acquisition and are included within administrative expenses within the Consolidated Statement of Comprehensive Income for the period.

Details of the fair value of identifiable assets and liabilities acquired, purchase consideration and goodwill are:

	Provisional fair value £000
Identifiable intangible assets:	
In-process research and development	14,100
Property, plant and equipment	244
Receivables and other debtors	314
Payables and other liabilities	(494)
Deferred tax	(2,820)
Cash	115
Total net assets	11,459
Equity instruments (5,077,122 ordinary shares)	13,556
Deferred Equity instruments (299,624 deferred consideration shares held as shares to be issued)	800
Total consideration	**14,356**
Goodwill on acquisition	**2,897**

The main factors leading to the recognition of goodwill are the presence of certain intangible assets, such as the assembled workforce of the acquired entity and the expected synergies of the enlarged group which do not qualify for separate recognition.

The goodwill and intangible assets recognised will not attract tax deductions.

12 Acquisition of Q Chip Limited *(continued)*

The net cash inflow in the year in respect of acquisition comprised:

	Fair Value £000
Net cash acquired	115

13 Impairment testing

Details of goodwill and IPRD allocated to the acquired cash generating unit and the recoverable amount and valuation basis is as follows:

Name	Goodwill carrying amount 2014 £000	IPRD Carrying amount 2014 £000	Recoverable value of CGU 2014 £000	Valuation basis
CGU – Q-Chip Limited and subsidiaries	2,897	14,100	14,177	Value in use

The value in use model uses a 20 year risk adjusted cash flow forecast that has been approved by the Board. The carrying value of the CGU includes a deferred tax liability of £2.88m, goodwill of £2.90m, IPRD of £14.1m and an immaterial amount of underlying net assets. The key assumptions used in the model include the following:

Assumptions	2014 CGU – Q Chip Limited and subsidiaries
Discount rate	14.5%
Cumulative probability of success of projects	49% to 60%

The value in use calculations used to value the acquired intangibles and appraise the carrying value of the intangibles were materially the same. This is because of the impairment test date and acquisition date being only 23 days apart. Any increase in the discount rate or decrease in the probability of success of projects stated above would result in an impairment.

14 Subsidiaries

The principal subsidiaries of Midatech Pharma plc, all of which are 100% owned and have been included in these financial statements in accordance with the details set out in the basis of preparation and basis of consolidation note 1, are as follows:

Name	Country of incorporation	Nature of Business	Notes
Midatech Limited	United Kingdom	Trading company	
Midatech Biogune SL	Spain	Trading company	
Midatech Andalucia SL	Spain	Dormant	
Cura Vaccines Limited	United Kingdom	Dormant	
PharMida AG	Switzerland	Trading company	(a)
Midatech Pharma (Wales) Limited	United Kingdom	Trading company	(c)
Q Chip BV	Netherlands	Trading company	(b)
OpsiRx Pharmaceuticals Limited	United Kingdom	Non-trading company	
OpsiRx Holdings Limited	United Kingdom	Non-trading company	

14 Subsidiaries *(continued)*

Notes:

(a) PharMida AG is due to become dormant from July 2015.
(b) Q Chip BV is due to become dormant from July 2015.
(c) Q Chip Limited was renamed Midatech Pharma (Wales) Limited on 23 January 2015.

15 Joint arrangements

Name	Country of incorporation	Nature of business	Type of arrangement
Syntara LLC	United States of America	Research and development partner	Joint venture
MidaSol Therapeutics GP	Cayman Islands	Research and development partner	Joint operation

The Group has a 50% (2013: 50%) interest in two joint arrangements: Syntara LLC and MidaSol Therapeutics. The primary activity of these joint arrangements is to provide the partners with collaborative research and development on drug delivery systems in the market, which is in line with the Group's strategy to develop a safe and effective drug delivery system.

Syntara LLC is a non-trading joint venture where the group has joint control over the separate legal entity. The group equity accounts for its interests in this arrangement; the results are immaterial to the financial statements.

MidaSol Therapeutics has a separate legal entity however no costs or revenues pass through it. The Group and its collaborative partner incur costs in respect of research of development and periodically agree on a contribution from either side to ensure that both parties have incurred 50% of the total costs. Contributions from their research partner are netted against the costs to which they relate within research and development and the arrangement is accounted for as a joint operation.

