Registered No. 08840579

4D pharma plc (formerly Schosween 18 Limited)

Annual Report and Financial Statements

Period 10 January 2014 to 31 December 2014

CONTENTS

COMPANY INFORMATION

Directors	David Norwood	(*Non-executive Chairman*)
	Duncan Peyton	(*Chief Executive Officer*)
	Dr Alexander Stevenson	(*Chief Scientific Officer*)
	Thomas Engelen	(*Non-executive Director*)
Secretary	Laurence Dale	
Nominated Advisor and Broker	Zeus Capital Limited 82 King Street Manchester M2 4WQ and 23 Berkley Square London W1 6HE	
Auditor	Baker Tilly UK Audit LLP 3 Hardman Street Manchester M3 3HF	
Registrar	Capita Registrars Limited The Registry 34 Beckenham Road Beckenham Kent BR3 4TU	
Registered Office	74 Gartside Street Manchester M3 3EL	
Website	www.4dpharmaplc.com	

CHAIRMAN'S AND CHIEF EXECUTIVE OFFICER'S JOINT REVIEW FOR THE PERIOD ENDED 31 DECEMBER 2014

4D pharma plc ("**4D**", the "**Company**" and, together with its subsidiaries, the "**Group**") is focussed on bringing to market a new class of therapeutics known as live biotherapeutics. Rather than chemical entities or antibodies, 4D uses carefully selected bacteria as the active ingredients in its products.

4D only uses bacteria that have a precise and evolved mechanism of action. As these bacteria are isolated from healthy humans we believe these bacteria are safe and have no toxic effects.

This belief is also currently held by the regulatory bodies, with the U.S. Food and Drug Administration (FDA) recognising live biotherapeutics as a new class of therapeutics. 4D is working together with the regulatory bodies to understand and help determine the regulatory agenda.

At the Group's inception it had two discovery projects; now after our first year 4D has products that we will take into clinical trials in the next 12 months, and a methodology that has allowed us to identify other bacteria that target asthma and rheumatoid arthritis.

Our first generation programmes address irritable bowel syndrome (IBS) and inflammatory bowel disease. Blautix, a treatment for IBS, and Thetanix, a treatment for paediatric Crohn's, will both enter first in man studies in 2015. Rosburix, a treatment for paediatric ulcerative colitis, is currently undergoing development and is scheduled to enter clinical trials in H2 2016.

With these, the Group's first generation programmes, we have had to address several challenges associated with taking a new class of therapeutics into the clinic. We are now capable of taking a pre-clinical programme through development and ready for clinical trial within a 12 month period. This has been an exceptional period of learning and something we can apply to our growing pipeline.

The biggest challenge we faced in 2014 was whether we could develop the capability to identify other bacteria that were therapeutically relevant. We began this project in May 2014, and by September 2014, we had identified several 'hits', i.e. bacteria we believed would be effective in certain autoimmune and inflammatory diseases.

By January 2015 we had the readouts from the Group's pre-clinical work. This work used industry standard models carried out by third party contract organisations who perform the same service for other biotechnology and pharmaceutical companies.

At that time the work showed we had seen a statistically significant result for a number of our bacteria in severe asthma, allergic asthma and rheumatoid arthritis.

The identification by our skilled research team, using our MicroRx methodology, of several candidate bacteria has shown that we can rationally identify bacteria that affect therapeutic pathways. Our challenge in the next 12 months is two-fold; firstly to take these candidates through development and our current programmes into the clinic and secondly to identify other diseases that we can target. We will keep the Company's shareholders updated as to our progress.

Financial results and finance review

Loss for the period before tax:	£2.38 million
Staff costs for the period:	£0.52 million
Basic loss per share:	4.81 pence

No dividend has been proposed

CHAIRMAN'S AND CHIEF EXECUTIVE OFFICER'S JOINT REVIEW continued
FOR THE PERIOD ENDED 31 DECEMBER 2014

Cash flow and balance sheet

During the period cash, cash equivalents, deposits and short-term investments increased to £31.8 million.

During the period, after the initial share issue of 20,000,000 ordinary shares at 0.25 pence per share, the Company raised £16.55 million on its admission to trading on AIM, which completed on 18 February 2014; and £21.5 million in a placing that was completed on 14 July 2014. Post year end, a further £34.75 million was raised by the Company in a placing that completed on 10 February 2015.

Treasury activities and policies

The Group manages its cash deposits prudently and invests its funds across a number of financial institutions which have investment grade credit ratings. The deposits range from instant access to 12 month term deposits and are regularly reviewed by the board. Cash forecasts are updated monthly to ensure that there is sufficient cash available for the Group's foreseeable requirements. More details on the Group's treasury policies are provided in Note 22 to the financial statements.

Credit risk

The Group only trades with recognised, creditworthy third parties. Receivable balances are monitored on an on-going basis and any late payments are promptly investigated to ensure that the Group's exposure to bad debts is not significant.

Foreign exchange management

The Group does not take out forward contracts against uncertain or forecast expenditure, as the timings and extent of future cashflow requirement denominated in foreign currencies are difficult to predict. There were no open forward contracts as at 31 December 2014. Future currency needs are continually monitored and purchased when the extent and timings are known.

David Norwood	**Duncan Peyton**
Non-executive Chairman	*Chief Executive Officer*
4 June 2015	4 June 2015

THE BOARD

David Norwood – *Non-executive Chairman*

David has had a long career building a number of science, technology and investment companies. He is the founder of IP Group plc, one of the UK's leading technology commercialisation businesses and a shareholder in the Company. Previously, he was Chief Executive of stockbroker Beeson Gregory (acquired by Evolution Group plc) after it acquired IndexIT Partnership, a technology advisory boutique he had founded in 1999. He was a founding shareholder of Evolution Group plc (recently acquired by Investec), and also co-founder of Ora Capital plc. He has been a founder and director of many UK technology companies including Oxford Nanopore Technologies Ltd, Proximagen Ltd, Synairgen plc, Ilika Technologies Ltd, Oxford Catalysts and Plectrum Petroleum (acquired by Cairn Energy plc). He has also acted as seed investor and/or advisor to Wolfson Microelectronics Ltd, Nanoco Technologies Ltd, Tissue Regenix Group plc and Arc International (now part of Synopsys). He is also Non-Executive Chairman of Oxford Pharmascience Group plc.

Duncan Peyton – *Chief Executive Officer*

Duncan has a proven track record in identifying, investing and growing business within the pharmaceutical sector. He was the founder of Aquarius Equity, a specialist investor in businesses within the life science sector, which provided investors' access to innovative, high growth potential companies that delivered significant capital growth. Duncan started his career in a bio-science start-up business, which ultimately went on to list on the London Stock Exchange, subsequently qualified as a corporate finance lawyer with Addleshaw Goddard, then Addleshaw Booth & Co, and later joined 3i plc as an investment manager. Duncan founded Aquarius Equity in 2005, which made founding investments into Nanoco Technologies Ltd, Auralis Limited (subsequently sold to ViroPharma) and Tissue Regenix Group plc.

Dr Alexander Stevenson – *Chief Scientific Officer*

Alex began his career as a scientist, working in research and for a NYSE quoted drug development company, before moving into early stage pharmaceutical and healthcare investments. He has fulfilled board level investment and operational management roles. He was a director and shareholder in Aquarius Equity from 2008, where he was responsible for identifying new investments and developing and implementing scientific strategies both pre and post investment. Prior to joining Aquarius Equity, Alex worked for IP Group plc where he specialised in life science investments, identifying, developing and advising a number of companies in its portfolio, some of which went on to list on AIM. He joined IP Group following its acquisition of Techtran Group Ltd in 2005.

Thomas Engelen – *Non Executive Director*

Thomas is also non executive chairman at Akcros Holdings Ltd and Penlan Healthcare. Thomas has been a founder and/or non-executive director of a number of UK Life Sciences companies including Colonis Pharma Ltd, Warneford Partners Ltd and Martindale Pharma Ltd. Thomas has supported private equity and other investors in over 50 potential deal transactions, on targets in Europe and the USA, from cash constrained / chapter 11 to cash-rich with EV of up to $1B. Before this he worked in life sciences for over 20 years in senior executive roles. Starting in 1987 at Akzo Nobel Pharma he worked with hospital products, diagnostics and medical equipment as General Manager for Middle East & Africa. After this he led Rosemont Pharmaceuticals in Leeds in niche oral liquid medicines, followed by being President of Organon in Brazil. He was promoted to VP The Americas, and lastly to CMO at Organon, in charge of the global product portfolio, based in the USA. Returning to Europe he led Novartis Consumer Health in the UK.

STRATEGIC REPORT
FOR THE PERIOD ENDED 31 DECEMBER 2014

Principal activity

The principal activity of the Group during the period was the research and development of pharmaceutical products in new live biotherapeutic areas.

Business model

A description of the Group's activities and how it seeks to add value are included in the Chairman's and Chief Executive Officer's ("CEO") Joint Review on pages 4 and 5.

Review of the business and future developments

A review of the Group's performance during the period and its future prospects are included in the Chairman's and CEO's Joint Review on pages 4 and 5, which should be read in conjunction with this report.

Key performance indicators

The key indicators of performance for the business in its current stage of development are the completion of technical milestones in relation to the development of targeted products and the research pipeline. In addition the management and control of cash balances is a priority for the Group and these are budgeted and monitored closely to ensure that it maintains adequate liquid resources to meet financial commitments as they arise.

At this stage in its development, quantitative key performance indicators are not an effective way of measuring the Group's performance. However, a qualitative summary of performance in the period is provided in the Chairman's and CEO's Joint Review.

Principal risks and uncertainties

The principal risks to achieving full commercialisation and to becoming cash generative are outlined as follows:

Technology and development risk

There can be no guarantee that any of the products currently in development will be developed into commercially viable products, meet regulatory requirements or be manufactured in commercial quantities at an acceptable cost or marketed successfully and profitably. The Group employs experienced development personnel who have experience of successfully bringing such products to the market.

Regulatory risk

Regulatory approval timelines can be affected by a number of factors such as trial recruitment rates, clinical results and changes to regulatory requirements which are outside the control of the Group. However, all of the Group's products follow well established regulatory routes and the Group works with experienced regulatory personnel and consultants to navigate the process.

Competition

Although the Directors believe that for certain of the Group's products there is limited direct competition, there may be products and competitors of which they are currently unaware, which could have a detrimental effect on the Group's trading performance in the future. The Group expects a balanced exposure to competition with some offerings facing little competition, but others facing more.

STRATEGIC REPORT continued
FOR THE PERIOD ENDED 31 DECEMBER 2014

Attraction and retention of key employees

The Group depends on Directors and certain key employees spread across the various subsidiaries. The ability to attract and retain key employees cannot be guaranteed. However, the Group endeavours to ensure succession planning where possible and ensures that remuneration and incentive packages are in line with industry standards.

On behalf of the board
Duncan Peyton
Chief Executive Officer

4 June 2015

DIRECTORS' REPORT FOR THE PERIOD ENDED 31 DECEMBER 2014

The directors present their report and the audited financial statements for the Group and the Company for the period ended 31 December 2014. 4D pharma plc (formerly Schosween 18 Limited) was incorporated on 10 January 2014 and details of the various investments in subsidiaries are contained in Note 12 to the financial statements.

Directors

The directors who held office during the period and as at the date of signing the financial statements were as follows:

David Norwood	*appointed 5 February 2014*
Duncan Peyton	*appointed 18 January 2014*
Dr Alexander Stevenson	*appointed 18 January 2014*
Thomas Engelen	*appointed 5 February 2014*
Laurence Dale	*appointed 10 January 2014 – resigned 18 January 2014*

Details of the directors' remuneration are shown in the Report of the Remuneration Committee on pages 16 and 17. Details of the directors' interests in the share capital of the Company are set out below.