	2014 £'000	2013 £'000
Research and development spend on MidaSol Therapeutics	248	542
Year-end receivable due from joint operation partner	-	146

16 Trade and other receivables

	2014 £'000	2013 £'000
Trade receivables	189	160
Prepayments	49	68
Other receivables	649	1,060
Total trade and other receivables	887	1,288
Less: non-current portion (rental deposit and bond)	(425)	(379)
Current portion	462	909

16 Trade and other receivables *(continued)*

Trade and other receivables do not contain any impaired assets. The Group does not hold any collateral as security and the maximum exposure to credit risk at the Consolidated Statement of Financial Position date is the fair value of each class of receivable.

Book values approximate to fair value at 31 December 2014 and 2013.

17 Cash and cash equivalents notes

	2014 £'000	2013 £'000
Cash at bank available on demand	30,325	2,387

18 Trade and other payables

Current	2014 £'000	2013 £'000
Trade payables	981	522
Other payables	177	177
Accruals	732	58
Total financial liabilities, excluding loans and borrowings, classified as financial liabilities measured at amortised cost	1,890	757
Tax and social security	274	78
Deferred revenue	177	212
Total trade and other payables	2,341	1,047

Book values approximate to fair value at 31 December 2014 and 2013.

All current trade and other payables are payable within 3 months of the period end date shown above.

Government grants in UK

Midatech received development grant funding from the European Commission of £0.15m on 18 August 2014 and £0.07m on 16 December 2014 under the Health Cooperation Work Programme of the 7th Framework Programme of which £0.15m (2013: £0.21m) is recorded as deferred revenue at 31 December 2014. The collaborative project supported by this grant is part of the EE-ASI European Research network.

18 Trade and other payables *(continued)*

Government grants/loans in Spain

Five tranches of government loans have been received in Midatech Biogune SL for the finance of research, technical innovation and the construction of their laboratory. The loans are term loans which carry an interest rate of 0%, they are repayable over periods through to 2022. The loans carry default interest rates in the event of scheduled repayments not being met. The loans are discounted at a market rate of interest with the credit being classified as a grant within deferred revenue. The deferred grant revenue is released to the income statement within research and development in the period to which the expenditure is recognised.

The debt element of the government loans is designated within note 19 as borrowings, the gross contractual repayment of the loans is disclosed in note 20.

19 Loans and borrowings

	2014 £'000	2013 £'000
Current		
Bank loans	9	-
Finance lease	37	47
Government and research loans	445	138
Preference share dividends payable	-	1,063
Total	491	1,248
Non-current		
Bank loans	31	-
Government and research loans	1,457	1,006
Preference shares	-	1,075
Finance lease	-	38
Total	1,488	2,119

Book values approximate to fair value at 31 December 2014 and 2013.

Obligations under finance leases are secured by a fixed charge over the fixed assets to which they relate.

The Group had no undrawn committed borrowing facilities at any year end.

20 Financial instruments - Risk Management

The Group is exposed through its operations to the following financial risks:

- Credit risk
- Fair value or cash flow interest rate risk
- Foreign exchange risk
- Liquidity risk

In common with all other businesses, the Group is exposed to risks that arise from its use of financial instruments. This note describes the Group's objectives, policies and processes for managing those risks and the methods used to measure them.

Principal financial instruments

The principal financial instruments used by the Group, from which financial instrument risk arises, are as follows:

- Trade receivables
- Cash and cash equivalents
- Trade and other payables
- Loans and borrowings
- Derivative financial liabilities

A summary of the financial instruments held by category is provided below:

Financial assets - loans and receivables

	2014 £'000	2013 £'000
Cash and cash equivalents	30,325	2,387
Trade receivables	189	160
Other receivables	649	1,060
Total financial assets	31,163	3,607

Financial liabilities - amortised cost

	2014 £'000	2013 £'000
Trade payables	981	522
Other payables	177	177
Accruals	732	58
Loans and borrowings	1,979	3,367
Total financial liabilities - amortised cost	3,869	4,124

20 Financial instruments - risk management *(continued)*

General objectives, policies and processes

The Board has overall responsibility for the determination of the Group's risk management objectives and policies and, whilst retaining ultimate responsibility for them, it has delegated the authority for designing and operating processes that ensure the effective implementation of the objectives and policies to the Group's Management.

The overall objective of the Board is to set policies that seek to reduce risk as far as possible without unduly affecting the Group's competitiveness and flexibility. Further details regarding these policies are set out below:

Credit risk

Credit risk is the risk of financial loss to the Group if a development partner or a counterparty to a financial instrument fails to meet its contractual obligations. The Group is mainly exposed to credit risk from amounts due from collaborative partners which is deemed to be low.

Credit risk also arises from cash and cash equivalents and deposits with banks and financial institutions. For banks and financial institutions, only independently rated parties with high credit status are accepted.

The Group does not enter into derivatives to manage credit risk.

Quantitative disclosures of the credit risk exposure in relation to financial assets are set out below. Further disclosures regarding trade and other receivables, which are neither past due nor impaired, are provided in note 16.

The total exposure to credit risk of the Group is equal to the total value of the financial assets held at each year end as noted above.

Cash in bank

The Group is continually reviewing the credit risk associated with holding money on deposit in banks and seeks to mitigate this risk by holding deposits with banks with high credit status.

Fair value and cash flow interest rate risk

The Group is not significantly exposed to cash flow interest rate risk from short term and long-term borrowings at variable rate as the majority of borrowings with the exception of finance leases are held on fixed rates.

The Group has minimal exposure to interest rate risk as it has had minimal borrowings on variable rates and immaterial levels of interest paid and received on their variable rate loans.

The Group's exposure to fair value interest rate risk is also considered to be immaterial.

20 Financial instruments - risk management *(continued)*

Foreign exchange risk

Foreign exchange risk arises because the Group has a material operation located in Bilbao, Spain, whose functional currency is not the same as the functional currency of the Group. The Group's net assets arising from such overseas operations are exposed to currency risk resulting in gains or losses on retranslation into sterling. Given the levels of materiality, the Group does not hedge its net investments in overseas operations as the cost of doing so is disproportionate to the exposure.

Foreign exchange risk also arises when individual Group entities enter into transactions denominated in a currency other than their functional currency; the Group's transactions outside the UK to the US and Europe drive foreign exchange movements where suppliers invoice in currency other than sterling. These transactions are not hedged because the cost of doing so is disproportionate to the risk.

As of 31 December 2014 and 2013, the Group's exposure to foreign exchange risk was not material.

Liquidity risk

Liquidity risk arises from the Group's management of working capital. It is the risk that the Group will encounter difficulty in meeting its financial obligations as they fall due.

It is the Group's aim to settle balances as they become due.

The Group's current financial position following the IPO is such that the Board does not consider there to be a short term liquidity risk however the Board will continue to monitor long term cash projections in light of the development plan and will consider raising funds as required to fund long term development projects. Development expenditure can be curtailed as necessary to preserve liquidity.

20 Financial instruments - risk management *(continued)*

The following table sets out the contractual maturities (representing undiscounted contractual cash-flows) of financial liabilities:

2014	Up to 3 months £'000	Between 3 and 12 months £'000	Between 1 and 2 years £'000	Between 2 and 5 years £'000	Over 5 years £'000
Trade and other payables	1,890	-	-	-	-
Bank loans	2	7	9	24	-
Finance leases	11	27	-	-	-
Government research loans	-	485	207	891	351
Total	1,903	519	216	915	351

2013	Up to 3 Months £'000	Between 3 and 12 months £'000	Between 1 and 2 years £'000	Between 2 and 5 years £'000	Over 5 years £'000
Trade and other payables	757	-	-	-	-
Finance leases	12	35	38		
Government research loans	-	159	169	535	445
Preference shares	-	-	-	-	1,075
Preference share dividends payable	1,063	-	-	-	-
Total	1,832	194	207	535	1,520

More details in regard to the line items are included in the respective notes:

- Trade and payables - note 18
- Loans and borrowings - note 19

Capital risk management

The Group monitors capital which comprises all components of equity (i.e. share capital, share premium, foreign exchange reserve and retained deficit).

The Group's objectives when maintaining capital are:

- to safeguard the entity's ability to continue as a going concern, and
- to have sufficient resource to take development projects forward towards commercialisation.

The Group continues to incur substantial operating expenses. Until the Group generates positive net cash inflows from the commercialisation of its products it remains dependent upon additional funding through the injection of equity capital and government funding. The Group may not be able to generate positive net cash inflows in the future or to attract such additional required funding at all, or on suitable terms. In such circumstances the development programmes may be delayed or cancelled and business operations cut back.

The Group seeks to reduce this risk by keeping a tight control on expenditure, avoiding long-term supplier contracts (other than clinical trials), prioritising development spend on products closest to potential revenue generation, obtaining government grants (where applicable), maintaining a focused portfolio of products under development and keeping shareholders informed of progress.

21 Deferred tax

Deferred tax is calculated in full on temporary differences under the liability method using a tax rate of 20%.