No director had an interest in any contract that was significant in relation to the Company's business at any time during the period.

Financial instruments

Details of the Group's financial risk management objectives and policies are disclosed in Note 22 to the financial statements.

Research and development

The principal activity of the Group is research and development, a review of which is included in the Chairman's and CEO's Joint Review on pages 4 and 5.

Total research and development spend was £1.823 million. No development expenditure was capitalised in the period.

Dividends

The directors do not recommend payment of a dividend.

Share capital and funding

As at 31 December 2014 share capital comprised 52,092,119 ordinary shares of 0.25 pence each. There is only one class of share and all shares are fully paid. Full details of the Group's and Company's share capital movements during the period are given in Note 19 to the financial statements.

As at 31 December 2014 there were no shares under option.

Directors' indemnity insurance

The Group has maintained insurance throughout the period for its directors and officers against the consequences of actions brought against them in relation to their duties for the Group. Such provision remains in force as at the date of approval of the Directors' Report.

DIRECTORS' REPORT continued
FOR THE PERIOD ENDED 31 DECEMBER 2014

Directors' interests

The interests in the shares of the Company of those directors serving at 31 December 2014, and as at the date of signing of these financial statements, all of which are beneficial, in the share capital of the Company were as follows:

	Number of 0.25p ordinary shares at 31 Dec 2014	*% of issued share capital*	*Number of 0.25p ordinary shares at 4 June 2015*	*% of issued share capital*
David Robert Norwood	7,000,000	13.4%	7,000,000	11.6%
Duncan Joseph Peyton	6,250,286	12.0%	6,250,286	10.3%
Alexander James Stevenson	6,250,286	12.0%	6,250,286	10.3%
Thomas Engelen	500,000	1.0%	500,000	0.8%

Substantial shareholders

The Company is aware that the following had an interest in 3% or more of the issued ordinary share capital of the Company at 31 December 2014 (ordinary shares in issue – 52,092,119):

	Number of 0.25p ordinary shares at 31 Dec 2014	*% of issued share capital*
David Robert Norwood	7,000,000	13.4%
Invesco Asset Management Limited	6,905,667	13.3%
Woodford Investment Management LLP	6,857,113	13.2%
Duncan Joseph Peyton	6,250,286	12.0%
Alexander James Stevenson	6,250,286	12.0%
Lansdowne Partners	3,800,000	7.3%
Aviva Investors Global Services Limited	1,998,399	3.8%
UBS Global Asset Management	1,664,446	3.2%

The following parties' shareholdings had changed since 31 December 2014 (based on ordinary shares in issue of 60,569,729 as at the date of signing of these financial statements):

- Woodford Investment Management LLP – increase to 11,567,684 shares (19.1%)
- Invesco Asset Management Limited – increase to 8,612,984 shares (14.2%)
- Lansdowne Partners – increase to 4,513,707 shares (7.5%)
- Aviva Investors Global Services Limited – increase to 2,852,176 shares (4.7%)
- UBS Global Asset Management – increase to 1,898,592 shares (3.1%)

Apart from the above, there were no other notified significant changes in the holdings between the 31 December 2014 and the date of signing of these financial statements.

DIRECTORS' REPORT continued
FOR THE PERIOD ENDED 31 DECEMBER 2014

Donations

No charitable or political donations were made in the period.

Policy on payment of suppliers

It is the policy and normal practice of the Group to make payments due to suppliers, in accordance with agreed terms and conditions, with payments being made generally in the month following receipt of invoice.

Employment policies

The Group is committed to ensuring the health and safety of its employees in the workplace. This includes the provision of regular medical checks.

The Group supports the employment of disabled people where possible through recruitment, by retention of those who become disabled and generally through training, career development and promotion.

The Group is committed to keeping employees as fully informed as possible with regard to the Group's performance and prospects and seeks their views, wherever possible, on matters which affect them as employees.

Corporate Governance Statement

The Group's statement on corporate governance can be found in the Corporate Governance Statement on pages 13 to 15.

Going concern

The Chairman's and CEO's Joint Review on pages 4 and 5 outlines the business activities of the Group along with the factors which may affect its future development and performance, and discusses the Group's financial position, along with details of its cash flow and liquidity. Note 22 to the financial statements sets out the Group's financial risks and the management of those risks.

Having prepared management forecasts and made appropriate enquiries, the directors are satisfied that the Group has adequate resources for the foreseeable future, as the Group is at the start up stage of its business life cycle. Accordingly they have continued to adopt the going concern basis in preparing the Group and Company financial statements.

Disclosure of information to the auditor

The directors who held office at the date of approval of this Directors' Report confirm that:

- so far as they are each aware there is no relevant audit information of which the Group's auditor is unaware; and
- that each director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the Group's auditor is aware of that information.

Auditor

KPMG LLP resigned as auditor on 12 March 2015 and Baker Tilly UK Audit LLP was appointed. Baker Tilly UK Audit LLP has indicated its willingness to continue in office. Ordinary resolutions to re-appoint Baker Tilly UK Audit LLP as auditor and to authorise the directors to agree their audit fee, will be proposed at the forthcoming annual general meeting.

DIRECTORS' REPORT continued
FOR THE PERIOD ENDED 31 DECEMBER 2014

Subsequent events

On 10 February 2015 4D pharma plc raised a further £34.225 million (net of expenses) via the placing of 8,475,610 new ordinary shares at 410 pence per share.

On 30 March 2015, 4D pharma plc acquired a further 16.5% of the ordinary share capital of 4D Pharma Research Limited for a cost of £230,000 taking their holding to 100%.

Annual General Meeting

The annual general meeting of the Company will be held on 29 June 2015 at 10.00. a.m., at the offices of Schofield Sweeney LLP, Springfield House, 76 Wellington Street, Leeds LS1 2AY. The notice convening the annual general meeting, together with an explanation of the resolutions to be proposed at the meeting, is contained in the notice of meeting on pages 51 to 58.

Recommendation

The board considers that the resolutions to be proposed at the annual general meeting are in the best interests of the Company and it is unanimously recommended that shareholders support these proposals as the board intends to do in respect of their own holdings.

The Directors' Report was approved by the board on 4 June 2015 and signed on its behalf by.

Duncan Peyton
Chief Executive Officer

4 June 2015

CORPORATE GOVERNANCE STATEMENT FOR THE PERIOD ENDED 31 DECEMBER 2014

Compliance

As a company whose shares are admitted to trading on the London Stock Exchange AIM Market, the Company is not required to comply with the UK Corporate Governance Code. However, the directors recognise the importance of sound corporate governance, while also taking into account the size and nature of the Group, and, as a matter of best practice, adopt many of the Code's recommendations.

Board composition and responsibility

The board consists of four directors, two of whom are non-executive. The names of the directors together with their biographical details are set out on page 6.

The board has determined that Thomas Engelen is independent in character and judgement and that there are no relationships or circumstances which could materially affect or interfere with the exercise of his independent judgement. The board is satisfied with the balance between executive and non-executive directors which allows it to exercise objectivity in decision making and proper control of the Group's business. The board considers its composition is appropriate in view of the size and requirements of the Group's business and the need to maintain a practical balance between executives and non-executives. Due to the structure of the Company it is considered that it is not appropriate to change the successful board composition at present.

All directors appointed by the board are subject to election by shareholders at the first annual general meeting after their appointment. Directors are also subject to retirement by rotation and re-election in accordance with the articles of association of the Company.

The non-executive directors constructively challenge and help develop proposals on strategy and bring strong, independent judgement, knowledge and experience to the board's deliberations. The directors are given access to independent professional advice at the Group's expense, when the directors deem it is necessary in order for them to carry out their responsibilities.

The board's primary objective is to focus on adding value to the assets of the Group by identifying and assessing business opportunities and ensuring that potential risks are identified, monitored and controlled. Matters reserved for board decisions include strategy, budget, performance, approval of major capital expenditure and the framework of internal controls. The implementation of board decisions and day to day operations of the Group are delegated to executive directors.

The board receives appropriate and timely information prior to each meeting, with a formal agenda and board and committee papers being distributed several days before meetings take place. Any director may challenge Group proposals, and decisions are taken democratically after discussion. Any director who feels that any concern remains unresolved after discussion may ask for that concern to be noted in the minutes of the meeting. Any specific actions arising from such meetings are agreed by the board and then followed up by management.

The Group maintains, for its directors and officers, liability insurance for any claims against them in that capacity.

The Group has effective procedures in place to deal with conflicts of interest. The board is aware of other commitments of its directors and changes to these commitments are reported to the board.

The board has established an Audit and Risk Committee and a Remuneration Committee, with formally delegated duties and responsibilities. The directors do not consider that, given the size of the board, it is appropriate at this stage to have a nomination committee. However, this will be kept under regular review by the board.

CORPORATE GOVERNANCE STATEMENT continued
FOR THE PERIOD ENDED 31 DECEMBER 2014

Audit and Risk Committee

The Audit and Risk Committee comprises Thomas Engelen as Chairman and David Norwood as the other member of the committee. Thomas Engelen is an independent director and has recent and relevant finance experience. The Committee has primary responsibility for monitoring the quality of internal controls, ensuring that the financial performance of the Company is properly measured and reported on, and reviewing reports from the Company's auditors relating to the Company's accounting and internal controls, in all cases having due regard to the interests of shareholders. The Audit and Risk Committee will meet at least twice a year.

Remuneration Committee

The Company has established a formal and transparent procedure for developing policy on executive remuneration and for fixing the remuneration packages of individual directors. This committee comprises Thomas Engelen as Chairman and David Norwood as the other member of the committee. The committee reviews the performance of the executive directors and determines their terms and conditions of service, including their remuneration and the grant of options, having due regard to the interests of shareholders. The Remuneration Committee will meet at least once a year.

The number of Board and committee meetings attended by each of the directors during the period are shown below.

	Full Board	*Audit Committee*	*Remuneration Committee*
Number of meetings in period	21	1	1
Attendance:			
Executive directors			
Duncan Peyton	18	–	–
Dr Alexander Stevenson	18	–	–
Non-executive directors:			
David Norwood	13	1	1
Thomas Engelen	13	1	1
Laurence Dale *resigned 18 January 2014*	3	–	–

Approach to Risk and Internal Control

The board is responsible for establishing and maintaining the Group's system of internal controls. Internal control systems are designed to meet the particular needs of the Group, and to address the risks to which it is exposed. By their nature, internal control systems are designed to manage rather than eliminate risk, and can provide only reasonable and not absolute assurance against material misstatement or loss. As stated, primary responsibility for monitoring the quality of internal controls has been delegated to the Audit and Risk Committee.

Communicating Vision and Strategy

The directors seek to visit institutional shareholders at least twice a year. In addition, all shareholders are welcome to attend the Company's annual general meeting, where there is an opportunity to question the directors as part of the agenda, or more informally after the meeting. Communication with shareholders is seen as an important part of the board's responsibilities, and care is taken to ensure that all price sensitive information is made available to all shareholders at the same time.

CORPORATE GOVERNANCE STATEMENT continued
FOR THE PERIOD ENDED 31 DECEMBER 2014

Share Dealing

The directors understand the importance of complying with the AIM Rules for Companies relating to directors' dealings and has established a share dealing code which is appropriate for an AIM quoted company.

Annual General Meeting

At the annual general meeting, separate resolutions will be proposed for each substantially different issue. The outcome of the voting on resolutions is disclosed by means of an announcement on AIM.

Statement of directors' responsibilities in relation to the Annual Report and financial statements

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

Company law requires the directors to prepare group and company financial statements for each financial year. The directors are required by the AIM Rules of the London Stock Exchange to prepare group financial statements in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU") and have elected under company law to prepare the company financial statements in accordance with IFRS as adopted by the EU.