The movement on the deferred tax account is as shown below:

	2014 £'000
Liability at 1 January 2014	-
Arising on business combination	(2,820)
Liability at 31 December 2014	(2,820)

A deferred tax liability has arisen due to deferred tax on intangible assets acquired during the period. The intangible assets have not been amortised as they are not yet in use, consequently no credit has been recognised in the income statement.

Unused tax losses carried forward, subject to agreement with local tax authorities, were as follows:

	Gross losses £'000	Unrecognised deferred tax £'000
31 December 2013	13,004	2,601
31 December 2014	25,047	5,019

A deferred tax asset has not been provided in these accounts due to uncertainty as to the whether the asset would be recovered.

22 Share capital

Authorised – classified as equity	2014 Number	2014 £	2013 Number	2013 £
Ordinary shares of 0.01p each	-	-	11,940,981	1,194
C preference shares of 0.01p each	-	-	565,064	57
Ordinary shares of 0.005p each	37,059,013	1,853		-
Deferred shares of £1 each	1,000,001	1,000,001		-
Total		**1,001,854**		**1,251**

Authorised – classified as liabilities	2014 Number	2014 £	2013 Number	2013 £
A 7.5% preference shares of £1 each	-	-	1,000,000	1,000,000
B 15% preference shares of £1 each	-	-	75,000	75,000
Total		-		**1,075,000**

Allotted and fully paid – classified as equity	2014 Number	2014 £	2013 Number	2013 £
At 1 January				
Ordinary shares of 0.005p each	27,794,258	1,390	2,889,229	289
Deferred shares of £1 each	1,000,001	1,000,001	-	-
C preference shares of 0.01p each	-	-	565,064	57
Total		**1,001,391**		**346**

Allotted and fully paid up – classified as liabilities	2014 Number	2014 £	2013 Number	2013 £
A 7.5% preference shares of £1 each	-	-	1,000,000	1,000,000
B 15% preference shares of £1 each	-	-	75,000	75,000
Total		-		**1,075,000**

Rights attaching to the shares prior to the incorporation of Midatech Pharma plc

Shares classified as equity
The holders of ordinary shares and C preference shares in the capital of the Company had the following rights and ranked *pari passu* with one another:

(a) to receive notice of, to attend and to vote at all general meetings of the Company, in which case shareholders shall have one vote for each share of which they are the holder.
(b) to receive such dividend as is declared by the Board on each share held; and

22 Share capital *(continued)*

In the event of a distribution of assets, the capital return would be distributed as follows:

i. C preference shareholders to receive original issue price;
ii. A and B preference shareholders to receive an agreed amount per share as set out in the Company's Articles; and
iii. C preference and ordinary shareholders to receive remaining capital and rank pari passu.

Ordinary and C preference shares were recorded as equity.

Shares classified as liabilities
The A and B preference shares have a nominal value of £1 and have right to a fixed cumulative, preferential dividend at a rate of 7.5% and 15% respectively, dividends ceased to accrue from 28 October 2013. Accrued dividends ranked equally amongst A and B preference shares and were compounded at the end of each period. Preference dividends are ranked before any other class of share. The preference dividends did not confer any further rights to participation in the profits or assets of the Company. The preference shares only became redeemable on a listing or change of control. Preference shareholders were entitled to attend and speak at general meetings of the Company but did not have the right of a vote.

A and B preference shares were categorised as liabilities and held at amortised cost until the right to a fixed dividend ceased to accrue.

Rights attaching to the shares following the incorporation of Midatech Pharma plc

Shares classified as equity
The holders of ordinary shares in the capital of the Company have the following rights:

(a) to receive notice of, to attend and to vote at all general meetings of the Company, in which case shareholders shall have one vote for each share of which he is the holder.
(b) to receive such dividend as is declared by the Board on each share held.

The holders of Deferred Shares in the capital of the Company:

(a) shall not be entitled to receive notice of or to attend or speak at any general meeting of the Company or to vote on any resolution to be proposed at any general meeting of the Company;
(b) shall not be entitled to receive any dividend or other distribution of out of the profits of the Company.

In the event of a distribution of assets, the Deferred shareholders shall receive the nominal amount paid up on such share after the holder of each ordinary share shall have received (in cash or specie) the amount paid up or credited as paid up on such ordinary share together with an additional payment of £100 per share. The company has the authority to purchase the Deferred Shares and may require the holder of the Deferred Shares to sell them for a price not exceeding 1p for all the Deferred Shares.

Ordinary and deferred shares are recorded as equity.

22 Share Capital *(continued)*

Date of Issue	Type of Share Issue	Ordinary Shares Number	A Preference Shares Number	B Preference Shares Number	C Preference Shares Number	Share Price £	Total consideration £'000
2013							
As at 1 January 2013	Brought forward	2,457,493	1,000,000	75,000			
11 February 2013	Convertible loan	234,196				8.38	1,963
21 February 2013	Subscription option	16,489				13.70	226
27 February 2013	Subscription option	133,808				8.38	1,120
30 April 2013	Subscription option	5,474				13.70	75
10 May 2013	Subscription option	4,806				13.70	66
03 June 2013	Subscription option	962				13.70	13
18 June 2013	Subscription option	5,715				17.50	100
04 July 2013	Subscription option	14,286				17.50	250
15 July 2013	Subscription option	5,715				17.50	100
05 August 2013	Subscription option	2,857				17.50	50
08 August 2013	Subscription option	1,428				17.50	25
26 September 2013	Subscription option	3,000				17.50	53
27 September 2013	Subscription option	3,000				17.50	53
05 December 2013	Convertible				144,552	8.95	1,294
05 December 2013	Share issue				420,512	8.81	3,705
Total 2013		**2,889,229**	**1,000,000**	**75,000**	**565,064**		**9,093**

22 Share Capital *(continued)*

Date of Issue	Type of Share Issue	Ordinary Shares Number	A Preference Shares Number	B Preference Shares Number	C Preference Shares Number	Deferred Shares Number	Share Price £	Total consideration £'000
2014								
As at 1 January 2014		2,889,229	1,000,000	75,000	565,064			9,093
30 January 2014	Equalisation round	39,853					-	-
19 April 2014	Subscription option	244,881					0.15	37
13 June 2014	Subscription option	8,250					0.15	1
4 September 2014	Rights issue	105,314			511,738		5.13	3,165
12 September 2014	Share redemption			(75,000)			-	-
	Total pre-share for share exchange – Midatech Limited	**3,287,527**	**1,000,000**	**-**	**1,076,802**	**-**		**12,296**
12 September 2014	Subscriber share – Midatech Pharma plc	1					1.0000	-
13 November 2014	Share for share exchange	3,287,527	1,000,000		1,076,802		-	-
13 November 2014	Sub-division of subscriber share	9,999					0.0001	-
28 November 2014	Warrant exchange share issue	628,356					0.0001	-
28 November 2014	Share conversion	(10,000)				1	-	-
28 November 2014	Share conversion	1,076,802			(1,076,802)		-	-
	Total ordinary shares pre-subdivision	**4,992,685**						
28 November 2014	Share sub division	9,985,370					-	-
8 December 2014	Share issue on acquisition of Q Chip Limited	5,077,122					2.67	-
8 December 2014	Public offering	11,985,019					2.67	32,000
8 December 2014	Share conversion	746,747	(1,000,000)			1,000,000	-	-
		27,794,258	**-**	**-**	**-**	**1,000,001**		**32,000**

22 Share Capital *(continued)*

The following changes in the share capital of the Company, and its constitution, have taken place between the date of the Company's incorporation and the date of this document:

(a) The Company was incorporated on 12 September 2014 with a share capital of 1 ordinary share of £1 and was re-registered as a public limited company on 27 November 2014 with the name "Midatech Pharma plc".
(b) On 13 November 2014, pursuant to a written ordinary and special resolutions of the Company's sole member the 1 ordinary share of £1 was subdivided into 10,000 ordinary shares of 0.01 pence each (the "Subscriber Shares");
(c) On 13 November 2014 pursuant to a Share Exchange Agreement executed with the members of Midatech Limited, the following relevant securities in the capital of the Company were allotted, mirroring the share capital of Midatech Limited: 3,287,528 ordinary shares of 0.01 pence each, 1,000,000 A preference shares of £1 each and 1,076,802 C preference shares of 0.01 pence each.
(d) On 28 November 2014 the Company allotted 628,356 ordinary shares of 0.01 pence each to holders of warrants to subscribe for shares in Midatech Limited.
(e) On 28 November 2014 the 1,076,802 C preference shares of 0.01 pence each (being all such class of shares in issue) were converted into 1,076,802 ordinary shares of 0.01p each and the Subscriber Shares referred to in paragraph (b) above were converted into one Deferred Share.
(f) On 28 November 2014 a written ordinary resolution of the Company's members was passed whereby each of the ordinary shares in the capital of the Company was sub-divided into two ordinary shares of 0.005 pence each.
(g) On 8 December 2014 pursuant to a Sale and Purchase Agreement executed with the members of Q Chip Limited (now Midatech Pharma (Wales) Limited) 5,077,122 ordinary shares of 0.005 pence each were issued to the shareholders of Q Chip Limited in consideration for the acquisition of the entire issued share capital of that company. A further 299,624 Deferred Shares were also issued which may be converted into ordinary shares up to 30 June 2016 subject to there not being any successful warranty claims against the sellers of Q Chip Limited.
(h) On 8 December 2014 11,985,019 Ordinary Shares of 0.005 pence each were issued to subscribers in the initial public offering of the Company and its admission to AIM.
(i) On 8 December 2014 the 1,000,000 A Preference Shares of £1 each plus accrued interest liabilities were settled by the issue of 746,747 Ordinary Shares of 0.005 pence each.
(j) Following the above settlement the 1,000,000 A Preference shares of £1 each were converted into 1,000,000 Deferred Shares of £1 each carrying the rights set out above.