The financial statements are required by law and IFRS adopted by the EU to present fairly the financial position of the Group and the Company and the financial performance of the Group and the Company. The Companies Act 2006 provides in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation.

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 the Company and of the profit or loss of the Group and the Company for that period.

In preparing the Group and Company financial statements, the directors are required to:

a. select suitable accounting policies and then apply them consistently;

b. make judgements and accounting estimates that are reasonable and prudent;

c. state whether they have been prepared in accordance with IFRSs adopted by the EU;

d. prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's and the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Group and the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the 4D pharma plc website (www.4dpharmaplc.com). Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

REPORT OF THE REMUNERATION COMMITTEE FOR THE PERIOD ENDED 31 DECEMBER 2014

Statement of compliance

This report does not constitute a directors remuneration report in accordance with the Companies Act 2006. As a company whose shares are admitted to trading on AIM, the Company is not required by the Companies Act 2006 to prepare such a report. This report sets out the Group policy on directors' remuneration, including emoluments, benefits and other share-based awards made to each director.

Policy on executive directors' and senior management's remuneration

The overall policy of the board is to ensure that executive management are provided with appropriate incentives to encourage enhanced performance and are, in a fair and responsible manner, rewarded for their contribution to the success of the Group.

The main elements to the remuneration packages for executive directors and senior management are as follows:

Basic annual salary

The base salary is reviewed annually at the beginning of each year. The review process is undertaken by the Remuneration Committee and takes into account several factors, including the current position and development of the Group, individual contributions and market salaries for comparable organisations.

The Company does not provide an occupational pension scheme for executive directors, nor does it make contributions into the private pension schemes of executives.

Discretionary annual bonus

All executive directors and senior managers are eligible for a discretionary annual bonus. This takes into account individual contribution, business performance and technical and commercial progress, along with financial results.

Discretionary share incentives

As at 31 December 2014 no share incentives had been granted to executive directors or senior managers. It is the board's intention to consider possible such incentive structures in due course; having regard to the need to motivate and retain key individuals, along with similar performance criteria to the discretionary bonus scheme.

Benefit in kind

The Company does not provide any taxable benefits for executives.

Policy on non-executive directors' remuneration

Non-executive directors receive a fixed fee and do not receive any pension payments or other benefits, nor do they participate in bonus or share schemes.

Service contract

Each of Duncan Peyton and Dr Alexander Stevenson have service agreements with an indefinite term providing for a maximum of twelve months' notice by either party.

Non-executive directors are employed on letters of appointment which may be terminated on not less than three months' notice.

REPORT OF THE REMUNERATION COMMITTEE continue
FOR THE PERIOD ENDED 31 DECEMBER 2014

Directors' remuneration

The remuneration of the directors, who served on the Company's board during the period to 31 December 2014, is as follows:

	Base salary & fees £000	*Total 2014 £000*
Executive directors:		
Duncan Peyton	97	**97**
Dr Alexander Stevenson	97	**97**
Non-executive directors:		
David Norwood	23	**23**
Thomas Engelen	47	**47**
Laurence Dale	–	**–**
	264	**264**

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF 4D PHARMA PLC FOR THE PERIOD ENDED 31 DECEMBER 2014

We have audited the group and parent company financial statements ("the financial statements") on pages 20 to 50. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

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 auditor

As more fully explained in the Directors' Responsibilities Statement set out on page 15, 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 Auditing Practices Board's (APB'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 Financial Reporting Council's website at http://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's affairs as at 31 December 2014 and of the group's loss for the period then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union
- the parent financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and the Directors' Report for the financial period for which the financial statements are prepared is consistent with the financial statements.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF 4D PHARMA PLC continued FOR THE PERIOD ENDED 31 DECEMBER 2014

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.

Graham Bond FCA (*Senior Statutory Auditor*)
For and on behalf of BAKER TILLY UK AUDIT LLP, Statutory Auditor
Chartered Accountants
3 Hardman Street
Manchester
M3 3HF
4 June 2015

GROUP STATEMENT OF COMPREHENSIVE INCOME FOR THE PERIOD 10 JANUARY 2014 TO 31 DECEMBER 2014

	Notes	2014 £000
Administrative expenses	4	(3,476)
Operating loss	4	(3,476)
Finance income	6	92
Finance expense	6	(5)
Share of losses in associated undertaking	7	(379)
Gain on remeasurement of equity interest to fair value on acquisition of a subsidiary	7	1,388
Loss before taxation		(2,380)
Taxation	8	—
Loss for the period and total comprehensive income for the period		(2,380)
Loss for the period and total comprehensive income for the period attributable to:		
Owners of the parent undertaking		(2,021)
Non-controlling interests		(359)
Loss for the period and total comprehensive income for the period		(2,380)
Loss per share		
Basic and diluted loss for the period	9	(4.81)p

The loss for the period arises from the Group's continuing operations and is attributable to the equity holders of the parent.

There were no other items of comprehensive income for the period and therefore the loss for the period is also the total comprehensive loss for the period.

The basic and diluted loss per share are the same as there are no shares in the Company under option.

The notes on pages 27 to 50 form an integral part of these financial statements.

GROUP STATEMENT OF CHANGES IN EQUITY
FOR THE PERIOD 10 JANUARY 2014 TO 31 DECEMBER 2014

	Attributable to owners of parent						
	Share capital £000	*Share premium £'000*	*Merger reserve £000*	*Retained earnings £000*	*Total £000*	*Non controlling interest £000*	*Total Equity £000*
Issue of share capital (net of expenses)	130	38,259	958	—	39,347	—	39,347
Total transactions with owners recognised in equity	130	38,259	958	—	39,347	—	39,347
Loss and total comprehensive income for the period	—	—	—	(2,021)	(2,021)	(359)	(2,380)
Non-controlling interest share of net assets of the Group on acquisition	–	–	–	–	–	81	81
At 31 December 2014	130	38,259	958	(2,021)	37,326	(278)	37,048

COMPANY STATEMENT OF CHANGES IN EQUITY
FOR THE PERIOD 10 JANUARY 2014 TO 31 DECEMBER 2014

	Share capital £000	*Share Premium £000*	*Merger Reserve £000*	*Retained earnings £000*	*Total £000*
Issue of share capital (net of expenses)	130	38,259	958	—	39,347
Total transactions with owners recognised in equity	130	38,259	958	—	39,347
Loss for the period and total comprehensive income for the period	—	—	—	(1,165)	(1,165)
At 31 December 2014	130	38,259	958	(1,165)	38,182

GROUP STATEMENT OF FINANCIAL POSITION
AT 31 DECEMBER 2014
Registered No. 08840579

	Notes	*As at 31 December 2014 £000*
Assets		
Non-current assets		
Property, plant and equipment	10	417
Intangible assets	11	6,266
		6,683
Current assets		
Inventories	14	115
Trade and other receivables	15	590
Short-term investments and cash on deposit	16	3,007
Cash and cash equivalents	16	28,823
		32,535
Total assets		39,218
Liabilities		
Current liabilities		
Trade and other payables	17	1,785
		1,785
Non-current liabilities		
Deferred tax	18	385
		385
Total liabilities		2,170
Net assets		37,048
Capital and reserves		
Share capital	19	130
Share premium account	20	38,259
Merger reserve	20	958
Retained earnings	20	(2,380)
		36,967
Non-controlling interest		81
Total equity		37,048

Approved by the board and authorised for issue on 4 June 2015

The notes on pages 27 to 50 form an integral part of these financial statements.

Duncan Peyton
Director

4 June 2015

COMPANY STATEMENT OF FINANCIAL POSITION AT 31 DECEMBER 2014

Registered No. 08840579

	Notes	As at 31 December 2014 £000
Assets		
Non-current assets		
Property, plant and equipment	10	4
Investment in subsidiaries	12	2,716
Loans to subsidiaries	12	3,803
		6,523
Current assets		
Trade and other receivables	15	285
Short-term investments and cash on deposit	16	3,007
Cash and cash equivalents	16	28,784
		32,076
Total assets		38,599
Liabilities		
Current liabilities		
Trade and other payables	17	417
Total liabilities		417
Net assets		38,182
Capital and reserves		
Share capital	19	130
Share premium account	20	38,259
Merger reserve	20	958
Retained earnings	20	(1,165)
Total equity		38,182

Approved by the board and authorised for issue on 4 June 2015

The notes on pages 27 to 50 form an integral part of these financial statements.

Duncan Peyton
Director

4 June 2015

GROUP CASH FLOW STATEMENT
FOR THE PERIOD 10 JANUARY 2014 TO 31 DECEMBER 2014

	Notes	*31 Dec 2014 Group £000*
Loss before taxation		(2,380)
Adjustments for:		
Depreciation of property, plant and equipment	10	65
Amortisation of intangible assets	11	49
Finance income		(92)
Finance expense		5
Gain on remeasurement of existing interest on acquisition of subsidiary to fair value	7	(1,388)
Share of losses in associated undertaking		379
Cash flows from operations before movements in working capital		(3,362)
Changes in working capital:		
Increase in inventories		(115)
Increase in trade and other receivables		(474)
Increase in trade and other payables		133
Cash outflow from operating activities		(3,818)
Cash flows from investing activities		
Purchases of property, plant and equipment	10	(264)
Loan advanced	11	(1,076)
Acquisition of subsidiaries net of cash acquired		238
Interest received		92
Monies placed on deposit		(3,007)
Net cash outflow from investing activities		(4,017)
Cash flows from financing activities		
Proceeds from issues of ordinary share capital		38,100
Expenses on issue of shares	19	(937)
Repayment of loan	12	(500)
Interest paid	6	(5)
Net cash inflow from financing activities		36,658
Increase in cash and cash equivalents		28,823
Cash and cash equivalents at the start of the period		—
Cash and cash equivalents at the end of the period		28,823

COMPANY CASH FLOW STATEMENT
FOR THE PERIOD 10 JANUARY 2014 TO 31 DECEMBER 2014

	Notes	*31 Dec 2014 Company £000*
Loss before taxation		(1,165)
Adjustments for:		
Finance income		(92)
Finance expense		5
Cash flows from operations before movements in working capital		(1,252)
Changes in working capital:		
Increase in trade and other receivables		(285)
Increase in trade and other payables		417
Cash outflow from operating activities		(1,120)
Cash flows from investing activities		
Purchases of property, plant and equipment	10	(4)
Acquisition of subsidiary undertakings	12	(32)
Loans to subsidiary undertakings		(3,803)
Interest received		92
Monies placed on deposit		(3,007)
Net cash outflow from investing activities		(6,754)
Cash flows from financing activities		
Proceeds from issues of ordinary share capital		38,100
Expenses on issue of shares	19	(937)
Repayment of loan	12	(500)
Interest paid	6	(5)
Net cash inflow from financing activities		36,658
Increase in cash and cash equivalents		28,784
Cash and cash equivalents at the start of the period		—
Cash and cash equivalents at the end of the period	16	28,784

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2014

1. GENERAL INFORMATION

4D pharma plc ("the Company") is an AIM listed company incorporated and domiciled in the UK. The locations and principal activities of the subsidiaries are set out in Note 12. 4D pharma plc is a Company incorporated in England and Wales. The registered office is 74 Gartside Street, Manchester, M3 3EL. These Group financial statements consolidate those of the Company and its subsidiaries (together referred to as the 'Group' and individually as 'Group entities') for the period ended 31 December 2014.

The financial statements of 4D pharma plc and its subsidiaries (the "Group") for the period ended 31 December 2014 were authorised for issue by the Board of Directors on 4 June 2015 and the Statements of Financial Position was signed on the Board's behalf by Duncan Peyton.

The Company has elected to take the exemption under section 408 of the Companies Act 2006 not to present the parent company's Statement of Comprehensive Income.

The significant accounting policies adopted by the Group are set out in Note 3.