23 Reserves

The following describes the nature and purpose of each reserve within equity:

Reserve	Description and purpose
Share premium	Amount subscribed for share capital in excess of nominal value.
Merger reserve	Represents the difference between the fair value and nominal value of shares issued on the acquisition of subsidiary companies where the company has elected to take advantage of merger relief and the share premium of Midatech Limited prior to the merger as set out in note 1.
Shares to be issued	Shares for which consideration has been received but which are not yet issued and which form part of consideration in a business combination.
Foreign exchange reserve	Gains/losses arising on retranslating the net assets of overseas operations into sterling.

23 Reserves *(continued)*

Retained deficit	All other net gains and losses and transactions with owners (e.g. dividends) not recognised elsewhere.

24 Leases

The Group had commitments under non-cancellable operating leases as set out below:

2014	Land and buildings £'000	Other £'000
In one year or less	150	79
Between one and five years	159	-
	309	79

2013	Land and Buildings £'000	Other £'000
In one year or less	48	67
Between one and five years	50	56
	98	123

25 Retirement benefits

The Group operates a defined contribution pension scheme for the benefit of its employees. The assets of the scheme are administered by trustees in funds independent from those of the Group. The pension costs charged for each year are listed below:

	2014 £'000	2013 £'000
Defined contribution pension scheme	169	177

26 Share-based payment

Share Options

The Group has issued options over ordinary shares under the Midatech Limited 2008 unapproved share option scheme and Midatech Limited 2013 approved Enterprise Incentive scheme. Exercise of an option is subject to continued employment.

The Directors have valued the options using an option-pricing model and concluded that the IFRS 2 share option charge arising from the grants is immaterial and has therefore not been recorded in the financial statements. The options are held over shares in Midatech Limited, the former parent, however the Company is in the process of reissuing these options into options over shares in Midatech Pharma plc, this will complete in 2015.

26 Share-based payment *(continued)*

Details of all share options granted under the Midatech Limited schemes are set out below:

Date of grant	At 1 January 2014	Granted in 2014	Exercised in 2014	Forfeited in 2014	At 31 December 2014	Exercise Price
31 December 2008	44,622	-	-	(18,500)	26,122	£1.425
31 December 2008	15,500	-	-	-	15,500	£3.985
1 September 2009	12,500	-	-	(12,500)	-	£3.985
13 November 2009	25,000	-	-	(25,000)	-	£4.00
1 April 2010	25,110	-	-	-	25,110	£4.00
20 August 2010	59,666	-	-	-	59,666	£4.19
13 September 2011	3,000	-	-	-	3,000	£4.19
20 April 2012	47,796	-	-	(12,000)	35,796	£4.19
1 May 2013	100,000	-	-	(100,000)	-	£6.85
3 April 2014	-	43,000	(16,500)	-	26,500	£0.075
9 May 2014	-	200,000	-	-	200,000	£0.075
30 June 2014	-	880,000	-	-	880,000	£0.075
11 July 2014	-	11,000	-	-	11,000	£0.075
	333,194	**1,134,000**	**(16,500)**	**(168,000)**	**1,282,694**	

Options exercisable at 31 December 2014	125,847
Weighted average exercise price of outstanding options at 31 December 2014	£0.54
Weighted average exercise price of options forfeited in 2014	£5.43
Weighted average exercise price of options granted in 2014	£0.08
Weighted average remaining contractual life of outstanding options at 31 December 2014	8.5 years

Date of grant	At 1 January 2013	Granted in 2013	Exercised in 2013	Forfeited in 2013	At 31 December 2013	Exercise Price
31 December 2008	46,222	-	-	(1,600)	44,622	£1.425
31 December 2008	15,500	-	-	-	15,500	£3.985
25 March 2009	25,000	-	-	(25,000)	-	£3.985
1 September 2009	12,500	-	-	-	12,500	£3.985
13 November 2009	25,000	-	-	-	25,000	£4.00
1 April 2010	25,110	-	-	-	25,110	£4.19
20 August 2010	59,666	-	-	-	59,666	£4.19
13 September 2011	3,000	-	-	-	3,000	£4.19
20 April 2012	47,796	-	-	-	47,796	£4.19
1 May 2013	-	100,000	-	-	100,000	£6.85
	259,794	**100,000**	**-**	**(26,600)**	**333,194**	

Options exercisable at 31 December 2013	148,528
Weighted average exercise price of outstanding options at 31 December 2013	£4.57
Weighted average exercise price of options forfeited in 2013	£3.83
Weighted average exercise price of options granted in 2013	£6.85
Weighted average remaining contractual life of outstanding options at 31 December 2013	6.0 years

26 Share-based payment *(continued)*

Options granted in 2014 relate to the Midatech Limited 2013 approved Enterprise Incentive scheme. All others relate to the Midatech Limited 2008 unapproved share option scheme. 2013 comparative figures have been restated to reflect the share split discussed in note 20 part (f) above.

On 13 November 2009 subscription options over 12,500 ordinary shares exercisable over a 5 year period were issued at an exercise price of £8.00 per share. On 5 December 2013 the expiry date of part of this option over 9,375 ordinary shares was extended to 13 November 2019.

On 15 June 2010 an option to subscribe for up to 133,808 ordinary shares was issued over a 3 year period. The option was exercised in full on 27 February 2013 for a cash consideration of £1,121,311.

Upon the issuance of convertible loan notes on 20 August 2010, subscription options over 1,282,813 ordinary shares were issued as follows:

- A subscription option of 29,833 ordinary shares exercisable over 5 years at an exercise price of £8.38 per share. On 5 December 2013 the expiry date of part of this option over 20,883 ordinary shares was extended to 20 August 2020.
- A subscription option of up to a maximum of 417,660 ordinary shares exercisable over 6 months from 19 December 2010 at an exercise price of £8.38 per share. On 19 June 2011, pursuant to the exercise of this option, 251,635 ordinary shares of 0.01p each were issued for a cash consideration of £2.1 million.
- Two subscription options of up to a maximum of 417,660 ordinary shares each at an exercise price of £8.38 per share exercisable on a "follow on" basis to match any exercise of the above option. Following the exercise of the above option, the two options of 251,635 ordinary shares each were to be exercised by 19 December 2011. On 5 December 2011, 119,332 options were exercised and the remaining options over 383,938 shares were exercised on 19 December 2011.
- On 29 October 2012 the Company issued subscription options over 119,332 ordinary shares at an exercise price of £8.38 per share and over 182,482 ordinary shares at an exercise price of £13.70 per share. Both options were valid until 30 June 2013. On 31 January 2013 options over 16,489 ordinary shares were exercised for an aggregate cash consideration of £225,899.

27 Capital commitments

The Group had no capital commitments at 31 December 2014 and 31 December 2013.

28 Related party transactions

Details of Directors' remuneration are given on page 18 and in note 6.

Transactions with Monosol RX, LLC

The Directors consider Monosol RX, LLC to be a related party by virtue of the fact that Monosol RX, LLC is a shareholder of the company and are a collaborative partner in the MidaSol Therapeutics joint operation.

During the period Midatech Limited received from Monosol RX, LLC £272,910 (2013: £541,612) for research services.

29 Contingent liabilities

The Group had no contingent liabilities at 31 December 2014 or 31 December 2013.

30 Ultimate controlling party

The Directors do not consider that there is an ultimate controlling party.

Midatech Pharma plc

Company balance sheet
at 31 December 2014

	Note	2014 £'000	2014 £'000
Fixed assets			
Investments	3		1,001
			1,001
Current assets			
Debtors	4	1,051	
Cash at bank		29,599	
		30,650	
Creditors: amounts due falling due within one year	5	(236)	
Net current assets			30,414
Total assets less current liabilities			31,415
Capital and reserves			
Share capital	7		1,001
Share premium account	8		31,643
Profit and loss account	8		(1,229)
Total equity attributable to owners of the parent company			31,415

The financial statements on pages 68 to 70 were approved and authorised for issue by the Board of Directors on 16 April 2015 and were signed on its behalf by:

Nick Robbins-Cherry
Finance Director

The notes on pages 68 to 70 form part of these financial statements.