2. BASIS OF PREPARATION

(a) Statement of compliance

The Group's financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRS") and IFRS Interpretations Committee ("IFRSIC") interpretations as they apply to the financial statements of the Group for the period ended 31 December 2014 and the requirements of the Companies Act 2006 applicable to companies reporting under IFRS.

(b) Basis of measurement

The parent company and Group financial statements have been prepared on the historical cost basis.

The methods used to measure fair values of assets and liabilities are discussed in the respective notes in Note 3.

(c) Going concern

The Chairman's and Chief Executive Officer's Review on pages 4 and 5 outlines the business activities of the Group along with the factors which may affect its future development and performance. The Group's financial position is discussed in the Financial Review on pages 4 and 5 along with details of its cash flow and liquidity. Note 22 to the financial statements sets out the Group's financial risks and the management of those risks.

Having prepared management forecasts and made appropriate enquiries, the Directors are satisfied that the Group has adequate resources for the foreseeable future as the Group is at the start up stage of its business life cycle. Accordingly they have continued to adopt the going concern basis in preparing the Group and Company financial statements.

(d) Functional and presentational currency

These financial statements are presented in pounds sterling, which is the Group's functional currency. All financial information presented has been rounded to the nearest thousand.

(e) Use of estimates and judgements

The preparation of financial statements requires management to make estimates and judgements that affect the amounts reported for assets and liabilities as at the reporting date and the amounts reported for revenues and expenses during the period. The nature of estimation means that actual amounts could differ from those estimates. Estimates and judgements used in the preparation of the financial statements are continually reviewed and revised as necessary. While every effort is made to ensure that such estimates and judgements are reasonable, by their nature they are uncertain and, as such, changes in estimates and judgements may have a material impact on the financial statements.

NOTES TO THE FINANCIAL STATEMENTS continued
FOR THE PERIOD ENDED 31 DECEMBER 2014

2. BASIS OF PREPARATION continued

The key sources of estimation uncertainty and critical accounting policies that have a significant risk of causing material adjustment to the carrying amount of assets and liabilities within the next financial year are discussed below.

- **Taxation**

  Management judgement is required to determine the amount of tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with an assessment of the effect of future tax planning strategies. The carrying value of the unrecognised tax losses at 31 December 2014 was £4.319 million. The value of the additional deferred tax asset not recognised at the period-end is £846,000. Further information is included in Note 8.

- **Research and development**

  Careful judgement by the directors is applied when deciding whether the recognition requirements for development costs have been met. This is necessary as the economic success of any product development is uncertain until such time as technical viability has been proven and commercial supply agreements are likely to be achieved. Judgements are based on the information available at each reporting date which includes the progress with testing and certification and progress on, for example, establishment of commercial arrangements with third parties. In addition, all internal activities related to research and development of new products are continuously monitored by the directors. Further information is included in Note 3.

- **Intangible fixed assets and goodwill**

  Estimated impairment of intangible fixed assets and goodwill

  The Group test annually whether intangible fixed assets and goodwill has suffered any impairment, in accordance with the accounting policy stated in Note 3. The potential recoverable amounts of intangible fixed assets and goodwill have been determined based on value in use calculations. These calculations require the use of estimates both in arriving at the expected future cash flows and the application of a suitable discount rate in order to calculate the present value of these flows. There is a degree of judgement involved in making assessments of attributable values on acquisition and making impairment assessments. More detail is given in Notes 3(i) and 3(j).

  Valuation of intangibles on acquisition

  Valuation of an early stage drug discovery pharmaceutical company is a notoriously difficult task. Analysis of financial history gives little indication of future performance. Despite this, for products currently in development sales potentials can be estimated and management have used their own experience as well as consulting with external experts to establish best estimates of sales pricing and revenue forecasting and these can provide the starting point for valuing these products and ensuring that their value has not been impaired. In addition, clinical development risks, measured as product attrition failure rates incurred as drugs progress through the clinic are reasonably well documented and can be applied as meaningful risk-adjusters to account for the chance of development failure.

- **Assessment of control for consolidation purposes**

  Subsidiaries

  Subsidiaries are entities over which the Group has the power to govern the financial and operating policies so as to obtain economic benefits from their activities. Subsidiaries are consolidated from the date on which control is transferred to the Group up until the date that control ceases.

NOTES TO THE FINANCIAL STATEMENTS continued FOR THE PERIOD ENDED 31 DECEMBER 2014

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below are applied consistently by Group entities.

The Group financial statements are presented in sterling and all values are rounded to the nearest thousand pounds except where otherwise indicated.

(a) Basis of consolidation

(i) Business combinations

Business combinations are accounted for using the acquisition method as at the acquisition date – i.e. when control is transferred to the Group. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, the Group takes into consideration potential voting rights that are currently exercisable.

The Group measures goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interests in the acquiree; plus
- if the business combination is achieved in stages, the fair value of the pre-existing equity interest in the acquiree; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

Transactions costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

(ii) Non-controlling interests

For each business combination, the Group elects to measure any non-controlling interests in the acquire either:

- at fair value; or
- at their proportionate share of the acquiree’s identifiable net assets, which are generally at fair value.

Changes in the Group’s interest in a subsidiary that do not result in a loss of control are accounted for as transactions with owners in their capacity as owners. Adjustments to non-controlling interests are based on a proportionate amount of the net assets of the subsidiary. No adjustments are made to goodwill and no gain or loss is recognised in profit or loss.

(iii) Subsidiaries

Subsidiaries are entities controlled by the Group. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

(iv) Investments in associates

Associates are those entities in which the Group has significant influence, but not control or joint control, over the financial and operating policies. Significant influence is presumed to exist when the Group holds between 20 percent and 50 percent of the voting power of another entity.

Investments in associates are accounted for under the equity method and are recognised initially at cost. The cost of the investment includes transaction costs.

The consolidated financial statements include the Group’s share of the profit or loss and other comprehensive income of equity-accounted investees, after adjustments to align the accounting policies with those of the Group, from the date that significant influence or joint control commences until the date that significant influence or joint control ceases.

NOTES TO THE FINANCIAL STATEMENTS continued
FOR THE PERIOD ENDED 31 DECEMBER 2014

3. SIGNIFICANT ACCOUNTING POLICIES continued

(a) Basis of consolidation (continued)

When the Group's share of losses exceeds its interest in an equity-accounted investee, the carrying amount of the investment, including any long-term interests that form part thereof, is reduced to zero, and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee.

(v) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(b) Foreign currency transactions

Transactions in foreign currencies are initially recorded in the functional currency by applying the spot rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. All differences are recognised in profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

(c) Segmental reporting

An operating segment is a component of an entity that engages in business activities from which it may earn revenues and incur expenses, whose operating results are regularly reviewed by the Group's chief operating decision maker, being the chief executive officer, to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available. As at the reporting date the Group operated as a single segment.

(d) Lease payments

Rentals payable under operating leases, which are leases where the lessor retains a significant proportion of the risks and rewards of the underlying asset, are charged in profit or loss on a straight-line basis over the expected lease term.

Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

(e) Revenue recognition

Revenue is recognised to the extent that it is probable that economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable for the sale of goods or services, excluding discounts, rebates, VAT and other sales taxes or duties

Revenue from the sale of products is recognised at the point of transfer of risks and rewards of ownership which is generally on shipment of product.

NOTES TO THE FINANCIAL STATEMENTS continued
FOR THE PERIOD ENDED 31 DECEMBER 2014

3. SIGNIFICANT ACCOUNTING POLICIES continued

(f) Finance income and finance expense

Finance income comprises interest income on funds invested and changes in the fair value of financial assets at fair value through profit or loss. Interest income is recognised as interest accrues using the effective interest rate method.

Finance expense comprises interest expense on borrowings, changes in the fair value of financial assets at fair value through the Group Statement of Comprehensive Income, impairment losses recognised on financial assets and losses on hedging instruments that are recognised in profit or loss. All borrowing costs are recognised using the effective interest method.

(g) Income tax

Income tax expense comprises current and deferred tax. Income tax expense is recognised in the Income Statement except to the extent that it relates to items recognised directly in equity or in other comprehensive income.

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to, the tax authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date.

Deferred income tax is recognised on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements with the following exceptions:

- where the temporary difference arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination, that at the time of the transaction affects neither accounting nor taxable profit nor loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets and liabilities are measured on an undiscounted basis using the tax rates and tax laws that have been enacted or substantially enacted by the date and which are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profits will be available against which differences can be utilised. An asset is not recognised to the extent that the transfer or economic benefits in the future is uncertain.

(h) Property, plant and equipment

Property, plant and equipment are recognised initially at cost. After initial recognition, these assets are carried at cost less any accumulated depreciation and any accumulated impairment losses. Cost comprises the aggregate amount paid and the fair value of any other consideration given to acquire the asset and includes costs directly attributable to making the asset capable of operating as intended.

Depreciation is computed by allocating the depreciable amount of an asset on a systematic basis over its useful life and is applied separately to each identifiable component.

NOTES TO THE FINANCIAL STATEMENTS continued
FOR THE PERIOD ENDED 31 DECEMBER 2014

3. SIGNIFICANT ACCOUNTING POLICIES continued

(h) Property, plant and equipment (continued)

The following bases and rates are used to depreciate classes of assets:

Office equipment, fixtures and fittings	–	straight line over five years
Plant and machinery	–	straight line over five years

The carrying values of property, plant and equipment are reviewed for impairment if events or changes in circumstances indicate that the carrying value may not be recoverable, and are written down immediately to their recoverable amount. Useful lives and residual values are reviewed annually and where adjustments are required these are made prospectively.

A property, plant and equipment item is de-recognised on disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the de-recognition of the asset is included in the Income Statement in the period of de-recognition.

(i) Intangible assets

Intellectual property and patents

The carrying value of intangible fixed assets (with the exception of goodwill) is reviewed annually for impairment whenever events or changes in circumstances indicate the carrying value may not be recoverable.

At each reporting date the Group reviews the carrying value of its intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss.

Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash generating unit to which the asset belongs. A cash generating unit is the smallest identifiable group of assets that generates cash inflows from other assets or group assets.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset, for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the assets is increased to the revised climate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised in profit or loss immediately.

Amortisation is provided on the fair value of the asset and is calculated on a straight line basis over its useful life. Amortisation is recognised within the statement of comprehensive income. Intellectual property and patents acquired as part of a business combination are only amortised once technical viability has been proven and commercial agreements are likely to be achieved.

Patents includes the costs associated with acquiring and registering patents in respect of intellectual property rights. Patents are amortised, on a straight-line basis over their useful lives (ten years).

NOTES TO THE FINANCIAL STATEMENTS continued
FOR THE PERIOD ENDED 31 DECEMBER 2014

3. SIGNIFICANT ACCOUNTING POLICIES continued

(i) Intangible assets (continued)

Goodwill

Goodwill on acquisitions, being the excess of the fair value of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities acquired, is capitalised and tested for impairment on an annual basis.

Any impairment is recognised immediately in profit or loss and is not subsequently reversed. For the purpose of impairment testing goodwill is allocated to cash generating units of 4D pharma plc, which represent the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

Internally generated intangible assets

Expenditure on research activities is recognised in the statement of comprehensive income as incurred.

Expenditure arising from the Group's development is recognised only if all of the following conditions are met:

- an asset is created that can be identified;
- it is probable that the asset created will generate future economic benefits;
- the development cost of the asset can be measured reliably;
- the Group has the intention to complete the asset and the ability and intention to use or sell it;
- the product or process is technically and commercially feasible; and
- sufficient resources are available to complete the development and to either sell or use the asset.

Where these criteria have not been achieved, development expenditure is recognised in profit or loss in the period in which it is incurred.

(j) Impairment of assets

At each reporting date the Group reviews the carrying value of its plant, equipment and intangible assets to determine whether there is an indication that these assets have suffered an impairment loss. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an assessment of the asset's recoverable amount.

An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying value of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, an appropriate valuation model is used, these calculations corroborated by valuation multiples, or other available fair value indicators. Impairment losses on continuing operations are recognised in the Income Statement in those expense categories consistent with the function of the impaired asset.

NOTES TO THE FINANCIAL STATEMENTS continued
FOR THE PERIOD ENDED 31 DECEMBER 2014

3. SIGNIFICANT ACCOUNTING POLICIES continued

(k) Investments in subsidiaries

Investments in and loans to subsidiaries are stated in the Company's Statement of Financial Position at cost less provision for any impairment.

(l) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost based on latest contractual prices includes all costs incurred in bringing each product to its present location and condition. Net realisable value is based on estimated selling price less any further costs expected to be incurred to disposal. Provision is made for slow-moving or obsolete items.

(m) Cash, cash equivalents and short-term investments

Cash and cash equivalents comprise cash at hand and deposits with maturities of three months or less. Short-term investments comprise deposits with maturities of more than three months, but no greater than twelve months.

(n) Trade and other payables

Trade and other payables are non-interest bearing and are initially recognised at fair value. They are subsequently measured at amortised cost using the effective interest rate method.

(o) Borrowings

Borrowings are recognised when the Group becomes party to related contracts and are measured initially at fair value, net of directly attributable transaction costs incurred. After initial recognition, borrowings are stated at amortised cost.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least twelve months after the reporting date.

Costs of borrowing funds are expensed in the period in which they occur.

(p) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

The expense relating to any provision is presented in the Income Statement, net of any expected reimbursement, but only where recoverability of such reimbursement is virtually certain.

Provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risk specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

There were no provisions at 31 December 2014.

(q) Financial assets and liabilities

Financial assets and liabilities are recognised when the Group becomes party to the contracts that give rise to them and are classified as financial assets and liabilities at fair value through the Group Statement of Comprehensive Income. The Group determines the classification of its financial assets and liabilities at initial recognition and re–evaluates this designation at each financial year end.

A financial asset or liability is generally de-recognised when the contract that gives rise to it is settled, sold, cancelled or expires.

At the period end, the Group had no financial assets or liabilities designated at fair value through the Group Statement of Comprehensive Income.

NOTES TO THE FINANCIAL STATEMENTS continued
FOR THE PERIOD ENDED 31 DECEMBER 2014

3. SIGNIFICANT ACCOUNTING POLICIES continued

(r) Share capital

Proceeds on issue of shares are included in shareholders' equity, net of transaction costs. The carrying amount is not re-measured in subsequent years.

(s) New accounting standards and interpretations

Adoption of IFRS

The Group and Company financial statements have been prepared in accordance with IFRS, IAS and IFRS Interpretations Committee ("IFRSIC") effective as at 31 December 2014. The Group and Company have not chosen to adopt any amendments or revised standards early.

IFRSs Issued but not yet Effective

The following IFRS, IAS and IFRICs have been issued, are not yet effective, and have not been adopted by the Group or the Company in these financial statements. The directors do not believe the adoption will have a material impact on the business.

	Effective date
IAS 19 Employee Benefits – defined benefit plans (Amended)	1 July 2014
IFRS 2 Share Based Payments (Amended)	1 July 2014
IFRS 3 Business Combinations (Amended)	1 July 2014
IFRS 8 Operating Segments (Amended)	1 July 2014
IAS 16 Property Plant and Intangibles (Annual Improvements 2012)	1 July 2014
IAS 24 Related Party Disclosure (Annual Improvements 2012)	1 July 2014
IAS 38 Intangible Assets (Annual Improvements 2012)	1 July 2014
IFRS 13 Fair Value Measurement (Annual Improvements 2013)	1 July 2014
IAS 1 Presentation of Financial Statements	1 January 2016
IAS 28 Investments in Associates	1 January 2016
IFRS 10 Consolidated Financial Statements	1 January 2016
IFRS 12 Disclosure of Interest in Other Entities	1 January 2016
IFRS 14 Regulatory Deferral Accounts	1 January 2016
IFRS 15 Revenue From Contracts with Customers	1 January 2018
IFRS 9 Financial Instruments	1 January 2018

NOTES TO THE FINANCIAL STATEMENTS continued
FOR THE PERIOD ENDED 31 DECEMBER 2014

4. OPERATING LOSS

By nature:	*31 Dec 2014 £000*
Operating loss is stated after charging :	
Depreciation on property, plant, and equipment	65
Amortisation of intangible assets	49
Staff costs (see Note 5)	520
Foreign exchange losses	3
Research and development expense	1,823
Operating lease rentals	
Land and buildings	148
Auditor's remuneration	20
Legal and professional	357
Consultancy	202
Other costs	289
	3,476

Auditor's remuneration:	
Audit services:	
– Fees payable to Company auditor for the audit of the parent and the consolidated accounts	14
– Auditing the financial statements of subsidiaries pursuant to legislation	6
Total auditor's remuneration	20

5. STAFF COSTS

	31 Dec 2014 £000
Wages and salaries	470
Social security costs	50
Pension contributions	–
	520

Directors' remuneration (including benefits-in-kind) included in the aggregate remuneration above comprised:	
Emoluments for qualifying services	264

Directors' emoluments (excluding social security costs, but including benefits in kind) disclosed above include £97,000 paid to the highest paid director.

An analysis of the highest paid director's remuneration is included in the Report of the Remuneration Committee.

The average number of employees during the period (including directors), was as follows:

The Group	*31 Dec 2014 Number*
Directors	4
Laboratory and administrative staff	9
	13

NOTES TO THE FINANCIAL STATEMENTS continued
FOR THE PERIOD ENDED 31 DECEMBER 2014

6. FINANCE INCOME AND FINANCE EXPENSE

The Group	*31 Dec 2014 £000*
Finance income:	
Bank interest receivable	92
Finance expense:	
Loan interest payable	(5)
	87

Bank interest receivable includes £12,000 which is receivable after the period end.

7. INTEREST IN ASSOCIATE

In January 2014 the Group acquired a non-controlling interest in 4D Pharma Research Limited (formerly GT Biologics Limited) when it purchased 46% of the ordinary share capital.

The Group	*31 Dec 2014 £000*
Cash consideration of acquisition	(500)
Share of losses in the associated undertaking	379
	(121)
Fair value of identifiable net assets on date associate became a subsidiary per Note 13 including goodwill	1,509
Gain on measurement of existing interest to fair value on acquisition of a subsidiary	1,388

8. TAXATION

The tax charge is made up as follows:

The Group	*31 Dec 2014 £000*
Current income tax:	
Total current income tax	–
Current deferred tax:	
Current year charge	–
Total deferred tax	–
Total income tax expenses recognised in the period	–

NOTES TO THE FINANCIAL STATEMENTS continued
FOR THE PERIOD ENDED 31 DECEMBER 2014

8. TAXATION continued

The income tax expenses can be reconciled to the accounting loss as follows:

The Group	*31 Dec 2014 £000*
Loss before taxation	(2,380)
Tax at standard rate of 20%	(476)
Effects of:	
Expenses not deductible for tax purposes	100
Enhanced research and development expenditure	(18)
Gains not chargeable to tax	(277)
Bank interest	(55)
Property, plant and equipment timing differences	(206)
Tax losses carried forward to future years	932
Tax income tax expense recognised in the period	–

At 31 December, the Group had tax losses available for carry forward of approximately £4,662 million. The Group has not recognised deferred tax assets relating to such earned forward losses of approximately £932,000.

Group's management considers that there is insufficient evidence of future taxable income, taxable temporary differences and feasible tax-planning strategies to utilise all or the cumulative losses and therefore it is not considered certain that the deferred tax assets will be realised in full. If future income differs from current projections, this could significantly impact the tax charge or benefit in future periods.

9. LOSS PER SHARE

Group	*31 Dec 2014 £000*
Loss for the period attributable to equity holders of the parent	(2,021)
Weighted average number of shares:	
Ordinary shares in issue	42,001,850
Basic loss per share (pence)	(4.81)

The loss for the period and the weighted average number of ordinary shares for calculating the diluted loss per share for the period ended 31 December 2014 are identical to those for the basic loss per share. This is because there are no outstanding share options that would have the effect of reducing the loss per ordinary share and would therefore not be dilutive under the terms of International Accounting Standard (IAS) No 33 Earnings per Share.

NOTES TO THE FINANCIAL STATEMENTS continued
FOR THE PERIOD ENDED 31 DECEMBER 2014

10. PROPERTY, PLANT AND EQUIPMENT

The Group	*Office equipment, fixtures and fittings £000*	*Plant and machinery £000*	*Total £000*
Cost:			
At 10 January 2014	—	—	—
Additions	4	260	264
Additions arising from acquisitions in the period	2	216	218
At 31 December 2014	6	476	482
Depreciation:			
At 10 January 2014	—	—	—
Provided during the period	—	65	65
At 31 December 2014	—	65	65
Net book value:			
At 31 December 2014	6	411	417
At 10 January 2014	—	—	—

The Company	*Office equipment, fixtures and fittings £000*	*Total £000*
Cost:		
At 10 January 2014	—	—
Additions	4	4
At 31 December 2014	4	4
Depreciation:		
At 10 January 2014	—	—
Provided during the period	—	—
At 31 December 2014	—	—
Net book value:		
At 31 December 2014	4	4
At 10 January 2014	—	—

NOTES TO THE FINANCIAL STATEMENTS continued
FOR THE PERIOD ENDED 31 DECEMBER 2014

11. INTANGIBLE ASSETS

Group	*Goodwill* *£000*	*Intellectual Property* *£000*	*Patents* *£000*	*Total* *£000*
Cost:				
At 10 January 2014	—	—	—	—
Arising on acquisition of subsidiary undertakings	3,316	1,923	1,076	6,315
At 31 December 2014	3,316	1,923	1,076	6,315
Amortisation:				
At 10 January 2014	—	—	—	—
Provided during the period	—	—	49	49
At 31 December 2014	—	—	49	49
Net book value:				
At 31 December 2014	3,316	1,923	1,027	6,266
At 10 January 2014	—	—	—	—

Goodwill amounting to £3.316 million relates to a cash generating unit (CGU), being 4D Pharma Research Limited (formerly GT Biologics Limited) acquired on 10 June 2014 when the Group acquired 37.5% of the share capital for a total consideration of £1,730,255 and The Microbiota Company Limited acquired on 17 July 2014 when the Group acquired 100% of the share capital. Analysis of these acquisitions is detailed in Note 13.

This goodwill, which has arisen on the business combinations detailed in Note 13, represents staff and accumulated know how after a fair value has been attributed to all other assets and liabilities acquired.

During the period, goodwill was tested for impairment in accordance with IAS 36 Impairment of Assets. The recoverable amount of the CGU exceeds the carrying amount of goodwill. The recoverable amount of each CGU has been measured using a value in use calculation and as such no impairment was deemed necessary. The key assumptions used (which are based on management's past experience) for the value in use calculations are those relating to the number of potential new targets for future products that can be identified in each year, and the length of time that this rate can be maintained. The recoverable amount of goodwill exceeds the carrying amount by 171%. The directors consider the number of targets to be identified, and the number of years that they believe they will be able to successfully identify new product targets, to be the most sensitive assumptions used in the impairment reviews. A reduction in excess of 38% in the number of targets per annum identified, or a reduction in excess of 33% in the number of years during which these are identified, would result in the recoverable amount of the 4D Pharma Research Limited CGU being equal to its carrying amount.

Intellectual property amounting to £1.923 million relates to a CGU being 4D Pharma Research Limited, acquired as per above. This represents bacteria identified by the Group's know how and processes and at different stages of research and development, from early identification to patented strains of bacteria.