1 Accounting policies

Basis of preparation

The parent company financial statements have been prepared under the historical cost convention and in accordance with UK GAAP.

Investments in subsidiaries

Investments in subsidiaries are carried at cost less any provision for losses arising on impairment. In relation to acquisitions, where advantage can be taken of the merger relief rules, shares issued as consideration for acquisitions are accounted for at nominal value.

Taxation

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

A deferred tax asset in respect of unutilised tax losses has not been recognised on the basis that the future economic benefit was not certain.

Going concern

Accounting standards require the Directors to consider the appropriateness of the going concern basis when preparing the financial statements. The Directors are of the opinion that they consider the going concern basis will remain appropriate. The Directors have taken notice of the Financial Reporting Council guidance 'Going Concern and Liquidity Risk: Guidance for Directors of UK Companies 2010' which requires the reasons for this decision to be explained. The Directors regard the going concern basis as remaining appropriate as the Group has adequate resources to continue in operational existence for the foreseeable future. Thus the Directors continue to adopt the going concern basis of accounting in preparing the annual financial statements.

2 Loss attributable to shareholders

Under Section 408 of the Companies Act 2006 the Company is exempt from the requirement to present its own profit and loss account. The loss for the financial period, of the holding Company, as approved by the Board, was £1.23m.

3 Investments

	2014
	£'000
Additions	1,001
Total investments at 31 December	1,001

3 Investments (continued)

At 31 December 2014 the Company held share capital in the following subsidiaries and joint arrangements:

Name	Country of incorporation	Nature of business	Proportion held	Notes
Midatech Pharma Wales Limited	United Kingdom	Trading company	100%	
Midatech Limited	United Kingdom	Trading company	100%	
Q Chip BV	Netherlands	Trading company	100%	(a)
OpsiRx Pharmaceuticals Limited	United Kingdom	Non-trading company	100%	(a)
OpsiRx Holdings Limited	United Kingdom	Non-trading company	100%	(a)
Midatech Biogune SL	Spain	Trading company	100%	(b)
Midatech Andalucia SL	Spain	Dormant	100%	(b)
Cura Vaccines Limited	United Kingdom	Dormant	100%	(b)
PharMida AG	Switzerland	Trading	100%	(b)
MidaSol Therapeutics GP	Cayman Islands	Trading	50%	(c)
Syntara LLC	United States	Dormant	50%	(c)

(a) All 100% owned via Midatech Pharma Wales Limited
(b) All 100% owned via Midatech Limited
(c) Joint venture, with 50% owned by Midatech Limited

Note: Q Chip BV and PharMida AG are due to become dormant from July 2015

4 Debtors

	2014 £'000
Amounts due from group companies	1,035
Other debtors	16
	1,051

5 Creditors: amounts due falling due within one year

	2014 £'000
Trade creditors	92
Amounts due to group companies	130
Accruals	14
	236

7 Share capital

Authorised	2014 Number	2014 £'000
Ordinary shares of 0.005p each	37,059,013	2
Deferred shares of £1 each	1,000,001	1,000
Total		**1,002**

Allotted and fully paid	2014 Number	2014 £'000
Ordinary shares of 0.005p each	27,794,260	1
Deferred shares of £1 each	1,000,001	1,000
Total		**1,001**

Details of shares issued by the Company in the year are given in note 22 to the Group financial statements.

8 Reserves

	Share Premium Account £'000	Profit and Loss Account £'000
Retained loss for the year	-	(1,229)
Shares issued during the year	32,994	-
Costs of share issues	(1,351)	-
At 31 December 2014	**31,643**	**(1,229)**

9 Capital commitments

The Company had no capital commitments at 31 December 2014.

10 Contingent liabilities

The Company had no contingent liabilities at 31 December 2014.

11 Related party transactions

The Company has taken advantage of the exemption conferred by Financial Reporting Standard 8 "Related party disclosures" not to disclose transactions with 100% owned members of the Group headed Midatech Pharma plc on the grounds that 100% of the voting rights of the Company are controlled within that Group and the Company is included in the consolidated financial statements.

All related party transactions are disclosed under note 28 to the consolidated financial statements.

12 Ultimate controlling party

There is not an ultimate controlling party.