NOTES TO THE FINANCIAL STATEMENTS continued
FOR THE PERIOD ENDED 31 DECEMBER 2014

11. INTANGIBLE ASSETS continued

The key assumptions used, which are based on management's past experience, for the value in use calculations are those relating to discount rates, growth rates and direct costs during the period. The value in use calculations are based on the future cash flows from approved risk based net present value forecasts that have been extrapolated to cover a period of 25 years, and to apply prudence no terminal value is added. Valuation of an early stage drug discovery pharmaceutical company is a notoriously difficult task. Analysis of financial history gives little indication of future performance. Despite this, for products currently in development sales potentials can be estimated and management have used their own experience as well as consulting with external experts to establish best estimates of sales pricing and revenue forecasting and these can provide the starting point for valuing these products and ensuring that their value has not been impaired. In addition, clinical development risks, measured as product attrition failure rates incurred as drugs progress through the clinic are reasonably well documented and can be applied as meaningful risk-adjusters to account for the chance of development failure. We have therefore adopted a risk-adjusted net present value of future cash flows method for this analysis for each CGU. At 31 December 2014 a pre-tax discount rate of 13% was applied and was used in the value calculation.

The recoverable amount of the 4D Pharma Research Limited CGU exceeds the carrying amount of this CGU by 953%. The directors consider the discount rate and revenues to be the most sensitive assumptions used in the impairment reviews. An increase in the discount rate of 31% or a reduction in certain revenues of in excess of 30% would result in the recoverable amount of the 4D Pharma Research Limited CGU being equal to its carrying amount.

Intangible assets, other than goodwill and intangible assets purchased as part of the acquisition of a subsidiary, are amortised on a straight line basis over ten years. Amortisation provided during the period is recognised in administrative expenses. The Group does not believe that any of its patents in isolation is material to the business. Patents amounting to £1.076 million were purchased by The Microbiota Company Limited immediately prior to its acquisition by the Group on 17 July 2014 via a loan advanced by 4D pharma plc.

12. INVESTMENT IN SUBSIDIARIES

	Shares £000	*Loans to subsidiary undertakings £000*	*Total £000*
Company			
Additions in the period	2,716	3,803	6,519
At 31 December 2014	2,716	3,803	6,519
By subsidiary			
4D Pharma Research Limited*	1,730	2,727	4,457
The Microbiota Company Limited	986	1,076	2,062
Schosween 18 Limited	—	—	—
At 31 December 2014	2,716	3,803	6,519

*Formerly GT Biologics Limited

Additions were made as follows:

NOTES TO THE FINANCIAL STATEMENTS continued
FOR THE PERIOD ENDED 31 DECEMBER 2014

12. INVESTMENT IN SUBSIDIARIES continued

4D Pharma Research Limited

Date	*%*	*Cost (£'000)*	*Consideration*
5 February 2014	46.0	500	Cash
4 June 2014	37.5	1,230	699,500 ordinary shares in 4D pharma plc (issue price of £1.75 per share; £6,130 stamp duty)
	83.5	1,730	

Prior to 4 June 2014 the acquisition was accounted for as an associate under IAS28.

The Microbiota Company Limited

Date	*%*	*Cost (£'000)*	*Consideration*
17 July 2014	100.00	986	509,285 ordinary shares in 4D pharma plc (issue price of £1.885 per share; stamp duty and costs £26,000)
	100.00	986	

Subsidiary undertakings	*Country of incorporation*	*Principal activity*	*31 Dec 2014*
4D Pharma Research Limited (formerly GT Biologics Limited	Scotland	Research and development	83.5%*
The Microbiota Company Limited	England and Wales	Research and development	100%
Schosween 18 Limited	England and Wales	Dormant	100%
GT Prohealth Limited	Scotland	Dormant	83.5%**
GT Therapeutics Limited	Scotland	Dormant	83.5%***

With the exception of the companies noted below all other shareholdings are owned by 4D pharma plc.

* The remaining 16.5% ordinary share capital of 4D Pharma Research Limited was acquired on the 30 March 2015 taking the holding to 100%.

** GT Prohealth Limited is a 100% subsidiary of 4D Pharma Research Limited.

*** GT Therapeutics Limited is a 100% subsidiary of 4D Pharma Research Limited.

13. BUSINESS COMBINATIONS

Subsidiary acquired:

2014	*Principal activity*	*Date of acquisition*	*Proportion of voting equity interests acquired*	*Consideration transferred £000*
4D Pharma Research Limited (formerly GT Biologics Limited)	Research and development	4 June 2014	83.5%	1,730

NOTES TO THE FINANCIAL STATEMENTS continued
FOR THE PERIOD ENDED 31 DECEMBER 2014

13. BUSINESS COMBINATIONS continued

Assets acquired and liabilities recognised at the date of acquisition	*Book value £000*	*Fair value adjustments £000*	*4D Pharma Research Limited (formally GT Biologics Limited) £000*
Non-current assets:			
Intellectual property	—	1,923	1,923
Property, plant and equipment	218	—	218
Current assets:			
Trade and other receivables	115	—	115
Cash and cash equivalents	270	—	270
Current liabilities:			
Trade and other payables	(1,651)	—	(1,651)
Non-current liabilities			
Deferred tax	–	(385)	(385)
Fair value of identifiable net liabilities acquired	(1,048)	1,538	490
Consideration transferred:			
Satisfied in shares			1,230
Non-controlling interest share of the fair values of net assets acquired			81
Fair value of previous held interest classified as an associate			1,509
Fair value of identifiable net liabilities acquired			(490)
Goodwill arising on acquisition			2,330

Goodwill relates to the accumulated knowledge and know how inherent within 4D Pharma Research Limited.

Net cash outflow on acquisition	*£000*
Consideration paid in cash	—
Cash and cash equivalent balances acquired	270
Net cash inflow	270

Impact of acquisition on the results of the Group

Included in the loss for the period is £2.175 million attributable to the additional business generated by 4D Pharma Research Limited (formally GT Biologics Limited).

Had this business combination been effected at 10 January 2014, 4D Pharma Research Limited (formally GT Biologics Limited) would have added £3.122 million to the loss from continuing operations.

NOTES TO THE FINANCIAL STATEMENTS continued
FOR THE PERIOD ENDED 31 DECEMBER 2014

13. BUSINESS COMBINATIONS continued

Subsidiary acquired:

2014	*Principal activity*	*Date of acquisition*	*Proportion of voting equity interests acquired*	*Consideration transferred £000*
The Microbiota Company Limited	Research and development	17 July 2014	100%	986

Assets acquired and liabilities recognised at the date of acquisition	*Book value £000*	*Fair value adjustments £000*	*The Microbiota Company Limited £000*
Non-current assets:			
Patents	1,076	—	1,076
Current liabilities:			
Loan	(1,076)	—	(1,076)
Fair value of identifiable net liabilities acquired	—	—	—
Consideration transferred:			
Satisfied in shares			986
Fair value of identifiable net assets acquired			—
Goodwill arising on acquisition			986

Goodwill relates to the accumulated knowledge and know how inherent within The Microbiota Company Limited.

Impact of acquisition on the results of the Group

Included in the loss for the period is £49,000 attributable to the additional business generated by The Microbiota Company.

Had this business combination been effected at 10 January 2014, The Microbiota Company Limited would have added £49,000 to the loss from continuing operations.

14. INVENTORIES

	31 Dec 2014 Group £000	*31 Dec 2014 Company £000*
Consumables	115	–
	115	–

NOTES TO THE FINANCIAL STATEMENTS continued
FOR THE PERIOD ENDED 31 DECEMBER 2014

15. TRADE AND OTHER RECEIVABLES

	31 Dec 2014 Group £000	*31 Dec 2014 Company £000*
Prepayments	356	194
Other receivables	234	91
	590	285

The directors consider that the carrying amount of trade and other receivables approximates to their fair value.

16. CASH, CASH EQUIVALENTS AND DEPOSITS

	31 Dec 2014 Group £000	*31 Dec 2014 Company £000*
Short-term investments and cash on deposit	3,007	3,007
Cash and cash equivalents	28,823	28,784
	31,830	31,791

Under IAS 7 Statement of Cashflows, cash held on long-term deposits (being deposits with maturity of greater than three months and no more than twelve months) that cannot readily be converted into cash has been classified as a short-term investment. The maturity on this investment was less than twelve months at the reporting date.

Cash and cash equivalents at 31 December 2014 include deposits with original maturity of three months or less of £28,823,000 (Group) and £28,784,000 (Company).

The Directors consider that the carrying value of cash and cash equivalents approximates their fair value. For details on the Group's credit risk management refer to Note 22.

17. TRADE AND OTHER PAYABLES

	31 Dec 2014 Group £000	*31 Dec 2014 Company £000*
Current		
Trade payables	1,375	302
Other payables	32	29
Accruals	378	86
	1,785	417

Trade and other payables principally comprise amounts outstanding for trade purchases and ongoing costs. Trade payables are non-interest bearing and are typically settled on 30 to 45 day terms.

The Director's consider that the carrying value of trade payables, other payables and accruals approximates to their fair value.

NOTES TO THE FINANCIAL STATEMENTS continued
FOR THE PERIOD ENDED 31 DECEMBER 2014

17. TRADE AND OTHER PAYABLES continued

All trade and other payables are denominated in Sterling.

The Group has financial risk management policies in place to ensure that any trade payables are settled within the credit time frame; and no interest has been charged by any suppliers as a result of late payment of invoices during the reporting period presented herein.

18. DEFERRED TAX

The Group	*31 Dec 2014 £000*
At 10 January 2014	–
Arising on the fair value acquisition of intellectual property on the acquisition of subsidiaries per Note 13	385
As at 31 December 2014	385

19. SHARE CAPITAL

The Group and the Company	*Number*	*Share capital £000*
Allotted, called up and fully paid ordinary shares of 0.25p:		
Shares issued	20,000,000	50
Shares issued on investment in subsidiary	1,208,785	3
Shares issued in placing	30,883,334	77
As at 31 December 2014	52,092,119	130

The balances classified as share capital and share premium include the total net proceeds (nominal value and share premium respectively) on issue of the Company's equity share capital, comprising 0.25 pence ordinary shares.

The Company issued in aggregate 20,000,000 ordinary shares of 0.25p at par value between 10 January 2014 and 18 January 2014.

The Company raised gross proceeds of £16,550,000 from a placing on 18 February 2014 through the issue of 16,550,000 new ordinary shares at an issue price of 100 pence per share. Issue costs associated with the placing totalled £504,212.

The Company raised gross proceeds of £21,500,000 from a placing on 14 July 2014 through the issue of 14,333,334 new ordinary shares at an issue price of 150 pence per share. Issue costs associated with the placing totalled £433,000.

20. CAPITAL AND RESERVES

The components of equity are as follows:

Called up share capital

The share capital account includes the par value for all shares issued and outstanding.

NOTES TO THE FINANCIAL STATEMENTS continued FOR THE PERIOD ENDED 31 DECEMBER 2014

20. CAPITAL AND RESERVES continued

Share premium account

The share premium account is used to record amounts received in excess of the nominal value of shares on issue of new shares less the costs of new share issues.

Merger reserve

The merger reserve comprises the premium arising on share issued as consideration for the acquisition of subsidiary undertakings where merger relief under section 612 of the Companies Act 2006 applies.

Retained earings

Retained earnings includes the accumulated profits and losses arising from the Group Statement of Comprehensive Income and certain items from Other Comprehensive Income attributable to equity shareholders net of distributions to shareholders.

Non-controlling interest

This reserve includes the accumulated profits and losses arising from the Group Statement of Comprehensive Income and certain items from Other Comprehensive Income attributable to the minority equity shareholders of subsidiary undertakings not wholly owned by the Group.

21. COMMITMENTS

Operating lease commitments

The Group leases premises under non-cancellable operating lease agreements. The future aggregate minimum lease and service charge payments under non-cancellable operating leases are as follows:

	31 Dec 2014 Group £000
Land and buildings:	
Not later than one year	210
After one year but not more than five years	402
	612

The Company has no lease commitments.

Capital expenditure

The Group has no committed capital expenditure at 31 December 2014.

The Company has no committed capital expenditure at 31 December 2014.

22. FINANCIAL RISK MANAGEMENT

Overview

This Note presents information about the Group's exposure to various kinds of financial risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital.

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The executive directors report regularly to the Board on Group risk management.

NOTES TO THE FINANCIAL STATEMENTS continued FOR THE PERIOD ENDED 31 DECEMBER 2014

22. FINANCIAL RISK MANAGEMENT continued

Capital risk management

The Company reviews its forecast capital requirements on a half-yearly basis to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders.

The capital structure of the Group consists of equity attributable to equity holders of the parent, comprising issued share capital, reserves and retained earnings as disclosed in Notes 19 and 20 and in the Group Statement of Changes in Equity. Total equity was £37.048 million at 31 December 2014.

The Company is not subject to externally imposed capital requirements.

Liquidity risk

The Group's approach to managing liquidity is to ensure that, as far as possible, it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group manages all of its external bank relationships centrally in accordance with defined treasury policies. The policies include the minimum acceptable credit rating of relationship banks and financial transaction authority limits. Any material change to the Group's principal banking facility requires Board approval. The Group seeks to mitigate the risk of bank failure by ensuring that it maintains relationships with a number of investment grade banks.

At the reporting date the Group was cash positive with no outstanding borrowings.

Categorisation of financial instruments

Group	*Fixed rate £000*	*Floating rate £000*	*Non-interest bearing £000*	*Total £000*
Trade and other receivables	–	–	234	234
Cash and cash equivalents	4,009	27,821	–	31,830
Trade and other payables	–	–	(1,785)	(1,785)
	4,009	27,821	(1,551)	30,279

Company	*Fixed rate £000*	*Floating rate £000*	*Non-interest bearing £000*	*Total £000*
Trade and other receivables	–	–	91	91
Cash and cash equivalents	4,009	27,782	–	31,791
Trade and other payables	–	–	(417)	(417)
	4,009	27,782	(326)	31,465

The values disclosed in the above table are carrying values. The Board considers that the carrying amount of financial assets and liabilities approximates to their fair value.

Interest rate risk

As the Group has no significant borrowings the risk is limited to the reduction of interest received on cash surpluses held at bank which receive a floating rate of interest. The exposure to interest rate movements is immaterial.

NOTES TO THE FINANCIAL STATEMENTS continued
FOR THE PERIOD ENDED 31 DECEMBER 2014

22. FINANCIAL RISK MANAGEMENT continued

Maturity profile

The Directors consider that the carrying amount of the financial liabilities approximates to their fair value.

As all financial assets are expected to mature within the next twelve months an aged analysis of financial assets has not been presented.

As all financial liabilities are expected to mature within the next twelve months an aged analysis of financial assets has not been presented.

23. RELATED PARTY TRANSACTIONS

Key management compensation	*31 Dec 2014* *£000*
Fees for services provided as non-executive directors:	
Salaries and short term benefits	70
Post employment retirement benefits	–
Employers' national insurance & social security costs	6
Share-based payment charge	–
	76
Executive directors:	
Salaries and short term benefits	192
Post employment retirement benefits	–
Employers' national insurance & social security costs	22
Share-based payment charge	–
	214
Other key management:	
Salaries and short term benefits	24
Post employment retirement benefits	–
Employers' national insurance & social security costs	2
Share-based payment charge	–
	26

Group:

During the period Aquarius Equity Partners Limited, an entity controlled by Duncan Peyton and Alexander Stevenson, charged the Group £155,549 for consultancy and other office expenses and were owed £26,735 at 31 December 2014.

During the period Thomas Engelen charged the Group £15,015 for consultancy services and was owed £nil at 31 December 2014.

During the period Fommir Limited, an entity controlled by Douglas Thomson, charged the Group £73,092 for consultancy services and was owed £12,123 at 31 December 2014.

On 10 January 2014 a loan of £500,000 carrying an interest rate of 4% above Bank of England base rate was novated by agreement between David Norwood and Schosween 17 Limited (Company Registered Number 8795203) to 4D pharma plc. This loan was repaid on 18 February 2014 by 4D pharma plc and £5,178 interest was charged.

NOTES TO THE FINANCIAL STATEMENTS continued
FOR THE PERIOD ENDED 31 DECEMBER 2014

23. RELATED PARTY TRANSACTIONS continued

Company:

Transactions between 100% owned Group companies have not been disclosed as these have all been eliminated in the preparation of the Group financial statements.

During the period the Company recharged 4D Pharma Research Limited, a 83.5% owned subsidiary £86,000 for various expenses incurred on behalf of the subsidiary. The net inter-company balance due to the Company at 31 December 2014 totalled £2.727 million.

24. SUBSEQUENT EVENTS

On 10 February 2015 4D pharma plc raised a further £34.225 million (net of expenses) via the placing of 8,475,610 new ordinary shares at 410 pence per share.

On 30 March 2015, 4D pharma plc acquired a further 16.5% of the ordinary share capital of 4D Pharma Research Limited for a cost of £230,000 taking their holding to 100%.

NOTICE OF ANNUAL GENERAL MEETING

4D pharma plc

(Incorporated and registered in England and Wales with registered number 08840579)

Notice is hereby given that the annual general meeting of 4D pharma plc will be held at the offices of Schofield Sweeney LLP, Springfield House, 76 Wellington Street, Leeds LS1 2AY on 29 June 2015 at 10.00. a.m. for the purpose of considering and, if thought fit, passing the following resolutions, of which resolutions 1 to 5 will be proposed as ordinary resolutions and resolutions 6 and 7 will be proposed as special resolutions.

Ordinary resolutions

1 That the Company's annual report and audited financial statements, and the reports of the directors and auditors, for the period ended 31 December 2014, now laid before this meeting, be and are hereby approved.

2 That Dr Alexander Stevenson, who retires by rotation, be and is hereby re-elected as a director of the Company.

3 That Baker Tilly UK Audit LLP be and are hereby reappointed as auditors of the Company, to hold office until the conclusion of the next general meeting at which accounts are laid before the Company.

4 That the directors be and they are hereby authorised to agree the remuneration of the auditors.

5 That in accordance with section 551 of the Companies Act 2006:

5.1 the directors be and they are hereby generally and unconditionally authorised to exercise all the powers of the Company to allot equity securities (as defined in section 560 of the Companies Act 2006) up to an aggregate nominal value of £50,473 (approximately one third of the Company's issued share capital at the date of this notice); and

5.2 in addition to the authority granted pursuant to sub-paragraph 5.1, the directors be and they are hereby generally and unconditionally authorised to exercise all the powers of the Company to allot equity securities up to an aggregate nominal value of £50,473 (approximately one third of the Company's issued share capital at the date of this notice) in connection with a rights issue offered to holders of equity securities and other persons who are entitled to participate, in proportion (as nearly as may be) to their then holdings of equity securities (or, as appropriate, the numbers of such securities which such other persons are for those purposes deemed to hold), subject only to such exclusions or other arrangements as the directors may feel necessary or expedient to deal with treasury shares, fractional entitlements or legal or practical problems under the laws of, or the requirements of any recognised regulatory body of, or any stock exchange in, any territory,

provided that both such authorities shall (unless previously revoked, varied or renewed) expire on the earlier of the date of the next annual general meeting of the Company and 29 September 2016, save that, in respect of either authority, the Company may before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the directors may allot equity securities in pursuance of such an offer or agreement as if the authority conferred hereby had not expired.

These authorities are in substitution for any and all authorities previously conferred upon the directors for the purposes of section 551 of the Companies Act 2006, without prejudice to any allotments made pursuant to the terms of such authorities.

NOTICE OF ANNUAL GENERAL MEETING continued

Special resolutions

6 That, conditionally upon the passing of resolution 5 above, in accordance with sections 570 and 573 of the Companies Act 2006, the directors be and they are hereby given power to allot equity securities (as defined in section 560 of the Companies Act 2006) pursuant to the authority conferred by resolution 5 above, and to sell treasury shares, as if section 561 of the Companies Act 2006 did not apply to such allotment or sale, provided that this power shall be limited to:

6.1 the allotment or sale of equity securities for cash in connection with or pursuant to an offer to the holders of equity securities and other persons entitled to participate, in proportion (as nearly as may be) to their then holdings of equity securities (or, as appropriate, the numbers of such securities which such other persons are for those purposes deemed to hold), subject only to such exclusions or other arrangements as the directors may feel necessary or expedient to deal with treasury shares, fractional entitlements or legal or practical problems under the laws of, or the requirements of any recognised regulatory body of, or any stock exchange in, any territory; and

6.2 the allotment or sale of equity securities (otherwise than pursuant to sub-paragraph 6.1) for cash up to a maximum nominal value of £15,142 (approximately 10% of the Company's issued share capital at the date of this notice),

and shall (unless previously revoked, varied or renewed) expire on the earlier of the date of the next annual general meeting and 29 September 2016, save that the Company may before such expiry make an offer or agreement which would or might require equity securities to be allotted or sold after such expiry and the directors may allot or sell equity securities in pursuance of such an offer or agreement as if the power conferred hereby had not expired.

7 That the Company be and is hereby generally authorised pursuant to section 701 of the Companies Act 2006 to make market purchases (as defined in section 693(4) of the Companies Act 2006) of its ordinary shares of 0.25 pence provided that:

7.1 the Company does not purchase more than 9,079,103 ordinary shares of 0.25 pence (approximately 14.99% of the Company's issued share capital at the date of this notice);

7.2 the Company does not pay for any such ordinary share less than its nominal value at the time of purchase; and

7.3 the Company does not pay for any such ordinary share more than 5% above the average of the closing mid-market price for ordinary shares of 0.25 pence for the five business days immediately preceding the date on which the Company agrees to buy the shares concerned, based on the share prices published in the Daily Official List of the London Stock Exchange or the AIM supplement thereto.

The authority conferred by this resolution shall (unless previously revoked, varied or renewed) expire on the earlier of the date of the next annual general meeting of the Company and 29 September 2016, save that the Company may before such expiry make a contract to purchase shares which will or may be executed wholly or partly after the expiry of such authority, and may make a purchase of shares in pursuance of any such contract, as if such authority had not expired.

By order of the board

Laurence Dale
Company Secretary

Registered Office
74 Gartside Street
Manchester
M3 3EL

4 June 2015

NOTES TO THE NOTICE OF ANNUAL GENERAL MEETING

1. A member entitled to attend and vote at the meeting is also entitled to appoint one or more proxies of their own choice to exercise all or any of their rights to attend, speak and vote on their behalf at the meeting. A member can only appoint a proxy using the procedures set out in these notes and the notes to the accompanying form of proxy.

2. A member may appoint more than one proxy in relation to the meeting provided that each proxy is appointed to exercise the rights attached to a different share or shares held by that member. A member may not appoint more than one proxy to exercise rights attached to any one share. The proxy need not to be a member of the Company, but must attend the meeting to represent the member. Please refer to the notes to the form of proxy for further information on appointing a proxy, including how to appoint multiple proxies.

3. In the absence of instructions, the person appointed proxy may vote or abstain from voting as he/she thinks fit on the specified resolutions and, unless otherwise instructed, may also vote or abstain from voting on any other matter (including amendments to the resolutions) which may properly come before the meeting.

4. In the case of joint holders of a share the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders. For this purpose seniority is determined by the order in which the names of the holders stand in the Company's register of members in respect of the joint holding.

5. Any corporation which is a member can appoint one or more corporate representatives who may exercise on its behalf all of its powers as a member; provided that each representative is appointed to exercise the rights attached to a different share or shares held by the member.

6. Pursuant to regulation 41 of the Uncertificated Securities Regulations 2001 (as amended), the Company specifies that only those members registered on the Register of Members at 6.00 p.m. on 25 June 2015 (the **Specified Time**) (or if the meeting is adjourned to a time more than 48 hours after the Specified Time, taking no account of any part of a day that is not a working day, by 6.00 p.m. on the day which is two working days prior to the time of the adjourned meeting) shall be entitled to attend and vote thereat in respect of the number of shares registered in their name at that time. If the meeting is adjourned to a time not more than 48 hours after the Specified Time (taking no account of any part of a day that is not a working day), that time will also apply for the purposes of determining the entitlement of members to attend and vote (and for the purposes of determining the number of votes they may cast) at the adjourned meeting. Changes to the Register after the relevant deadline shall be disregarded in determining rights to attend and vote.

Appointment of proxy using hard copy proxy form

7. Members may appoint a proxy or proxies by completing and returning a form of proxy by post to the offices of the Company's registrars using the business reply address on the form, or in an envelope addressed to Capita Asset Services, PXS, 34 Beckenham Road, Beckenham, Kent BR3 4TU; or delivering a form of proxy by hand to such address during normal business hours. In the case of a member which is a corporation, the proxy form must be executed under its common seal or signed on its behalf by a duly authorised officer or an attorney. Any power of attorney or any other authority under which the proxy form is signed (or a duly certified copy of such power of authority) must be included with the proxy form. Any such power of attorney or other authority cannot be submitted electronically.

8. To be effective, the appointment of a proxy, or the amendment to the instructions given for a previously appointed proxy, must be received by the Company's registrars by the method outlined in note 7 above no later than 10.00 a.m. on 25 June 2015. If you submit more than one valid proxy appointment, the appointment received last before the latest time for the receipt of proxies will take precedence.

NOTES TO THE NOTICE OF ANNUAL GENERAL MEETING continued

Appointment of proxy using CREST electronic proxy appointment service

9. CREST members who wish to appoint a proxy or proxies by utilising the CREST electronic proxy appointment service may do so for the meeting and any adjournment(s) of it by using the procedures described in the CREST Manual (available from https://www.euroclear.com/site/public/EUI). CREST Personal Members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.

10. In order for a proxy appointment made by means of CREST to be valid, the appropriate CREST message (a **CREST Proxy Instruction**) must be properly authenticated in accordance with Euroclear UK & Ireland Limited's (**EUI**) specifications and must contain the information required for such instructions, as described in the CREST Manual. The message must be transmitted so as to be received by the issuer's agent (ID: RA10) by the latest time(s) for receipt of proxy appointments specified in this notice. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which the issuer's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST.

11. CREST members and, where applicable, their CREST sponsors or voting service providers should note that EUI does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed a voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.

12. The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.

Termination of proxy appointments

13. Completion and return of the form of proxy will not preclude a member from attending and voting in person at the meeting.

14. In order to terminate the authority of a proxy, you will need to inform the Company by sending a signed hard copy notice clearly stating your intention to revoke such appointment to the Company's registrars. To be effective, the notice of termination must be received by the Company's registrars by the method outlined in note 7 above no later than 10.00 a.m. on 26 June 2015.

Voting Rights

15. As at 4 June 2015, being the latest practicable date prior to the printing of this notice, the Company's issued capital consisted of 60,567,729 ordinary shares carrying one vote each. Therefore, the total voting rights in the Company as at 4 June 2015 are 60,567,729.

Communications

16. This notice, together with information about the total numbers of shares in the Company in respect of which members are entitled to exercise voting rights at the meeting as at 4 June 2015, being the latest practicable date prior to the printing of this notice, will be available on the Company's website www.4dpharmaplc.com.

NOTES TO THE NOTICE OF ANNUAL GENERAL MEETING continued

17. Except as provided above, members who have general queries about the annual general meeting should contact Laurence Dale (0161 837 6200; 74 Gartside Street, Manchester, M3 3EL). No other methods of communication will be accepted. Any electronic address provided either in this notice or in any related documents (including the form of proxy) may not be used to communicate with the Company for any purposes other than those expressly stated.

Documents available for inspection

18. There are available for inspection at the registered office of the Company during usual business hours on any week day (Saturdays, Sundays and public holidays excepted), and there will be available for inspection at the place of the meeting from at least fifteen minutes prior to and until the conclusion of the meeting:

- copies of the service contracts of executive directors of the Company; and
- copies of the letters of appointment of the non-executive directors of the Company.

EXPLANATORY NOTES OF ANNUAL GENERAL MEETING

These explanatory notes give further information in relation to the resolutions listed in the enclosed notice of the Company's annual general meeting.

Resolution 1 – Receipt of accounts

The directors must lay the Company's accounts, the directors' report and the auditors' report before the shareholders at a general meeting. This is a legal requirement after the directors have approved the accounts and the directors' report, and the auditors have prepared their report.

Resolution 2 – Re-election of Dr Alexander Stevenson

In accordance with the Company's articles of association, all directors of the Company who have been appointed since the Company's last annual general meeting, and all other directors on a regular basis as set out in the Company's articles of association, seek election (or re-election as the case may be) by the shareholders.

Dr Alexander Stevenson, retiring by rotation, offers himself for re-election, in accordance with the Company's articles of association. Details of his CV are on page 6 of the Company's annual report.

Resolution 3 – Re-election of Baker Tilly UK Audit LLP as auditors

The board of directors, on the recommendation of its audit committee, recommends the re-election of Baker Tilly UK Audit LLP as auditors, to hold office until the next general meeting at which accounts are laid.

Resolution 4 – Remuneration of the auditors

This resolution authorises the directors to agree the remuneration of the auditors.

Resolution 5 – Authority to allot shares

The purpose of resolution 5 is to renew the directors' power to allot shares. Section 551 of the Companies Act 2006 provides that the directors may not allot new shares (other than for employee share schemes) without shareholder authority.

Accordingly, resolution 5 will be proposed as an ordinary resolution to authorise the directors (pursuant to Section 551 of the Companies Act 2006):

(i) to allot ordinary shares of 0.25 pence each in the capital of the Company up to a maximum nominal amount of £50,473, being approximately one third of the nominal value of the ordinary shares in issue on 4 June 2015; and

(ii) in addition to the authority described above, to allot ordinary shares of 0.25 pence each in the capital of the Company up to a maximum nominal amount of £50,473 pursuant to a rights issue in respect of which all shareholders are entitled to participate as nearly as possible in proportion to their holding of shares in the Company at the time.

This authority (unless previously revoked, varied or renewed) will expire on the earlier of the date of the next annual general meeting of the Company or 15 months after the date of the passing of the resolution. The directors will exercise the authority to allot only when satisfied that it is in the interests of the Company to do so. The directors have no present intention of allotting further shares.

EXPLANATORY NOTES OF ANNUAL GENERAL MEETING continued

Were the Company to use the relevant authorities and:

- the number of shares in issue increased, in aggregate, by more than one-third; and
- (as regards the use as a part of a rights issue) the proceeds of the relevant rights issue exceeded one-third (or the relevant specific proportion) of the pre-issue market capitalisation, then those members of the board wishing to remain in office would stand for re-election at the next annual general meeting.

Resolution 6 – Disapplication of pre-emption rights

Section 561 of the Companies Act 2006 confers on shareholders rights of pre-emption in respect of the allotment of "equity securities" which are, or are to be, paid up in cash, otherwise than by way of allotment to employees under an employees' share scheme. The provisions of section 561 apply to the ordinary shares of 0.25 pence each of the Company, to the extent that they are not disapplied pursuant to section 570 of the Companies Act 2006. This provision also covers the sale of treasury shares (should the Company elect to hold any) for cash.

It is proposed that the disapplication of these statutory pre-emption rights be approved, as a special resolution, to give the directors power to allot shares without the application of these statutory pre-emption rights, first, in relation to rights issues and, secondly, in relation to the issue of ordinary shares of 0.25 pence each in the capital of the Company for cash up to a maximum aggregate nominal amount of £15,142 (representing approximately 10% of the nominal value of the ordinary shares in issue on 4 June 2015).

This authority (unless previously revoked, varied or renewed) will expire on the earlier of the date of the next annual general meeting of the Company or 15 months after the date of the passing of the resolution.

The directors have no present intention of exercising the authority; in accordance with the National Association of Pension Funds' Corporate Governance Policy and Voting Guidelines for Smaller Companies, they are seeking the authority so as to be able to raise funds at short notice, where appropriate, from the issue of new share capital for the purpose of taking advantage of investment opportunities that may arise.

Resolution 7 – Purchase by the Company of its own Shares

The purpose of resolution 7 is to obtain the authority for the Company to make market purchases of its ordinary shares. Under the Companies Act 2006 such an authority must first be sanctioned by an ordinary resolution of the Company in general meeting, but current institutional shareholder voting guidelines require that any such authority should be sanctioned by special resolution.

Accordingly, resolution 7 will be proposed as a special resolution to authorise the Company to purchase a maximum of 9,079,103 ordinary shares (equal to approximately 14.99% of the ordinary shares in issue on 4 June 2015) on AIM at a price per share of not less than 0.25 pence, and not more than 5% above the average of the middle market quotations for ordinary shares of the Company for the five business days immediately preceding the day of purchase. In order to maximise the benefit to be derived by the Company, it would be the directors' intention that any purchases should be made at as low a price (within the limits specified in resolution 7) as they considered reasonably obtainable.

This authority (unless previously revoked, varied or renewed) will expire on the earlier of the date of the next annual general meeting of the Company or 15 months after the date of the passing of the resolution.

Pursuant to the Companies Act 2006, the Company can hold the shares which have been repurchased as treasury shares and either resell them for cash, cancel them (either immediately or at a point in the future) or use them for the purposes of its employee share schemes. The directors believe that it is desirable for the Company to have this choice and therefore currently envisage holding any shares purchased under this authority as treasury shares. Holding the repurchased shares as treasury shares will give the Company the ability to re-sell or transfer them in the future, and so provide the Company with additional flexibility in the management of its capital base. No dividends will be paid on, and no voting rights will be exercised in respect of, treasury shares.

EXPLANATORY NOTES OF ANNUAL GENERAL MEETING continued

Shares will only be repurchased if the directors consider such purchases to be in the best interests of shareholders generally and that they can be expected to result in an increase in earnings per share. The authority will only be used after careful consideration, taking into account market conditions prevailing at the time, other investment opportunities and the overall financial position of the Company. Shares held as treasury shares will not automatically be cancelled and will not be taken into account in future calculations of earnings per share (unless they are subsequently resold or transferred out of treasury).

If any shares repurchased by the Company are held in treasury and used for the purposes of its employee share schemes, so long as required under institutional shareholder voting guidelines, the Company will count those shares towards the limits on the number of new shares which may be issued under such schemes.

Purchases will not be made to the extent that they may affect the eligibility of the Company for continued admission to AIM and it is not the directors' current intention that the Company should stand in the market for any particular period or until any specified number of shares has been acquired.

The purchase of shares by the Company pursuant to these proposals will be a market purchase and thus made through AIM. This means that any shareholder selling shares, even if those shares are subsequently acquired by the Company, will not be subject to different tax considerations from those normally applying to a sale of shares in the market provided that the purchase by the Company is made exclusively through a market maker acting as principal. In that event, for shareholders who held their shares as an investment, the sale proceeds will normally be treated as capital and the normal capital gains tax rules will apply to those sale shares. There will normally be no liability to tax on income unless the shareholder's disposal is by way of trade.

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